K2 Asset Management
Level 32, 101 Collins Street Melbourne Victoria 3000 Australia
Telephone 61 3 9691 6111 **Facsimile** 61 3 9691 6170
Website k2am.com

KII - K2 Global Equities Fund (Hedge Fund)
Monthly Report - 30 September 2016

Global Market Review

The K2 Global Equities Fund returned -0.04% for the month of September.

Global markets continued to consolidate strong gains from post BREXIT lows in June with most developed markets relatively flat in September. Despite this consolidation, volatility rose during the month as markets experienced sharp weakness ahead of the highly anticipated US Federal Reserve, ECB and Bank of Japan meetings. In the end, the US Fed did not raise interest rates, the ECB held stimulus at current levels and Japan eased market concerns by not further reducing negative interest rates. The USD sold off, commodity prices continued to rise and equity prices rallied into month end to close in generally the same position that they started the month.

Asian markets were again the best performing region with solid gains in Singapore (+1.7%), Hong Kong (+1.4%) and Taiwan (+1.1%). The major markets were largely unchanged with the US S&P (-0.1%) and the Euro Stoxx 600 (-0.2%).

Portfolio Insight: Nordea Bank

Nordea Bank, listed in Sweden and the Nordic Region's largest bank, commands a market share of 15-30% in each of the four Nordic countries. It is the number one Nordic Retail banking franchise with 695 branches and over 10 million customers. It also ranks number one in Nordic equity trading, asset management and life premiums. With 30,000 employees, it is within Europe's Top 10 largest banks and one of the few European banks with a AA- rating.

Nordea Bank offers a combination of a high prospective dividend yield (2017E dividend yield 7.2%) and trades at an attractive valuation (2017E PE 10.7x). It has outperformed the European banking sector due to greater earnings resilience, higher dividend yield and a stronger balance sheet than its European banking peers. Selective asset repricing in Sweden and Denmark will likely be supportive of top line growth and the bank offers above peer volume growth.

Nordea Bank is currently focused on delivering end-to-end digital capacity via a new core IT overhaul. This is the next big opportunity for the bank to benefit from mobile cross-selling and Nordea is best positioned to overtake the competition on the back of this new IT system.

Outlook

In September, global manufacturing PMI data rose to 15 month highs as all major countries reported strong rises above 50 indicating manufacturing activity is in expansion mode. The Eurozone PMI was 52.6, the US printed 51.5, China's PMI was stable at 50.4 and Japan returned to expansion recording 50.4. This trend of expanding global PMIs bodes well for industrial demand and the underlying global economy. Recent strength in commodity prices and the AUD in 2016 confirms this manufacturing upswing is underway.

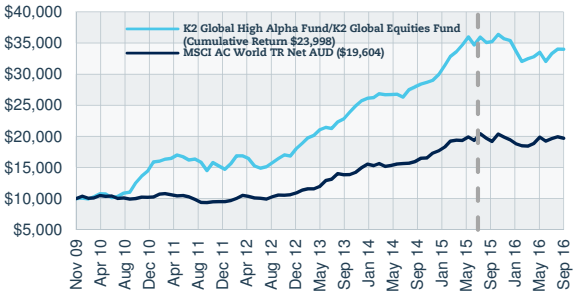
The short term direction of equity markets is likely to be dictated by the upcoming US 3rd Quarter results, macro-data and the pending US election result on November 8th. The market has priced in a single interest rate rise this year in the US with a 59% probability of a 25bp rise by December. Whilst a rate rise is expected it may create some increased volatility, but ultimately we feel the US economy is strong enough to absorb such a small increase in rates. The greater risk for short term dislocation in global markets is a Trump victory and the potential backlash from investors. We will be closely monitoring the political landscape in the lead up to the election. We continue to view the case for investing in global equities as compelling and maintain high equity exposure.

Top 5 Stock Contributions - September

Largest	Challenger Ltd, Money3 Corp Ltd, PWR Holdings Ltd, South32 Ltd, Updater Inc
Smallest	Goldman Sachs Group Inc, Synlait Milk Ltd, Tech Mpire Ltd, Think Childcare Ltd,
	Vocus Communications Ltd

Performance to 30 September 2016 (net of fees)	
1 Month	**-0.04%**
3 Months	**6.06%**
6 Months	**4.64%**
1 Year	**-3.50%**
Since Inception (pa)*	**19.61%**

Growth of AUD $10,000



*Returns are based on NAV per unit plus distribtuions 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 30/9/16. 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$2.35**
Fund Size:	**A$37.2m**
Start Date:	**20-Jul-15**

Top 5 Large Cap Holdings	Sector	%
Goldman Sachs Group Inc	Financial	**3.0**
Nordea Bank AB	Financial	**2.3**
AbbVie Inc	Cons. Non-Cyc	**1.9**
Facebook Inc	Communication	**1.8**
Vocus Communications Ltd	Communication	**1.8**

Geographic Exposure %			
	Long	**Short**	**Net Equity**
Australia	47.6	-	**47.6**
Canada	1.8	-	**1.8**
China	2.4	-	**2.4**
Euroland	4.3	-	**4.3**
Japan	0.5	-	**0.5**
Korea	0.2	-	**0.2**
New Zealand	3.6	-	**3.6**
Sweden	2.3	-	**2.3**
United Kingdom	2.5	-	**2.5**
United States	22.1	-	**22.1**
Total Equity	**87.3**	**-**	**87.3**
Total Cash			**12.7**
Total Equity and Cash Exposure			**100.0**
Net AUD Exposure AFTER Hedging			**51.0%**

This newsletter is prepared by K2 Asset Management Ltd ("K2") and is believed to be reliable. However K2 makes no representation or warranty as to its reliability and does not accept any responsibility or liability in relation to such information or for conclusions which the reader may draw from the newsletter. The information or opinions contained in this newsletter are of a general nature only and should not be construed to be a recommendation to buy or sell interests in the K2 Fund, securities, commodities, currencies or financial instruments referred to above. K2 is not licensed to give financial advice to retail clients and you should obtain and consider a PDS from K2 or our website before making a decision in relation to the K2 Funds. A cooling off period is available to some retail clients. The directors and staff of K2 hold units in the K2 Funds. Please note that past performance is not a reliable indicator of future performance.