



## K2 Asian Fund Monthly Report - 30 September 2016

### Asia Pacific Market Review

The K2 Asian Absolute Return Fund returned 1.23% for the month of September while the MSCI AC Asia Pac Ex-Japan TR Net AUD Index returned -0.04%.

Asian markets were held to ransom by global macro developments in September as we await key events surrounding monetary policy and the US election. Janet Yellen held rates constant, while continuing to flag that prospects for future increases have grown. Theatrics surrounding November's US election gathered momentum as Clinton and Trump traded blows. Despite neither candidate covering themselves in glory, the relief rally in the Mexican Peso suggested markets awarded Clinton a minor victory. Oil performed strongly as OPEC agreed in principle to cut output, but we await the agreement of national quotas at November's formal meeting. Financial stocks were volatile as murmurings of counterparty risk engulfed Deutsche Bank and Chancellor Merkel ruling out state-based assistance did little to ease fears. Chinese data continued its relative stability in September, however a quieter start to October is expected with the Shanghai Composite closed for Golden Week.

The major global markets ended the month largely unchanged. The US S&P 500 and Euro Stoxx 600 returned -0.1% and -0.2% respectively.

Asian markets produced mixed results for the month. On the positive side were Hong Kong (+1.4%), Taiwan (+1.1%), Korea (+0.4%) and Australia (+0.1%) while mainland China (-2.6%), Japan (-2.6%), New Zealand (-1.7%) and Malaysia (-1.5%) closed the month in negative territory.

The AUD increased +1.9% in September to USD0.766 providing a slight headwind to fund performance.

### Portfolio Insights - Alibaba

Alibaba, China's largest e-commerce company which brings together consumers and businesses, is forecast to generate over USD22bn in revenue in 2017. Its marketplace brands including Taobao and Tmall.com are household names in China. However, Alibaba is far more than just a marketplace. The company incorporates its own payment systems, consumer driven search engines and cloud computing systems. Listed on the US Stock Exchange in 2014 by founder Jack Ma, the company's share price had a lacklustre first year. This de-rating of the shares and a general distrust of Chinese companies generally created a buying opportunity in early 2016. At 16x P/E and with a forecast revenue growth rate at near 50%, there was a significant mispricing and hence opportunity. Going forward, Alibaba has an enormous addressable market estimated at over USD200bn in retail e-commerce alone and as a leader in its chosen markets, is best positioned to capture this growth.

### Outlook

The US political landscape and monetary policy continues to dominate investor sentiment. We maintain our view of a single rate rise at the December FOMC meeting is still the most likely outcome. With a current probability based on bond futures of 59% this should not surprise the market. A Trump victory at the November 8th Presidential election will almost certainly be viewed negatively by investors and we continue to closely monitor the situation.

We remain encouraged by the consistently stable economic data flow from China, providing further confidence of Chinese policymakers' ability to navigate a soft landing. Strategically, the Fund maintains its China exposure through high quality household names such as AIA Group, Tencent, Alibaba, BHP and Rio Tinto.

With a favourable risk-reward profile and attractive relative valuations, we expect the Asia Pacific region will continue to attract global fund flows. The fund maintains a high net equity exposure, currently 90%.

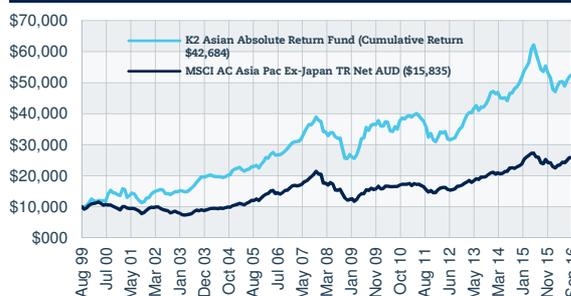
### Top 5 Stock Contributions - September

<b>Largest</b>	Alibaba Group Holding Ltd, BHP Billiton Limited, Finetex Ene Inc, RIO Tinto Ltd, South32 Ltd
<b>Smallest</b>	Citic Securities Co Ltd, Hughes Drilling Ltd, Suncorp Group Ltd, Think Childcare Ltd, Vocus Communications Ltd

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Performance to 30 September 2016 (net of fees)	
1 Month	1.23%
3 Months	7.63%
6 Months	7.51%
1 Year	-1.64%
3 Years (pa)	6.98%
5 Years (pa)	10.19%
10 Years (pa)	6.54%
Since Inception (pa)	10.22%

### Growth of AUD \$10,000



Returns are based on NAV per unit plus distributions reinvested net of management fee and performance fee accruals. The method for calculating the NAV is set out in the Fund's PDS.

Fund Details (Unaudited)	
Exit Price Per Unit:	A\$164.03
Fund Size:	A\$53.4m
Start Date:	01-Sep-99

Top 5 Large Cap Holdings	Sector	%
BHP Billiton Limited	Basic Materials	7.0
RIO Tinto Ltd	Basic Materials	6.2
South32 Ltd	Basic Materials	4.6
Macquarie Group Ltd	Financial	3.2
Alibaba Group Holding Ltd	Communication	2.9

Geographic Exposure %			
	Long	Short	Net Equity
Australia	41.4	-	41.4
China	11.9	-	11.9
Hong Kong	13.0	-	13.0
Korea	12.0	-	12.0
New Zealand	4.6	-	4.6
Philippines	1.1	-	1.1
Taiwan	1.2	-	1.2
United States	4.6	-	4.6
<b>Total Equity</b>	<b>89.8</b>	<b>-</b>	<b>89.8</b>
<b>Total Cash</b>			<b>10.2</b>
<b>Total Equity and Cash Exposure</b>			<b>100.0</b>
<b>Net AUD Exposure AFTER Hedging</b>			<b>49.5%</b>