

# **K2 Global High Alpha Fund**

ARSN 139 669 293

## **Interim report**

**For the half-year ended 31 December 2018**

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### For the half-year ended 31 December 2018

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This interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made in respect of K2 Global High Alpha Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

## Directors' report

The Directors of K2 Asset Management Ltd (ABN 95 085 445 094), the Responsible Entity of K2 Global High Alpha Fund, present their report together with the financial statements of K2 Global High Alpha Fund (the "Fund") for the half-year ended 31 December 2018 and the auditor's review report thereon.

### Principal activities

The Fund continued to invest in accordance with target asset allocations as set out in the current Product Disclosure Statement and in accordance with the provisions of the Fund's Constitution.

The Fund did not have any employees during the half-year.

There were no significant changes in the nature of the Fund's activities during the half-year.

The Fund is a registered managed investment scheme domiciled in Australia.

### Directors

The following persons held office as Directors of K2 Asset Management Ltd during the half-year or since the end of the half-year and up to the date of this report:

Campbell W Neal  
Mark S Newman  
Robert C Hand  
Hollie A Wight  
Matthew W Lawler

### Service providers

The Responsible Entity and Investment Manager of the Fund is K2 Asset Management Ltd.

The Custodians of the Fund are Morgan Stanley & Co International Plc and State Street Australia Limited.

The Administrator of the Fund is State Street Australia Limited.

The Unit Registry service provider of the Fund is OneVue Fund Services Pty Limited.

The registered office and principal place of business of the Responsible Entity and the Fund is Level 32, 101 Collins Street, Melbourne, Victoria, 3000.

### Review and results of operations

The Fund maintains its long/short investment strategy in globally listed equities and other investment instruments as permitted by the Fund's Constitution.

The investment policy of the Fund continues to be that detailed in the current Product Disclosure Statement and in accordance with the provisions of the Fund's Constitution.

## Directors' report (continued)

### Review and results of operations (continued)

#### Results

The performance of the Fund, as represented by the results of its operations, was as follows:

	Half-year ended	
	31 December 2018	31 December 2017
Operating profit/(loss) (\$'000)	(2,739)	4,508

#### Distributions

Distributions paid and payable (\$'000)	-	-
Distribution (dollars per unit)	-	-

### Net Asset Value per unit

NAV per unit (quoted ex-distribution) are shown as follows:

	2018	2017
	\$	\$
At 31 December	167.94	187.81

### Significant changes in state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Fund that occurred during the half-year.

### Likely developments and expected results of operations

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

### Rounding of amounts to the nearest thousand dollars

The Fund is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

## Directors' report (continued)

### Lead auditor's independence declaration

A copy of the Lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5 and forms part of the Directors' report.

This report is made in accordance with a resolution of the Directors of K2 Asset Management Ltd.



Hollie A Wight  
Director

Melbourne  
13 February 2019



# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of K2 Asset Management Ltd

I declare that, to the best of my knowledge and belief, in relation to the review of K2 Global High Alpha Fund for the half-year ended 31 December 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Dean Waters

Partner

Melbourne

13 February 2019

## Statement of comprehensive income

	Notes	Half-year ended	
		31 December 2018 \$'000	31 December 2017 \$'000
<b>Investment income</b>			
Interest income		87	38
Dividend and distribution income		417	385
Net gains/(losses) on financial instruments at fair value through profit or loss		(3,120)	6,527
Net foreign exchange gains/(losses)		<u>699</u>	<u>(530)</u>
<b>Total investment income/(loss)</b>		<u>(1,917)</u>	<u>6,420</u>
<b>Expenses</b>			
Responsible Entity's fees	7	13	14
Investment management fees	7	357	394
Auditor's remuneration		4	4
Transaction costs		126	95
Performance fees	7	-	1,145
Administrative expenses		73	74
Short dividend expense		109	28
Interest expense		100	125
Other operating expenses		<u>40</u>	<u>33</u>
<b>Total operating expenses</b>		<u>822</u>	<u>1,912</u>
<b>Profit/(loss) from operating activities</b>		<u>(2,739)</u>	<u>4,508</u>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders*		-	-
<b>Change in net assets attributable to unitholders</b>	5	<u>-</u>	<u>4,508</u>
<b>Profit/(loss) for the half-year*</b>		<u>(2,739)</u>	<u>-</u>
Other comprehensive income		-	-
<b>Total comprehensive income for the half-year</b>		<u>(2,739)</u>	<u>-</u>

\*Effective from 30 June 2018 distributions to unitholders have been disclosed in the statement of changes in equity due to the AMIT tax regime implementation. Prior to 30 June 2018 these were disclosed as finance costs in the above statement for the comparative period.

