

K2 Global High Alpha Fund

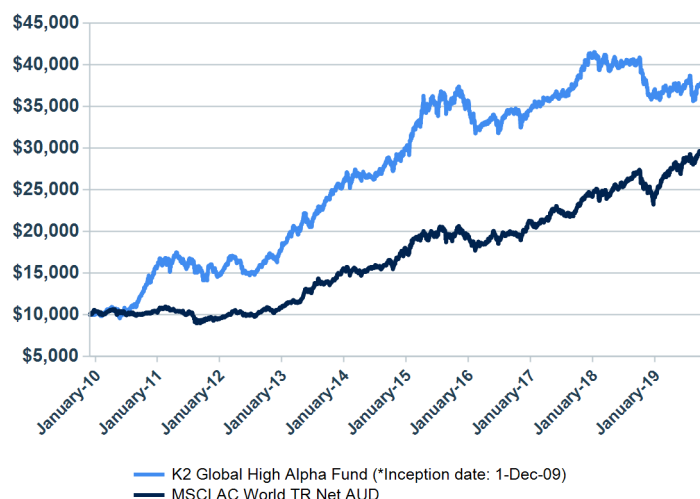
30 September 2019



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)	2.8%	1.1%	-6.4%	3.2%	5.9%	14.5%	1-Dec-2009
Average Net Exposure	82.3%	80.5%	61.6%	74.6%	78.9%	81.0%	

Growth of \$10,000



Commentary

The K2 Global High Alpha Fund returned 2.8% for September.

Global equity markets rallied in September, with the MSCI AC World TR Net AUD Index rising 2.0%, fuelled by further central bank stimulus. The US FOMC cut rates by 25bps and in Europe the ECB further cut deposit rates and launched a QE package of EUR20bn of asset purchases per month. The ongoing Brexit saga and trade war rhetoric continued and towards the end of the month the markets now face the US President been investigated for potential impeachment charges.

It is our view that Trump needs the US economy to be firing on all cylinders by November 2020 to give himself the best chance of re-election. For this to happen, the Federal Reserve will need to continue cutting rates. In addition, a trade deal will be done in due course. Put these two potential positive events together, which we feel the market is not yet pricing, and the stage is set for equity markets to reach for new highs as we move into calendar year 2020.

A positive contributor to fund performance included Australian biotech company Paradigm Biopharmaceuticals. The company is developing a drug for the treatment of Osteoarthritis, a multibillion dollar opportunity for which there is currently no cure. Recent results from phase 2 studies were very encouraging. The shares rallied 79% in September after the company announced that its first Investigational New Drug application was cleared by the US FDA for a special access program. This was then followed by the release of a supportive scientific journal article. Phase 3 trials are scheduled to start in the first half of 2020. The Fund realised profits during the month, reducing the position to its original weight.

The AUD ended the month up +0.22% versus the USD, with the Fund currently 94% hedged to the AUD providing capital protection against a rising AUD. Net exposure increased 2.8% to 86% by month end.

Top 5 Stock Holdings	Current	Monthly Move
Money3 Corp Ltd	5.5%	+4.0%
Kina Securities Ltd	5.3%	+2.8%
Seven Group Holdings Ltd	3.2%	+0.2%
Austal Ltd	3.1%	+0.1%
Moelis Australia Ltd	3.1%	+0.4%

Month End Exposures	Current	Monthly Move
Communication Services	1.3%	+0.0%
Consumer	11.5%	-2.0%
Energy	3.2%	-2.6%
Financials	29.7%	+7.9%
Health Care	12.6%	-0.3%
Industrials	12.7%	+2.0%
Information Technology	8.2%	-3.0%
Materials	3.5%	-0.8%
Other	1.6%	+0.0%
Real Estate	3.3%	+1.6%
SHORTS	-1.4%	-0.1%
Number of Positions	54	-8
Gross Equity Exposure	88.9%	+2.9%
Cash Weighting	13.9%	-2.8%
Net Equity Exposure	86.1%	+2.8%
Currency Exposure Hedged of AUD	94.2%	-1.0%

Fund Characteristics

FUM	AUD \$26m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen 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%	
2019/20	2.0	-3.5	2.8										1.1	4.0	19.5%	-2.0%	
													Incept	278.5	195.2		
													Incept	14.5%pa	11.6%pa	19.6%	-1.5%

(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.