

K2 Select International Fund

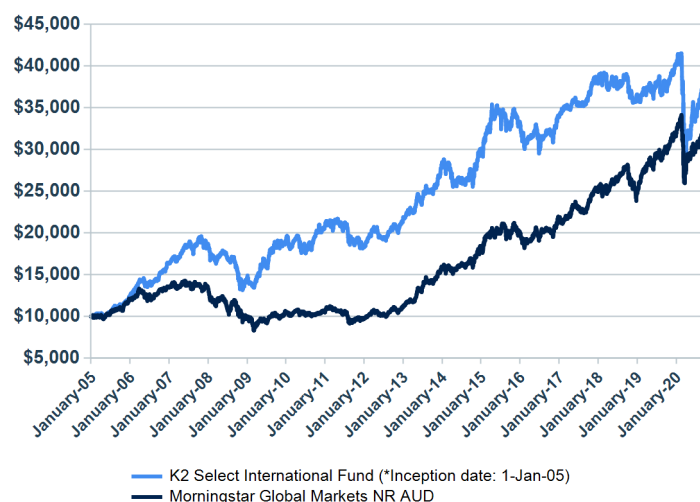
31 August 2020



The K2 Select International Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	1 Month	Inception (%pa)	Inception Date
Performance (Net of Fees)	5.4%	8.7%	1-Jan-2005
Average Net Exposure	99.1%	77.8%	

Growth of \$10,000



Top 5 Stock Holdings	Current	Monthly Move
Microsoft Corp	6.4%	+0.1%
Visa Inc	5.9%	+0.4%
Mastercard Inc	5.6%	+0.6%
Abbott Laboratories	5.6%	-0.7%
Nike Inc	5.4%	+0.2%

Month End Exposures	Current	Monthly Move
Communication Services	11.4%	+2.7%
Consumer	15.6%	-0.7%
Energy	0.8%	+0.1%
Financials	17.7%	+1.3%
Health Care	13.7%	-1.3%
Industrials	4.2%	+1.8%
Information Technology	24.9%	-0.3%
Materials	8.2%	-4.4%
Real Estate	1.8%	+0.7%
Number of Positions	36	0
Gross Equity Exposure	98.4%	-0.1%
Cash Weighting	1.6%	+0.1%
Net Equity Exposure	98.4%	-0.1%
Currency Exposure Hedged of AUD	71.7%	-4.9%

Commentary

The K2 Select International Fund returned +5.4% for the month of August. The fund has now returned +21% since 31 March significantly outperforming the benchmark return of 10%. A combination of good stock selection, investing cash early in the cycle and accumulating AUD exposure at lower levels have all contributed to the very strong excess return of +11% vs benchmark for investors in just five months.

Led by US equities, which enjoyed their best August performance since 1986 to reach fresh all time highs, the rally in global equity markets continued. Investors were buoyed by highly accommodative fiscal and monetary policy, improved economic momentum as lockdowns ease and vaccine optimism. Late in the month in his speech at the virtual Jackson Hole Economic Symposium Fed Chairman Jerome Powell announced a change of regime to push and hold inflation above the prior 2% threshold for an unspecified amount of time. While markets were unsure how to react initially, this change effectively implies that interest rates are going to remain low indefinitely, giving risk assets the green light to keep rising.

With party conventions concluded and candidates officially endorsed the race to The White House has reached the home stretch. Polling has narrowed over the last couple of weeks with the result we believe still too close call. Given the enormous number of postal votes expected this election and the associated legal posturing it is possible that a result might not be declared until well past November 3rd. Markets will not appreciate the uncertainty this has the potential to create.

A significant positive contributor for the month included global entertainment giant Disney. Reported Q3 FY2020 earnings beat expectations as the negative impact from theme park closures and sports cancellations were partially offset by increased digital subscribers. Users of Disney+ now exceed 60m, an amount initially targeted for FY2024. Currently trading on an FY2023 forecast PE of 22.4x when earnings are expected to return to 2019 levels. We believe this is too conservative as legacy businesses recover faster and digital success continues.

The fund ended the month with a net exposure to equities of 99% reflecting our unchanged overall optimistic stance. As central banks continue to expand their balance sheets to fund government deficits while keeping interest rates at historic lows, equities will remain in high demand.

The AUD ended the month up +3.46% versus the USD at 0.7390. The fund is currently 72% hedged to the AUD providing capital protection against a rising AUD.

