

K2 Select International Fund

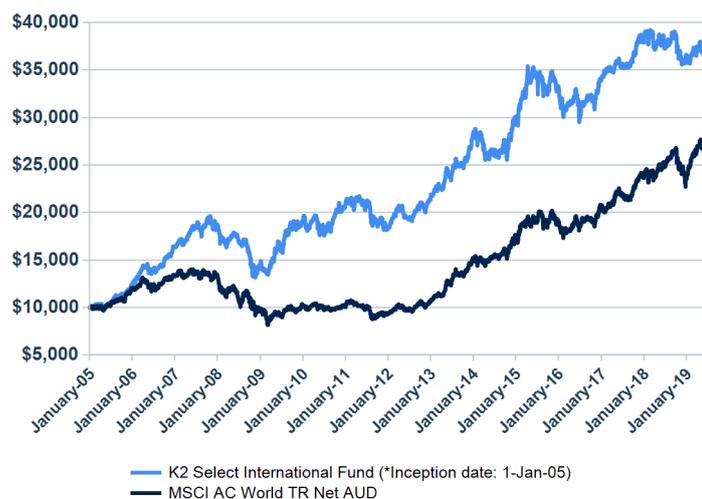
31 May 2019



The K2 Select International 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 Funds' 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)	10 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	-4.1%	-1.3%	-3.0%	3.6%	6.6%	8.2%	9.4%	1-Jan-2005
Average Net Exposure	86.0%	76.8%	68.8%	74.3%	78.0%	82.8%	76.7%	

Growth of \$10,000



Commentary

The K2 Select International Fund returned -4.1% for the month of May.

The strong performance enjoyed by international equities in 2019 came to a halt in May with the MSCI AC World TR Net AUD Index declining by -4.4%. The catalyst for the sell-off being the re-escalation of the trade war between China and the US. The ongoing threats and tit-for-tat between the two countries reverberated across all global markets and asset classes. Ultimately, if things continue along the current trajectory, there will be no winners and we believe that a trade deal will be reached sooner rather than later. In the meantime, volatility will persist as investors react to every tweet.

A positive contributor to Fund performance included global fast food giant McDonald's Corporation, following better than expected same store sales growth in Q1. The company is now reaping the benefits from store refurbishments and home delivery options. The use of technology through self-service kiosks is leading to higher average customer spending, as the machine, with its touch screen and impressive graphics, is better at up-selling. New products, including donut sticks and cheesy bacon fries are also proving popular with diners. On the negative side, companies with exposure to China and more specifically, Huawei, following their blacklisting by President Trump, represented the largest detractors to Fund performance. Examples of these include DowDuPont, Nike and Keysight Technologies. We maintain our positions in these and other high quality companies with undemanding valuations combined with attractive growth prospects.

The Fund remains unhedged to the AUD which ended the month down -1.6% versus the USD, providing a tailwind to performance. Net exposure is largely unchanged at 83% with a bias towards the US due to their stronger economic growth prospects compared to Europe, and a central bank which has the capacity to provide fiscal stimulus through lower interest rates, and any dovish shift would be well received by markets.

Top 5 Stock Holdings	Current	Monthly Move
Visa Inc	4.5%	-1.8%
Mastercard Inc - A	4.1%	+0.3%
Microsoft Corp	3.9%	+0.1%
Abbott Laboratories	3.9%	+0.2%
Alphabet Inc	3.7%	+0.6%

Month End Exposures	Current	Monthly Move
Communication Services	10.8%	+1.0%
Consumer	14.3%	+2.7%
Energy	0.4%	+0.0%
Financials	15.9%	-1.7%
Health Care	13.4%	+1.1%
Industrials	4.6%	-2.0%
Information Technology	16.0%	-1.3%
Materials	7.6%	-0.3%
Number of Positions	45	+1
Gross Equity Exposure	83.0%	-0.5%
Cash Weighting	17.0%	+0.5%
Net Equity Exposure	83.0%	-0.5%
Currency Exposure Hedged of AUD	1.4%	+2.2%

Fund Characteristics

FUM	AUD \$32m
Portfolio Managers	Campbell Neal, Mark Newman, David Poppenbeek 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 80
Cash	Up to 100% of portfolio
Distributions	Annually
Management Fee	1.36%
Buy/Sell	Daily Application/Redemption
Performance Fee	15.38% pa of the amount by which the NAV per unit exceeds the High Water Mark once the fund achieves its hurdle

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K2 Select International 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	
2004/05							0.9	1.3	-0.4	-1.4	1.4	3.8	5.6	2.5	50.5%	-4.4%	
2005/06	4.9	0.7	2.6	-1.0	4.2	4.4	5.1	4.4	5.7	-0.1	-3.7	2.0	33.2	21.1	21.3%	-4.1%	
2006/07	0.4	2.1	2.8	3.6	2.0	4.8	2.4	0.1	1.1	3.1	5.1	-0.3	30.7	9.7	23.6%	-1.1%	
2007/08	0.1	0.6	2.6	3.4	-3.7	-1.1	-8.0	-0.6	-1.2	3.0	1.8	-3.4	-7.0	-19.8	43.5%	-7.3%	
2008/09	-2.5	2.9	-8.6	-9.7	-2.5	5.1	-3.1	-2.8	4.9	6.9	7.8	-0.6	-4.0	-16.1	51.1%	-4.0%	
2009/10	7.6	2.1	3.3	-1.7	1.4	3.0	-4.1	0.2	4.7	0.2	-5.4	-2.7	8.1	7.0	11.7%	-1.0%	
2010/11	4.3	-2.5	8.4	2.7	0.0	3.8	0.4	0.9	1.0	1.7	-1.9	-1.6	18.2	2.7	12.0%	-2.4%	
2011/12	-2.2	-4.5	-4.5	2.5	-3.0	-1.7	3.6	4.7	3.6	0.0	-4.3	-1.5	-7.6	-2.3	22.9%	-2.9%	
2012/13	0.6	3.4	2.0	0.6	1.4	2.8	2.7	1.8	0.7	2.5	4.1	-0.4	24.5	30.5	6.7%	-0.3%	
2013/14	3.9	-0.4	0.5	2.4	4.4	5.5	-0.9	1.6	-5.7	-2.5	1.2	-1.8	7.7	19.2	8.0%	-0.1%	
2014/15	0.7	1.0	3.9	0.8	4.1	3.7	4.0	4.2	2.1	3.1	3.1	-2.7	31.7	23.7	13.2%	-0.6%	
2015/16	-0.1	-2.3	-1.9	5.4	-2.1	-1.9	-4.0	-3.3	2.1	0.4	4.0	-7.1	-10.9	-0.6	20.9%	-0.7%	
2016/17	2.9	2.1	0.1	-1.3	3.8	3.0	2.1	0.9	0.4	1.2	1.4	-2.1	15.5	15.3	23.1%	-2.8%	
2017/18	0.3	1.0	1.9	3.6	2.4	-1.7	2.1	-0.3	-2.6	0.7	-0.7	-0.2	6.4	15.0	21.6%	-3.2%	
2018/19	0.8	2.7	-0.2	-5.6	-1.9	2.1	-2.6	3.6	-0.3	3.1	-4.1		-2.7	5.8	33.5%	-4.0%	
													Incept	264.4	163.7		
													Incept	9.4%pa	7.0%pa	24.2%	-2.6%

(1) MSCI AC World TR Net AUD

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