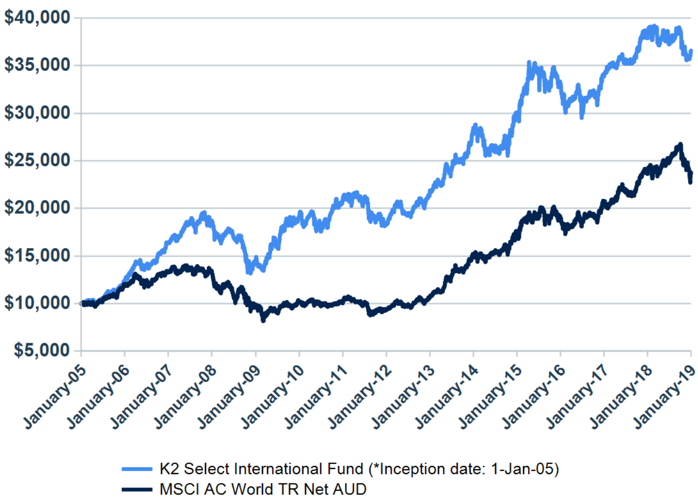
K2 Select International Fund
31 December 2018

	1 Month	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	10 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	2.1%	-5.5%	-3.4%	3.3%	5.3%	9.7%	9.7%	1-Jan-2005
Average Net Exposure	30.9%	51.5%	77.6%	76.0%	80.0%	82.4%	77.1%	

Growth of $10,000



Top 5 Stock Holdings	Current	Monthly Move
Visa Inc	4.0%	-0.2%
Metlifecare Ltd	3.6%	-0.1%
Abbott Laboratories	2.5%	+0.0%
Anthem Inc	2.5%	-0.2%
Alphabet Inc	2.5%	-0.1%

Month End Exposures	Current	Monthly Move
Communication Services	2.5%	-0.1%
Consumer	2.6%	-1.6%
Energy	1.3%	0.0%
Financials	4.2%	-6.5%
Health Care	12.2%	-1.5%
Industrials	3.1%	+2.0%
Information Technology	9.3%	+0.3%
Real Estate	1.7%	-1.2%
SHORTS	-11.8%	-3.8%
Number of Positions	**38**	**0**
Gross Equity Exposure	**48.7%**	**-10.2%**
Cash Weighting	**74.9%**	**+17.7%**
Net Equity Exposure	**25.1%**	**-17.7%**
Currency Exposure Hedged of AUD	**0.9%**	**-41.2%**

Commentary

The K2 Select International Fund returned 2.1% for the month of December while global equity markets returned -3.6%.

Our underlying investment philosophy of capital preservation saw the Fund rapidly reduce net equity exposure through increased cash holdings and short positions as the risk of a shock to global growth gained momentum. This ability to protect capital when market conditions change provided significant benefit to investors in December.

Positive contributors to performance were dominated by short positions in consumer discretionary names such as Malibu Boats, L Brands, H&M, Carnival and Harley Davidson as rising US interest rates impact spending capacity amid a generally downbeat retail environment. In a month were markets fell heavily, there were very few stocks that posted positive gains, however one sector that showed resilience was the global resources area, with the Funds holding in BHP contributing to performance.

The largest detractor for the month was Johnson & Johnson as concerns re-surfaced based on a media article around the size of damages stemming from potential litigation regarding the company's alleged knowledge of the presence of asbestos in its talcum powder. Although none of this was new news, the stock fell on the day.

Holding significant levels of cash also aided the Fund's performance. The Fund's net equity exposure was reduced further early in the month to sit near 25% as we continue to watch economic and earnings events with trepidation. Our current base case entering 2019 is one of extreme caution. The new year looks as if it will throw up numerous challenges for equity markets. The change in rhetoric from the Federal Reserve and the recent fall in US 10-year yields below 2.8% point to lower growth

(commentary continued next page)

Fund Characteristics

FUM	AUD $38m
Portfolio Managers	Campbell Neal, David Poppenbeek, 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 80 stocks
Cash	Up to 100% of portfolio
Distributions	Annually
Management Fee	1.36%
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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K2 Select International Fund

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expectations for the US economy, supporting our position that the Fed would have to step away from its overly hawkish stance. Cost inflation is also eating into corporate margins, which has been evident through US and European earnings seasons of late. We are cautious on the global consumer and currently the Fund's positioning stands "net short" Consumer Cyclicals. The cost of rolling corporate debt is becoming more onerous with the BBB spread over treasuries hovering around 1.75%, up from 1.3% at the beginning of 2018, further highlighting credit implications for highly indebted corporates. The risk spreads on European high-yield debt are even more substantial. Moves in the credit markets have historically been a precursor to recession and although they can provide false indications, it is another data point that raises concern.

The upside risk to markets and hence our portfolio positioning is a coordinated global stimulus policy in response to slower growth or even recession, however while the Federal Reserve continues to push its mantra of higher rates in 2019, this appears to be a faint hope. K2 will continue to evaluate and incorporate new information as it comes to light. Our analysis points to 2019 representing a year of slowing growth, credit impasses driven by tighter liquidity as BBB spreads increase and valuations that have yet to factor in a more challenging backdrop.

The Fund returned to a fully unhedged position in December noting in particular a worsening Australian economic environment and the recent 25bps rise in the US base rate. We expect the US to maintain a 1.0-1.5% margin over Australia short term interest rates in 2019 which will keep the Australian dollar under pressure. This interest rate differential combined with a worsening outlook for the Australian economy as house prices fall amidst a credit-crunch justify the unhedged position.