

K2 Asian Fund

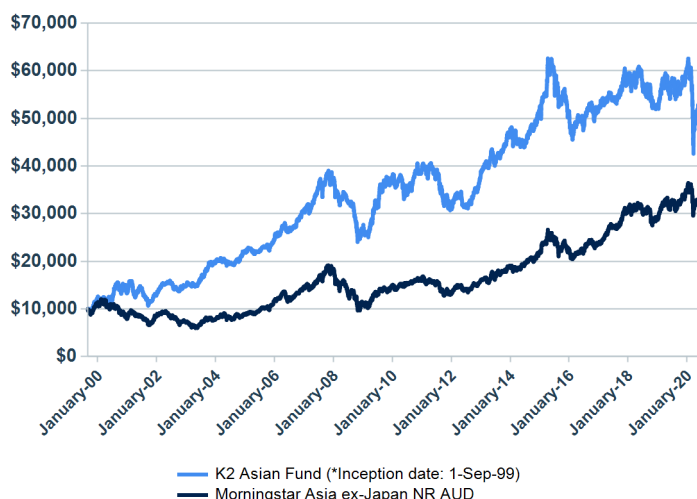
31 May 2020



The K2 Asian Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	1 Month	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	10 Years (%pa)	15 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	1.9%	-6.3%	-4.6%	-1.6%	-3.4%	4.3%	6.0%	8.3%	1-Sep-1999
Average Net Exposure	90.8%	90.5%	84.7%	77.9%	79.3%	83.7%	78.0%	75.1%	

Growth of \$10,000



Commentary

The K2 Asian Fund returned +1.86% for the month of May.

Asian equity markets experienced mixed returns in May, unable to extend their post-Covid rebound in contrast to the strength experienced by other regions globally. Beijing's announcement of new national security rules over Hong Kong caused investor panic which was further exasperated by the continued deterioration of US-China relations. We are closely monitoring the situation with respect to how it might impact the trade deal. Although we are paying greater attention to what each party is actually doing rather than what they are saying.

Dispersion within Asian markets was high. Tech heavy Korea (+4.2%) and Thailand (+3.2%) were the better performing countries. Not surprising, Hong Kong (-6.8%) bore the brunt of the selling while mainland China (-0.3%) fared considerably better.

A significant positive contributor for the month included leading power tool manufacturer Techtronic Industries. The company provided a trading update in late April confirming a "resurgence in demand" driven by strong sales of DIY products from stay-at-home consumers. This was further confirmed by Home Depot, Techtronic's biggest customer representing almost 50% of revenue, whose 1Q20 earnings release showed sales growth accelerated to a better than expected 7.1%. Currently trading on an FY21e PE of 20.5x while offering an expected EPS CAGR of 14% p.a. over the next 3-years.

The fund ended the month with a net exposure to equities of 83% reflecting our cautiously optimistic stance. With most countries now gradually in the process of easing restrictions investor focus will remain on the timing and shape of any recovery. We believe that ultimately global economic growth will recover however it is unlikely to be a smooth ride with the extent of the economic damage inflicted by the virus still very much unknown. The AUD ended the month up +2.19% versus the USD at 0.6667. The fund is currently 94% hedged to the AUD providing capital protection against a rising AUD.

Top 5 Stock Holdings	Current	Monthly Move
Tencent Holdings Ltd	9.4%	-0.7%
Alibaba Group Holding Ltd	9.1%	-0.3%
Techtronic Industries Co Ltd	6.1%	+0.4%
Shenzhou International Group	5.0%	-0.2%
AIA Group Ltd	4.3%	-3.5%

Month End Exposures	Current	Monthly Move
Communication Services	13.4%	-0.3%
Consumer	23.4%	+3.7%
Financials	19.5%	-9.3%
Health Care	1.9%	0.0%
Industrials	10.4%	-2.2%
Information Technology	3.3%	-3.5%
Materials	7.0%	+1.6%
Other	1.6%	-0.1%
Real Estate	2.6%	-2.1%
Number of Positions	31	-4
Gross Equity Exposure	83.0%	-15.7%
Cash Weighting	17.0%	+8.8%
Net Equity Exposure	83.0%	-8.8%
Currency Exposure Hedged of AUD	93.9%	+0.2%

Fund Characteristics

FUM	AUD \$11m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen and Tony Sutton
Strategy	Asian (excluding Japan) Equities
Objectives	To deliver consistent absolute returns over the investment cycle with a focus on capital protection during periods of market declines
Return Target	+10% pa over the long term
Number of Stocks	Up to 80
Cash	Up to 100% of portfolio
Distributions	Annually
Management Fee	1.36%
Buy/Sell	Daily Application/Redemption
Performance Fee	15.38% pa of the amount by which the NAV per unit exceeds the High Water Mark once the fund achieves its hurdle

