

# **K2 Select International Absolute Return Fund**

ARSN 112 222 465

## **Financial statements**

**For the year ended 30 June 2009**

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**Directors' report**

The directors of K2 Asset Management Ltd (ABN 95 085 445 094), the Responsible Entity of K2 Select International Absolute Return Fund, present their report together with the financial report of K2 Select International Absolute Return Fund (the "Fund") for the year ended 30 June 2009 and the auditors report thereon.

**Principal activities**

The Fund continued to invest in accordance with target asset allocations as set out in the current Product Disclosure Statement and in accordance with the provisions of the Fund constitution.

The Fund did not have any employees during the year.

Various short selling restrictions have been placed on the market throughout the year. This has had minimal impact on the Fund's operations with various other investment instruments available under the Fund's constitution being utilised. With the restrictions easing, the Investment Manager sees no amendments being required to the Fund's investment strategy.

There were no other significant changes in the nature of the Fund's activities during the year.

**Directors**

The following persons held office as directors of K2 Asset Management Ltd during the year or since the end of the year and up to the date of this report:

Campbell W Neal  
 Mark S Newman  
 Robert C Hand  
 Hollie A Wight

**Service providers**

The Responsible Entity and Investment Manager of the Fund is K2 Asset Management Ltd.

The Custodian of the Fund is Morgan Stanley & Co International plc.

The Administrator of the Fund is State Street Australia Limited.

**Review and results of operations**

The Fund maintains its long/short investment strategy in globally listed equities and other investment instruments permitted by the Fund's constitution. It aims to preserve capital over the medium term and generate a 18% per annum return after fees over a three to five year investment cycle.

The investment policy of the Fund continues to be that detailed in the current product disclosure statement and in accordance with the provisions of the governing documents of the Fund.

*Results*

The performance of the Fund, as represented by the results of its operations, was as follows:

	<b>Year ended</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2009</b>	<b>2008</b>
	<b>\$'000</b>	<b>\$'000</b>
Operating loss before finance costs attributable to unitholders	<b>(6,776)</b>	<b>(11,157)</b>
<i>Distributions</i>		
Distribution paid and payable	-	-
Distribution (\$ per unit)	-	-

## Directors' report (continued)

### *Unit redemption prices*

Unit redemption prices (quoted ex-distribution) are shown as follows:

	2009 \$	2008 \$
At 30 June	122.37	127.47

### **Significant changes in state of affairs**

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial year under review.

### **Matters subsequent to the end of the financial year**

On 29 July 2009, the Fund announced that it will change its current monthly pricing Net Asset Value (NAV) methodology to a daily pricing model from 1st September 2009. Any impact on the scheme has not been recognised in the 30 June 2009 financial statements.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Responsible Entity, to affect significantly the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

### **Likely developments and expected results of operations**

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

### **Indemnification and insurance of officers and auditors**

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of K2 Asset Management Ltd (ABN 95 085 445 094) or the auditors of the Fund. So long as the officers of K2 Asset Management Ltd (ABN 95 085 445 094) act in accordance with the Fund constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

### **Fees paid to and interests held in the Fund by the Responsible Entity or its associates**

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in note 13 of the financial report.

No fees were paid out of the assets of the Fund to the directors of the Responsible Entity during the year.

Units held in the Fund by the Responsible Entity or its related parties as at the end of the financial year are disclosed in note 13 of the financial report.

**Directors' report (continued)**

**Interests in the Fund**

The movement in units on issue in the Fund during the year is set out below:

	30 June 2009 No. '000	30 June 2008 No. '000
Units on issue - 1 July	1,106	640
Units issued during the year	197	593
Units redeemed during the year	<u>(295)</u>	<u>(127)</u>
Units on issue - 30 June	<u>1,008</u>	<u>1,106</u>
<b>Value of assets</b>	<b>\$'000</b>	<b>\$'000</b>
Value of Fund assets at 30 June	<u>195,928</u>	<u>154,731</u>

The value of the Fund's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in note 2 of the financial statements.

**Environmental regulation**

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

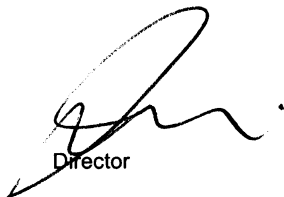
**Rounding of amounts to the nearest thousand dollars**

The Fund is an entity of the kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

**Lead Auditors' Independence Declaration**

A copy of the Lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is made in accordance with a resolution of the directors of K2 Asset Management Limited.



