

K2 Asset Management

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K2 Global Equities Fund (ASX: KII) Monthly Report - 31 July 2016

Global Market Review

The K2 Global Equities Fund returned 4.05% for the month of July.

Global equities rallied strongly in July in the wake of last month's Brexit announcement on expectations of further central bank support and better than expected earnings releases from US corporates. Global bond yields continue to tumble, trading at historic lows, with more than USD10 trillion of government debt across the globe trading below zero. This environment favours equities and especially stocks that continue to grow dividends and earnings.

The US equity market closed at a near all time high, with the S&P 500 rallying 3.6% in July following strong payroll data and strength in corporate earnings. Japan's Nikkei rose 6.4% on further easing measures from BoJ and expected fiscal stimulus from the government. Other Asian markets benefited from equity inflows into the region, mainly coming from Europe, with the Hang Seng rising 5.3% and Shanghai 1.7%. The Euro region recovered part of last month's losses with the STOXX 600 gaining 3.6% for the month.

Portfolio Insight

A recent addition to the Fund is a mid cap US Industrial company called Thor Industries. Hidden deep in Indiana, Thor is the world's largest manufacturer of recreational vehicles for the outdoor leisure market. Thor is the market share leader in the RV industry with over 40% of the USD 12.3billion wholesale market.

The company is currently benefitting from 3 major themes combining together to provide significant macro tailwinds: 1) Changing demographics – and it's not just the baby boomers. The 35-50 age group are currently the fastest growing market segment and number one company growth driver for the next 20 years. 2) Low interest rates – a very accommodative consumer credit environment with rates expected to remain lower for longer. 3) Cheap petrol – keeping running costs down. Combined with a below market multiple, strong share price momentum and robust balance sheet, Thor is attractive from both a fundamental and qualitative perspective. The recent acquisition of Jayco in the US is expected to result in EPS accretion of 20%+ in FY2017 onwards.

Outlook

The Fund's net equity exposure increased 5.8% to end the month at 88.1%, taking advantage of price weakness emanating from last month's BREXIT decision. The Fund reduced exposure in the UK (-2.2%) and the Eurozone (-0.7%) and rotated predominantly to the US (+3.1%) and Australia (+3.7%). The AUD rose a further 2% in July supported by further metal price gains. The Fund remains approximately 50% hedged to the AUD as we continue to believe the AUD has moved into a higher trading range.

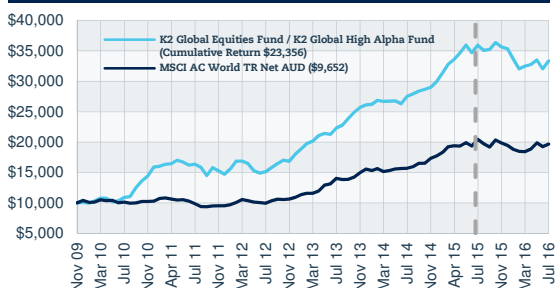
US economic data has been mixed with the most recent Q2 GDP data printing a weak 1.2% annualised growth number. In conjunction with continued global growth concerns from structurally challenged economies of Japan and the UK, the US Federal Reserve has reason to hold off raising interest rates in the coming months. Furthermore, BoE, ECB and BoJ and many other advanced economy central banks appear to have more easing in the pipeline. In effect, global policy makers will likely provide even more accommodative monetary conditions in the immediate future and this will be supportive of further equity market gains. We continue to remain invested well above our net neutral position.

Top 5 Stock Contributions - July

Largest	Finetex Ene Inc, PWR Holdings Ltd, Updater Inc, Villa World Ltd, Vita Group Ltd
Smallest	Berkeley Group Holdings, Hansae Co Ltd, National Storage REIT, Nintendo Co Ltd, Tech Mpire Ltd

Performance to 31 July 2016 (net of fees)	
1 Month	4.05%
3 Months	1.76%
6 Months	-0.86%
Since Inception (pa)*	19.81%

Growth of AUD \$10,000*



*Returns are based on NAV per unit plus distributions reinvested net of all fees. Since inception returns are based on the K2 Global High Alpha Fund between 1/12/09 and 19/7/15 and the K2 Global Equities Fund for the period 20/7/15 to 31/3/16. The portfolio of the K2 Global Equities Fund is based on the portfolio of the K2 Global High Alpha Fund.

Fund Details (Unaudited)

NAV Per Unit:	A\$2.31
Fund Size:	A\$36.8m
Start Date:	20-Jul-15

Top 5 Large Cap Holdings	Sector	%
Goldman Sachs Group Inc	Financial	2.8
AbbVie Inc	Cons. Non-Cyc	1.8
Facebook Inc	Communication	1.7
Alphabet Inc	Communication	1.7
Tencent Holdings Ltd	Communication	1.5

Geographic Exposure %

	Long	Short	Net Equity
Australia	41.1	-0.8	40.3
Canada	1.5	-	1.5
China	2.8	-	2.8
Euroland	4.3	-	4.3
Japan	2.9	-	2.9
Korea	7.6	-	7.6
New Zealand	3.7	-	3.7
Sweden	1.4	-	1.4
United Kingdom	1.5	-	1.5
United States	22.1	-	22.1
Total Equity	88.9	-0.8	88.1
Total Cash			11.9
Total Equity and Cash Exposure			100.0
Net AUD Exposure AFTER Hedging			48.6%

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