

K2 Asset Management

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K2 Select International Fund Monthly Report - 31 January 2017

Global Market Review

The K2 Select International Absolute Return Fund returned 2.07% for the month of January while the MSCI AC World TR Net AUD Index returned -2.01%.

Global equity markets entered the New Year full of hope and optimism, racing out of the blocks like a gazelle in the savanna. The official inauguration made it clear that President Trump will do things "My Way" in a rather subdued affair amid much conjecture over TV ratings and with Beyonce nowhere to be seen. With formalities over the Presidential Pen was put into immediate action. As we end January and begin the year of the Rooster, significant for its fidelity and punctuality, the Trump Thump, formerly a Bump, became a mini-Slump. For completeness, Trump was born in the year of the Dog.

The S&P 500 Index increased +1.8% in January. Reporting season kicked off on a positive note with the financial titans posting solid results. This was reinforced by a strong bounce in Technology stocks as the NASDAQ rose +4.3%. US 10-year treasuries held firm closing the month at 2.46% as investors remain comfortable with the prospect of three rate hikes in 2017. The oil price (WTI) retreated -1.7% to USD52.81 as concerns mount over OPEC members adhering to agreed output cuts and an increasing US rig count.

In Europe, markets were generally weaker across the board. The UK FTSE 100 Index fell -0.6% as Prime Minister Theresa May outlined her vision for a "Hard" Brexit. Although we are not quite sure what that means one interpretation is that the journey ahead will be long and complicated. France's CAC declined -2.3% while Germany's DAX bucked the trend, adding +0.5%. Asian markets recovered their December losses with the Hang Seng rallying +6.2%, mainland China up +1.8% and KOSPI climbing 2.0% as Chinese President Xi Jinping used his maiden speech at Davos to fly the flag for globalisation, warning a recently elected and un-named global leader, against engaging in trade wars. Japan, whose export led equity market is heavily influenced by currency movements, rose a modest 0.2% (TOPIX) as the Yen increased by +3.4%. Trump's effort to jaw-bone the US dollar lower stating that "...our currency is too strong. And it's killing us" had the desired effect. The AUD closed January up +5.0% at USD0.7570.

Portfolio Insight: Royal Caribbean Cruises

Founded in 1968, Royal Caribbean Cruises is the world's second largest cruise line operator with a fleet of approximately 40 ships. The cruise industry is currently enjoying a renaissance driven by strong consumer demand and manageable supply growth. We expect these favourable industry dynamics to persist as cruise penetration rates continue to grow. In addition, China's ongoing willingness to embrace the cruising lifestyle helped by increased distribution channels will drive future multiple expansion. The company offers an attractive risk/reward profile, underpinned by a non-demanding FY17 forecast PE of 13.4x supported by a strong EPS growth profile of 17% p.a. over the next 3-years.

Outlook

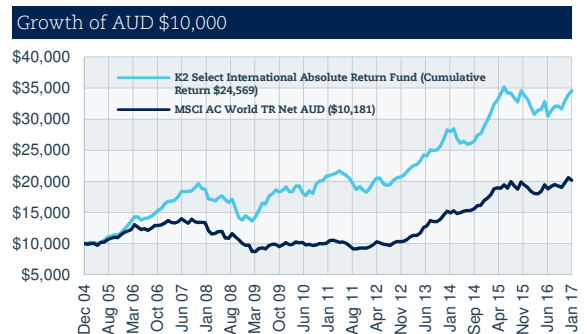
Unpredictability surrounding US Government policy from tax to immigration along with erratic tweeting is now the new normal making things very difficult for even the most sophisticated quant models and algorithms to forecast. As a result we expect volatility to increase dramatically. Despite the late month sell-off, market expectations remain elevated and we maintain our cautious but optimistic outlook for US equities.

In Europe, the political landscape dominates discussion. Brexit aside, the French election in May 2017 has the potential to have the most significant short term impact. The Euro's survivability almost rests on the result with a likely detrimental effect on European economic growth. We continue to closely monitor the situation and remain underweight the region. The Fund maintains a net equity market exposure of 81%. AUD hedging currently sits at 96% as we believe that the AUD is likely to further strengthen.

Top 5 Stock Contributions - January

Largest	Activision Blizzard Inc, Alibaba Group Holding Ltd, Apple Inc, Broadcom Ltd, Facebook Inc
Smallest	General Electric Co, Goldman Sachs Group Inc, Retail Food Group Ltd, Shire PLC, ZipTel Ltd

Performance to 31 January 2017 (net of fees)	
1 Month	2.07%
3 Months	9.16%
6 Months	10.18%
1 Year	8.60%
3 Years (pa)	7.26%
5 Years (pa)	12.79%
10 Years (pa)	7.48%
Since Inception (pa)	10.81%



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\$151.27
Fund Size:	A\$114.7m
Start Date:	1-Jan-05

Top 5 Large Cap Holdings	Sector	%
Apple Inc	Technology	5.0
Nordea Bank AB	Financial	3.4
Goldman Sachs Group Inc	Financial	3.3
Facebook Inc	Communication	3.1
Broadcom Ltd	Technology	3.1

Geographic Exposure %			
	Long	Short	Net Equity
Australia	4.9	-2.5	2.4
Canada	7.3	-	7.3
China	4.1	-	4.1
Denmark	3.0	-	3.0
Euroland	2.6	-0.3	2.3
Hong Kong	2.9	-	2.9
New Zealand	1.8	-	1.8
Sweden	3.4	-	3.4
Switzerland	-	-0.3	-0.3
United Kingdom	4.5	-	4.5
United States	51.1	-1.1	50.0
Total Equity	85.6	-4.2	81.4
Total Cash			18.6
Total Equity and Cash Exposure			100.0
Net AUD Exposure AFTER Hedging			96.3%

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