

K2 Select International Fund

30 November 2018



| | 1 Month | 3 Months | 1 Year | 3 Years (%pa) | 5 Years (%pa) | 10 Years (%pa) | Inception (%pa) | Inception Date |
|---------------------------|---------|----------|--------|---------------|---------------|----------------|-----------------|----------------|
| Performance (Net of Fees) | -1.9% | -7.6% | -7.0% | 2.0% | 6.0% | 10.0% | 9.6% | 1-Jan-2005 |
| Average Net Exposure | 55.3% | 70.2% | 82.1% | 77.6% | 81.1% | 82.5% | 77.4% | |

Growth of \$10,000



| Top 5 Stock Holdings | Current | Monthly Move |
|----------------------|---------|--------------|
| Visa Inc | 4.2% | -1.6% |
| Metlifecare Ltd | 3.7% | -0.5% |
| Johnson & Johnson | 3.0% | -0.4% |
| Iron Mountain Inc | 2.9% | +0.6% |
| Anthem Inc | 2.7% | +0.5% |

| Month End Exposures | Current | Monthly Move |
|---------------------------------|---------|--------------|
| Communication Services | 2.5% | +0.4% |
| Consumer | 4.2% | +2.8% |
| Energy | 1.3% | -0.9% |
| Financials | 10.8% | -4.1% |
| Health Care | 13.7% | -0.5% |
| Industrials | 1.0% | +1.0% |
| Information Technology | 9.0% | -2.5% |
| Materials | 5.4% | +1.4% |
| Real Estate | 2.9% | +0.6% |
| SHORTS | -8.0% | -3.6% |
| Number of Positions | 38 | +9 |
| Gross Equity Exposure | 58.8% | +2.0% |
| Cash Weighting | 57.2% | +5.2% |
| Net Equity Exposure | 42.8% | -5.2% |
| Currency Exposure Hedged of AUD | 42.0% | -3.7% |

Commentary

The K2 Select International Absolute Return Fund returned -1.9% for the month of November while Global equity markets returned -1.5%.

Positive contributors to performance included global healthcare titans AbbVie and Johnson & Johnson as their more defensive characteristics appealed to investors. On the short side, a trading update from Blue Prism further highlighted the company's inability to generate meaningful profits, exasperated by a stratospheric valuation. Lack of disclosure regarding R&D spend is still a real concern. Also evident for the first time was a small churn in subscriber numbers which we suspect is just the tip of the iceberg.

The largest detractor for the month was Goldman Sachs Group as the fallout from Malaysia's 1MDB scandal reached a crescendo.

An average currency hedged position of approximately 40% back to AUD enabled the Fund to offset the strong bounce in the local currency during November. The AUD increased by 3.3% in November representing a major headwind for unhedged investors. K2's proven ability to successfully manage currency resulted in a significantly better outcome for the Fund.

The Fund's net exposure currently stands at 43% after having been reduced from 48% at the end of October. Despite a mitigation of some of the identifiable risks we maintain our cautious stance towards global equities. The Fed finally threw in the towel under public pressure from the President but the damage from higher interest rates might have already been done. A falling oil price will certainly help consumers however, if being driven by falling demand, suggests an economy that is slowing. A temporary truce in the trade war is encouraging however we are yet to see either party raise a white flag with discussions merely delayed while the real issues of IP theft and protectionism are worked out away from the public's glare.

Fund Characteristics

| | |
|--------------------|--|
| FUM | AUD \$37m |
| 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. |

Nicholas Allen
 Head of Distribution
 03 9691 6119
 nallen@k2am.com.au

Sophie Gibbons
 Head of Distribution
 03 9691 6117
 sgibbons@k2am.com.au

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