

K2 Global High Alpha Fund

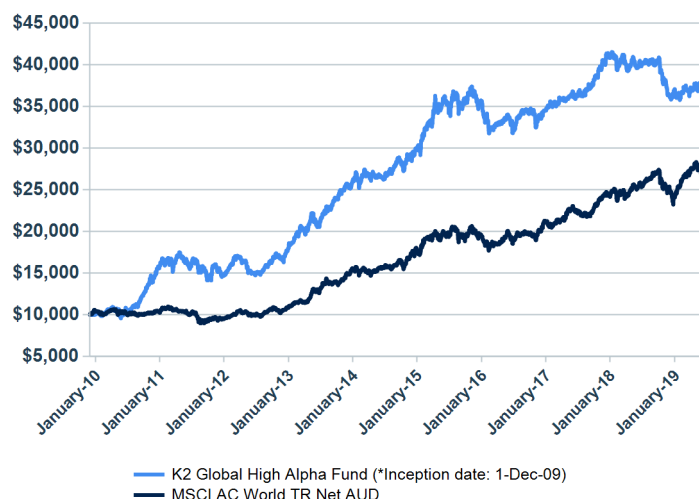
31 May 2019



The K2 Global High Alpha 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)	Inception (%pa)	Inception Date
Performance (Net of Fees)	-1.8%	-0.5%	-7.2%	3.0%	6.7%	14.8%	1-Dec-2009
Average Net Exposure	70.8%	68.2%	63.3%	75.6%	80.1%	81.1%	

Growth of \$10,000



Commentary

The K2 Global High Alpha Fund returned -1.8% for the month of May.

The strong performance enjoyed by international equities in 2019 came to a halt in May with the MSCI AC World TR Net AUD Index declining by -4.4%. The catalyst for the sell-off being the re-escalation of the trade war between China and the US. The ongoing threats and tit-for-tat between the two countries reverberated across all global markets and asset classes. Ultimately, if things continue along the current trajectory, there will be no winners and therefore we believe 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 Kina Securities Limited, a Papua New Guinea based banking and financial services company. Touted as the Macquarie Bank of Papua New Guinea, Kina trades on forecast FY20 PE of 5.8x with an expected dividend yield of 11%. Significant areas of future growth include lending market share gains, improving operational efficiencies and strengthening relationships with exporters to drive foreign exchange revenue. On the negative side, companies expected to be negatively impacted from a protracted trade war and subsequent economic downturn in China, represented the largest detractors to fund performance. Examples of these include Lonking Holdings, Melco International and Guangzhou Auto. We maintain our positions in these core holdings 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 exposure is largely unchanged at 70% with a bias towards the US and Australia due to their stronger economic growth prospects compared to Europe, and central banks which have the capacity to provide fiscal stimulus through lower interest rates, with any dovish shift likely to be well received by markets.

Top 5 Stock Holdings	Current	Monthly Move
Cedar Woods Properties Ltd	4.1%	+0.3%
Seven Group Holdings Ltd	2.5%	0.0%
Mineral Resources Ltd	2.3%	0.0%
Visa Inc	2.1%	+0.1%
Macquarie Group Ltd	2.0%	-0.2%

Month End Exposures	Current	Monthly Move
Communication Services	3.2%	0.0%
Consumer	12.4%	+0.1%
Energy	2.6%	-0.1%
Financials	16.8%	+0.4%
Health Care	9.7%	0.0%
Industrials	6.9%	-1.7%
Information Technology	7.3%	+0.3%
Materials	9.0%	-0.6%
Other	1.2%	-0.1%
Real Estate	4.1%	+0.3%
SHORTS	-3.3%	-1.4%
Number of Positions	66	-2
Gross Equity Exposure	76.6%	+0.1%
Cash Weighting	30.0%	+2.8%
Net Equity Exposure	70.0%	-2.8%
Currency Exposure Hedged of AUD	2.1%	+0.4%

Fund Characteristics

FUM	AUD \$31m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen, Nicholas Leitt and Tony Sutton
Strategy	International 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 120
Cash	Up to 100% of portfolio
Distributions	Annually
Management Fee	2.05%
Buy/Sell	Monthly Application/Redemption
Performance Fee	20.5% of the amount by which the NAV per unit exceeds the High Water Mark

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K2 Global High Alpha 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	
2009/10						0.8	-1.3	3.5	4.6	-0.3	-5.4	1.8	3.4	0.2	33.7%	-0.3%	
2010/11	5.3	1.4	13.2	9.0	5.9	10.2	0.8	2.0	0.7	3.4	-1.7	-3.1	56.6	2.7	9.6%	-0.8%	
2011/12	1.0	-3.1	-8.6	8.9	-3.3	-3.5	6.2	7.9	0.0	-2.5	-7.3	-2.3	-8.0	-2.3	29.0%	-0.7%	
2012/13	1.5	4.5	4.0	3.5	-1.0	6.9	4.9	4.4	2.2	4.4	1.8	-0.8	42.7	30.5	13.9%	-0.4%	
2013/14	4.9	2.2	4.7	4.3	3.2	1.6	0.3	2.4	-0.6	0.1	0.2	-1.7	23.7	19.2	8.0%	0.0%	
2014/15	4.6	1.6	1.6	1.1	1.2	3.3	4.8	4.5	2.4	3.2	3.7	-3.5	31.9	23.7	9.2%	-0.1%	
2015/16	4.5	-2.4	0.7	3.1	-1.9	-1.0	-4.7	-4.7	1.6	0.8	2.1	-4.1	-6.4	-0.6	18.1%	-0.5%	
2016/17	3.8	2.2	-0.1	-1.9	0.6	1.5	2.2	-0.8	2.6	0.0	1.9	-0.9	11.8	15.3	19.7%	-2.4%	
2017/18	0.1	3.7	1.4	3.6	1.8	1.2	-0.4	-0.2	-1.3	0.2	-0.7	0.6	10.4	15.0	16.4%	-3.0%	
2018/19	0.6	0.5	-0.3	-4.9	-5.3	1.6	-3.3	3.8	-1.2	2.7	-1.8		-7.8	5.8	38.8%	-6.4%	
													Incept	269.7	169.8		
													Incept	14.8%pa	11.0%pa	19.6%	-1.4%

(1) MSCI AC World TR Net AUD

DISCLAIMER: Returns are shown after fees (including performance fees) and expenses have been deducted and assume the reinvestment of income distributions. Please note that past performance is not a reliable indicator of future performance. The information contained in this document is produced by K2 Asset Management Ltd ("K2") in good faith, but does not constitute any representation or offer by K2. It is subject to change without notice, and is intended as general information only and is not complete or definitive. K2 does not accept any responsibility, and disclaims any liability whatsoever for loss caused to any party by reliance on the information in this document. A product disclosure statement or information memorandum for general information on any Fund referred to in this document can be obtained at www.k2am.com.au or by contacting K2. You should read the product disclosure statement and consider whether the product is appropriate for you before making a decision to acquire or continue to hold an interest in a Fund. Fees referred to in this document are inclusive of GST and RITC and do not include expense recoveries.