

K2 Asset Management

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K2 Global High Alpha Fund Monthly Report - 31 December 2016

Global Market Review

The K2 Global High Alpha Fund returned 1.52% for the month of December.

The majority of global equity markets finished 2016 on a strong note as investor sentiment remained buoyant. There is growing optimism on US President elect Donald Trump's fiscal policy plans and major corporate tax cuts. In addition, there is an air of anticipation in markets that global fiscal policy will take the economic stimulus baton from quantitative easing and ultra low interest rates. The US Federal Reserve raised interest rates in December with a gradual expectation of higher rates in 2017. The USD finished the year at near 14 year highs and US treasuries continued to sell off with bond yields rising to 2.44%.

The S&P 500 rose 1.8% in December and rose 9.5% for year, despite falling over 10% in the first 2 months of the year. European markets rallied very strongly in December with the Stoxx Europe 600 rising 5.7% but ended the year down 1.2% as the European banking sector underperformed and growing unrest in anti-euro politics. Asia was mixed with Japan's Nikkei rising 4.4% for the month but China's Shanghai (-4.5%) and Hong Kong Hang Seng (-3.5%) underperforming as the region continued to experience capital outflows.

Portfolio Insight: Alibaba

The rise of Alibaba as China's largest e-commerce company has been nothing short of phenomenal, with over 434 million active monthly users in December 2016 ordering over 12 million packages a day. Alibaba brings together consumers and businesses and is forecast to generate over USD22bn in revenue in 2017. Its marketplace brands including Taobao and Tmall.com are household names in China. Alibaba is far more than just a marketplace, incorporating its own payment systems, consumer driven search engines and cloud computing systems. The company's founder, Jack Ma listed the company in 2014 on the US stock exchange, however, like many IPO's, the company's share price had a lackluster first year. This de-rating of the shares and a general distrust of Chinese companies created a buying opportunity in early 2016. At 16x P/E with a forecast revenue growth rate at near 50%, there was a significant mispricing and thus opportunity. Going forward, Alibaba has an enormous addressable market estimated at over USD200bn in retail e-commerce alone and as a leader in its chosen markets, is best positioned to capture this growth.

Outlook

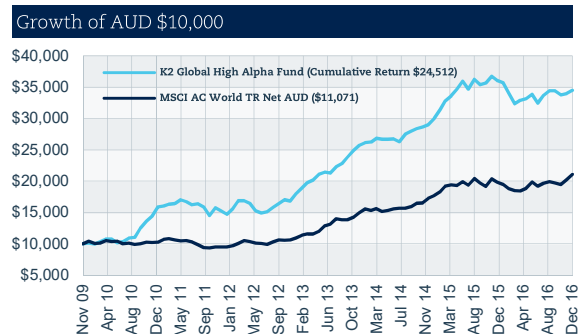
Economic activity has continued to expand evidenced by global manufacturing data in December. The US PMI rose to 54.7 the highest level since December 2014, European PMI rose to 54.9 the highest level since April 2011 and China PMI was 51.4 the highest level since July 2014. These manufacturing surveys indicate that global manufacturing ended 2016 on a strong note with a firm recovery in developed economies and that demand is enjoying a broad based recovery. Are we on the cusp of global synchronised growth? The key risk to this scenario is Europe. As discussed previously, the French election in May this year, will be a major event with a Marine Le Pen victory having the potential to end the European Project and this would have significant implications on European growth expectations. We will continue to monitor this European political landscape closely and based on recent history will be ignoring the polls and bookmakers.

The Fund maintains a net equity exposure of 86% and we remain optimistic on the outlook for equities. The Fund is approximately 45% hedged to AUD, given the strong recovery in commodity prices the AUD is likely to be supported in the low 70's.

Top 5 Stock Contributions - December

Largest	Challenger Ltd, Elanor Investor Group, Goldman Sachs Group Inc, Nordea Bank AB, Pandora A/S
Smallest	Dexus Property Group, Galaxy Entertainment Group, Tech Mpire Ltd, Think Childcare Ltd, Updater Inc

Performance to 31 December 2016 (net of fees)	
1 Month	1.52%
3 Months	0.26%
6 Months	6.25%
1 Year	-3.28%
3 Years (pa)	9.71%
5 Years (pa)	18.58%
Since Inception (pa)	19.11%



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\$172.01
Fund Size:	A\$45.8m
Start Date:	1-Dec-09

Top 5 Large Cap Holdings	Sector	%
Goldman Sachs Group Inc	Financial	5.2
Nordea Bank AB	Financial	2.9
Facebook Inc	Communication	2.4
AbbVie Inc	Cons. Non-Cyc	2.1
Tencent Holdings Ltd	Communication	1.9

Geographic Exposure %			
	Long	Short	Net Equity
Australia	39.0	-2.7	36.3
Canada	2.9	-	2.9
China	2.3	-	2.3
Denmark	1.4	-	1.4
Euroland	1.6	-0.3	1.3
Hong Kong	0.5	-	0.5
New Zealand	4.1	-	4.1
Sweden	2.9	-	2.9
Switzerland	-	-0.3	-0.3
United Kingdom	1.9	-	1.9
United States	32.6	-	32.6
Total Equity	89.2	-3.3	85.9
Total Cash			14.1
Total Equity and Cash Exposure			100.0
Net AUD Exposure AFTER Hedging			44.7%

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