

# K2 Global High Alpha Fund

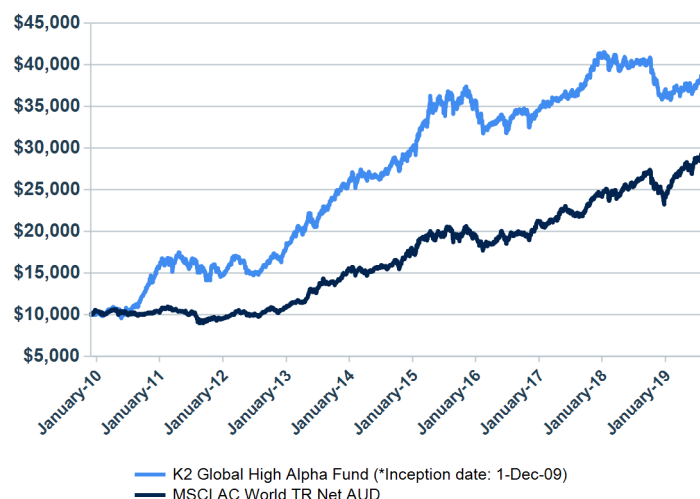
## 31 July 2019



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 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)	Inception (%pa)	Inception Date
Performance (Net of Fees)	2.0%	1.3%	-5.4%	4.2%	6.8%	14.9%	1-Dec-2009
Average Net Exposure	74.8%	70.9%	61.0%	74.9%	79.3%	81.0%	

### Growth of \$10,000



### Commentary

The K2 Global High Alpha Fund returned 2.0% for the month of July.

Global equity markets in July continued to move higher with the MSCI AC World TR Net AUD Index gaining 2.1%. Central bank news flow continues to dominate the headlines with the US Federal Reserve and Australia's RBA cutting interest rates. Global long bond yields continue to fall providing valuation support for equities. However, with many government yields at all-time lows, there remain pockets of the market indicating that interest rates will never rise again. A scenario that is clearly unlikely as markets remain in uncharted territories. As we write, US President Trump has reignited the trade war with China, threatening 10% tariffs on the remaining \$300bn of Chinese imports that aren't subject to existing levies. Expect volatility to re-emerge as Trump continues to surprise investors with his "tweets" and unpredictability.

A positive contributor to Fund performance included Google parent company Alphabet. Q2 results showed a re-acceleration in revenue growth along with the announcement of a \$25bn buyback authorisation that pleased the market. Alphabet offers attractive growth prospects into the foreseeable future driven by the core advertising business in addition to potential green shoots from numerous special projects. Currently trading on an undemanding valuation of 22x FY2020e PE while offering double-digit EPS growth annually over the next 3 years.

Other strong performers throughout the month were Austal Limited, (+20%) after significantly upgrading FY 19/20 profit guidance. Our core small-cap holdings in Australia performed strongly with Kina Securities (+14%), Cedar Woods (+12%) and Medical Developments (+8%).

The AUD ended the month down -1.98% versus the USD, providing a tailwind to Fund performance. Towards the end of July, the Fund increased its hedged position from approximately 50% to 95% to protect against a falling USD. Net exposure has increased during the month to 76%, with the Fund currently holding 24% cash.

Top 5 Stock Holdings	Current	Monthly Move
WorleyParsons Ltd	3.5%	+1.8%
Seven Group Holdings Ltd	2.8%	+0.1%
Austal Ltd	2.4%	+0.4%
Visa Inc	2.4%	+0.1%
Kina Securities Ltd	2.3%	+0.3%

Month End Exposures	Current	Monthly Move
Communication Services	3.1%	+0.2%
Consumer	12.4%	+1.6%
Energy	6.0%	+3.0%
Financials	22.1%	-1.2%
Health Care	10.1%	+1.3%
Industrials	10.1%	+2.8%
Information Technology	8.1%	-0.4%
Materials	5.2%	-1.1%
Other	1.4%	+0.1%
SHORTS	-2.1%	+2.0%
Number of Positions	64	0
Gross Equity Exposure	80.4%	+2.4%
Cash Weighting	23.7%	-6.4%
Net Equity Exposure	76.3%	+6.4%
Currency Exposure Hedged of AUD	95.6%	+46.0%

### Fund Characteristics

FUM	AUD \$30m
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	1.3	-6.6	11.3	38.3%	-6.2%	
2019/20	2.0												2.0	2.1	25.2%	-3.2%	
													Incept	281.7	189.8		
													Incept	14.9%pa	11.6%pa	20.1%	-1.6%

(1) MSCI AC World TR Net AUD

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