



K2 ASSET MANAGEMENT

K2 ASIAN ABSOLUTE RETURN FUND

MONTHLY REPORT - 31 July 2011

Asia Pacific Market Review

The K2 Asia Absolute Return Fund returned -1.98% for the month of July while the MSCI Asia Pacific ex. Japan (AUD) lost 2.18%.

A promising start to the month by the region's markets was short-lived as world markets intensified their focus on the US debt impasse. Country specific issues did however exert an influence. China (-2.5%), an outperformer for most of the month, suffered with the release of weak preliminary PMI data. Unquestionably growth has slowed in the region's largest economy as the government's intention to fight inflation remains ongoing. The same theme undermined India's (-3.0%) performance as the central bank's determination to fight inflation through aggressive interest rate increases is unfortunately now beginning to erode growth. Australia (-3.2%) also weakened as resource-related stocks sold off as concerns about global growth intensified. At the same time confidence suffered under the government's carbon tax as well as poor consumer demand, the latter leading to a number of weak earnings results.

Elsewhere Thailand (+8.8%) enjoyed an exception month on the back of a change of government. Other ASEAN markets including Indonesia (+5.32%) and the Philippines (+3.5%) also dominated returns.

Outlook

The Asian markets have started August on a positive note with Obama's announcement that the leaders of both parties in the US House and Senate had approved an agreement to raise the nation's debt ceiling and cut the federal deficit. It has been our base case that a deal would be reached and hence we are positioned for this positive move.

China has today announced July's PMI which was at 50.7 vs consensus of 50.2 and June's PMI of 50.9. This shows that the economy is still growing but at a slower rate than previously. If these numbers can continue it would appear that the government is achieving its strategy of reining in inflation without strangling the economy. China's July CPI number will be out next week, an extremely important announcement which will confirm the effectiveness to date of current inflation-fighting policies. An inflation number for July of less than June's 6.4% number would be taken positively by the market in our opinion.

We continue to maintain our high exposure as we believe that the markets are showing good value at these levels and are increasingly facing risk to the upside should economic and corporate news not be as weak as expected.

Strategy

Net exposure at month-end was 94.1%, an increase of 2.7%. The largest weighting changes were in long positions with Australia (+6.8%) where we see the negatives as largely priced in to the extent that the market now represents value. Exposure was lowered in China (-6.3%) while we monitor the economic impact of the prevailing policy measures. There was little change to the gross short position of the fund at 1.9%. We have made no further change to our hedging position retaining a 68% hedged position back into AUD, the base currency of the fund.

Portfolio Realised Gains & Losses - July

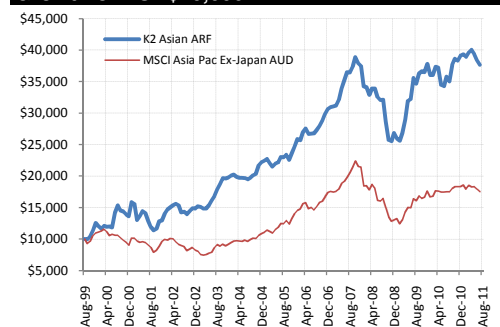
Long Sales	Australia	Profits	RIO Tinto Ltd
Long Sales	Australia	Losses	Adelaide Brighton Ltd, ANZ Banking Group, CSR Ltd
Long Sales	HK/China	Profits	China Petroleum & Chemical-H, Evergrande Real Estate Group, Galaxy Entertainment Group L, Gome Electrical Appliances, LI & Fung Ltd, Spreadtrum Communicati-Adr
Long Sales	HK/China	Losses	China Construction Bank-H, China Glass Holdings Ltd, Cnooc Ltd, Hollysys Automation Technolo, Rexlot Holdings Ltd
Long Sales	Indonesia	Profits	Borneo Lumbung Energi & Meta
Long Sales	Korea	Profits	Ncsoft Corporation
Long Sales	Korea	Losses	Hynix Semiconductor Inc
Long Sales	Singapore	Losses	Capitaland Ltd
Long Sales	Taiwan	Losses	TPK Holding Co Ltd

Performance to 31 July 2011

(net of fees)	
1 Month	-1.98%
3 Months	-6.00%
6 Months	-4.22%
1 Year	5.31%
3 Years (pa)	5.51%
5 Years (pa)	7.06%
10 Years (pa)	11.36%
Since Inception (pa)	11.77%

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:	A\$141.47
Distribution 30-Jun-2011:	A\$14.04
Fund Size:	A\$159.8m
Start Date:	1-Sep-99
S&P Fund Rating:	★★★★★

Top 5 Large Cap Holdings	Sector	%
RIO Tinto Ltd	Basic Materials	4.1
BHP Billiton Ltd	Basic Materials	2.7
Fortescue Metals	Basic Materials	2.7
Telstra Corp Ltd	Communication	2.7
Stockland	Financial	2.4

Geographic Exposure %

	Long	Short	Net Equity
Australia	36.0	-0.9	35.1
China	28.6	-0.5	28.1
Hong Kong	17.2	-	17.2
Korea	5.6	-0.5	5.1
Malaysia	1.0	-	1.0
New Zealand	0.3	-	0.3
Singapore	1.9	-	1.9
Taiwan	5.4	-	5.4
Total Equity	96.0	-1.9	94.1
Total Cash			5.9
Total Equity and Cash Exposure			100.0
Net AUD Exposure AFTER Hedging			68.0%

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	-1.0	1.7	1.2	-1.8	-2.4	12.1	2.4
2011/12	-2.0												-2.0	-2.2
													276.6	74.4

Key Statistics	Return (CAGR)	Standard Deviation (Annualised)	Alpha (Annualised)	Beta	Sharpe Ratio (6.0%)
Since Inception	11.8	16.2	8.4	0.75	0.4
MSCI (1) Since Inception	4.8	14.9	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	13.0	12.9	7.1	0.69	0.5
MSCI (1) Since Oct 2001 Restructuring	8.4	14.6	NA	NA	0.2

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