



K2 Select International Fund Monthly Report - 31 October 2016

Global Market Review

The K2 Select International Absolute Return Fund returned -1.29% for the month of October while the MSCI AC World TR Net AUD Index returned -1.14%.

The US S&P 500 retreated in October closing the month down -1.9% as the world holds its collective breath for the outcome of the November 8th US election. With the Debates over, all opinion polls pointed towards a relative comfortable Clinton victory. However, nothing about this election is as it seems. So, as if scripted, the FBI announced a further investigation into Hillary's use of her personal email server... and the election result is back in the balance. The only thing we can be sure of is that there will be more surprises before a winner is inaugurated. Meanwhile, US Q3 reporting season kicked-off with the financial giants led by Goldman Sachs, JPMorgan and Citigroup setting a positive early tone as their FICC divisions demonstrated renewed strength. Interestingly, leading global toy sellers Mattel and Hasbro produced results that surpassed expectations in what could be an encouraging sign for the consumer heading into the all-important Christmas trading period.

Better than expected US GDP growth of 2.9% in the third quarter, suggests that the world's largest developed economy is standing on firmer ground. Consequently, 10-year Treasuries extend their sell-off with yields climbing to a 5-month high of 1.84% as the probability of a December rate rise increased to 78%.

In Europe, markets rallied across the board in local currency terms. The UK FTSE 100 Index, boosted by the falling Pound, added +0.8% while Germany's DAX +1.5% and France's CAC +1.4% benefitted as anxiety towards the health of the European banking system abated, albeit slightly. In Asia the Hang Seng fell -1.6% while mainland China rose +3.2%. Japan was easily the standout with TOPIX jumping +5.3% as the Yen strengthened +3.6%. Oil (WTI) closed the month on its lows at USD46.86, a fall of -2.9% as the market waits nervously for an agreement on national quotas at OPEC's November formal meeting. The AUD closed October down -0.7% at USD0.7608.

Portfolio Insight: Caterpillar (Short Position)

In the face of significant macro headwinds Caterpillar's revenue has declined from a peak of USD65.8bn in FY2012 to a forecast trough of USD38.5bn in FY2017. A decline of -41%. Currently trading on a generous FY17e PE of 24.5x, it is our view that any meaningful rebound in earnings is less likely than what the market valuation suggests. A more prolonged recovery can be expected due to 1) 20% of the global heavy machinery fleet is either parked or under-utilised 2) Miners continue to make productivity improvements, increasing fleet efficiency and 3) there is a significant amount of used equipment available. The share price rally on deteriorating fundamentals, struggling end-markets and generally poor near-term outlook leaves little room for error, as a result we maintain a short position in the company.

Outlook

With less than one week to go all eyes are firmly fixed on the US Presidential election and how the result might impact global markets. A Trump victory is expected to send an initial shockwave through the market. While a Clinton victory will provide corporate America with a sense of comfort and should prove positive for global equities. Once the dust settles on the election, investor focus will turn to US interest rates and the timing of any future increases. We are unchanged in our view of a December hike being the most likely scenario which is also now largely priced in by the market.

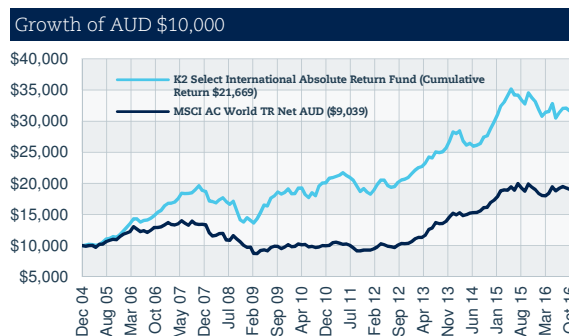
The Fund maintains a net equity market exposure of ~81%. AUD hedging currently sits at approximately 50% of the Fund, as we believe that the AUD is likely to remain in the mid-70 cent level.

Top 5 Stock Contributions - October

Largest	Corporate Travel Management, Goldman Sachs Group Inc, Nordea Bank AB, Toronto-Dominion Bank, US Bancorp
Smallest	AbbVie Inc, Beijing Capital Intl Airport, CJ CGV Co Ltd, Hugel Inc, Iron Mountain Inc

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Performance to 31 October 2016 (net of fees)	
1 Month	-1.29%
3 Months	0.94%
6 Months	0.36%
1 Year	-8.27%
3 Years (pa)	7.23%
5 Years (pa)	10.56%
10 Years (pa)	7.51%
Since Inception (pa)	10.23%



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\$138.58
Fund Size:	A\$110.9m
Start Date:	01-Jan-05

Top 5 Large Cap Holdings	Sector	%
Goldman Sachs Group Inc	Financial	5.0
Apple Inc	Technology	4.7
Facebook Inc	Communication	3.6
Nordea Bank AB	Financial	3.1
Alphabet Inc	Communication	2.9

Geographic Exposure %			
	Long	Short	Net Equity
Australia	7.4	-1.0	6.4
Canada	3.2	-	3.2
China	6.4	-	6.4
Denmark	1.2	-	1.2
Euroland	3.6	-0.3	3.3
Hong Kong	2.3	-	2.3
Korea	2.2	-	2.2
New Zealand	2.4	-	2.4
Sweden	3.1	-	3.1
Other Countries	1.1	-0.3	0.8
United Kingdom	3.4	-	3.4
United States	47.3	-1.0	46.3
Total Equity	83.6	-2.6	81.0
Total Cash			19.0
Total Equity and Cash Exposure			100.0
Net AUD Exposure AFTER Hedging			48.9%