



K2 SELECT INTERNATIONAL ARF

MONTHLY REPORT - 31 July 2011

Global Market Review

The K2 Select International Absolute Return Fund returned -2.18% for the month of July, the MSCI AC World index was down -4.09% in AUD terms over the same timeframe. The period was characterised by the ongoing tug of war between strong micro and weak macro data, resulting in considerable volatility in equity markets. In Europe, sovereign risks flared up again with renewed fears of Greek default and possible systemic contagion across the region. Indeed, Italian bond yields very briefly breached the key psychological threshold of 6.0% before the launch of another series of support measures by European ministers managed to calm markets again. In the U.S. economic data continues to show a definite slowing of economic momentum. Although the July ISM release improved slightly, the regional Federal Reserve surveys were mostly weak and second quarter GDP estimates have now been revised down to only 1.3% (QoQ Annualised). Meanwhile the ongoing political wrangling over the debt ceiling, and the growing possibility of a downgrade in its credit rating, became an increasing source of concern for markets as the month progressed. In China fears remain of a policy induced hard landing. The July HSBC Flash PMI Index dropped below 50 while the June CPI figure was higher than expected at 6.4%. In stark contrast to this weak macroeconomic backdrop, second quarter corporate earnings in the U.S. were generally better than expected, helped in no small part by the weak US Dollar.

Outlook

After another summer of sovereign volatility it is fair to say that a certain amount of confidence has been sucked out of global equities over recent months. It is however important to highlight that over the medium term two large overhangs on equity markets have been resolved. The European Financial Stability Fund, (EFSF), has been refined to intervene as a buyer of last resort of both euro sovereign bonds, but also help distressed euro banks, which provides a large step towards stopping any systemic crisis within the region. Secondly at the time of writing the US government is on the brink of raising the US debt ceiling by \$2.1 trillion and to cut the federal deficit by \$2.5 trillion over a decade, essentially delaying the need for more material cuts by at least two years. While both issues are by no means definitively solved these are steps in the right direction. Alas the political process to solving these issues has been slow and cumbersome and as such it is not surprising that markets have lost confidence. Nonetheless for now at least they are 'solved' and the cost of capital for sovereigns, banks and corporate has remained relatively unaffected, allowing those who are confident enough to borrow money to continue to do so and feed the economic recovery. The events of the last two months, combined with efforts in emerging markets to cool inflation pressures are likely to have a dampening effect on global economic growth in the 2nd half of 2011. That said we still see growth being positive and sustainable and with equity markets pricing in a significantly worse outcome, we see room for global equities to perform over the 2nd half of 2011.

Strategy

The K2 Select ARF maintained net equity exposure within a 80-100% band over the month of July finishing the month with 90.3% net equity exposure to global equity markets. Having re-invested into equities in late June, the fund was hit with further volatility in July. While Asian markets were relatively strong the fund sustained losses on some core holdings in Australia and the UK. On currencies we maintained our reduced net long AUD position at 61%, while interest rate expectations have changed towards our view of a near term cut, the currency has refused to budge from the 1.10 level and as such the fund sustained roughly 70 basis points of absolute losses on our reduced hedging position over the month. Looking ahead, while positive on equity markets, we remain committed to actively managing our net equity and currency exposure to protect capital during these periods of volatility.

Portfolio Realised Gains & Losses - July

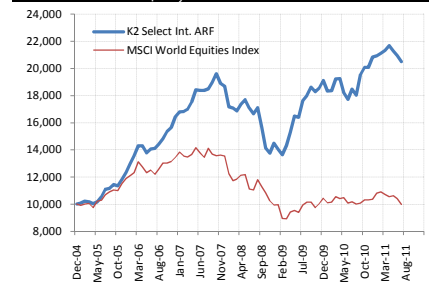
Long Sales	Australia	Profits	RIO Tinto Ltd
Long Sales	Australia	Losses	ANZ Banking Group, CSR Ltd
Long Sales	Euroland	Profits	Daimler Ag-Registered Shares
Long Sales	HK/China	Profits	China Unicom Hong Kong Ltd, Gome Electrical Appliances, LEE & Man Handbags Ltd
Long Sales	HK/China	Losses	China Glass Holdings Ltd, Phoenix Satellite Television, Rexlot Holdings Ltd, Shun Tak Holdings Ltd
Long Sales	Korea	Losses	Hynix Semiconductor Inc
Long Sales	United Kingdom	Profits	Pearson Plc
Long Sales	United States	Profits	Apple Inc, Crocs Inc, Polypore International Inc
Long Sales	United States	Losses	Powerwave Technologies Inc

