

K2 Asian Fund

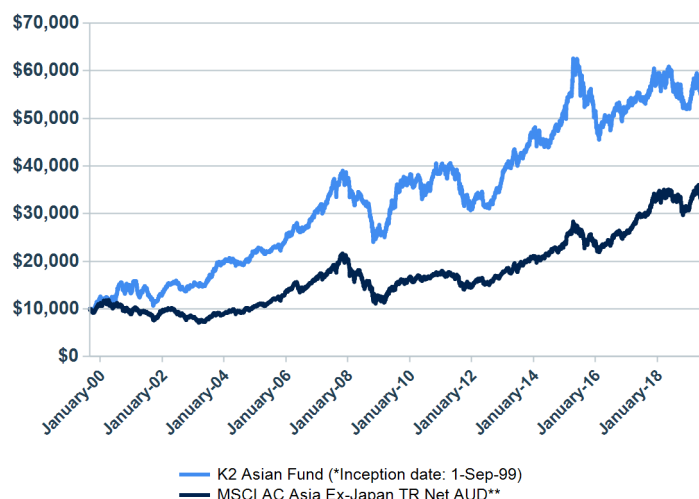
31 May 2019



The K2 Asian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Funds' mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	1 Month	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	10 Years (%pa)	15 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	-6.1%	-3.7%	-8.1%	2.9%	4.0%	5.6%	7.1%	9.0%	1-Sep-1999
Average Net Exposure	81.1%	77.3%	70.9%	77.3%	79.9%	83.9%	77.0%	74.6%	

Growth of \$10,000



**Index performance prior to the 1-Oct-2017 is the MSCI AC Asia Pacific Ex-Japan TR Net AUD.

Top 5 Stock Holdings	Current	Monthly Move
Ping An Insurance Group	6.5%	+0.2%
AIA Group Ltd	5.6%	+0.2%
Lonking Holdings Ltd	5.0%	-0.6%
RIO Tinto Ltd	4.8%	+0.7%
Bank Of China Ltd	4.7%	-0.1%

Month End Exposures	Current	Monthly Move
Communication Services	6.1%	+0.4%
Consumer	17.6%	+0.9%
Energy	5.5%	-0.4%
Financials	29.7%	+0.9%
Industrials	6.9%	-0.3%
Information Technology	5.3%	+1.1%
Materials	7.8%	+0.8%
Real Estate	1.8%	-1.9%
Number of Positions	34	0
Gross Equity Exposure	80.7%	+1.4%
Cash Weighting	19.3%	-1.4%
Net Equity Exposure	80.7%	+1.4%
Currency Exposure Hedged of AUD	3.0%	-4.0%

Commentary

The K2 Asian Fund returned -6.1% for the month of May.

The strong performance enjoyed by Asian equities in 2019 came to a halt in May with the MSCI AC Asia ex Japan TR Net AUD Index declining by -7.1%. Mainland China (-5.8%) and Hong Kong (-9.4%) bore the brunt of a re-escalation in the trade war between the US and China. As both sides exchanged threats and pointed fingers, investors voted with their feet. We believe any further downside from here is somewhat limited as trade war hysteria peaks. Ultimately, if things continue along the current trajectory, there will be no winners and it is our view that a trade deal will be reached sooner rather than later. In the meantime, volatility will persist as investors react to every tweet.

A positive contributor to Fund performance included Taiwanese wireless semiconductor manufacturer, Mediatek. The company's chip solution for 5G smartphones is expected to receive a boost, as they potentially displace Qualcomm from Huawei's supply chain. In addition to their 5G capabilities, increasing non-smartphone revenue from home automation, data centres and automotive provides earnings diversification and the prospect for significant future growth. Detractors to Fund performance included companies expected to be negatively impacted from a protracted trade war and subsequent economic downturn in China. Examples of these include Lonking Holdings and Alibaba. We maintain our positions in these and other high quality companies with undemanding valuations combined with attractive growth prospects.

The Fund remains unhedged to the AUD which ended the month down -1.6% versus the USD, providing a tailwind to performance. Net equity exposure is largely unchanged at 81%. We remain broadly optimistic on the outlook for Asian equities against the backdrop of an amicable resolution to the trade war. It is our belief that China's leaders are determined to steer the economy towards a soft landing demonstrated by their willingness to provide fiscal stimulus as required.

