



K2 ASSET MANAGEMENT

consistent investment returns

## **Comparing Apples and Oranges When is an Absolute Return Strategy not a Hedge Fund?**

Over the past weeks there has been a lot of attention given to the sub-prime market in the US and how it is affecting a lot of hedge funds throughout the funds management industry globally.

Given this recent phenomenon, we at K2 thought it a prudent time to reassure our clients that our portfolio construction is conservative and we are not a fund with exposure to sub-prime corporate debt instruments.

K2 Absolute Return fund strategies:

- Aim to deliver consistent returns with market volatility no greater than that of the market, while protecting the capital invested.
- Protect capital by having significant cash positions in the portfolio where appropriate. We have averaged 30% of the portfolio in cash over a 5 year period.
- Obtain market exposure by direct equity investment.
- Take short positions via selling physical stock.

Liquidity is another point being hotly discussed. K2 has relatively high levels of liquidity in our portfolios, as we are holders of cash and short positions when equities are unattractive. This means redemptions can typically be funded via our cash holdings. K2 funds are monthly priced and our redemption notice is 30 days minimum.

Leverage limits within the K2 funds are low compared to the industry average. We currently have no gearing in the funds.

The global media have certainly got hold of the sub prime issue, and do have a justified cause to put this section of the market under the spotlight. However, the lack of understanding between the different strategies employed by various hedge fund and absolute return managers can cloud investor's ability to distinguish strategies that can provide real benefits in such a volatile market.

The over riding philosophy at K2 is to conserve the investor's capital firstly, then to make money opportunistically for the investors. This philosophy ensures we are at all times on the more conservative side of the absolute return stable of managers available in the industry.

The K2 mission is to manage our investor's money with the respect it deserves.