

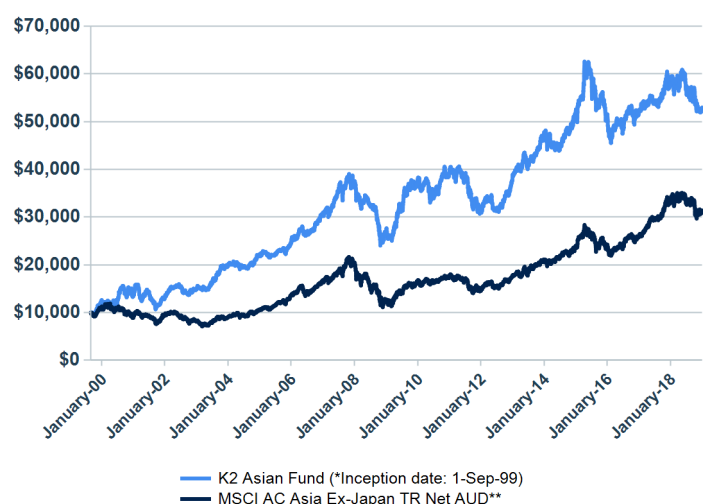
K2 Asian Fund

31 December 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)	1.6%	-6.8%	-8.0%	0.9%	2.3%	7.0%	6.8%	9.0%	1-Sep-1999
Average Net Exposure	36.8%	52.6%	77.4%	78.2%	81.4%	83.3%	76.6%	74.7%	

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
CNOOC Ltd	5.2%	+0.3%
AIA Group Ltd	4.3%	-1.4%
Ping An Insurance Group	3.3%	-1.5%
RIO Tinto Ltd	3.3%	+0.8%
SK Telecom	2.6%	-0.2%

Month End Exposures	Current	Monthly Move
Communication Services	2.6%	-0.2%
Consumer	2.6%	-1.0%
Energy	7.4%	-0.3%
Financials	10.8%	-4.3%
Industrials	5.8%	-3.0%
Information Technology	3.6%	+1.6%
Materials	4.5%	-1.9%
Real Estate	1.5%	-0.7%
SHORTS	-3.5%	-2.6%
Number of Positions	21	-6
Gross Equity Exposure	42.3%	-7.8%
Cash Weighting	64.7%	+13.0%
Net Equity Exposure	35.3%	-13.0%
Currency Exposure Hedged of AUD	-0.6%	-42.3%

Commentary

The K2 Asian Absolute Return Fund returned 1.6% for the month of December.

On the back of geo-political issues, weaker corporate earnings and slowing global growth, Asian equity markets fell heavily through December, retreating 2.9% in USD terms. The fall in markets was offset for AUD based investors, with the Australian Dollar falling 3.6% through December offsetting the losses from equity markets. In AUD terms, the Asian markets actually rose 0.9%. With the Asian market retreating, the main gains were made by the Fund's short positions, selected longs and its unhedged position to the Australian dollar.

Aiding performance on the long side, the Fund's position in Rio Tinto was the largest contributor as global resource stocks bucked the trend and posted positive gains. Value was also added by power-tool manufacturer Techtronic as it moved up quickly at the beginning of the month and gains were locked in. China is budgeting for considerable fixed asset investment over the coming year within the rail sector; the Chinese Governments re-affirmation of this endeavor benefited rail orientated stocks including CRRC. With markets falling the Fund's short positions aided performance. The two main beneficiaries for the Fund being Gome Retail, who distributes household appliances and electronic devices and semiconductor company SMIC. With falling markets, a number of long positions detracted from performance including oil company CNOOC and Chinese Insurance companies Ping An and China Taiping.

Significant cash holdings aided the Fund's performance through December. The Fund's net equity exposure was reduced further early in the month to sit near 35% as we continue to watch economic and earnings events with trepidation. Our current base case entering 2019 is

(commentary continued next page)

Fund Characteristics	
FUM	AUD \$19m
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% p.a. of the amount by which the NAV exceeds the High Water Mark once the fund achieves its hurdle.

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K2 Asian Fund

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one of extreme caution. The new year looks as if it will throw up numerous challenges for equity markets. The change in rhetoric from the Federal Reserve and the recent fall in US 10 year yields below 2.8% point to lower growth expectations for the US economy, supporting our position that the Fed would have to step away from its overly hawkish stance. Cost inflation is also eating into corporate margins, which has been evident through US and European earnings seasons of late.

The cost of rolling corporate debt is becoming more onerous with the BBB spread over treasuries hovering around 1.75%, up from 1.3% at the beginning of 2018, further highlighting credit implications for highly indebted corporates. The risk spreads on European high-yield debt are even more substantial. Moves in the credit markets have historically been a precursor to recession and although they can provide false indications, it is another data point that raises concern. The upside risk to markets and hence our portfolio positioning is a coordinated global stimulus policy in response to slower growth or even recession, however while the Federal Reserve continues to push its mantra of higher rates in 2019, this appears to be a faint hope. K2 will continue to evaluate and incorporate new information as it comes to light. Our analysis points to 2019 representing a year of slowing growth, credit impasses driven by tighter liquidity as BBB spreads increase and valuations that have yet to factor in a more challenging backdrop.

That said, if there is one country who has the ability to stimulate the economy, it is China. Asian equities on the whole remain cheap and China and Hong Kong are trading below their long term average PE ratios. The Trade War overhang will conclude at some point in 2019, combine this with Chinese economic stimulus, and Asian markets have the ability to be a standout investment opportunity in 2019. Although cautious currently, as good news comes forth, we would envisage the equity exposure to increase.

The Fund returned to a fully unhedged position in December noting in particular a worsening Australian economic environment and the recent 25bps rise in the US base rate. We expect the US to maintain a 1.0-1.5% margin over Australia short term interest rates in 2019 which will keep the Australian dollar under pressure. This interest rate differential combined with a worsening outlook for the Australian economy as house prices fall amidst a credit-crunch justify the unhedged position.