

K2 Select International Fund

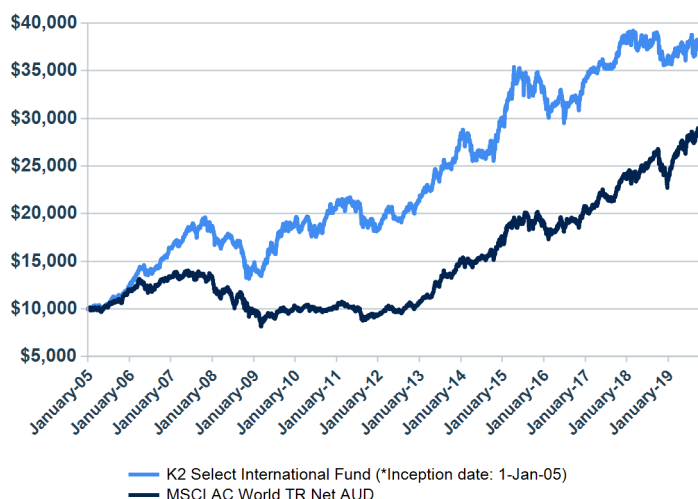
30 September 2019



The K2 Select International 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)	Inception (%pa)	Inception Date
Performance (Net of Fees)	1.4%	1.1%	-1.5%	5.9%	6.8%	7.4%	9.5%	1-Jan-2005
Average Net Exposure	93.2%	89.6%	67.7%	74.5%	77.8%	82.8%	76.9%	

Growth of \$10,000



Commentary

The K2 Select International Fund returned 1.4% for September.

Despite a challenging macroeconomic backdrop, global equity markets demonstrated remarkable resilience in September to grind higher as the MSCI AC World TR Net AUD Index increased 2.0%. If the ongoing Brexit saga and trade war rhetoric wasn't enough for investors to cope with, we can throw in an impeachment drama and an attack on Saudi Arabian oil production facilities just to spice things up. We also had the resurrection of the Value factor to coincide with the sharp sell-off in US 10 year Government Bonds.

It is our view that President Trump needs the US economy to be firing on all cylinders by November 2020 to give himself the best chance of re-election. For this to happen, the Federal Reserve will need to continue cutting rates. We also believe a trade deal will be done in due course and feel this stalemate is the root cause of the recent weak economic data and not the slow moving Fed. When considering these two potential positive events, which we feel the market is not yet pricing, the stage is set for equity markets to reach for new highs as we move into the calendar year 2020. Meanwhile, the increased volatility provides us with the opportunity to invest in quality companies whose share prices are being unduly impacted by the constantly evolving macro events.

A positive contributor to Fund performance included global sporting giant Nike whose Q1 2020 results significantly exceeded expectations driven by their digital initiatives and better than expected International sales growth, especially in greater China.

The AUD ended the month up +0.22% versus the USD, with the Fund currently 96% hedged to the AUD providing capital protection against a rising AUD. Net exposure has increased to 4.5%. We maintain our bias towards the US and specifically seek to identify companies that offer a higher degree of earnings quality while trading at reasonable valuations.

Top 5 Stock Holdings	Current	Monthly Move
Visa Inc	6.0%	-0.2%
Microsoft Corp	5.5%	+0.1%
Mastercard Inc	5.5%	-0.1%
Abbott Laboratories	5.4%	0.0%
Home Depot Inc	5.3%	+0.2%

Month End Exposures	Current	Monthly Move
Communication Services	5.1%	+0.2%
Consumer	16.0%	+2.1%
Energy	0.5%	-1.3%
Financials	15.3%	+2.0%
Health Care	14.8%	-2.2%
Industrials	12.8%	+0.9%
Information Technology	26.5%	+0.9%
Materials	4.8%	+0.8%
Real Estate	1.6%	+1.6%
SHORTS	-1.4%	-0.4%
Number of Positions	37	0
Gross Equity Exposure	98.8%	+5.3%
Cash Weighting	4.1%	-4.5%
Net Equity Exposure	95.9%	+4.5%
Currency Exposure Hedged of AUD	95.8%	-1.3%

Fund Characteristics

FUM	AUD \$26m
Portfolio Managers	Campbell Neal, David Poppenbeek 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 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

Andrew Kang
 Business Development Manager
 03 9691 6105
 akang@k2am.com.au

K2 Select International 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	
2004/05							0.9	1.3	-0.4	-1.4	1.4	3.8	5.6	2.5	50.5%	-4.4%	
2005/06	4.9	0.7	2.6	-1.0	4.2	4.4	5.1	4.4	5.7	-0.1	-3.7	2.0	33.2	21.1	21.3%	-4.1%	
2006/07	0.4	2.1	2.8	3.6	2.0	4.8	2.4	0.1	1.1	3.1	5.1	-0.3	30.7	9.7	23.6%	-1.1%	
2007/08	0.1	0.6	2.6	3.4	-3.7	-1.1	-8.0	-0.6	-1.2	3.0	1.8	-3.4	-7.0	-19.8	43.5%	-7.3%	
2008/09	-2.5	2.9	-8.6	-9.7	-2.5	5.1	-3.1	-2.8	4.9	6.9	7.8	-0.6	-4.0	-16.1	51.1%	-4.0%	
2009/10	7.6	2.1	3.3	-1.7	1.4	3.0	-4.1	0.2	4.7	0.2	-5.4	-2.7	8.1	7.0	11.7%	-1.0%	
2010/11	4.3	-2.5	8.4	2.7	0.0	3.8	0.4	0.9	1.0	1.7	-1.9	-1.6	18.2	2.7	12.0%	-2.4%	
2011/12	-2.2	-4.5	-4.5	2.5	-3.0	-1.7	3.6	4.7	3.6	0.0	-4.3	-1.5	-7.6	-2.3	22.9%	-2.9%	
2012/13	0.6	3.4	2.0	0.6	1.4	2.8	2.7	1.8	0.7	2.5	4.1	-0.4	24.5	30.5	6.7%	-0.3%	
2013/14	3.9	-0.4	0.5	2.4	4.4	5.5	-0.9	1.6	-5.7	-2.5	1.2	-1.8	7.7	19.2	8.0%	-0.1%	
2014/15	0.7	1.0	3.9	0.8	4.1	3.7	4.0	4.2	2.1	3.1	3.1	-2.7	31.7	23.7	13.2%	-0.6%	
2015/16	-0.1	-2.3	-1.9	5.4	-2.1	-1.9	-4.0	-3.3	2.1	0.4	4.0	-7.1	-10.9	-0.6	20.9%	-0.7%	
2016/17	2.9	2.1	0.1	-1.3	3.8	3.0	2.1	0.9	0.4	1.2	1.4	-2.1	15.5	15.3	23.1%	-2.8%	
2017/18	0.3	1.0	1.9	3.6	2.4	-1.7	2.1	-0.3	-2.6	0.7	-0.7	-0.2	6.4	15.0	21.6%	-3.2%	
2018/19	0.8	2.7	-0.2	-5.6	-1.9	2.1	-2.6	3.6	-0.3	3.1	-4.1	3.5	0.7	11.3	32.6%	-3.8%	
2019/20	1.3	-1.6	1.4										1.1	4.0	10.4%	-1.9%	
													Incept	281.2	188.5		
													Incept	9.5%pa	7.4%pa	23.3%	-2.6%

(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 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.