Performance to 31 July 2011

(net of fees)	
1 Month	-2.18%
3 Months	-5.53%
6 Months	-2.06%
1 Year	10.86%
3 Years (pa)	7.17%
5 Years (pa)	7.74%
Since Inception (pa)	11.52%

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\$133.46
Distribution 30-Jun-2011:	A\$7.75
Fund Size:	A\$241.9m
Start Date:	1-Jan-05
S&P Fund Rating:	★★★

Top 5 Large Cap Holdings

Company	Sector	%
RIO Tinto Plc	Basic Materials	5.2
BHP Billiton Plc	Basic Materials	4.1
Apple Inc	Technology	2.6
Fortescue Metals	Basic Materials	2.0
Eurofins Scientific	Cons. Non-Cyc	1.8

Geographic Exposure %

	Long	Short	Net Equity
Australia	16.8	-0.8	16.0
Canada	2.4	-	2.4
China	6.1	-0.5	5.6
Euroland	9.2	-	9.2
European Union	-	-	-
Hong Kong	9.1	-	9.1
Japan	0.3	-	0.3
Korea	3.3	-0.5	2.8
Malaysia	0.3	-	0.3
New Zealand	0.6	-	0.6
Norway	1.7	-	1.7
Singapore	0.6	-	0.6
Spain	1.1	-	1.1
Sweden	-	-1.0	-1.0
Switzerland	-	-	-
Taiwan	4.6	-	4.6
Thailand	0.4	-	0.4
United Kingdom	16.3	-	16.3
United States	17.5	-0.7	16.8
Total Equity	90.3	-3.5	86.8
Total Cash			13.2
Total Equity and Cash Exposure			100.0
Net AUD Exposure AFTER Hedging			61.1%

K2 Select International Fund

Financial Year Returns



K2 ASSET MANAGEMENT

K2 Select International Net Monthly Returns in AUD													MSCI (1)	
Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin YTD	Fin YTD
2004/05							0.9	1.3	-0.4	-1.4	1.4	3.8	5.6	2.8
2005/06	4.9	0.7	2.6	-1.0	4.2	4.4	5.1	4.4	5.7	-0.1	-3.7	2.0	33.2	21.7
2006/07	0.4	2.1	2.8	3.6	2.0	4.8	2.4	0.1	1.1	3.1	5.1	-0.3	30.7	10.2
2007/08	0.1	0.6	2.6	3.4	-3.7	-1.1	-8.0	-0.6	-1.2	3.0	1.8	-3.5	-7.0	-19.4
2008/09	-2.5	2.9	-8.6	-9.7	-2.5	5.1	-3.1	-2.8	4.9	6.9	7.8	-0.7	-4.0	-15.6
2009/10	7.6	2.1	3.3	-1.7	1.4	3.0	-4.1	0.2	4.7	0.2	-5.4	-2.7	8.1	7.5
2010/11	4.3	-2.5	8.4	2.7	0.0	3.8	0.4	0.9	1.0	1.7	-1.9	-1.6	18.2	3.2
2011/12	-2.2												-2.2	-4.1
													105.0	-0.2

Key Statistics	Return (CAGR)	Standard Deviation (Annualised)	Alpha (Annualised)	Beta	Sharpe Ratio (6.0%)
Since Inception	11.5	12.3	11.8	0.68	0.5
MSCI (1) Since Inception	-0.0	11.8	NA	NA	-0.4

NOTE: (1) MSCI AC World Index with Dividends, expressed in AUD