*The above statement of comprehensive income should be read in conjunction with the accompanying notes.*

## Statement of financial position

		As at	
		31 December 2018 \$'000	30 June 2018 \$'000
	Notes		
<b>Assets</b>			
Cash and cash equivalents	6	32,540	21,489
Receivables		116	149
Due from brokers - receivable for securities sold		-	188
Financial assets at fair value through profit or loss	3	<u>11,091</u>	<u>33,354</u>
<b>Total assets</b>		<u>43,747</u>	<u>55,180</u>
<b>Liabilities</b>			
Bank overdrafts	6	7,758	15,580
Payables		170	206
Due to brokers - payable for securities purchased		-	1,013
Distributions payable		-	497
Financial liabilities at fair value through profit or loss	4	<u>3,934</u>	<u>1,645</u>
<b>Total liabilities</b>		<u>11,862</u>	<u>18,941</u>
<b>Net assets attributable to unitholders - equity</b>	5	<u>31,885</u>	<u>36,239</u>

*The above statement of financial position should be read in conjunction with the accompanying notes.*



## Statement of changes in equity

	Note	Half-year ended 31 December 2018 \$'000
<b>Total equity at the beginning of the half-year*</b>	5	36,239
<b>Comprehensive income for the half-year</b>		
Profit/(loss) for the half-year		(2,739)
Other comprehensive income		-
<b>Total comprehensive income for the half-year</b>		<u>(2,739)</u>
<b>Transactions with unitholders</b>		
Applications		93
Redemptions		(2,144)
Units issued upon reinvestment of distributions		436
<b>Total transactions with unitholders</b>		<u>(1,615)</u>
<b>Total equity at the end of the half-year*</b>		<u>31,885</u>

\*Effective from 30 June 2018, the Fund's units have been reclassified from a financial liability to equity due to the AMIT tax regime implementation. As a result, equity transactions, including applications, redemptions and distributions have been disclosed in the above statement for the half-year ended 31 December 2018. As this reclassification was effective 30 June 2018, there is no comparative disclosure for the half-year ended 31 December 2017. For more information, please refer to Note 1 and Note 5.

*The above statement of changes in equity should be read in conjunction with the accompanying notes.*

## Statement of cash flows

	Half-year ended	
	31 December 2018	31 December 2017
Notes	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Dividends and distributions received	456	344
Interest received	70	36
Other income received	-	4
Responsible Entity's fees paid	(13)	(14)
Management fees paid	(362)	(396)
Performance fees paid	-	(212)
Short dividend expense	(103)	(47)
Interest paid	(116)	(104)
Payment of other operating expenses	(243)	(209)
Proceeds from/(payments for) foreign exchange movements	715	(938)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>404</b>	<b>(1,536)</b>
<b>Cash flows from investing activities</b>		
Proceeds from sale of financial instruments at fair value through profit or loss	40,143	16,449
Purchase of financial instruments at fair value through profit or loss	(19,536)	(24,648)
<b>Net cash inflow/(outflow) from investing activities</b>	<b>20,607</b>	<b>(8,199)</b>
<b>Cash flows from financing activities</b>		
Proceeds from applications by unitholders	93	531
Payments for redemptions by unitholders	(2,154)	(5,700)
Distributions paid	(61)	(520)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(2,122)</b>	<b>(5,689)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>18,889</b>	<b>(15,424)</b>
Cash and cash equivalents at the beginning of the half-year	5,909	17,970
Effects of foreign currency exchange rate changes on cash and cash equivalents	(16)	408
<b>Cash and cash equivalents at the end of the half-year</b>	<b>6</b> <b>24,782</b>	<b>2,954</b>

The above statement of cash flows should be read in conjunction with the accompanying notes.

## Contents of the notes to the interim financial statements

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## 1 Basis of preparation of interim report

This interim report covers the K2 Global High Alpha Fund (the “Fund”) as an individual entity which is a registered managed investment scheme under the *Corporations Act 2001*. The Fund was registered with ASIC as a registered managed investment scheme on 9 October 2009 and began operations on 1 December 2009. The Fund will terminate on 8 October 2089 unless terminated earlier in accordance with the provisions of the Fund’s Constitution.

The Responsible Entity of the Fund is K2 Asset Management Ltd (the “Responsible Entity”). The Responsible Entity’s registered office is Level 32, 101 Collins Street, Melbourne, VIC 3000. The financial statements are presented in Australian currency.

