



## K2 turns 10! Many Happy 'Absolute' Returns!

This month, K2 celebrates its 10th Anniversary! Founded in 1999 by Campbell Neal and myself, K2 has enjoyed strong returns based on an investment philosophy that remains unchanged and is the cornerstone of our success.

K2's objective is to provide a fund to the market that replicates how we would manage our own money, seeking an absolute return of 15% p.a. over a 3-5 year investment cycle whilst having a strong capital protection focus.

Our flexible investment mandate and our strong capital protection objective have resulted in superior returns over the past 10 years in both the K2 Australian and K2 Asian Funds. We added the K2 Select International Fund 4 years ago, and that has returned 14.0% p.a. since inception compared to the benchmark of -0.7% p.a. over the same period.



### Performance (net of fees) at 30 September 2009

	6 month %	1 year %	5 years % p.a.	10 years % p.a.	Since Inception % p.a.
<b>K2 Asian Fund</b>	<b>35.3</b>	<b>26.5</b>	<b>12.7</b>	<b>13.9</b>	<b>13.7</b>
MSCI Asia ex Japan A\$	28.8	12.7	10.7	6.2	5.3
<b>K2 Australian Fund</b>	<b>31.5</b>	<b>27.0</b>	<b>12.7</b>	<b>15.6</b>	<b>15.6</b>
All Ordinaries Accumulation Index	36.9	7.4	10.0	9.4	9.4
<b>K2 Select International Fund</b>	<b>30.0</b>	<b>18.9</b>	-	-	<b>14.0</b>
MSCI AC World Index A\$	11.6	-12.0	-	-	-0.7

### Highlights

It has been a lot of hard work, but very satisfying to see an idea turn into a business that now employs 24 people including 9 portfolio managers, which manages in excess of \$700m. We have also successfully repositioned our business away from a predominantly offshore client base in 2002 to one where 96% of our clients are domestically based. Our positioning and branding in the domestic retail market has increased, and this year we won the **"Money Management LONSEC Fund Manager of the Year 2009 for Australian Equities (Long/Short)"**.

The past 10 years have been extremely volatile for both global and domestic markets. One of our greatest achievements is to produce 15.6% p.a. since inception for the K2 Australian fund, net of fees whilst the market returned 9.4% p.a. over that period. *How did we do it?*

- Designing our investment guidelines in a flexible fashion that encourages long term alpha generation with strict risk management controls.

- We have the ability to hold 100% of the portfolios in cash as opposed to being 100% “Long-Only” invested in shares.
- We rotate our investment style opportunistically between a mixture of value, income, growth and momentum.
- We have the ability to protect clients’ capital in hostile market conditions, through the ability to quickly move to cash.

### Best bets

- Holding high cash levels in all our funds during the global financial crisis.
- Raising equity exposure in our funds from 9 March 2009.
- Being hedged back to the Australian dollar for our Asian and International Funds from 2002 to August 2007.
- Buying into successful mid-size Australian companies such as The Reject Shop on listing.
- Buying into Chinese property companies late in 2008 and in Q1 2009.

### How K2 differs from its peers?

- We have a relatively large number of portfolio managers (9) for the money we manage (A\$700m).
- We are “ultra active” fund managers, which requires skill, dedication and strict risk management.
- K2’s objective is to generate 15%p.a. over a 3-5 year period, while on average holding 35% in cash.
- K2 is not concerned about index or benchmark composition.
- K2 can hold 100% in cash or 100% in equities and we make that call.
- We have no gearing.
- We are transparent to investors and potential investors.

We align our remuneration to our clients’ interest. Our performance fees are calculated so that we only generate performance fees when clients are making a positive return.

We look forward to your support in the next 10 years.

Mark Newman

Chief Investment Officer, 1 October 2009



Returns are annualised compound rates, net of all fees, exclude individual taxes, assume dividends are reinvested, and consist of income and capital return. K2 Asset Management Ltd ABN 95 085 445 094 AFSL 244 393 (“K2”) is the issuer of the K2 Australian Absolute Return Fund ARSN 106 882 302 (inception 1/10/99), the K2 Asian Absolute Return Fund ARSN 106 882 384 (inception 1/9/99), and the K2 Select International Absolute Return Fund ARSN 112 222 465 (inception 1/1/05). You should read K2’s product disclosure statement (available from K2), and consider whether these products are appropriate for you, before deciding to acquire an interest in any K2 fund. K2 and its related parties do not guarantee the repayment of capital or the performance of any K2 fund. Past performance is not a reliable indicator of future performance. The funds’ portfolios can diverge significantly from underlying market indices.