Director

Melbourne  
 13 August 2009



*Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001*

To: the directors of K2 Select International Absolute Return Fund

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2009 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

*KPMG*

KPMG

A handwritten signature in black ink, appearing to read 'A J Waters'.

A J Waters  
*Partner*

Melbourne

13 August 2009

**Income statement**

		Year ended	
		30 June	30 June
		2009	2008
Notes		\$'000	\$'000
<b>Investment income</b>			
	Interest income	4,165	5,217
	Dividend income	1,611	2,587
6	Net losses on financial instruments held at fair value through profit or loss	<u>(7,036)</u>	<u>(14,232)</u>
	<b>Net investment loss</b>	<u>(1,260)</u>	<u>(6,428)</u>
<b>Expenses</b>			
13	Responsible Entity's fees	61	50
13	Management fees	1,789	1,978
5	Auditor's remuneration	39	40
	Transaction costs	2,760	1,662
13	Performance fees	317	38
	Administrative expenses	261	229
4	Other operating expenses	<u>289</u>	<u>732</u>
	<b>Operating expenses before finance costs</b>	<u>5,516</u>	<u>4,729</u>
	<b>Loss from operating activities</b>	<u>(6,776)</u>	<u>(11,157)</u>
<b>Finance costs attributable to unitholders</b>			
	Distributions to unitholders	-	-
	Change in net assets attributable to unitholders	<u>6,776</u>	<u>11,157</u>

*The above income statement should be read in conjunction with the accompanying notes.*

**Balance sheet**

		As at	
	Notes	30 June 2009 \$'000	30 June 2008 \$'000
<b>Assets</b>			
Cash and cash equivalents	8	102,359	68,598
Receivables	11	445	419
Due from brokers - receivable for securities sold		9,990	24,076
Financial assets held at fair value through profit or loss	9	<u>83,134</u>	<u>61,638</u>
<b>Total assets</b>		<u><b>195,928</b></u>	<u><b>154,731</b></u>
<b>Liabilities</b>			
Bank overdraft	8	65,452	6,739
Payables	12	3,463	1,735
Due to brokers - payable for securities purchased		3,269	2,771
Financial liabilities held at fair value through profit or loss	10	<u>664</u>	<u>2,767</u>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u><b>72,848</b></u>	<u><b>14,012</b></u>
<b>Net assets attributable to unitholders - liability</b>	7	<u><b>123,080</b></u>	<u><b>140,719</b></u>

*The above balance sheet should be read in conjunction with the accompanying notes.*

**Statement of recognised income and expense**

As the Fund has no equity, the Fund has not included any items of recognised income and expense for the current or comparative year.

**Cash flow statement**

	Year ended	
	30 June 2009	30 June 2008
	\$'000	\$'000
<b><i>Cash flows from operating activities</i></b>		
Dividends received	1,386	2,630
Interest received	4,354	5,008
Responsible Entity's fees paid	(61)	(49)
Management fees paid	(1,810)	(1,931)
Payment of other operating expenses	(3,357)	(7,016)
<b>Net cashflow from operating activities</b>	<b>512</b>	<b>(1,358)</b>
	14(a)	
<b><i>Cash flows from investing activities</i></b>		
Proceeds from sale of financial instruments held at fair value through profit or loss	888,826	745,048
Purchase of financial instruments held at fair value through profit or loss	(905,530)	(768,798)
<b>Net cashflow from investing activities</b>	<b>(16,704)</b>	<b>(23,750)</b>
<b><i>Cash flows from financing activities</i></b>		
Proceeds from applications by unitholders	24,401	63,437
Payments for redemptions by unitholders	(33,814)	(16,966)
Distributions paid	-	(4,412)
<b>Net cashflow from financing activities</b>	<b>(9,413)</b>	<b>42,059</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(25,605)</b>	<b>16,951</b>
Cash and cash equivalents at the beginning of the year	61,859	45,573
Effect of foreign currency exchange rate changes on cash and cash equivalents	653	(665)
<b>Cash and cash equivalents at the end of the year</b>	<b>36,907</b>	<b>61,859</b>
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*The above cash flow statement should be read in conjunction with the accompanying notes.*

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