

K2 Global High Alpha Fund

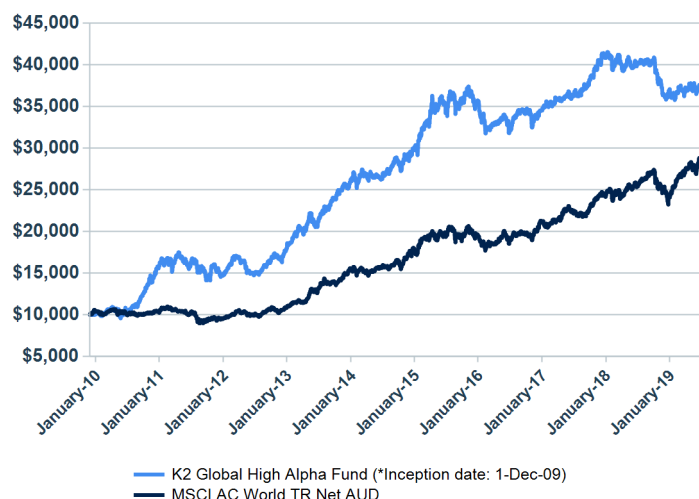
30 June 2019



The K2 Global High Alpha 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)	Inception (%pa)	Inception Date
Performance (Net of Fees)	1.3%	2.0%	-6.6%	4.8%	7.3%	14.8%	1-Dec-2009
Average Net Exposure	66.9%	68.9%	61.7%	75.2%	79.6%	81.0%	

Growth of \$10,000



Commentary

The K2 Global High Alpha Fund returned 1.3% for the month of June.

Global equity markets recovered May's entire decline with the MSCI AC World TR Net AUD Index gaining 5.2%. The key driver was the US equity markets with the DOW Jones Industrial Average surging 7.2% for the month, recording its best June since the great depression in 1938 and driven by expectations the Federal Reserve will cut interest rates. Broad based gains across the globe followed with a further collapse in long bond yields, as dovish Central Banks around the world are signalling they would do whatever it takes to revive growth and inflation.

The best contributor to Fund performance was Austal Limited, a recent new addition to the Fund. The company is a military and commercial shipbuilder with facilities across USA, Australia and South-East Asia that also provides support services through six service centres. In the three years to 2021, the company is expected to deliver over 20% EPS CAGR with significant upside risk from further margin improvement and additional contract wins. With net cash on their balance sheet, free cash flow yield of 9% and a robust growth outlook, we see the valuation of PE 16x next year's earnings as compelling.

On the negative side, a small holding in Challenger Limited declined 18% on the back of the company revising down its ROE targets and capital growth assumptions for equities at its investor day during the month. While disappointing, these changes should be the end of a re-basing process and the company's valuation is attractive trading on an undemanding PE of 12x and a dividend yield of 5%, with attractive long term growth prospects.

The Fund has moved to an approximate 50% hedged position at the currency level during the month to provide protection against a falling USD. With the Federal Reserve now only just starting the easing cycle, we expect USD weakness to persist. Net equity exposure remained consistent with the prior month end at 70%.

Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	2.7%	+0.2%
Wells Fargo & Co	2.6%	+0.6%
Visa Inc	2.3%	+0.1%
Macquarie Group Ltd	2.1%	+0.1%
Moelis Australia Ltd	2.1%	+1.0%

Month End Exposures	Current	Monthly Move
Communication Services	2.9%	-0.4%
Consumer	10.7%	-1.7%
Energy	3.0%	+0.4%
Financials	23.2%	+6.4%
Health Care	8.8%	-0.9%
Industrials	7.3%	+0.4%
Information Technology	8.5%	+1.2%
Materials	6.3%	-2.7%
Other	1.3%	+0.1%
Real Estate	1.9%	-2.2%
SHORTS	-4.1%	-0.8%
Number of Positions	64	-2
Gross Equity Exposure	78.1%	+1.5%
Cash Weighting	30.1%	+0.1%
Net Equity Exposure	69.9%	-0.1%
Currency Exposure Hedged of AUD	49.7%	+47.6%

Fund Characteristics

FUM	AUD \$31m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen, Nicholas Leitl and Tony Sutton
Strategy	International 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 120
Cash	Up to 100% of portfolio
Distributions	Annually
Management Fee	2.05%
Buy/Sell	Monthly Application/Redemption
Performance Fee	20.5% of the amount by which the NAV per unit exceeds the High Water Mark

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K2 Global High Alpha 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	
2009/10						0.8	-1.3	3.5	4.6	-0.3	-5.4	1.8	3.4	0.2	33.7%	-0.3%	
2010/11	5.3	1.4	13.2	9.0	5.9	10.2	0.8	2.0	0.7	3.4	-1.7	-3.1	56.6	2.7	9.6%	-0.8%	
2011/12	1.0	-3.1	-8.6	8.9	-3.3	-3.5	6.2	7.9	0.0	-2.5	-7.3	-2.3	-8.0	-2.3	29.0%	-0.7%	
2012/13	1.5	4.5	4.0	3.5	-1.0	6.9	4.9	4.4	2.2	4.4	1.8	-0.8	42.7	30.5	13.9%	-0.4%	
2013/14	4.9	2.2	4.7	4.3	3.2	1.6	0.3	2.4	-0.6	0.1	0.2	-1.7	23.7	19.2	8.0%	0.0%	
2014/15	4.6	1.6	1.6	1.1	1.2	3.3	4.8	4.5	2.4	3.2	3.7	-3.5	31.9	23.7	9.2%	-0.1%	
2015/16	4.5	-2.4	0.7	3.1	-1.9	-1.0	-4.7	-4.7	1.6	0.8	2.1	-4.1	-6.4	-0.6	18.1%	-0.5%	
2016/17	3.8	2.2	-0.1	-1.9	0.6	1.5	2.2	-0.8	2.6	0.0	1.9	-0.9	11.8	15.3	19.7%	-2.4%	
2017/18	0.1	3.7	1.4	3.6	1.8	1.2	-0.4	-0.2	-1.3	0.2	-0.7	0.6	10.4	15.0	16.4%	-3.0%	
2018/19	0.6	0.5	-0.3	-4.9	-5.3	1.6	-3.3	3.8	-1.2	2.7	-1.8	1.3	-6.6	11.3	38.3%	-6.2%	
													Incept	274.4	183.8		
													Incept	14.8%pa	11.5%pa	19.6%	-1.4%

(1) MSCI AC World TR Net AUD

DISCLAIMER: Returns are shown after fees (including performance fees) and expenses have been deducted and assume the reinvestment of income distributions. Please note that past performance is not a reliable indicator of future performance. The information contained in this document is produced by K2 Asset Management Ltd ("K2") in good faith, but does not constitute any representation or offer by K2. It is subject to change without notice, and is intended as general information only and is not complete or definitive. K2 does not accept any responsibility, and disclaims any liability whatsoever for loss caused to any party by reliance on the information in this document. A product disclosure statement for general information on any Fund referred to in this document can be obtained at www.k2am.com.au or by contacting K2. You should read the product disclosure statement and consider whether the product is appropriate for you before making a decision to acquire or continue to hold an interest in a Fund. Fees referred to in this document are inclusive of GST and RITC and do not include expense recoveries.