

## K2 Asset Management

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# K2 Select International Fund Monthly Report - 30 November 2016

## Global Market Review

The K2 Select International Absolute Return Fund returned 3.85% for the month of November while the MSCI AC World TR Net AUD Index returned 3.77%.

With the US election over and the world not ending, Donald Trump immediately toned down his rhetoric and markets dutifully responded. Against a backdrop of potential massive fiscal stimulus and corporate tax cuts, bond prices collapsed, the US dollar jumped, US equities rallied and commodities reached for the stratosphere.

The Trump Bump drove the US S&P 500 higher in November closing the month up +3.4%. Financial stocks led the way as the prospect of higher interest rates will significantly enhance profitability. Technology companies with stretched valuations and any bond like proxies (Utilities, REITS, Staples) lagged the market as discount rates spiked. Rounding out the month, OPEC fired a bazooka, surprising the market with the size of supply cuts sending the oil price (WTI) up over +9% on the day to USD49.44.

Ongoing hawkish communication from Federal Reserve members continues to signal a rising bias with markets now pricing the probability of a December rate hike at 100%. In Europe, markets were mixed in local currency terms. The UK FTSE 100 Index fell -2.5%, while Germany's DAX declined -0.2% and France's CAC rose +1.5%. In Asia, Japan was once again the standout with TOPIX jumping a further +5.5% as the Yen fell -8.9% versus the USD. The 2-month performance of TOPIX now stands at +11.1%. The Hang Seng fell -0.6% while mainland China rose +4.8%. The AUD closed November down -2.8% at USD0.7394.

## Portfolio Insight: Drew Industries

A leading supplier to the North American recreational vehicle market, Drew continues to benefit from favourable industry dynamics. These include the shift to a younger demographic in addition to the traditional baby boomers, access to credit and cheap gasoline. Currently trading on a forecast FY17 PE of 18.1x, the expected earnings of \$5.79 (13.3% growth) has significant upside potential following strong results from major customers Thor and Camping World Holdings. With gross profit margins increasing to the mid-twenties, an ROE of 25% and a solid balance sheet, we expect the company's positive re-rating to continue.

## Outlook

With the dust having settled on the US election, there is no shortage of upcoming global macro events to focus investor attention and increase equity market volatility. We start with the Italian referendum for political reform on 4th December which will have significant implications for the country's economy. A 'No' vote will lead to increased political instability, delaying the much needed re-structuring required to stimulate growth, reduce unemployment and rescue the banking sector.

A decision by the Fed is due on 14th December. With a 25bp hike all but confirmed, the focus now shifts to 2017 and the timing and magnitude of any future increases. Current expectations are for two further increases over the next 12 months.

It is probably still a bit too early to discuss the French election (May 2017) but if Brexit and Trump have taught us anything, the result is most likely a forgone conclusion. Obviously, we will be ignoring the polls. Implications for the Euro could be far reaching. Watch this space.

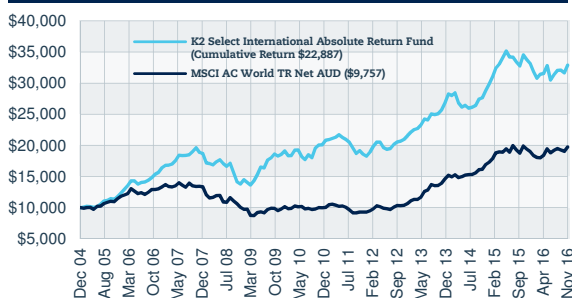
The Fund maintains a net equity market exposure of 81%. AUD hedging currently sits at 46% of the Fund, believing that the AUD is likely to remain in the mid-70 cent level.

## Top 5 Stock Contributions - November

<b>Largest</b>	AbbVie Inc, Galaxy Entertainment Group, Goldman Sachs Group Inc, JPMorgan Chase & Co, Thor Industries Inc
<b>Smallest</b>	Alibaba Group Holding Ltd, Facebook Inc, Koninklijke Ahold Delhaize N, Retail Food Group Ltd, Visa Inc

1 Month	3.85%
3 Months	2.64%
6 Months	0.24%
1 Year	-2.69%
3 Years (pa)	7.05%
5 Years (pa)	12.08%
10 Years (pa)	7.70%
Since Inception (pa)	10.51%

## 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\$143.91
Fund Size:	A\$112.8m
Start Date:	1-Jan-05

Top 5 Large Cap Holdings	Sector	%
Apple Inc	Technology	4.8
Goldman Sachs Group Inc	Financial	4.3
Nordea Bank Ab	Financial	3.1
AbbVie Inc	Cons. Non-Cyc	3.0
Alphabet Inc	Communication	2.8

## Geographic Exposure %

	Long	Short	Net Equity
Australia	6.3	-2.0	4.3
Canada	5.7	-	5.7
China	8.1	-	8.1
Denmark	2.2	-	2.2
Euroland	2.5	-0.3	2.2
Hong Kong	2.4	-	2.4
Korea	0.7	-	0.7
New Zealand	1.8	-	1.8
Sweden	3.1	-	3.1
Switzerland	-	-0.3	-0.3
United Kingdom	4.3	-	4.3
United States	47.2	-1.1	46.1
<b>Total Equity</b>	<b>84.3</b>	<b>-3.7</b>	<b>80.6</b>
<b>Total Cash</b>			<b>19.4</b>
<b>Total Equity and Cash Exposure</b>			<b>100.0</b>
<b>Net AUD Exposure AFTER Hedging</b>			<b>45.6%</b>

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