



## K2 ASSET MANAGEMENT

# K2 SELECT INTERNATIONAL ARF

### MONTHLY REPORT - 30 September 2010

#### Global Market Review

The K2 Select International Absolute Return Fund returned 8.39% for the month of September. The MSCI World Index (AUD terms) returned 0.99%. Global equity markets put in a solid month in September, led by the US (+8.8%) which had its best September since 1939. For the quarter Asia was +11.9%, US +10.7%, Europe +6.7% while the MSCI World index (in AUD terms) was +0.4%. After underperforming in August, the US equity market was lifted by a better than expected August ISM reading of manufacturing activity while corporate M&A and share buyback/dividend announcements continue to support the market. Moves by tech bell weather Microsoft to tap the bond market at 0.875% and pay out a 2.6% dividend yield served to only further highlight the disparaging valuations between bonds and equities. While Cisco also joined the party by pledging to tap its 28bn of cash and actually pay, (wait for it) ... an annual dividend ... for the first time in its 30 year history. Europe lagged in September (+3.4%) as the EUR appreciated against the USD and sovereign concerns continued to hover over Ireland. The Federal Reserve telegraphed its intention to implement a second round of quantitative easing should the economic picture deteriorate, which handed investors further incentive to buy US bonds and sell the US dollar, allowing commodities to outperform and putting a bid under US companies with significant offshore earnings and those offering superior yields.

#### Outlook

As we alluded to last month some of the great debates of 2010 are nearing their conclusion and so far at least they seem to be going our way. US economic data, while lackluster appears to be avoiding a double dip recession. Chinese economic growth appears to have stabilised at a lower level and leading indicators point to acceleration into 2011. The US Federal Reserve also looks set to combat deflation via a second phase of quantitative easing over the coming months. While all of these data points in themselves are not out-rightly bullish, as we highlighted previously equity valuations are near unprecedented lows versus other asset classes and as such the hurdle required for equity performance has been set fairly low. Looking ahead, while its natural to expect some pull back after such a sharp move, we would expect the Western data to remain 'less bad', while the Asian data to improve from here providing an ample back drop for sustainable growth into 2011. Combined with still accommodative valuations and still super cheap credit, will see further upside for equity markets into the end of 2010.

#### Strategy

The K2 Select International ARF maintained a high level of exposure to equity markets throughout September, ending with net exposure of 88%. Our bias to Asian markets paid off with the Asian indices the best performing for the quarter. Elsewhere a number of our key holdings in smart phones (APPLE, HTC), internet portholes (Rightmove, Seloger) and mid cap resources all contributed significantly to performance over the month. In a relative sense the fund also benefited from being hedged 100% back to AUD and hence lost nothing from the 8.5% appreciation in the AUD over the month. Looking ahead we intend to maintain our bias to Asian markets and to keep the portfolio 100% hedged back to AUD for the month ahead.

#### Portfolio Realised Gains & Losses - September

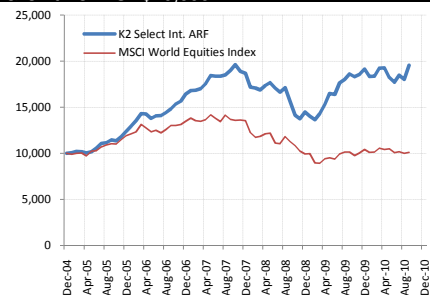
Long Sales	Australia	Profits	Carsales.Com, Perseus Mining, West Australian Newspaper Holdings Ltd
Long Sales	Euroland	Profits	Bekaert, Outokumpu Technology, Umicore
Long Sales	HK/China	Profits	Agricultural Bank Of China, BYD Company Limited, China High Speed Transmission, China National Building Material Company, China Taiping, First Pacific Co. Ltd, Guangzhou Automobile Group, LEE & Man Paper Manufacturing, Ping An Insurance Group
Long Sales	HK/China	Losses	Geely Automobile Holdings, Mongolia Energy, Neo-China Group
Long Sales	United Kingdom	Profits	Bellzone, Persimmon, Sainsbury, Xstrata
Long Sales	United States	Profits	Anadarko Petroleum, Apple, Cummins, Mosaic, Oclaro, Rackspace Hosting, Sonus, Successfactors Inc, Teck Resources, Titan International, Triquint Semiconductor, Union Pacific, Virgin Media, YUM Brands
Long Sales	United States	Losses	Visa
Short Covers	HK/China	Losses	Hang Lung Properties
Short Covers	Norway	Losses	Seadrill

#### Performance to 30 September 2010

1 Month	8.39%
3 Months	10.28%
6 Months	1.65%
1 Year	5.00%
3 Years (pa)	0.98%
5 Years (pa)	11.29%
Since Inception (pa)	12.36%

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 (Ex):	A\$138.06
Distribution 30-Jun-2010:	A\$7.11
Fund Size:	A\$198.6m
Start Date:	1-Jan-05
S&P Fund Rating:	★★★

Top 5 Large Cap Holdings	Country	%
Apple	United States	3.5
National Australia Bank	Australia	2.7
Hsbc	Hong Kong	2.0
Equinix	United States	1.6
Perseus Mining	Australia	1.4

#### Geographic Exposure %

	Long	Short	Net Equity
Australia	20.2	-1.3	18.9
China	16.4	-	16.4
Euroland	6.9	-	6.9
Hong Kong	6.4	-	6.4
Indonesia	2.0	-	2.0
Japan	1.0	-	1.0
Korea	1.9	-	1.9
Malaysia	1.2	-	1.2
New Zealand	1.0	-	1.0
Norway	1.4	-0.4	1.0
Singapore	2.5	-	2.5
Sweden	0.6	-	0.6
Switzerland	1.0	-	1.0
Taiwan	2.3	-	2.3
Thailand	1.1	-	1.1
United Kingdom	4.3	-	4.3
United States	19.7	-0.5	19.2
<b>Total Equity</b>	<b>89.9</b>	<b>-2.2</b>	<b>87.7</b>
<b>Total Cash</b>			<b>12.3</b>
<b>Total Equity and Cash Exposure</b>			<b>100.0</b>
<b>Net AUD Exposure AFTER Hedging</b>			<b>97.5%</b>

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# K2 Select International Fund

## Financial Year Returns



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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										10.3	0.1
													95.5	0.9

Key Statistics	Return (CAGR)	Standard Deviation (Annualised)	Alpha (Annualised)	Beta	Sharpe Ratio (6.0%)
Since Inception	12.4	13.0	12.6	0.70	0.5
MSCI (1) Since Inception	0.2	12.3	NA	NA	-0.4

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