

K2 Asset Management

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KII - K2 Global Equities Fund (Hedge Fund) Monthly Report - 31 October 2016

Global Market Review

The K2 Global Equities Fund returned -1.92% for the month of October.

Global equity markets were mixed during the month with material falls in companies affected by a sharp rise in bond yields and a steepening in global yield curves. US 10 year bond yields rose 23bps to 1.83% and have now rallied nearly 50bps since the August lows of 1.35%. The catalyst for this sharp rise has been stronger US growth, rising inflation expectations and the increasing probability that US interest rates will rise in December. Global bond indices, infrastructure, REITs, Telecommunications and other bond proxy sectors recorded heavy losses.

The US S&P 500 fell 1.9% and has now fallen for three consecutive months. Investor angst is building in anticipation of the outcome of the US Presidential Election on November 8th and the US Federal Reserve likely raising interest rates in December. The New Zealand NZ50 (-5.4%) and Australian ASX200 (-2.2%) equity markets substantially underperformed as interest rate sensitive stocks dragged their respective indices lower.

The Japanese NIKKEI (+5.9%) was the standout performer driven by a fall in the Yen. Mainland Chinese equities (Shanghai +3.6%) benefited from a recovery in manufacturing data and a buoyant property market. European equities were broadly higher aided by a lower Euro with rises in the Germany DAX (+1.5%), France CAC (+1.4%) and the UK FTSE 100 (+0.8%).

Portfolio Insight: Pandora

Greek mythology gave us Pandora. Depending on the stories, she was the daughter of Zeus, made by Hephaestus and designed to punish Epimetheus for betraying Zeus. It was Pandora who upon opening the box bestowed on them by Zeus saw all of mankind's evil released, leaving only hope inside. Pandora, the Danish jewelry company, uses this as their inspiration in making beautiful pieces that are sold around the world. Pandora has been a sublime success since listing in 2010. Revenues have more than doubled over the last 4 years. This growth has been driven by store expansion and product development to the point where it is now difficult to pass through an airport and miss a Pandora store. Back in July expectations were high with 20% plus EPS growth forecast. Pandora missed expectations, growing in the high teens instead. This miss of short-term estimates saw the shares fall 20% giving the Fund the opportunity to buy a great business at a great price of only 14x P/E. Pandora also has avenues for growth that are not fully understood by its European shareholder base. The Company has recently agreed to sell its products on T-Mall, the online shopping portal of Alibaba. T-Mall will give Pandora access to over 1bn Chinese and Asian customers that it couldn't previously reach.

Outlook

The short-term direction of global equity markets is firmly dependent on who the next US President will be. In the unlikely event that Donald Trump wins, the outlook will be very uncertain. Foreign investors will be clearly rattled with Trump's outspoken foreign policy views and we would expect a short-term negative reaction on global equity markets. A Clinton victory, which is the most likely outcome, should provide a relief rally in markets.

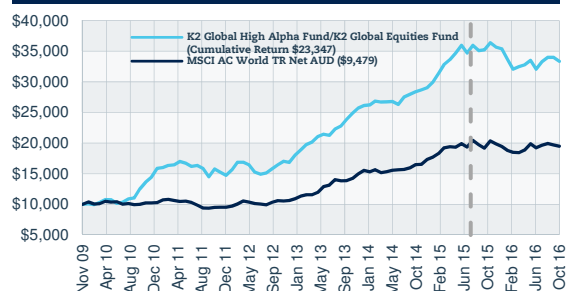
Post the US Election, investors will be able to concentrate on more fundamental views and focus on the economy and corporate profits. Commodity prices are rising as China is illustrating a stronger growth profile. US earnings, after a period of consolidation, are forecast to rise next year and global investors are sitting on significant cash levels. Despite significant current uncertainty there is room for optimism in the period ahead.

Top 5 Stock Contributions - October

Largest	Goldman Sachs Group Inc, Kina Securities Ltd, Money3 Corp Ltd, Nordea Bank AB, Think Childcare Ltd
Smallest	AbbVie Inc, Iron Mountain Inc, Tech Mpire Ltd, Updater Inc, Vita Group Ltd

1 Month	-1.92%
3 Months	0.13%
6 Months	1.74%
1 Year	-8.36%
Since Inception (pa)*	19.02%

Growth of AUD \$10,000



*Returns are based on NAV per unit plus distributions reinvested net of all fees. Since inception returns are based on the K2 Global High Alpha Fund between 1/12/09 and 19/7/15 and the K2 Global Equities Fund for the period 20/7/15 to 31/10/16. The portfolio of the K2 Global Equities Fund is based on the portfolio of the K2 Global High Alpha Fund.

Fund Details (Unaudited)

NAV Per Unit:	A\$2.31
Fund Size:	A\$36.1m
Start Date:	20-Jul-15

Top 5 Large Cap Holdings	Sector	%
Goldman Sachs Group Inc	Financial	3.6
Nordea Bank AB	Financial	2.7
Facebook Inc	Communication	2.0
AbbVie Inc	Cons. Non-Cyc	1.8
Vocus Communications Ltd	Communication	1.7

Geographic Exposure %

	Long	Short	Net Equity
Australia	51.6	-0.6	51.0
Canada	1.7	-	1.7
China	3.1	-	3.1
Denmark	0.9	-	0.9
Euroland	2.1	-0.2	1.9
Hong Kong	0.7	-	0.7
Korea	0.2	-	0.2
New Zealand	4.0	-	4.0
Sweden	2.7	-	2.7
Switzerland	-	-0.2	-0.2
United States	22.2	-	22.2
Total Equity	89.2	-1.0	88.2
Total Cash			11.8
Total Equity and Cash Exposure			100.0
Net AUD Exposure AFTER Hedging			49.7%

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