

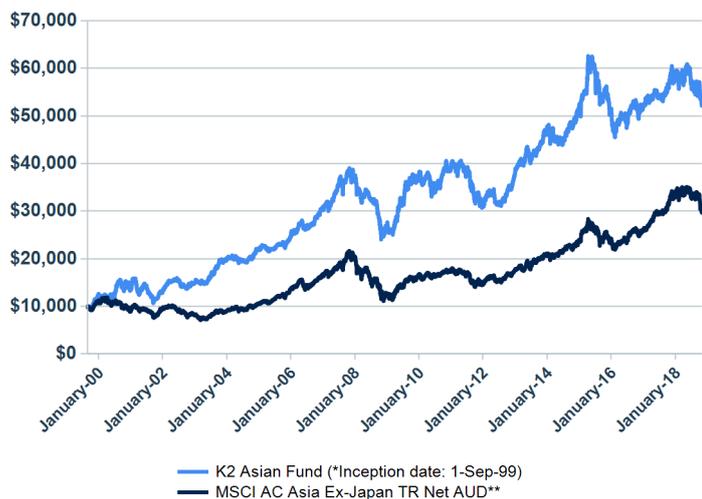
K2 Asian Fund

31 October 2018



	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)	-7.3%	-6.4%	-8.6%	-1.6%	3.4%	7.4%	6.8%	9.1%	1-Sep-1999
Average Net Exposure	65.3%	74.3%	84.4%	80.4%	83.1%	83.2%	76.8%	74.9%	

Growth of \$10,000



**Index performance prior to the 1-Oct-2017 is the MSCI AC Asia Pacific Ex-Japan TR Net AUD.

Top 5 Stock Holdings	Current	Monthly Move
AIA Group Ltd	7.4%	-0.3%
CNOOC Ltd	5.1%	-4.1%
Ping An Insurance Group	3.8%	+0.2%
China Taiping Insurance Hold	3.5%	+0.3%
DBS Group Holdings Ltd	3.2%	-1.0%

Month End Exposures	Current	Monthly Move
Communication Services	2.5%	+0.1%
Consumer	3.1%	-7.8%
Energy	8.5%	-4.4%
Financials	18.6%	-3.8%
Industrials	6.4%	-0.1%
Information Technology	2.0%	-2.2%
Materials	9.3%	-5.5%
Real Estate	1.0%	-1.4%
SHORTS	-1.3%	-0.9%
Number of Positions	23	-4
Gross Equity Exposure	52.8%	-26.1%
Cash Weighting	49.8%	+28.0%
Net Equity Exposure	50.2%	-28.0%
Currency Exposure Hedged of AUD	42.4%	+0.9%

Commentary

The K2 Asian Absolute Return Fund returned -7.3% for the month of October while Asian equity markets returned -9.0%.

Asian equity markets were roiled through October as a risk-off environment dominated in the face of trade wars, higher interest rates in the US and mixed corporate earnings reports. Gains were made predominantly from our short positions including SMIC an expensive Hong Kong listed semiconductor manufacturer trading on a P/E of 50x and facing a softening pricing environment. Another short position in Asian tech behemoth Tencent also aided the performance of the portfolio as its high expectations caught up with it and analysts had to downgrade expectations on future earnings.

With markets down heavily, long positions suffered with the key detractors for the month including power tool maker Techtronic and insurance company AIA where falling markets are deemed to impact asset backing and return profiles. The Fund also suffered from its position on oil companies, CNOOC and Sinopec Shanghai Petrochem as the oil price slid by nearly 9% over the month.

The Fund's net equity exposure was further reduced during the month to 53% after initially starting the month at 78%. We believe a more cautious approach is warranted as global economic growth decelerates. This is being driven by a number of factors including rising US interest rates, persistently high oil prices, geo-political events such as Brexit and Trade Wars and a shrinking of the Federal Reserve balance sheet. In addition, higher input costs from wages and tariffs will pressure corporate earnings, removing much of the foundation that helped propel equity markets higher.

The Fund currently holds a 42% hedged position to offset against any bounce in the Australian Dollar.

Fund Characteristics

FUM	AUD \$24m
Portfolio Managers	Campbell Neal, Mark Newman, Nicholas Leiti, James Soutter 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 stocks
Cash	Up to 100% of portfolio
Distributions	Annually
Management Fee	1.36%
Buy/Sell	Daily Application/Redemption
Performance Fee	15.38% of the amount by which the NAV per unit exceeds the High Water Mark once the fund achieves its hurdle

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