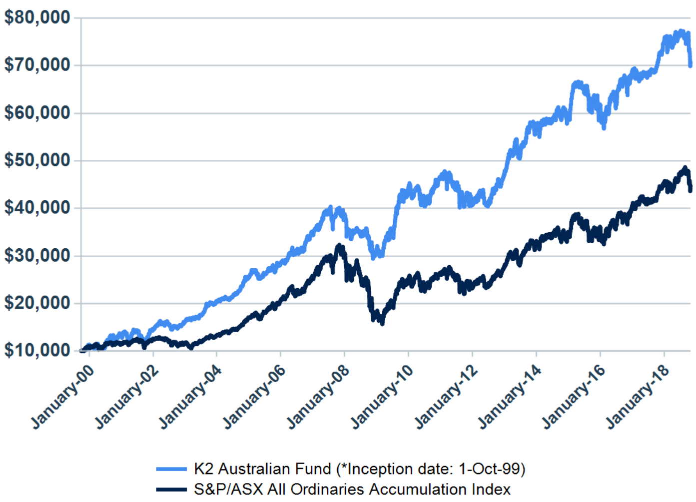
K2 Australian Fund
31 October 2018

	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)	-7.2%	-8.4%	-0.7%	3.9%	4.1%	8.4%	8.7%	10.8%	1-Oct-1999
Average Net Exposure	73.0%	78.9%	83.5%	80.3%	81.1%	82.2%	75.9%	72.7%	

Growth of $10,000



Top 5 Stock Holdings	Current	Monthly Move
BHP Billiton Limited	4.1%	-2.2%
Woodside Petroleum Ltd	4.0%	-1.5%
Metlifecare Ltd	3.8%	+0.2%
Macquarie Group Ltd	3.5%	-1.8%
Medical Developments International	3.1%	+0.6%

Commentary

The K2 Australian Absolute Return Fund returned -7.2% for the month of October while the All Ordinaries Accumulation Index returned -6.5%.

At its worst point mid-month the All Ordinaries Accumulation Index was down -8.9% which would have been the worst month since October 2008. Trade tensions, weak Asian currencies and domestic political instability contributed to the poor performance. Given that backdrop absolute gains were difficult to generate. Medical Developments was the best positive contributor for the month. The company announced that it had entered into an exclusive distribution agreement with Daiichi Sankyo for Pentrox in China, Thailand and Vietnam. Short positions in Genworth Mortgage Insurance and Cromwell Property Group were also positive contributors for the month.

The Fund's exposure to financial companies, despite being underweight, was the largest detractor to performance. CYBG, Money3 and Macquarie Group were the main detractors. CYBG came under pressure as stock coverage increasingly rotated to more pessimistic UK based analysts. Money3 suffered collateral damage from a proposed Australian Senate inquiry into parts of the finance sector. Macquarie Group's share price declined in-line with the general weakness in global investment banks. The Fund still has minimal exposure to the major banks but valuations are becoming increasingly inviting.

The Fund's net 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. Prospective long opportunities are being patiently analysed and it is likely that the Fund's short exposure will gradually rise as we move into 2019.

Month End Exposures	Current	Monthly Move
Communication Services	1.4%	+0.1%
Consumer	4.3%	-1.3%
Energy	5.8%	-2.5%
Financials	14.5%	-12.7%
Health Care	7.7%	+1.3%
Industrials	3.7%	-1.2%
Information Technology	2.1%	0.0%
Materials	11.9%	-11.0%
Real Estate	4.1%	-0.1%
SHORTS	-2.3%	+2.4%
Number of Positions	**37**	**-12**
Gross Equity Exposure	**57.8%**	**-29.8%**
Cash Weighting	**46.7%**	**+25.1%**
Net Equity Exposure	**53.3%**	**-25.1%**

Fund Characteristics	
FUM	AUD $211m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen and Nicholas Leitl
Strategy	Australian and New Zealand 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	1.31%
Buy/Sell	Daily Application/Redemption
Performance Fee	15.38% p.a. of the amount by which the NAV exceeds the High Water Mark once the fund achieves its hurdle.

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