K2 ASSET MANAGEMENT

K2 ASIAN ABSOLUTE RETURN FUND

MONTHLY REPORT - 31 January 2011

Asia Pacific Market Review

The K2 Asia Absolute Return Fund returned 0.53% for the month of January. While the overall market move for MSCI Asian ex. Japan (AUD) rose 1.2% for the month, this masks the divergent and volatile individual market returns for the period. Several of the stronger markets from 2010 fell sharply as funds moved either out of the region or into last year's laggards which are also the more immediate beneficiaries of a recovering US economy, namely Korea (+0.9% for the month) and Taiwan (+1.9%). Conversely, India (-10.6%) has now given back almost all of its 2H'10 outperformance in the space of one month with net foreign investors having redeemed a monthly amount only exceeded during the GFC. Indonesia (-6.5%), The Philippines (-7.6%) and Thailand (-6.6%) were the other major losers after a stellar 2010. Alongside Korea and Taiwan, Hong Kong (+1.8%) showed resilience in the face of inflation and policy uncertainty in China (-1.7%) which saw further measures to cool property including tighter liquidity requirements.

Outlook

Investors appear to be very nervous regarding the specter of inflation in Asia. Asian central banks are starting to increase rates and we see further headwinds from this action in the near future. However, whilst we share some concern, we see this as a short term issue driven mainly by food prices.

Recent economic numbers out of the US point to an improvement, albeit gradual, in the economy. This should be positive for the major exporting economies of China, Taiwan and Korea. Consequently, we will be looking to increase our weightings in Korea and Taiwan.

China's manufacturing sector contracted slightly in January as indicated by the PMI's moderation to 52.9 from 53.9 in December. Given the markets fear of interest rate rises in the near term, with some predicting an interest rate rise over the Chinese New Year, this reduction may temper such fears. However, the number does indicate that the Chinese economy is still growing and hence we don't believe it will influence the pace of policy change.

Strategy

Net exposure ended the month at 85.9%, a reduction of 7.7% with the main cuts coming from Hong Kong/China (-9.1%) and Singapore (-3.9%). The only increase of significance was Australia where exposure was lifted by 7.2%. As we continue to hold a more bullish view with respect to north Asian growth we will be maintaining an above neutral exposure for the fund.

However, this will be tempered by the extent to which investors are focused on inflation threats and the associated policy uncertainty, particularly with respect to China.
Again there is no change in our view towards the USD and so the fund retains its hedged position back into AUD ensuring the fund's investors are not adversely impacted by any fall in USD-related currencies.

Portfolio Realised Gains & Losses - January

Long Sales	Australia	Profits	Westfield Retail Trust
Long Sales	HK/China	Profits	ASM Pacific Technology, BOC Hong Kong Holdings Ltd, Cheung Kong Holdings, China Merchants Holdings, Chongqing Rural Commercial Bank, Cosco Pacific, Galaxy Entertainment, Hutchison Whampoa Ltd., Industrial & Commercial Bank Of China, Ishares Ftse A50 China Index Etf, Sany Heavy Equipment, Standard Chartered Bank
Long Sales	HK/China	Losses	AIA Group Limited, Bank Of Communication, Bosideng International, China Rongshend Heavy Industries Grp, China Zhengtong, Daphne International, Fushan Energy, Gome Electrical Appliances Hldngs, Kosmopolito Hotels, Kunlun Energy, Lenovo Group Ltd, Shun Tak Holdings Ltd, Sino Ocean Land
Long Sales	Korea	Profits	Bluecom Co Ltd, Doosan Engine, Kolon, OCI Chemical, SK Energy, Sung Kwang Bend Co Ltd
Long Sales	Malaysia	Profits	Petronas Chemical
Long Sales	Singapore	Profits	Gallant Venture Ltd, Keppel Corporation Ltd
Long Sales	Singapore	Losses	Tiger Airways
Long Sales	Taiwan	Profits	E Ink Holdings, Wintek
Long Sales	United States	Losses	Solarfun Power Holdings

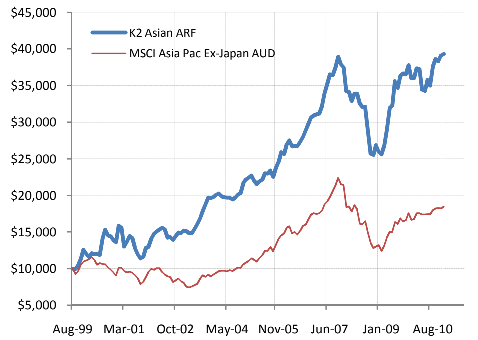
Performance to 31 January 2011

(net of fees)

1 Month	0.53%
3 Months	1.80%
6 Months	9.94%
1 Year	9.13%
3 Years (pa)	4.71%
5 Years (pa)	8.72%
10 Years (pa)	9.51%
Since Inception (pa)	12.74%

The Fund's aim is to generate a 15%+ per annum return, net of fees and expenses, over an investment cycle.

