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K2 Select International Fund
Monthly Report - 31 August 2016

Global Market Review

The K2 Select International Absolute Return Fund returned 2.13% for the month of August while the MSCI AC World TR Net AUD Index returned 1.47%.

The US S&P 500 consolidated its powerful post Brexit rally finishing August relatively flat (-0.1%) and around a percent off its all-time highs of 2,193.8. The S&P 500 Index has in fact gone 38 trading days without moving more than 1% in a single trading session, highlighting the lack of recent volatility in the market. The key talking point for the month was the rise in interest rate expectations following more hawkish rhetoric from Fed officials including at the Jackson Hole symposium. This helped US Financials rebound (+3.6%), as higher rates translate to better banking margins. Meanwhile it pressured the higher dividend yielding sectors including Telecoms (-5.7%) and Utilities (-6.1%). Healthcare (-3.5%) was also in the crosshairs after EpiPen maker Mylan came under attack from Hillary Clinton for big price hikes, again heightening the focus on drug pricing.

In Europe, markets were firmer in spite of weak sentiment toward the region (Europe has now seen 29 straight weeks of equity fund outflows). The Euro STOXX 600 returned 0.5%, the UK FTSE 100 Index 0.9%, German DAX 2.5% and French CAC 0.0%. Meanwhile, Asian markets were generally strong with the Hang Seng bouncing 5.0%, China H-Shares gaining 6.5% and China A-Shares up 3.6%. In Japan, the TOPIX rose 0.5%. Oil (WTI) bounced strongly during the month (+7.5%) to $44.70 on optimism that OPEC members may reach a deal to curb production and support prices. The AUD closed August down 1.0% to at USD0.752.

Portfolio Insight: Goldman Sachs Group

Goldman Sachs has extensively repositioned itself since the GFC emerged. Importantly, over the past 8 years Goldmans has halved its asset leverage from 20x equity to 10x. In addition, hard to value level 3 assets have shrunk from 11.3% of total assets to just 2.8%. Concurrently, global interest rates have declined and Goldmans is subsequently generating 30% less revenue today than pre-GFC. In response Goldmans has reduced its staff numbers by 15%. We believe that Goldmans is attractively priced on 10x next year's earnings. Goldmans is currently ranked number one for worldwide announced and completed M&A this year to date and we believe that this will be increasingly relevant as global trading conditions normalise. M&A activities tend to improve after the US summer holidays and we believe that this will flow into 2017. We also believe that Goldmans is extremely well positioned to benefit from the expected gradual rise in US interest rates.

Outlook

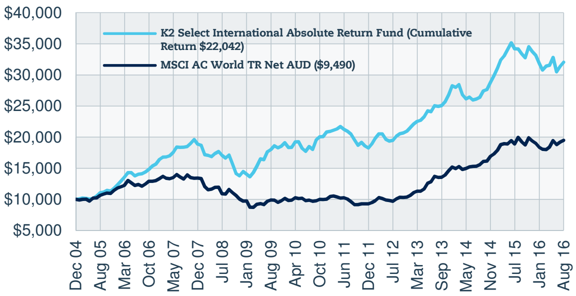
A stronger July jobs number has propelled US interest rate rise expectations higher and led to more hawkish comments from Fed members. US bond markets are now pricing a 59.9% chance of a 25bps rise by December, up significantly from a 36% probability when measured a month earlier. In our view it is likely the Fed will raise rates once by 25bps before the end of the year. We expect this will most likely occur post the US election in November. While rising rates will see volatility creep back into the market, we ultimately believe that the US economy is on a stable footing and can handle a 25bps hike. We would also point out, that while the initial rate rise from zero to 25bps created considerable noise, markets ultimately absorbed the hike. While the S&P 500 is not 'cheap' on a Forward PE of around 17.5x, equities remain the most attractive asset class in our view. The Fund maintains a reasonably high net equity market exposure of 91%, in-line with our constructive outlook on equities. While we are bottom up stock pickers we are currently more exposed to the US and Asia, while being more cautious on Europe and Japan. We maintain AUD hedging at approximately 45% of the Fund believing that the AUD is likely to remain around the mid-70 cents level.

Top 5 Stock Contributions - August

Largest	Alibaba Group Holding Ltd, Broadcom Ltd, Goldman Sachs Group Inc,
	Nordea Bank AB, Retail Food Group Ltd
Smallest	Finetex Ene Inc, Hansol Technics Co Ltd, MaxLinear Inc, Orbital Atk Inc,
	Caregen Co Ltd

Performance to 31 August 2016 (net of fees)	
1 Month	**2.13%**
3 Months	**-2.33%**
6 Months	**4.07%**
1 Year	**-4.01%**
3 Years (pa)	**8.68%**
5 Years (pa)	**10.35%**
10 Years (pa)	**8.31%**
Since Inception (pa)	**10.50%**

Growth of AUD $10,000



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$140.22**
Fund Size:	**A$136.0m**
Start Date:	**01-Jan-05**

Top 5 Large Cap Holdings	Sector	%
Goldman Sachs Group Inc	Financial	**4.2**
Apple Inc	Technology	**3.4**
Facebook Inc	Communication	**3.1**
Visa Inc	Financial	**2.9**
AbbVie Inc	Cons. Non-Cyc	**2.7**

Geographic Exposure %	Long	Short	Net Equity
Australia	10.7	-1.2	**9.5**
Canada	2.5	-	**2.5**
China	5.5	-	**5.5**
Euroland	6.6	-	**6.6**
Hong Kong	0.7	-	**0.7**
Japan	2.7	-	**2.7**
Korea	7.2	-	**7.2**
New Zealand	2.1	-	**2.1**
Sweden	2.5	-	**2.5**
United Kingdom	4.2	-	**4.2**
United States	47.7	-0.6	**47.1**
Total Equity	**92.4**	**-1.8**	**90.6**
Total Cash			**9.4**
Total Equity and Cash Exposure			**100.0**
Net AUD Exposure AFTER Hedging			**45.5%**

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