These general purpose financial statements for the half-year ended 31 December 2018 have been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

This interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018, any public announcements made in respect of K2 Global High Alpha Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001* and the current Product Disclosure Statement.

This interim report was authorised for issue by the directors on 13 February 2019.

### *Reclassification of units from financial liability to equity*

On 5 May 2016, a new tax regime applying to Managed Investment Trusts (“MITs”) was established under the Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016. The Attribution Managed Investment Trust (“AMIT”) regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Fund to elect into the AMIT regime, the Fund’s constitution was amended and the other conditions to adopt the AMIT regime were met effective 30 June 2018. Under the AMIT regime income is attributed to unitholders on a fair and reasonable basis, as determined by the Responsible Entity. Consequently the units in the Fund have been reclassified from a financial liability to equity on 30 June 2018. For further information, please refer to Note 5.

The significant accounting policies adopted in the preparation of these interim financial statements are consistent with those followed in the preparation of the Fund’s financial statements for the year ended 30 June 2018, except for the adoption of new standards and interpretations noted below:

### **(a) New accounting standards and interpretations**

The Fund applies, for the first time, AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*. The nature and effect of the restatement of previous financial statements as required by IAS 34, are disclosed below.

### **(b) AASB 9 Financial instruments**

AASB 9 *Financial Instruments* became effective for financial years commencing on or after 1 January 2018. AASB 9 replaces AASB 139 *Financial Instruments: Recognition and Measurement*, including the following three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

#### *(i) Classification and measurement*

Derivative and equity instruments are measured at fair value through profit or loss. The Fund does not hold debt securities.

#### *Assets*

The Fund classifies its investments based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Fund’s portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with the Fund’s documented investment strategy. The Responsible Entity evaluates the information about these financial assets on a fair value basis together with other related financial information.

For equity securities and derivatives such as futures and foreign currency contracts, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

## 1 Basis of preparation of interim report (continued)

### (b) AASB 9 Financial instruments (continued)

#### (i) Classification and measurement (continued)

The Fund holds equity securities which had previously been designated at fair value through profit or loss. On adoption of AASB 9 these securities are mandatorily classified as fair value through profit or loss.

The Fund holds derivatives which had previously been classified as held for trading. On adoption of AASB 9 these securities are mandatorily classified as fair value through profit or loss.

For other receivables and payables, including amounts due to/from brokers, these balances are classified at amortised cost as they are deemed to be held in a business model with the objective to collect contractual cash flows through to maturity, and whose terms meet the Solely Payments of Principal and Interest (SPPI) criterion by virtue of the fact that payments pertain to only principal and/or simple interest and have a maturity of less than 12 months.

#### *Liabilities*

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are held for trading and are consequently classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

#### *Measurement*

At initial recognition, the Fund measures financial assets and financial liabilities at fair value.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial assets or financial liabilities at fair value through profit or loss category are presented in the Statement of Comprehensive Income within 'Net gains/(losses) on financial instruments at fair value through profit or loss' in the period in which they arise.

For further details on how the fair values of financial instruments are determined please see Note 2 to the financial statements.

Subsequent to initial recognition, financial assets and liabilities measured at amortised cost will use the effective interest rate method and are presented net of provisions for impairment.

#### (ii) Impairment

AASB 9 also introduces a new expected credit loss (ECL) approach to recognise and measure impairment, which replaces AASB 139's incurred loss approach. AASB 9 requires the Fund to record an allowance for ECLs for all financial assets not held at fair value through profit or loss.

The ECL approach is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For receivables, due from brokers, margin accounts and applications receivable, the Fund has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Fund has established a provision matrix that is based on the Fund's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Fund considers a financial asset to be in default when a contractual payment is 90 days past due. However, in certain cases, the Fund may also consider a financial asset to be in default when internal or external information indicates that the Fund is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Fund.

There was no material impact to the Fund upon adoption of the ECL requirements of AASB 9.

## 1 Basis of preparation of interim report (continued)

### (b) AASB 9 Financial instruments (continued)

#### (iii) Hedge accounting

The Fund does not apply hedge accounting.

#### (iv) Investment income

Dividend and distribution income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within dividend and distribution income when the Fund's right to receive payments is established.

#### (v) Restatement of comparatives

Where relevant, prior year comparatives have been restated to conform with current year presentation.

#### (vi) Derecognition

Accounting for derecognition of financial instruments remain unchanged from the requirements of AASB 139.

### (c) AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* is effective for financial years commencing on or after 1 January 2018 and it replaces AASB 118 *Revenue and related Interpretations*.

