

K2 Asset Management

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K2 Select International Fund Monthly Report - 31 July 2016

Global Market Review

The K2 Select International Absolute Return Fund returned 2.90% for the month of July while the MSCI AC World TR Net AUD Index returned 2.19%.

July marked a reversal of fortunes for equity markets with the major bourses staging impressive rallies. The US S&P 500 Index closed the month up +3.6%, a few points off its all-time highs, while the NASDAQ jumped +6.6%. US corporate earnings have generally exceeded expectations so far this reporting season, although the macro picture appears weaker with the Q2 GDP printing a tepid 1.2%, well below the 2.5% estimate. The market has reacted by pushing back expectations for the next rate hike with September odds falling to 18% (from 61% 2 months ago). US 10 year government bonds rallied with yields falling to 1.45% from 1.60% as recently as 2 weeks ago.

Elsewhere, the relatively quick transition to new Prime Minister Theresa May assisted in settling worries in the UK, while the predictions of 'helicopter money' in Japan helped the Nikkei rebound (the Bank of Japan's plans ultimately disappointed). In Europe, the Euro STOXX 600 returned +3.6%, the UK FTSE 100 Index +3.4%, German DAX +6.8% and French CAC +4.8%. In Asia, markets benefited from some rotation away from US/Europe with Japan's TOPIX up +6.2%, the Hang Seng bouncing +5.3% and China H-Shares gaining +2.8%.

On a potential negative note, oil (WTI) has quietly slid back to \$41.60 from a 2016 high of \$51.50 in June, although this is significantly higher than the low of \$26.05 in February 2016 when markets panicked about the impact of the low oil price on major exploration and production companies as well as on the banks through their loans to the oil patch.

The AUD closed July up 2% to 75.96 cents, buoyed by better China GDP figures and the subsequent lift in materials prices.

Portfolio Insight

In late June the UK voted to leave the European Union sending many stock markets and currencies into free fall. It is points of extreme pessimism that create opportunity. "If you can keep your head when all about you are losing theirs and blaming it on you", with the thoughts of Kipling, we took advantage of mispriced companies in the wake of the Brexit vote including Tenneco Inc and IHS Markit. This strategy worked well through July as our analysis highlighted Brexit would be far more contained than pontificating market pundits would have you believe. The Fund maintains a high exposure to global equities with second quarter reporting season underway in the US showing strong corporate earnings. Currently, over 80% of companies have beaten estimates. The Fund's technology companies including Alphabet (Google), Apple and Facebook all saw results above expectations through July, helping performance.

Outlook

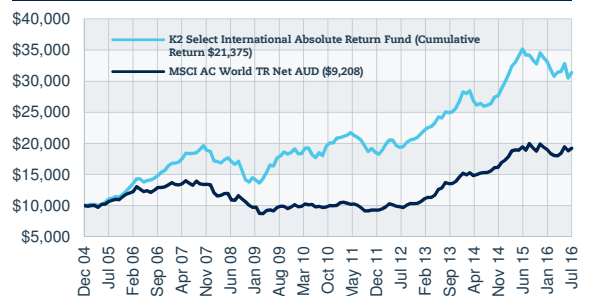
With Brexit hysteria over, refreshingly, global equity markets have been able to enjoy some clean air, setting the scene for a solid bounce into the end of 2016. The unexpectedly soft US GDP growth will almost certainly unhinge the Fed's plans to raise rates in the near term, anchoring bond yields at record lows. Equities will remain the asset class of choice. We continue to hold a reasonably high net equity exposure, currently 82%. We expect both the UK and Japanese economies to remain structurally challenged for some time, not helped by mixed signals from policy makers. Our cautious stance towards those countries is maintained with minimal exposure.

Top 5 Stock Contributions - July

Largest	Alphabet Inc, Apple Inc, Atos Se, Goldman Sachs Group Inc, Thor Industries Inc
Smallest	Amorepacific Corp, Berkeley Group Holdings, Just Eat PLC, Legal & General Group, PLC, Nintendo Co Ltd

Performance to 31 July 2016 (net of fees)	
1 Month	2.90%
3 Months	-0.57%
6 Months	-1.43%
1 Year	-8.17%
3 Years (pa)	7.79%
5 Years (pa)	8.89%
10 Years (pa)	8.31%
Since Inception (pa)	10.38%

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\$137.30
Fund Size:	A\$148.6m
Start Date:	1-Jan-05

Top 5 Large Cap Holdings	Sector	%
Goldman Sachs Group Inc	Financial	3.3
Apple Inc	Technology	3.0
Facebook Inc	Communication	2.6
Alphabet Inc	Communication	2.5
AbbVie Inc	Cons. Non-Cyc	2.4

Geographic Exposure %

	Long	Short	Net Equity
Australia	7.7	-0.9	6.8
Canada	2.8	-	2.8
China	4.5	-	4.5
Euroland	5.9	-	5.9
Hong Kong	0.5	-	0.5
Japan	4.1	-	4.1
Korea	8.0	-	8.0
New Zealand	1.7	-	1.7
Sweden	1.4	-	1.4
United Kingdom	2.8	-0.4	2.4
United States	44.7	-0.9	43.8
Total Equity	84.1	-2.2	81.9
Total Cash			18.1
Total Equity and Cash Exposure			100.0
Net AUD Exposure AFTER Hedging			47.0%

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