



## K2 Select International Fund Monthly Report - 31 December 2016

### Global Market Review

The K2 Select International Absolute Return Fund returned 2.98% for the month of December while the MSCI AC World TR Net AUD Index returned 4.24%.

The Trump Bump, now more of a Thump, continued on its "Merry" way in December with the S&P 500 Index increasing +1.8%. Since the Nov 8th election, US Consumer Confidence, as measured by the University of Michigan, has rocketed to 98.2, a level not seen since Jan 2004. Anecdotally, the Wall St Journal reported that sales of Christmas trees have jumped +10% from a year ago, signalling great news for retailers.

A 140-character tweet, Mr. Trump's preferred method of communication, can certainly cause havoc. First it was Boeing to feel the wrath over perceived cost blow-outs for the new Air Force One. Next, Lockheed Martin was called to account due to the "tremendous cost and cost overruns" of the F-35 program. Meanwhile, a series of tweets fired a shot across the bow of corporate America, warning of "retribution and consequence" of moving production off-shore, leaving Trump's 18.1m followers under no illusions. As expected, and with little fanfare, the US Federal Reserve raised rates +25 bps. Of greater relevance, the "Dot Plot" of member expectations increased from two to three rate rises in 2017. This saw US 10-year treasuries continue to sell-off, with yields rising to 2.44%. The oil price (WTI) continued its march following the historic OPEC meeting of late November, closing the month at USD53.72 up 8.66%.

In Europe, markets rallied strongly across the board. Italy was the standout performer, jumping +13.6% as the country voted a resounding "NO" to constitutional reform. The UK FTSE 100 Index advanced +5.3% while Germany's DAX added +7.9% and France's CAC rose +6.2%. In Asia, Japan was once again the outlier with TOPIX climbing a further +3.3% as the Yen continued its freefall against the USD. In contrast to Japan, the ASEAN countries were severely dampened by capital outflows with the Hang Seng falling -3.5% and mainland China dropping -4.5%. The AUD closed December down -2.5% at USD0.7208.

### Portfolio Insight: Johnson Controls International

Founded in 1885, Johnson Controls is a leading global provider of equipment and services relating to building automation and controls, heating, ventilation and air-conditioning and fire and security systems. Following the merger with Tyco and spin-off of car seat manufacturer Adient, the company offers an attractive risk/reward profile, underpinned by a non-demanding FY18 forecast PE of 13.1x supported by 18% EPS growth. With a balanced portfolio providing a combination of cyclical and secular growth drivers the company is well positioned for strong revenue growth into the foreseeable future. Catalysts to drive a re-rating include additional demand from government/institutional sector, upside to projected merger synergies and improved free cash flow conversion.

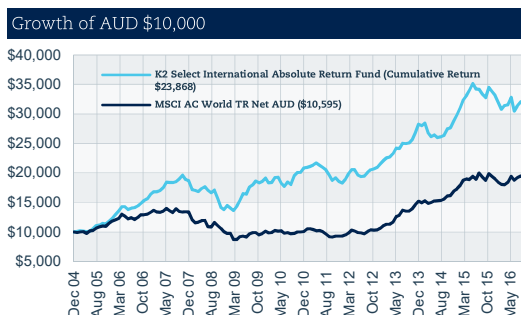
### Outlook

We enter 2017 with cautious optimism. The election of Trump has re-invigorated markets and consumer confidence sits at multi-year highs. Once the official inauguration on 20 January is out of the way and the honeymoon period over, the world will focus on real economic growth and corporate profitability. With expectations reaching the stratosphere there is very little room for error. US reporting season kicks off in the middle of January with S&P 500 earnings forecast to grow at 4% continuing the positive momentum from the previous quarter. In Europe, the French election in May 2017 will dominate news flow as the result could have significant implications on the Euro and its ability to survive. We continue to closely monitor the situation and based on recent history will obviously be ignoring the polls. The Fund maintains a net equity market exposure of 83%. AUD hedging currently sits at ~45% of the Fund, believing that the AUD is likely to remain in the low to mid-70 cent level.

### Top 5 Stock Contributions - December

Largest	Apple Inc, First Republic Bank/CA, Goldman Sachs Group Inc, Pandora A/S, Retail Food Group Ltd
Smallest	Alibaba Group Holding Ltd, Dexus Property Group, Galaxy Entertainment Group, Johnson Controls International, Mattel Inc

Performance to 31 December 2016 (net of fees)	
1 Month	2.98%
3 Months	5.56%
6 Months	11.08%
1 Year	2.16%
3 Years (pa)	6.20%
5 Years (pa)	13.13%
10 Years (pa)	7.51%
Since Inception (pa)	10.70%



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\$148.20
Fund Size:	A\$114.0m
Start Date:	1-Jan-05

Top 5 Large Cap Holdings	Sector	%
Apple Inc	Technology	5.1
Goldman Sachs Group Inc	Financial	4.3
Nordea Bank AB	Financial	3.3
AbbVie Inc	Cons. Non-Cyc	3.1
Visa Inc	Financial	2.9

Geographic Exposure %			
	Long	Short	Net Equity
Australia	5.3	-2.7	2.6
Canada	7.3	-	7.3
China	4.1	-	4.1
Denmark	3.0	-	3.0
Euroland	2.7	-0.3	2.4
Hong Kong	2.8	-	2.8
New Zealand	1.8	-	1.8
Sweden	3.3	-	3.3
Switzerland	-	-0.3	-0.3
United Kingdom	6.0	-	6.0
United States	51.2	-1.1	50.1
<b>Total Equity</b>	<b>87.5</b>	<b>-4.4</b>	<b>83.1</b>
<b>Total Cash</b>			<b>16.9</b>
<b>Total Equity and Cash Exposure</b>			<b>100.0</b>
<b>Net AUD Exposure AFTER Hedging</b>			<b>43.6%</b>

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.