

K2 Asian Fund

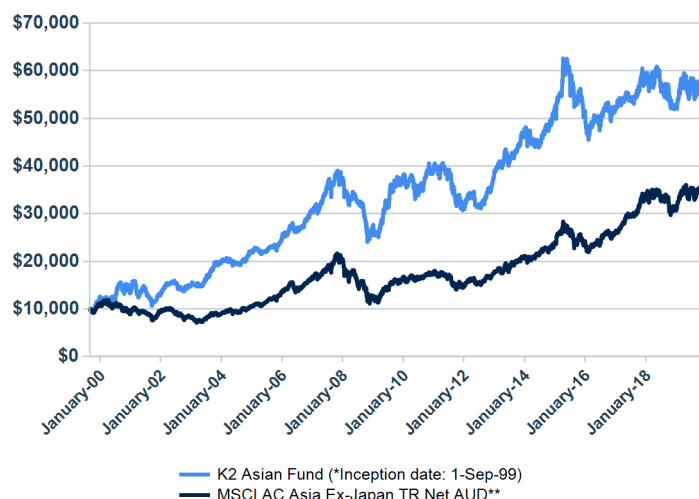
31 October 2019



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 Fund's 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)	2.0%	-0.7%	8.4%	3.9%	3.2%	4.5%	7.1%	9.0%	1-Sep-1999
Average Net Exposure	81.0%	77.6%	69.9%	75.5%	78.9%	83.6%	77.4%	74.7%	

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
AIA Group Ltd	8.1%	+0.6%
Alibaba Group Holding Ltd	5.9%	+1.3%
Ping An Insurance Group	5.7%	-2.5%
Tencent Holdings Ltd	5.6%	+0.9%
Shenzhou International Group	4.5%	+0.3%

Month End Exposures	Current	Monthly Move
Communication Services	9.0%	+1.2%
Consumer	19.3%	+7.0%
Energy	4.3%	+0.2%
Financials	26.4%	-3.5%
Health Care	3.0%	+1.3%
Industrials	14.4%	+1.9%
Information Technology	4.2%	+1.8%
Materials	3.7%	+0.8%
Other	1.0%	+1.0%
Real Estate	3.2%	+0.2%
SHORTS	-1.4%	-0.8%
Number of Positions	39	+6
Gross Equity Exposure	89.9%	+12.7%
Cash Weighting	12.8%	-11.1%
Net Equity Exposure	87.2%	+11.1%
Currency Exposure Hedged of AUD	90.5%	-2.6%

Commentary

The K2 Asian Fund returned 2.0% for October.

Asian Equity markets continued their march higher in October fuelled predominantly by improved sentiment around an impending resolution to the trade war between America and China. Additional support was provided by the easing of protest tensions in Hong Kong which rallied +3.1%. Taiwan (+4.9%) gained as the large semiconductor players which dominate the bourse rose from significantly oversold levels as chip pricing appears to have stabilised and smartphone shipments are much better than feared. Other markets across the region all ended the month broadly higher including Korea (+1.0%), Singapore (+3.5%) and Mainland China (+0.8%).

Fears of a global recession have receded somewhat as PMI data is potentially past its worst and the US yield curve is no longer inverted. By the end of October, the yield curve had steepened to approximately 17bps as depicted by the US 2Yr/10Yr spread. Against this backdrop, we maintain our belief that equity markets are well-positioned to continue to move higher in the coming months. However, we are starting to feel that investors are becoming more discerning and not simply chasing growth/momentum at any price, a strategy that has worked well recently.

A positive contributor to Fund performance included Techtronic Industries, a Hong Kong headquartered manufacturer of power tools. Best known for its Ryobi and Milwaukee brands, Techtronic derives almost 75% of its revenue from North America. Consequently, a softening of the trade war rhetoric and an improving US consumer landscape resulted in a 13% share price increase in October.

The AUD increased +2.1% versus the USD with the Fund currently 91% hedged to the AUD to provide protection against a rising AUD. Net exposure increased to 87% as we maintain our bias towards the more developed Asian economies and specifically seek to identify companies that offer a higher degree of earnings quality at the right price.

Fund Characteristics

FUM	AUD \$13m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen 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	4.8	0.5	4.8	30.2%	-0.7%	
2019/20	0.0	-3.9	1.2	2.0									-0.7	1.7	22.8%	-0.8%	
													Incept	471.3	254.7		
													Incept	9.0%pa	6.5%pa	25.3%	-4.2%

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

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