The adoption of AASB 15 does not have an impact on the Fund's accounting policies or the amounts recognised in the financial statements because the Fund's main sources of income (i.e. interest, dividends, distributions and gains on financial instruments held at fair value) are all outside the scope of the new accounting standard.

Other than noted above, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period. Certain comparative figures have been reclassified to conform with current period presentation. There have been no significant changes in the risk management policies and processes of the Fund since previous financial year end.

## 2 Fair value measurement

When measuring the fair value of an asset or liability, the Fund uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### (i) Fair value in an active market (Level 1)

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in Note 2 to the annual report for the year ended 30 June 2018. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets and financial liabilities is the last traded price. When the Fund holds derivatives with offsetting market risks, it uses last traded prices as a basis for establishing fair values for the offsetting risk positions and applies this last traded price to the net open position, as appropriate.

## 2 Fair value measurement (continued)

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

### (ii) Fair value in an inactive or unquoted market (Level 2 and Level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the reporting date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the reporting date taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the Black Scholes option valuation model.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

### Recognised fair value measurements

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 31 December 2018 and 30 June 2018.

As at 31 December 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value through profit or loss</b>				
Derivatives	2	-	-	2
Equity securities	<u>10,583</u>	<u>-</u>	<u>506</u>	<u>11,089</u>
<b>Total</b>	<u>10,585</u>	<u>-</u>	<u>506</u>	<u>11,091</u>
<b>Financial liabilities at fair value through profit or loss</b>				
Equity securities - sold short	<u>3,934</u>	<u>-</u>	<u>-</u>	<u>3,934</u>
<b>Total</b>	<u>3,934</u>	<u>-</u>	<u>-</u>	<u>3,934</u>

## 2 Fair value measurement (continued)

### Recognised fair value measurements (continued)

As at 30 June 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value through profit or loss</b>				
Derivatives	7	-	-	7
Equity securities	33,147	200	-	33,347
<b>Total</b>	<u>33,154</u>	<u>200</u>	<u>-</u>	<u>33,354</u>
<b>Financial liabilities at fair value through profit or loss</b>				
Equity securities - sold short	1,645	-	-	1,645
<b>Total</b>	<u>1,645</u>	<u>-</u>	<u>-</u>	<u>1,645</u>

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

#### (i) Transfers between levels

The following table presents the transfers between levels for the half year ended 31 December 2018.

As at 31 December 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Equity securities	(506)	-	506

Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

There were no transfers between levels in the fair value hierarchy for the year ended 30 June 2018. There were no changes made to any of the valuation techniques applied as of 30 June 2018.

#### (ii) Fair value measurements using significant unobservable inputs (Level 3)

With the exception of financial instruments which have been valued at nil, the Fund has measured financial instruments with fair value measurements using significant unobservable inputs by applying a discount to the last traded price of securities which were voluntarily suspended from trading status as at 31 December 2018. All financial instruments held by the Fund with fair value measurements using significant unobservable inputs at 30 June 2018 were valued at nil.

#### (iii) Valuation processes

Portfolio reviews are undertaken regularly by management to identify securities that potentially may not be actively traded or have stale security pricing. This process identifies securities which possibly could be regarded as being Level 3 securities.

Further analysis, should it be required, is undertaken to determine the accounting significance of the identification. For certain security types, in selecting the most appropriate valuation model, management performs back testing and considers actual market transactions. Changes in allocation to or from Level 3 are analysed at the end of each reporting period.

#### (iv) Fair values of other financial instruments

The Fund did not hold any financial instruments which were not measured at fair value in the statement of financial position. Due to their short term nature, the carrying amounts of receivables and payables are assumed to approximate their fair value.



### 3 Financial assets at fair value through profit or loss

	As at	
	31 December 2018	30 June 2018
	\$'000	\$'000
<b>Financial assets at fair value through profit or loss</b>		
Derivatives	2	7
Australian equity securities	4,983	18,084
International equity securities	6,106	15,263
<b>Total financial assets at fair value through profit or loss</b>	<b>11,091</b>	<b>33,354</b>

### 4 Financial liabilities at fair value through profit or loss

	As at	
	31 December 2018	30 June 2018
	\$'000	\$'000
<b>Financial liabilities at fair value through profit or loss</b>		
Australian equity securities - sold short	1,959	1,645
International equity securities - sold short	1,975	-
<b>Total financial liabilities at fair value through profit or loss</b>	<b>3,934</b>	<b>1,645</b>

### 5 Net assets attributable to unitholders

Under AASB 132 *Financial instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Fund shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

Prior to 30 June 2018 the Fund classified its net assets attributable to unitholders as liabilities in accordance with AASB 132. On 30 June 2018, the Fund elected into the AMIT tax regime. Amendments to the Fund's constitution became effective on the same date which require attribution of income to unitholders on a fair and reasonable basis. Therefore the net assets attributable to unitholders of the Fund met the criteria set out under AASB 132 and are classified as such from 30 June 2018 onwards.

