

## K2 Asset Management

Level 32, 101 Collins Street Melbourne Victoria 3000 Australia  
Telephone 61 3 9691 6111 Facsimile 61 3 9691 6170  
Website k2am.com



# K2 Australian Fund Monthly Report - 30 November 2016

## Australian Market Review

The K2 Australian Absolute Return Fund returned -0.03% for the month of November while the S&P/ASX All Ordinaries Accumulation Index returned 2.50%.

With clarity received, global markets responded to the US election in ways few could imagine. After a short-lived de-risking, markets powered higher on hopes President-elect Trump could reignite US growth. Beneath the surface however, the sector dispersion within the reflation rotation was extreme. Global bond markets and gold were sold aggressively, while cyclicals and value rallied in earnest. Growth is obviously positive for equity markets, yet long-dated inflation expectations rose aggressively and must be monitored given low interest rates have driven asset prices post 2008. AGM season dominated domestic news flow with soft updates from VOC, FLT, REA, FXJ and ADH highlighting how difficult business remains in Australia. The RBA left rates on hold at 1.50%, while the \$A fell 2.8% to USD0.7394.

In a broad based rally Financials (+4.3%) led the way higher as the market softened its stance on capital requirements for the major banks. Materials (+2.3%) also traded well but were subject to aggressive profit taking on month end. Healthcare (-1.5%) traded poorly, while Telco's (-0.5%) weren't helped by a soft AGM update from VOC.

## Portfolio Insight: Challenger

Australia's baby boomer generation is fast moving from the accumulation phase to the retirement phase. The population of over 65 is forecast to increase 40% over the next decade and 75% over the next 2 decades. Australians have one of the world's longest life expectancies and the government has recently announced reforms to create a more sustainable superannuation system to focus on providing stable income streams. Annuities are the most effective form of delivery. Challenger, the largest provider of annuities in Australia, is the best way to gain exposure to this attractive market with significant long term structural growth trends. The Fund is a long term shareholder and has benefited from Challenger's highly profitable business model and sustainable earnings growth over the last 2 years. FY16 results were underpinned by strong growth in annuity sales with the company delivering record profits and dividends. Challenger has formed several partnerships over the last 18 months to make annuities more readily available to retirees. Partners include the major banks, industry super funds and more recently Japan's Mitsui Sumitomo Insurance Group. With the Australian pension market forecast to grow from \$73b today to more than \$200b over the next decade, the outlook remains extremely strong. Trading on less than 15x one year forward PE and with above market earnings growth, aided by structural demographic tail winds, Challenger remains an attractively priced core holding of the Fund.

## Outlook

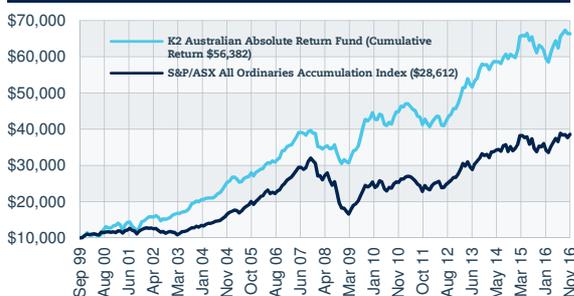
Although the Italian referendum for political reform occurs on the 4th of December and the FOMC is expected to hike rates on the 15th of December, we believe that investor sentiment is firmly tilted towards embracing growth. Accordingly, we continue to hold relatively high net exposure. We believe that global economic activity is improving and this has traditionally been the key input for sustained gains in global share prices. Australia has generally been categorised as a warrant on global growth hence we expect that international investors will increasingly look for opportunities to buy Australian equities. We are also mindful that for the past 25 years, the All Ordinaries Accumulation Index has, on average, rallied 2.5% in December.

## Top 5 Stock Contributions - November

<b>Largest</b>	BHP Billiton Limited, Bank of Queensland Ltd, Macquarie Group Ltd, National Australia Bank Ltd, RIO Tinto Ltd
<b>Smallest</b>	Adairs Ltd, Amaysim Australia Ltd, Medical Developments International, Retail Food Group Ltd, Vita Group Ltd

Performance to 30 November 2016 (net of fees)	
1 Month	-0.03%
3 Months	-0.20%
6 Months	3.01%
1 Year	5.67%
3 Years (pa)	4.74%
5 Years (pa)	9.80%
10 Years (pa)	6.88%
Since Inception (pa)	11.66%

## Growth of AUD \$10,000



Returns are based on NAV per unit plus distributions reinvested net of management fee and performance fee accruals. The method for calculating the NAV is set out in the Fund's PDS.

## Fund Details (Unaudited)

Exit Price Per Unit:	A\$178.89
Distribution 30-Jun-2016:	A\$3.89
Fund Size:	A\$361.9m
Start Date:	1-Oct-99

Top 5 Large Cap Holdings	Sector	%
BHP Billiton Limited	Basic Materials	9.8
RIO Tinto Ltd	Basic Materials	7.6
Macquarie Group Ltd	Financial	6.0
South32 Ltd	Basic Materials	4.4
National Australia Bank Ltd	Financial	4.1

## Sector Exposure %

	Long	Short	Net Equity
Basic Materials	22.3	-	22.3
Communication	5.6	-	5.6
Cons. Cyclical	7.5	-	7.5
Cons. Non-Cyc	9.8	-	9.8
Energy	3.1	-	3.1
Financial	38.2	-1.0	37.2
Industrial	5.3	-	5.3
Technology	1.1	-	1.1
Utilities	0.2	-	0.2
<b>Total Equity</b>	<b>93.1</b>	<b>-1.0</b>	<b>92.1</b>
<b>Total Cash</b>			<b>7.9</b>
<b>Total Equity and Cash Exposure</b>			<b>100.0</b>

This newsletter is prepared by K2 Asset Management Ltd ("K2") and is believed to be reliable. However K2 makes no representation or warranty as to its reliability and does not accept any responsibility or liability in relation to such information or for conclusions which the reader may draw from the newsletter. The information or opinions contained in this newsletter are of a general nature only and should not be construed to be a recommendation to buy or sell interests in the K2 Fund, securities, commodities, currencies or financial instruments referred to above. K2 is not licensed to give financial advice to retail clients and you should obtain and consider a PDS from K2 or our website before making a decision in relation to the K2 Funds. A cooling off period is available to some retail clients. The directors and staff of K2 hold units in the K2 Funds. Please note that past performance is not a reliable indicator of future performance.