

K2 Global High Alpha Fund

31 October 2018



	1 Month	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	-4.9%	-4.7%	-2.9%	1.5%	9.1%	16.3%	1-Dec-2009
Average Net Exposure	70.1%	76.5%	85.1%	81.6%	84.6%	83.1%	

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Elanor Investor Group	5.5%	+0.5%
Goldman Sachs Group Inc	4.5%	-0.8%
Metlifecare Ltd	4.2%	+0.0%
Pioneer Credit Ltd	3.4%	-0.1%
Medical Developments International	3.2%	+0.7%

Month End Exposures	Current	Monthly Move
Communication Services	0.8%	-0.2%
Consumer	9.4%	-4.6%
Energy	1.5%	-5.1%
Financials	19.7%	-2.8%
Health Care	14.5%	+2.9%
Industrials	4.3%	-0.8%
Information Technology	7.5%	-1.7%
Materials	2.5%	-3.2%
Real Estate	5.1%	-0.4%
Utilities	0.6%	-0.1%
SHORTS	-4.8%	+1.2%
Number of Positions	51	-13
Gross Equity Exposure	70.6%	-17.2%
Cash Weighting	39.1%	+14.9%
Net Equity Exposure	60.9%	-14.9%
Currency Exposure Hedged of AUD	40.6%	-8.2%

Commentary

The K2 Global High Alpha Fund returned -4.9% for the month of October while Global equity markets returned -5.6%.

Positive contributors to performance were few and far between given the sharp fall in global equity markets. Gains were made predominantly from our short positions including Genworth Mortgage Insurance in Australian and UK software automation company Blue Prism Group Plc as stock prices retreated. On the long side, Medical Developments Limited rallied over 15% after signing a significant distribution deal with Daiichi Sankyo, a major Japanese pharmaceutical company. The deal involves Daiichi making an upfront payment of AUD21m with additional milestone payments of AUD25m for the distribution rights to Pentrox in China. Since the start of 2018, 26 additional countries have received regulatory approval for Pentrox, taking the total number of approved countries to 38 as its globalisation gathers momentum. This is number is expected to grow to over 70 countries by 2020.

Key detractors for the month included Seven Group Holdings, MetlifeCare, CYBG PLC, Visa, Z-Energy, Norwegian Cruise Line and Lazard.

The Fund's net exposure was further reduced during the month to 61% after initially starting the month at 76%. We believe a more cautious approach is warranted as global economic growth decelerates. This is being driven by a number of factors including: Rising US interest rates, persistently high oil prices, geo-political events such as Brexit and Trade Wars and a shrinking of the Federal Reserve balance sheet. In addition, higher input costs from wages and tariffs will pressure corporate earnings, removing much of the foundation that helped propel equity markets higher.

The Fund currently holds a 41% hedged position to offset against any bounce in the Australian Dollar.

Fund Characteristics	
FUM	AUD \$34m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen, Nicholas Leilt, James Soutter 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 stocks
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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