As a result of the reclassification of net assets attributable to unitholders from liabilities to equity, the Fund's distributions are no longer classified as finance costs in the statement of comprehensive income, but rather as distributions to unitholders in the statement of changes in equity.

## 5 Net assets attributable to unitholders (continued)

Movements in the number of units and net assets attributable to unitholders during the half-year were as follows:

	Half-year ended			
	31 December 2018 No. '000	31 December 2017 No. '000	31 December 2018 \$'000	31 December 2017 \$'000
<b>Net assets attributable to unitholders</b>				
Opening balance*	201	227	36,239	37,755
Applications	1	3	93	531
Redemptions	(12)	(33)	(2,144)	(5,700)
Units issued upon reinvestment of distributions	2	16	436	2,622
Increase/(decrease) in net assets attributable to unitholders	-	-	-	4,508
Profit/(loss) for the year	-	-	(2,739)	-
Closing balance*	<u>192</u>	<u>213</u>	<u>31,885</u>	<u>39,716</u>

\*Net assets attributable to unitholders are classified as equity at 31 December 2018 and a liability at 31 December 2017. For further information, please refer to Note 1.

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

## 6 Cash and cash equivalents

	As at	
	31 December 2018 \$'000	30 June 2018 \$'000
Cash at bank	<u>32,540</u>	<u>21,489</u>
	<u>32,540</u>	<u>21,489</u>

### Reconciliation to cash at the end of the half-year

The above figures are reconciled to cash at the end of the half-year as shown in the statement of cash flows as follows:

	As at	
	31 December 2018 \$'000	30 June 2018 \$'000
Balances as above	32,540	21,489
Bank overdrafts	<u>(7,758)</u>	<u>(15,580)</u>
Balance per statement of cash flows	<u>24,782</u>	<u>5,909</u>

## 7 Related party transactions

### Responsible Entity

The Responsible Entity of K2 Global High Alpha Fund is K2 Asset Management Ltd.

### Transactions and balances with related parties

Transactions with K2 Asset Management Ltd in its role as the Responsible Entity and Investment Manager have taken place at arm's length, in the ordinary course of business and are as follows:

	Half-year ended	
	31 December 2018	31 December 2017
	\$	\$
Management fees expense for the financial half-year	357,047	393,687
Performance fees expense for the financial half-year	89	1,144,520
Responsible Entity's fees expense for the financial half-year	12,665	13,997

	As at	
	31 December 2018	30 June 2018
	\$	\$
Management fees payable at the end of each financial half-year/year	53,787	58,865
Performance fees payable at the end of each financial half-year/year	76	16
Responsible Entity's fees payable at the end of each financial half-year/year	1,924	2,106

For further information please refer to the Product Disclosure Statement.

There have been no significant changes to the related parties transactions disclosed in the annual report for the half-year ended 31 December 2018.

## 8 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period and up to the date of this report which would impact on the financial position of the Fund disclosed in the statement of financial position as at 31 December 2018 or on the results and cash flows of the Fund for the half-year ended on that date.

## 9 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 31 December 2018 and 30 June 2018.

## Directors' declaration

In the opinion of the Directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 6 to 18 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
  - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of K2 Asset Management Ltd.



Hollie A Wight  
Director

Melbourne  
13 February 2019



# Independent Auditor's Review Report

To the unitholders of K2 Global High Alpha Fund

## Conclusion

We have reviewed the accompanying **Interim Financial Report** of K2 Global High Alpha Fund (the Scheme).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of K2 Global High Alpha Fund is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Scheme's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Statement of financial position as at 31 December 2018;
- Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the half-year ended on that date;
- Notes comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

## Responsibilities of the Directors for the Interim Financial Report

The Directors of the K2 Asset Management Limited (the Responsible Entity) are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

## Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Scheme's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of K2 Global High Alpha Fund, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

The logo for KPMG, consisting of the letters 'KPMG' in a stylized, blue, sans-serif font.

KPMG

A handwritten signature in blue ink, appearing to read 'Dean Waters'.

Dean Waters

Partner

Melbourne

13 February 2019