

K2 Global High Alpha Fund

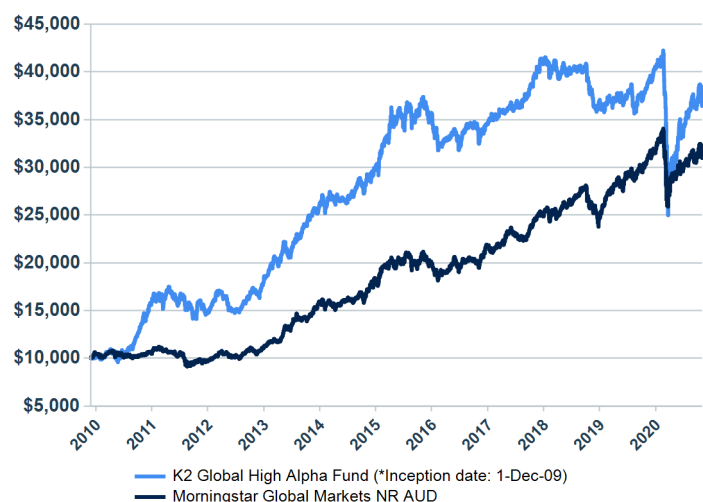
31 October 2020



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	Inception (%pa)	Inception Date
Performance (Net of Fees)	-1.1%	12.6%	1-Dec-2009
Average Net Exposure	95.4%	81.9%	

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Money3 Corp Ltd	4.2%	+0.4%
Summerset Group Holdings Ltd	4.2%	+0.7%
Kina Securities Ltd	3.5%	-0.2%
Macquarie Group Ltd	3.4%	+0.3%
BHP Group Ltd	3.3%	-0.1%

Month End Exposures	Current	Monthly Move
Communication Services	6.0%	+0.5%
Consumer	16.9%	+2.2%
Energy	0.4%	+0.0%
Financials	26.7%	+2.6%
Health Care	11.6%	+0.0%
Industrials	6.9%	-1.0%
Information Technology	10.8%	-0.2%
Materials	12.8%	-1.7%
Other	2.6%	+0.2%
Real Estate	0.8%	-2.3%
Number of Positions	61	-4
Gross Equity Exposure	95.5%	-0.7%
Cash Weighting	4.5%	-1.2%
Net Equity Exposure	95.5%	+1.2%
Currency Exposure Hedged of AUD	90.9%	-0.3%

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Commentary

The K2 Global High Alpha Fund returned -1.06% for the month of October and has now returned +8% this financial year. Since the March lows the fund is up a very strong +26% outperforming the benchmark by +16%. The combination of good stock selection, investing cash early in the recovery and accumulation of the AUD at lower levels have contributed to the strong performance vs benchmark since the March correction.

Global equities markets retreated in October to post their second monthly decline in succession. Investor sentiment deteriorated on a number of fronts including the political stalemate in the US over the amount, timing and dispersion of additional stimulus, increased Covid cases and the potential for future lockdowns, particularly in Europe and general US election uncertainty. The VIX index, a key measure of market volatility, remained elevated at above average levels towards month end.

As we go to print one week into November, it appears Biden will win the US election in what many commentators are describing as a goldilocks scenario for equity markets. A divided government where the Senate remains a Republican majority and the House stays in control of the Democrats provides a beneficial environment for equities as it did two years ago, until Covid struck. Biden's platform of tax hikes, increased regulation and healthcare reform is now likely to be blocked with the immediate positive impact being seen in the share price gains of Technology and Healthcare stocks.

A significant positive contributor included Hong Kong listed Tencent Holdings which rose 15% for the month. Tencent dominates China's online consumer market including games, social networking services and advertising. The company continues to benefit from Covid-19 as the consumer migration to online accelerates and Tencent gains market share. Other strong performers included the fund's holdings in New Zealand aged care operator Summerset Group (+15%), and US holdings Alphabet (+10%) and Moelis & Co (+6%) following both companies decisively exceeding earnings expectations with their Q3 results.

The fund ended the month with a net exposure to equities of 96% reflecting our unchanged overall optimistic stance. The AUD ended the month down -1.99% versus the USD at 0.7028 providing a small gain on of 23bps on the unhedged currency position. The fund is currently 92% hedged to the AUD providing capital protection against a rising AUD. We expect the USD to decline against the AUD given over US\$1trillion of excess liquidity available in the system and current US money supply double previous highs.

Fund Characteristics

FUM	AUD \$36m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen 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

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	1.5	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	3.5	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	-2.6	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	31.0	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	19.6	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	23.9	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	15.4	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	15.1	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	10.5	38.3%	-6.2%	
2019/20	2.0	-3.5	2.8	0.9	3.4	2.2	1.1	-7.8	-23.2	8.1	6.3	1.4	-10.0	3.2	14.8%	-2.8%	
2020/21	4.7	5.5	-1.0	-1.1									8.2	3.6	4.1%	-0.5%	
													Incept	264.4	209.9		
													Incept	12.6%pa	10.9%pa	17.9%	-1.5%

(1) Morningstar Global Markets NR 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 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.

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