Fund Characteristics

FUM	AUD \$17m
Portfolio Managers	Campbell Neal, Mark Newman, Nicholas Leitl and Tony Sutton
Strategy	Asian (excluding Japan) Equities
Objectives	To deliver consistent absolute returns over the investment cycle with a focus on capital protection during periods of market declines
Return Target	+10% pa over the long term
Number of Stocks	Up to 80
Cash	Up to 100% of portfolio
Distributions	Annually
Management Fee	1.36%
Buy/Sell	Daily Application/Redemption
Performance Fee	15.38% pa of the amount by which the NAV per unit exceeds the High Water Mark once the fund achieves its hurdle

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K2 Asian Fund Net Monthly Returns in AUD

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin YTD	Fin YTD Index (1)	Average Cash	Average Short	
1999/00			-0.6	4.3	9.2	10.8	-4.3	-3.4	4.1	-1.1	0.2	-1.0	18.6	7.2	35.2%	-13.8%	
2000/01	19.4	8.3	-5.3	-1.0	-3.2	-2.3	16.5	-2.0	-16.4	5.4	5.4	-2.0	19.2	-12.2	16.2%	-18.5%	
2001/02	-9.1	-6.9	-4.9	2.3	10.3	1.1	8.7	4.4	2.4	1.8	1.7	-1.5	8.6	-3.6	35.5%	-12.0%	
2002/03	-7.2	0.5	-2.8	3.6	3.6	-0.5	2.4	-0.5	-1.8	0.1	3.7	4.4	4.9	-14.1	41.2%	-13.0%	
2003/04	4.4	6.5	4.4	5.2	-0.3	0.9	1.5	0.8	-1.8	-0.7	-0.2	0.0	22.4	23.1	38.0%	-5.3%	
2004/05	-1.2	1.3	2.2	0.9	6.8	2.2	1.1	1.3	-3.0	-2.4	2.0	1.0	12.5	19.7	30.2%	-2.6%	
2005/06	3.4	0.2	1.9	-3.6	5.2	3.8	5.2	-1.0	5.0	2.3	-3.2	0.2	20.7	26.1	24.4%	-3.9%	
2006/07	0.2	2.0	2.4	2.9	3.4	2.7	1.2	0.3	0.6	3.0	5.5	4.0	31.9	26.8	31.1%	-1.4%	
2007/08	3.5	-0.2	2.7	4.0	-2.6	-1.2	-8.6	-0.4	-3.7	3.1	-0.1	-3.8	-7.6	-16.0	46.6%	-5.0%	
2008/09	-1.6	0.2	-10.8	-10.4	-0.7	5.2	-3.3	-1.4	4.8	8.0	10.3	0.9	-1.2	-7.7	49.5%	-4.0%	
2009/10	10.5	-2.6	4.7	0.9	-0.3	3.5	-4.7	0.0	3.8	-0.5	-7.4	-0.5	6.4	15.9	12.0%	-1.7%	
2010/11	4.4	-2.1	7.6	2.5	-0.8	2.1	0.5	-1.0	1.7	1.2	-1.8	-2.4	12.1	2.2	12.1%	-2.4%	
2011/12	-2.0	-5.4	-9.0	3.7	-6.2	-1.8	4.9	5.1	-0.9	1.2	-6.9	-1.0	-17.8	-8.9	20.1%	-2.1%	
2012/13	1.2	0.7	4.9	3.9	2.0	6.0	4.3	2.1	0.0	3.2	2.4	-3.6	30.2	22.5	6.9%	-0.1%	
2013/14	2.4	0.1	2.1	3.6	4.9	0.9	-1.6	0.9	-3.7	-0.2	0.4	-2.3	7.4	14.0	8.8%	0.0%	
2014/15	5.4	0.5	2.8	1.4	2.5	3.6	4.1	2.2	2.6	7.5	2.4	-4.2	34.9	21.9	12.9%	-0.1%	
2015/16	-4.5	-4.5	-1.4	3.4	-4.2	-2.9	-7.2	-1.6	4.0	2.5	0.2	-2.8	-17.8	-7.4	18.7%	0.0%	
2016/17	3.7	2.5	1.2	-3.3	1.6	0.2	2.7	-0.6	1.0	2.0	0.9	-2.3	9.9	21.3	20.6%	-0.4%	
2017/18	-0.1	2.2	0.5	4.5	1.4	-1.6	1.4	-0.2	-1.3	4.0	-0.2	-4.1	6.5	13.4	18.5%	-1.1%	
2018/19	-1.6	1.0	-0.1	-7.3	-1.1	1.6	1.8	5.6	1.3	1.3	-6.1		-4.2	-0.4	30.6%	-0.7%	
													Incept	448.8	231.4		
													Incept	9.0%pa	6.3%pa	25.5%	-4.4%

(1) MSCI AC Asia Ex-Japan TR Net AUD

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