Fund Characteristics

FUM	AUD \$16m
Portfolio Managers	Campbell Neal, David Popenbeek 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
Cash	Up to 100% of portfolio
Distributions	Annually
Management Fee	1.36%
Buy/Sell	Daily Application/Redemption
Performance Fee	15.38% pa of the amount by which the NAV per unit exceeds the High Water Mark once the fund achieves its hurdle

George Boubouras
Head of Research
invest@k2am.com.au

K2 Select International Fund Net Monthly Returns in AUD

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin YTD	Fin YTD Index (1)	Average Cash	Average Short	
2004/05							0.9	1.3	-0.4	-1.4	1.4	3.8	5.6	3.0	50.5%	-4.4%	
2005/06	4.9	0.7	2.6	-1.0	4.2	4.4	5.1	4.4	5.7	-0.1	-3.7	2.0	33.2	22.3	21.3%	-4.1%	
2006/07	0.4	2.1	2.8	3.6	2.0	4.8	2.4	0.1	1.1	3.1	5.1	-0.3	30.7	9.9	23.6%	-1.1%	
2007/08	0.1	0.6	2.6	3.4	-3.7	-1.1	-8.0	-0.6	-1.2	3.0	1.8	-3.4	-7.0	-20.0	43.5%	-7.3%	
2008/09	-2.5	2.9	-8.6	-9.7	-2.5	5.1	-3.1	-2.8	4.9	6.9	7.8	-0.6	-4.0	-15.3	51.1%	-4.0%	
2009/10	7.6	2.1	3.3	-1.7	1.4	3.0	-4.1	0.2	4.7	0.2	-5.4	-2.7	8.1	8.4	11.7%	-1.0%	
2010/11	4.3	-2.5	8.4	2.7	0.0	3.8	0.4	0.9	1.0	1.7	-1.9	-1.6	18.2	3.5	12.0%	-2.4%	
2011/12	-2.2	-4.5	-4.5	2.5	-3.0	-1.7	3.6	4.7	3.6	0.0	-4.3	-1.5	-7.6	-2.6	22.9%	-2.9%	
2012/13	0.6	3.4	2.0	0.6	1.4	2.8	2.7	1.8	0.7	2.5	4.1	-0.4	24.5	31.0	6.7%	-0.3%	
2013/14	3.9	-0.4	0.5	2.4	4.4	5.5	-0.9	1.6	-5.7	-2.5	1.2	-1.8	7.7	19.6	8.0%	-0.1%	
2014/15	0.7	1.0	3.9	0.8	4.1	3.7	4.0	4.2	2.1	3.1	3.1	-2.7	31.7	23.9	13.2%	-0.6%	
2015/16	-0.1	-2.3	-1.9	5.4	-2.1	-1.9	-4.0	-3.3	2.1	0.4	4.0	-7.1	-10.9	-0.6	20.9%	-0.7%	
2016/17	2.9	2.1	0.1	-1.3	3.8	3.0	2.1	0.9	0.4	1.2	1.4	-2.1	15.5	15.4	23.1%	-2.8%	
2017/18	0.3	1.0	1.9	3.6	2.4	-1.7	2.1	-0.3	-2.6	0.7	-0.7	-0.2	6.4	15.1	21.6%	-3.2%	
2018/19	0.8	2.7	-0.2	-5.6	-1.9	2.1	-2.6	3.6	-0.3	3.1	-4.1	3.5	0.7	10.5	32.6%	-3.8%	
2019/20	1.3	-1.6	1.4	0.3	2.9	1.9	0.3	-8.6	-16.7	4.9	6.3	-0.3	-9.9	3.2	9.5%	-2.4%	
2020/21	2.9	5.4											8.5	3.8	1.8%	0.0%	
													Incept	268.6	211.3		
													Incept	8.7%pa	7.5%pa	22.0%	-2.4%

(1) Morningstar Global Markets NR AUD

DISCLAIMER: Returns are shown after fees (including performance fees) and expenses have been deducted and assume the reinvestment of income distributions. Please note that past performance is not a reliable indicator of future performance. The information contained in this document is produced by K2 Asset Management Ltd ("K2") in good faith, but does not constitute any representation or offer by K2. It is subject to change without notice, and is intended as general information only and is not complete or definitive. K2 does not accept any responsibility, and disclaims any liability whatsoever for loss caused to any party by reliance on the information in this document. A product disclosure statement for general information on any Fund referred to in this document can be obtained at www.k2am.com.au or by contacting K2. You should read the product disclosure statement and consider whether the product is appropriate for you before making a decision to acquire or continue to hold an interest in a Fund. Fees referred to in this document are inclusive of GST and RITC and do not include expense recoveries.

©2020 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.