George Boubouras
 Head of Research
 03 9691 6191
 invest@k2am.com.au

K2 Asian Fund Net Monthly Returns in AUD

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin YTD	Fin YTD Index (1)	Average Cash	Average Short
1999/00			-0.6	4.3	9.2	10.8	-4.3	-3.4	4.1	-1.1	0.2	-1.0	18.6	3.6	35.2%	-13.8%
2000/01	19.4	8.3	-5.3	-1.0	-3.2	-2.3	16.5	-2.0	-16.4	5.4	5.4	-2.0	19.2	-17.9	16.2%	-18.5%
2001/02	-9.1	-6.9	-4.9	2.3	10.3	1.1	8.7	4.4	2.4	1.8	1.7	-1.5	8.6	-3.1	35.5%	-12.0%
2002/03	-7.2	0.5	-2.8	3.6	3.6	-0.5	2.4	-0.5	-1.8	0.1	3.7	4.4	4.9	-19.3	41.2%	-13.0%
2003/04	4.4	6.5	4.4	5.2	-0.3	0.9	1.5	0.8	-1.8	-0.7	-0.2	0.0	22.4	25.2	38.0%	-5.3%
2004/05	-1.2	1.3	2.2	0.9	6.8	2.2	1.1	1.3	-3.0	-2.4	2.0	1.0	12.5	15.8	30.2%	-2.6%
2005/06	3.4	0.2	1.9	-3.6	5.2	3.8	5.2	-1.0	5.0	2.3	-3.2	0.2	20.7	29.0	24.4%	-3.9%
2006/07	0.2	2.0	2.4	2.9	3.4	2.7	1.2	0.3	0.6	3.0	5.5	4.0	31.9	29.3	31.1%	-1.4%
2007/08	3.5	-0.2	2.7	4.0	-2.6	-1.2	-8.6	-0.4	-3.7	3.1	-0.1	-3.8	-7.6	-17.9	46.6%	-5.0%
2008/09	-1.6	0.2	-10.8	-10.4	-0.7	5.2	-3.3	-1.4	4.8	8.0	10.3	0.9	-1.2	-1.4	49.5%	-4.0%
2009/10	10.5	-2.6	4.7	0.9	-0.3	3.5	-4.7	0.0	3.8	-0.5	-7.4	-0.5	6.4	18.7	12.0%	-1.7%
2010/11	4.4	-2.1	7.6	2.5	-0.8	2.1	0.5	-1.0	1.7	1.2	-1.8	-2.4	12.1	0.0	12.1%	-2.4%
2011/12	-2.0	-5.4	-9.0	3.7	-6.2	-1.8	4.9	5.1	-0.9	1.2	-6.9	-1.0	-17.8	-9.9	20.1%	-2.1%
2012/13	1.2	0.7	4.9	3.9	2.0	6.0	4.3	2.1	0.0	3.2	2.4	-3.6	30.2	23.3	6.9%	-0.1%
2013/14	2.4	0.1	2.1	3.6	4.9	0.9	-1.6	0.9	-3.7	-0.2	0.4	-2.3	7.4	12.3	8.8%	0.0%
2014/15	5.4	0.5	2.8	1.4	2.5	3.6	4.1	2.2	2.6	7.5	2.4	-4.2	34.9	27.7	12.9%	-0.1%
2015/16	-4.5	-4.5	-1.4	3.4	-4.2	-2.9	-7.2	-1.6	4.0	2.5	0.2	-2.8	-17.8	-8.6	18.7%	0.0%
2016/17	3.7	2.5	1.2	-3.3	1.6	0.2	2.7	-0.6	1.0	2.0	0.9	-2.3	9.9	20.0	20.6%	-0.4%
2017/18	-0.1	2.2	0.5	4.5	1.4	-1.6	1.4	-0.2	-1.3	4.0	-0.2	-4.1	6.5	12.9	18.5%	-1.1%
2018/19	-1.6	1.0	-0.1	-7.3	-1.1	1.6	1.8	5.6	1.3	1.3	-6.1	4.8	0.5	6.1	30.2%	-0.7%
2019/20	0.0	-3.9	1.2	2.0	1.0	4.1	-2.7	-4.3	-13.6	6.4	1.9		-9.0	-1.1	14.4%	-1.3%
												Incept	423.7	220.5		
												Incept	8.3%pa	5.8%pa	24.9%	-4.3%

(1) Morningstar Asia ex-Japan NR AUD

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