

K2 Asset Management

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K2 Asian Fund Monthly Report - 31 August 2016

Asia Pacific Market Review

The K2 Asian Absolute Return Fund returned 2.48% for the month of August while the MSCI AC Asia Pac Ex-Japan TR Net AUD Index returned 3.23%.

Global markets produced mixed results for the month as investors digested the latest earnings numbers. While the US largely beat expectations, investors looked for any sign of Brexit related weakness from European company announcements, without success. The US S&P 500 closed August down -0.1% as the market turned its focus to the timing of the next rate hike following generally hawkish rhetoric from Fed members combined with chairwoman Yellen's commentary at Jackson Hole. In Europe, the STOXX 600 advanced +0.5%.

Asian markets significantly outperformed their international peers led by Hong Kong (+5.0%), mainland China (+3.6%), Indonesia (+3.3%), Japan (+1.9%), Malaysia (+1.5%), Taiwan (+0.9%) and Korea (+0.9%). Australia was the exception (-1.3%).

Oil (WTI) hit an intra-month high of \$48.52 before closing August at \$44.70 up +7.5%. The market panic from low oil prices earlier this year has now subsided as fear about the impact on banks through their loans to the energy sector and the possibility of widespread defaults has not eventuated. The AUD decreased -1.0% in August to USD0.752 providing a slight tailwind to the Fund's performance.

Portfolio Insight: Sunny Optical Technology Group

Listed in Hong Kong, Sunny Optical manufactures high precision optical lenses for cameras, imaging systems and industrial instruments. Much of their growth has been predicated around smartphone camera lenses and modules where their cutting edge technology has made them a supplier of choice in the high megapixel cameras that smartphones now carry.

Sunny Optical is currently experiencing broadening demand for their products with an expanding market due to automotive safety and the eventual rise of the autonomous vehicle. As they become ubiquitous, the number of cameras and sensors per car is increasing rapidly. This new significant market will continue to see the company's high precision products in demand.

During August, Sunny Optical released its 1H16 results beating consensus estimates as higher average selling prices driven by increasing demand propelled revenue +27.1% year on year.

Outlook

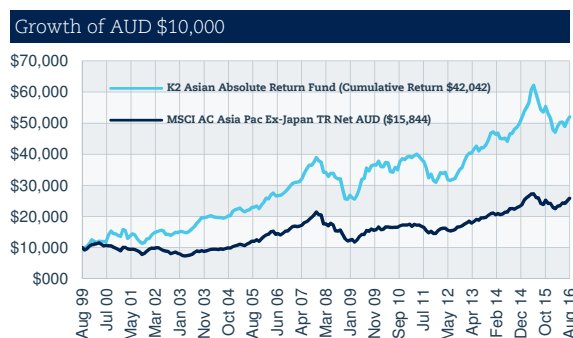
Global money flows out of Europe and into Asian equity markets continued unabated in August as the region provides superior growth opportunities with solid valuation support when compared to the US and Europe. We expect the avalanche of money into Asia to persist throughout the remainder of 2016 driving outperformance for the region. We are encouraged by the Chinese government's economic management and specifically the orderly devaluation of the RMB. Strategically the Fund maintains its China exposure through high quality household names such as Beijing Capital International Airport, Tencent and China Mobile.

The prospect of a US rate rise, most likely by year end, should not surprise the market with any resulting weakness presenting a short-term buying opportunity. Bond yields might rise modestly but not sufficiently to dislodge equities as the asset class of choice. The relative stability, favourable risk-reward profile and attractive relative valuations of the Asia Pacific region will continue to attract investor attention and we maintain a high net equity exposure, currently 92%.

Top 5 Stock Contributions - August

| Largest | Alibaba Group Holding Ltd, BHP Billiton Limited, Macquarie Group Ltd, Retail Food Group Ltd, Sunny Optical Technology Group Ltd |
|----------|---|
| Smallest | CJ CGV Co Ltd, Finetex Ene Inc, Hansol Technics Co Ltd, RIO Tinto Ltd, Vocus Communications Ltd |

| Performance to 31 August 2016 (net of fees) | |
|---|--------|
| 1 Month | 2.48% |
| 3 Months | 3.38% |
| 6 Months | 10.49% |
| 1 Year | -4.16% |
| 3 Years (pa) | 7.31% |
| 5 Years (pa) | 7.88% |
| 10 Years (pa) | 6.66% |
| Since Inception (pa) | 10.19% |



Returns are based on NAV per unit plus distributions reinvested net of management fee and performance fee accruals. The method for calculating the NAV is set out in the Fund's PDS.

| Fund Details (Unaudited) | |
|--------------------------|-----------|
| Exit Price Per Unit: | A\$160.69 |
| Fund Size: | A\$54.5m |
| Start Date: | 01-Sep-99 |

| Top 5 Large Cap Holdings | Sector | % |
|--------------------------|-----------------|-----|
| BHP Billiton Limited | Basic Materials | 6.5 |
| RIO Tinto Ltd | Basic Materials | 5.8 |
| South32 Ltd | Basic Materials | 3.9 |
| Macquarie Group Ltd | Financial | 3.3 |
| Fletcher Building Ltd | Industrial | 3.0 |

| Geographic Exposure % | | | |
|---------------------------------------|-------------|----------|--------------|
| | Long | Short | Net Equity |
| Australia | 41.0 | - | 41.0 |
| China | 13.6 | - | 13.6 |
| Hong Kong | 12.3 | - | 12.3 |
| Korea | 12.6 | - | 12.6 |
| New Zealand | 4.8 | - | 4.8 |
| Philippines | 1.1 | - | 1.1 |
| Taiwan | 1.3 | - | 1.3 |
| Thailand | 0.6 | - | 0.6 |
| United States | 4.4 | - | 4.4 |
| Total Equity | 91.7 | - | 91.7 |
| Total Cash | | | 8.3 |
| Total Equity and Cash Exposure | | | 100.0 |
| Net AUD Exposure AFTER Hedging | | | 44.2% |

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