

K2 Select International Fund

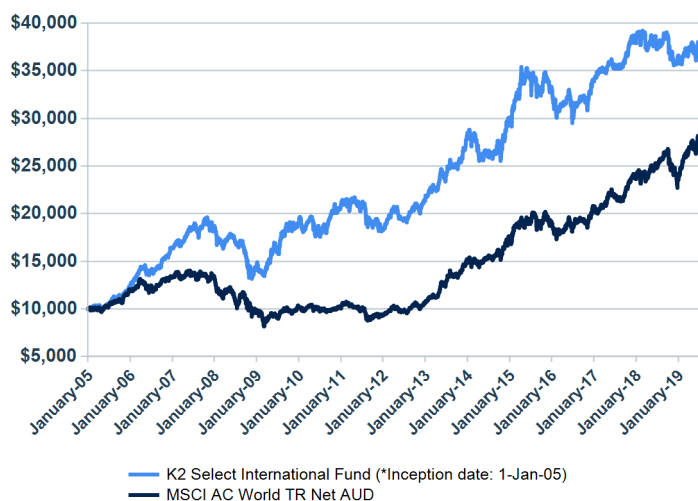
30 June 2019



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 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)	10 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	3.5%	2.4%	0.7%	7.4%	7.8%	8.7%	9.6%	1-Jan-2005
Average Net Exposure	76.8%	79.8%	67.4%	74.2%	77.7%	82.7%	76.7%	

Growth of \$10,000



Commentary

The K2 Select International Fund returned 3.5% for the month of June.

Equity markets in June recovered the majority of heavy losses experienced in May with the MSCI AC World TR Net AUD Index gaining 5.2%. The willingness of central banks globally, from the US to Europe and even Australia, to essentially do whatever it takes to keep the gravy train moving provided sufficient impetus to reinvigorate investors. Meanwhile, hopes of a resolution to the seemingly never-ending trade war at the G20 summit in Osaka at the end of the month gathered momentum, providing a further boost to markets. While we expect the headlines to be encouraging, of course, we believe any outcome will be somewhat superficial, unless a definitive agreement on IP transfer is reached.

A positive contributor to Fund performance included medical device manufacturer Boston Scientific Corp (BSX). Operating in an attractive industry that is not economically sensitive with strong margins and increasing volumes, the company is targeting 6-9% annual organic revenue growth for 2020 to 2022. BSX remains a core holding of the Fund, trading on a 23x FY20e PE. On the negative side, Google parent Alphabet represented a key detractor to Fund performance with noise around a potential US Justice Department antitrust investigation weighing on the stock. Alphabet offers attractive growth prospects into the foreseeable future driven by the core advertising business in addition to potential green shoots from numerous special projects, while currently trading on an undemanding valuation of only 20x FY20e PE.

The Fund has moved to an approximately 50% hedged position at the currency level 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 exposure has been reduced slightly to 75%. We maintain our bias towards the US and specifically companies that offer resilience in the face of any potential economic slowdown.

Top 5 Stock Holdings	Current	Monthly Move
Visa Inc	4.7%	+0.2%
Abbott Laboratories	4.2%	+0.3%
Mastercard Inc - A	4.2%	+0.1%
Microsoft Corp	4.2%	+0.2%
Home Depot Inc	3.7%	+0.2%

Month End Exposures	Current	Monthly Move
Communication Services	9.4%	-1.3%
Consumer	10.2%	-4.1%
Financials	16.4%	+0.4%
Health Care	12.9%	-0.6%
Industrials	4.5%	-0.1%
Information Technology	19.0%	+2.9%
Materials	6.2%	-1.3%
SHORTS	-3.1%	-3.1%
Number of Positions	43	-2
Gross Equity Exposure	81.6%	-1.4%
Cash Weighting	24.5%	+7.6%
Net Equity Exposure	75.5%	-7.6%
Currency Exposure Hedged of AUD	47.8%	+46.4%

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

Nicholas Allen
 Head of Distribution
 03 9691 6119
 nallen@k2am.com.au

Sophie Gibbons
 Head of Distribution
 03 9691 6117
 sgibbons@k2am.com.au

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	3.5	0.7	11.3	32.6%	-3.8%	
													Incept	277.2	177.4		
													Incept	9.6%pa	7.3%pa	24.2%	-2.6%

(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.