Growth of AUD$10,000



Returns are based on NAV per unit plus distributions reinvested net of management fee and performance fee accruals.

Fund Details (Unaudited)

Net Asset Value Per Unit (Cum):	A$162.07
Distribution 31-Dec-2010:	A$3.30
Fund Size:	A$181.8m
Start Date:	1-Sep-99
S&P Fund Rating:	★★★★

Top 5 Large Cap Holdings	Country	%
BHP Billiton Limited	Australia	3.5
HSBC	Hong Kong	3.0
RIO Tinto	Australia	2.9
Fortescue Metals	Australia	2.6
China Mobile	China	2.1

Geographic Exposure %

	Long	Short	Net Equity
Australia	30.3	-	30.3
China	30.1	-	30.1
Hong Kong	8.9	-	8.9
Indonesia	2.8	-	2.8
Korea	3.1	-	3.1
Malaysia	1.5	-	1.5
New Zealand	0.6	-	0.6
Singapore	2.9	-	2.9
Taiwan	5.2	-	5.2
Thailand	0.5	-	0.5
Total Equity	**85.9**	**-**	**85.9**
Total Cash			**14.1**
Total Equity and Cash Exposure			**100.0**
Net AUD Exposure AFTER Hedging			**97.0%**

K2 Asian Fund

Financial Year Returns

K2 ASSET MANAGEMENT

K2 Asian Net Monthly Returns in AUD														MSCI (1)
Year	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Fin YTD**	**Fin YTD**
1999/00			-0.6	4.3	9.2	10.8	-4.3	-3.4	4.1	-1.1	0.2	-1.0	18.6	7.3
2000/01	19.4	8.3	-5.3	-1.0	-3.2	-2.3	16.5	-2.0	-16.4	5.4	5.4	-2.0	19.2	-12.0
2001/02	-9.1	-6.9	-4.9	2.3	10.3	1.1	8.7	4.4	2.4	1.8	1.7	-1.5	8.6	-3.1
2002/03	-7.2	0.5	-2.8	3.6	3.6	-0.5	2.4	-0.6	-1.8	0.1	3.7	4.4	4.9	-13.5
2003/04	4.4	6.5	4.4	5.2	-0.3	0.9	1.5	0.8	-1.8	-0.7	-0.2	-0.1	22.4	23.8
2004/05	-1.2	1.3	2.2	0.9	6.8	2.2	1.1	1.3	-3.1	-2.4	2.0	1.0	12.5	20.6
2005/06	3.4	0.2	1.9	-3.6	5.2	3.8	5.3	-1.0	5.0	2.3	-3.3	0.2	20.7	26.9
2006/07	0.2	2.0	2.4	2.9	3.4	2.7	1.2	0.3	0.6	3.0	5.5	4.0	31.9	27.5
2007/08	3.5	-0.2	2.7	4.0	-2.6	-1.2	-8.6	-0.4	-3.7	3.1	-0.1	-3.8	-7.6	-15.6
2008/09	-1.6	0.3	-10.8	-10.4	-0.7	5.2	-3.3	-1.4	4.8	8.0	10.3	0.9	-1.2	-7.2
2009/10	10.5	-2.6	4.7	0.9	-0.3	3.5	-4.7	-0.0	3.8	-0.5	-7.4	-0.5	6.4	16.1
2010/11	4.4	-2.1	7.6	2.5	-0.8	2.1	0.5						14.7	6.1
													293.2	84.6

Key Statistics	Return (CAGR)	Standard Deviation (Annualised)	Alpha (Annualised)	Beta	Sharpe Ratio (6.0%)
Since Inception	12.7	16.5	8.8	0.76	0.5
MSCI (1) Since Inception	5.5	15.1	NA	NA	0.0
Since Inception to Restructuring	7.2	26.9	19.7	0.99	0.2
MSCI (1) Since Inception to Restructuring	-8.8	16.8	NA	NA	-0.8
Since Oct 2001 Restructuring	14.2	13.1	7.5	0.69	0.6
MSCI (1) Since Oct 2001 Restructuring	9.6	14.8	NA	NA	0.2

NOTE: (1) MSCI AC Asia Pacific Free ex Japan with dividends reinvested in AUD