



## K2 Select International Fund Monthly Report - 30 September 2016

### Global Market Review

The K2 Select International Absolute Return Fund returned 0.13% for the month of September while the MSCI AC World TR Net AUD Index returned -1.19%.

The US S&P 500 further consolidated its strong post-BREXIT recovery finishing September relatively flat (-0.1%) and approximately one percent off its all-time highs. As generally expected the US Federal Reserve held rates constant while Chairperson Yellen continued to flag that the prospects for future interest rate rises have grown – data dependent of course. Theatrics surrounding November's US election gathered momentum as Clinton and Trump traded blows in the most watched presidential debate in history. Despite neither candidate covering themselves in glory, the relief rally in the Mexican Peso suggested markets awarded Clinton a victory on points. Financial stocks were volatile on both sides of the Atlantic. Murmurs of counterparty risk engulfed Deutsche Bank and Chancellor Merkel ruling out state-based assistance did little to ease fears. Wells Fargo was fined US\$185m as their sales staff opened fake accounts on behalf of customers in order to meet internal targets.

In Europe, markets were mixed as weak sentiment toward the region continues (Europe has now seen 34 straight weeks of equity fund outflows). The Euro STOXX 600 returned -0.2%, the UK FTSE 100 Index +1.7%, German DAX -0.8% and French CAC 0.2%. Meanwhile in Asia, the Hang Seng rallied +1.4% while mainland China fell -2.6%. In Japan, the Nikkei 225 declined -2.6% as the Yen strengthened +1.9%.

Oil (WTI) bounced strongly during the month (+7.9%) to \$48.24 as OPEC agreed in principle to cut output, but we await the agreement of national quotas at November's formal meeting before getting too excited. The AUD closed September up +1.9% to at USD0.766 cents.

### 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

A broadly underlying hawkish tone from Fed members has strengthened our view that a single US rate hike by year end is the most likely outcome. Bond futures markets currently see the probability of a 25bp rise by December at 59%, unchanged from 4 weeks ago. While an imminent increase should not surprise the market, any resulting weakness presents a short-term buying opportunity.

In the meantime investors have the US Presidential election to grapple with. A Trump victory, and his protectionist policies, will almost certainly be viewed negatively by the market. However, taking a longer term more pragmatic view, we would expect a significant watering down of the hardline rhetoric, providing some much needed comfort. On the other hand, a Clinton victory will provide America Inc. with stability and confidence which should be positive for global equities.

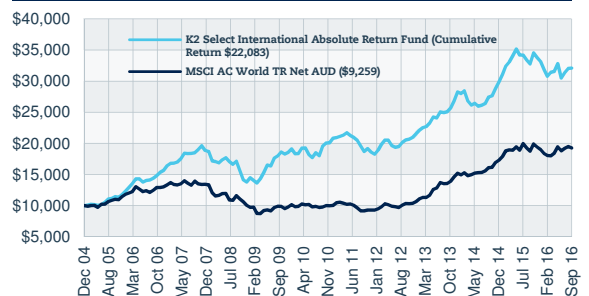
The Fund maintains a net equity market exposure of 92% in-line with our constructive outlook on equities. We maintain AUD hedging at approximately 50% of the Fund believing that the AUD is likely to remain around the mid-70 cent level.

### Top 5 Stock Contributions - September

<b>Largest</b>	Alibaba Group Holding Ltd, Apple Inc, Retail Food Group Ltd, South32 Ltd, Square Enix Holdings Co Ltd
<b>Smallest</b>	Goldman Sachs Group Inc, Koninklijke Ahold Delhaize N, Pultegroup Inc, Vocus Communications Ltd, Wells Fargo & Co

Performance to 30 September 2016 (net of fees)	
1 Month	0.13%
3 Months	5.23%
6 Months	2.08%
1 Year	-2.04%
3 Years (pa)	8.56%
5 Years (pa)	11.39%
10 Years (pa)	8.03%
Since Inception (pa)	10.43%

### 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\$140.34
Fund Size:	A\$116.5m
Start Date:	01-Jan-05

Top 5 Large Cap Holdings	Sector	%
Goldman Sachs Group Inc	Financial	4.3
Apple Inc	Technology	4.2
Facebook Inc	Communication	3.3
AbbVie Inc	Cons. Non-Cyc	2.9
Alibaba Group Holding Ltd	Communication	2.8

### Geographic Exposure %

	Long	Short	Net Equity
Australia	7.1	-	7.1
Canada	3.0	-	3.0
China	5.4	-	5.4
Euroland	7.2	-	7.2
Hong Kong	1.3	-	1.3
Japan	2.6	-	2.6
Korea	5.9	-	5.9
New Zealand	2.3	-	2.3
Sweden	2.7	-	2.7
United Kingdom	7.8	-0.6	7.2
United States	48.3	-0.7	47.6
<b>Total Equity</b>	<b>93.6</b>	<b>-1.3</b>	<b>92.3</b>
<b>Total Cash</b>			<b>7.7</b>
<b>Total Equity and Cash Exposure</b>			<b>100.0</b>
<b>Net AUD Exposure AFTER Hedging</b>			<b>50.6%</b>

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