

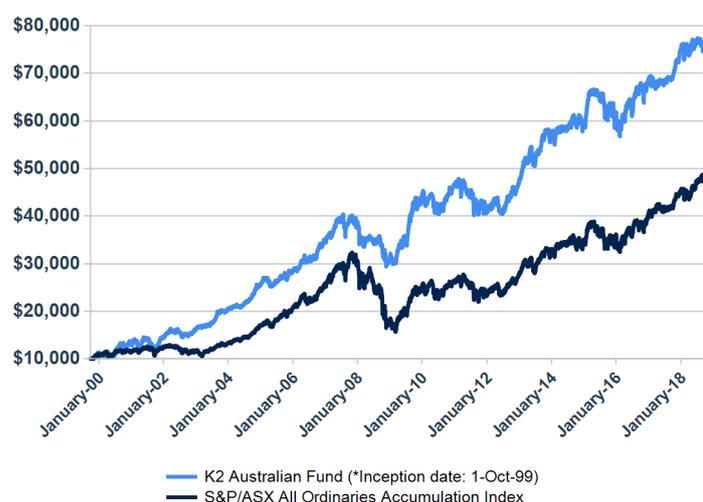
K2 Australian Fund

30 September 2018



	1 mth	3 mths	1yr	3yrs (%pa)	5yrs (%pa)	10yrs (%pa)	15yrs (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	0.1%	-0.9%	10.1%	7.7%	6.2%	8.5%	9.4%	11.3%	1-Oct-1999
Average Net Exposure	81.1%	81.9%	83.6%	80.8%	81.5%	82.0%	75.9%	72.7%	

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
BHP Billiton Limited	6.4%	+0.3%
RIO Tinto Ltd	6.1%	+1.9%
Woodside Petroleum Ltd	5.5%	-0.7%
Macquarie Group Ltd	5.3%	-0.1%
CYBG PLC	3.9%	+0.1%

Month End Exposures	Current	Monthly Move
Consumer	5.6%	-1.5%
Energy	8.3%	-0.7%
Financials	27.2%	-4.7%
Health Care	6.4%	+0.6%
Industrials	4.9%	+0.4%
Information Technology	2.1%	-0.3%
Materials	22.9%	+2.4%
Other	1.3%	+1.3%
Real Estate	4.3%	-0.2%
SHORTS	-4.6%	-0.5%
Number of Positions	49	+3
Gross Equity Exposure	87.6%	-2.2%
Cash Weighting	21.6%	+3.3%
Net Equity Exposure	78.4%	-3.3%

Commentary

The K2 Australian Absolute Return Fund returned 0.1% for the month of September while the All Ordinaries Accumulation Index returned -1.1%.

Basic Material and Energy positions were the largest contributor to performance; commodity prices were broadly higher for the month. The Fund has maintained an overweight position since the start of 2016. The major resource stocks are finally demonstrating a more sensible approach to capital management and we believe that valuation multiples can gradually expand. We added to the RIO position prior to the announcement of the \$3.2b tax efficient Buy-back.

The Fund's exposure to financial companies was the main detractor to performance. The Financial Services Royal Commission continues to stifle investor confidence towards the sector. The Commission has released its interim report and we believe that the tone is more balanced than expected. An important finding was that banks and mortgage brokers assumed that loan servicing requirements followed an academically derived formula. This process is being improved upon and credit growth in the future will be more prudent. We believe that value in the banking sector is gradually emerging.

Net equity exposure has drifted below 80% for the first time this year and reflects the diminishing number of compelling investment opportunities. The average PE multiple of the companies in the ASX 200 is now 26x and EPS growth is expected to be 8%. The average holding in the Fund is priced on a PE of 16x and offers more than 10% EPS growth. We are patiently waiting for superior businesses to be offered to us at attractive prices. We believe that equities remain the asset class of choice but are mindful that the post GFC recovery is maturing.

Fund Characteristics

FUM	AUD \$228m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen and Nicholas Leitl
Strategy	Australian and New Zealand 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 stocks
Cash	Up to 100% of portfolio
Distributions	Annually
Management Fee	1.31%
Buy/Sell	Daily Application/Redemption
Performance Fee	15.38% p.a. of the amount by which the NAV exceeds the High Water Mark once the fund achieves its hurdle.

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