

**Product Disclosure Statement**

Issued 15 November 2023

# **K2 Asian Absolute Return Fund**

ARSN 106 882 384 / APIR KAM0100AU



## **Contact Details**

To request a free printed copy of this PDS or updated Fund performance, contact K2 at:

Level 44, 101 Collins Street, Melbourne, VIC, 3000

Phone 03 9691 6191

Email [invest@k2am.com.au](mailto:invest@k2am.com.au)

Fax 03 9691 6170

Website [www.k2am.com.au](http://www.k2am.com.au)

For lodging complaints and dispute resolution please refer to Section 07 on page 15 of this PDS.

## **Issued by**

K2 Asset Management Ltd

ABN 95 085 445 094 / AFSL 244 393

## Contents

- 01 About K2 Asset Management Ltd
- 02 How the Fund works
- 03 Benefits of investing in the Fund
- 04 Risks of managed investment schemes
- 05 How we invest your money
- 06 Fees and costs
- 07 How to transact on your investment
- 08 How managed investment schemes are taxed
- 09 About the Fund's Service Providers
- 10 Information for New Zealand Investors
- 11 Terms used in this PDS

Units in the Fund are offered and issued by K2 Asset Management Ltd (**K2**) on the terms and conditions described in this PDS. By becoming an investor in the Fund you agree to be bound by this PDS. You should not base your decision to invest in the Fund solely on this information. You should obtain professional financial advice tailored to your personal circumstances and consider the suitability of a Fund in view of your financial position, investment objectives and needs before making an investment decision. K2 and its respective employees, agents and officers do not guarantee the success, repayment of capital, rate of return on income or capital, or investment performance of the Fund. Past performance is not a reliable indicator of future performance. It is your obligation to seek any advice, and observe any legal restrictions, on investment in the Fund which may apply to you.

All amounts in this PDS are in Australian dollars. All fees are inclusive of goods and services tax (**GST**) and take into account reduced input tax credits (**RITCs**) if applicable. All fees in this PDS are rounded to two decimal places.

Information in this PDS is subject to change of a type that is not materially adverse from time to time, and such updates may be viewed at [www.k2am.com.au](http://www.k2am.com.au). You can obtain any updated information by contacting K2. A paper copy of any updated information will be provided free of charge on request.

K2 has authorised the use of this PDS as disclosure to direct investors and prospective investors of an investor directed portfolio service, master trust, wrap account or an investor directed portfolio service-like scheme (**IDPS**).

Indirect investors investing through an IDPS may rely on the information contained in this PDS in instructing IDPS operators to invest in the Fund on their behalf. K2 accepts

no responsibility where the IDPS operator does not provide investors with a current version of this PDS or any supplementary or replacement PDS. More information for IDPS investors is set out in section 07 on page 14 of this PDS.

As disclosing entities, the Fund has regular reporting and disclosure obligations under the *Corporations Act 2001* (Cth) (**Corporations Act**). In accordance with ASIC guidance, all material information will be available to investors at [www.k2am.com.au](http://www.k2am.com.au). A copy of any documents lodged with ASIC to comply with disclosure requirements may be obtained from or inspected at an ASIC office. On request, K2 will provide investors with copies of the most recent annual financial report for the Fund, the half-yearly financial report and any continuous disclosure notices.

Investors can contact K2 or their IDPS provider, or visit [www.k2am.com.au](http://www.k2am.com.au) for updated information about performance, unit prices, Fund size and other general information about the Fund.

### Summary of disclosure against ASIC benchmarks and principles

This PDS contains disclosures against benchmarks and disclosure principles set out in the Australian Securities and Investments Commission (**ASIC**) Regulatory Guide 240.

The Fund meets both ASIC benchmark 1 (on valuation of assets) and benchmark 2 (on periodic reporting).

Disclosure principle	Where to find in PDS
1 Investment strategy	Section 02, page 03 Section 05, page 06
2 Investment manager	Section 01, page 03
3 Fund structure	Section 02, page 03 Section 09, pages 16 -17
4 Valuation, location and custody of Assets	Section 05, page 07 Section 07, page 15 Section 09, pages 16 -17
5 Liquidity	Section 04, page 05 Section 05, page 07
6 Leverage	Section 05, page 08 Section 09, pages 16 -17
7 Derivatives	Section 04, page 06 Section 05, page 07
8 Short Selling	Section 04, page 06 Section 05, page 07
9 Withdrawals	Section 07, pages 14 - 15

## 01 About K2 Asset Management Ltd

K2 Asset Management Ltd (**K2**) is an Australian fund manager specialising in managed funds for retail, wholesale and institutional investors. K2 was established in 1999 and is owned by K2 Asset Management Holdings Ltd, a listed company on the Australian Securities Exchange.

K2 is the responsible entity and investment manager of a number of investment funds, including the K2 Asian Absolute Return Fund. As responsible entity, K2 oversees the operation and management of the Fund and is required to act in the best interests of investors. As the investment manager, K2 is responsible for directing all investments within the Fund.

K2 has brought together a team of investment professionals with a depth of knowledge and experience in domestic and international equity markets.

More information about the individuals responsible for the investment management of the Fund, including the proportion of time each individual devotes to executing the Fund's investment strategies, is available at [www.k2am.com.au](http://www.k2am.com.au). The Fund is not dependent on any particular individual but enjoy the benefit of the expertise of a group of professionals operating as a team.

K2 is indemnified out of the Fund against all liabilities and expenses incurred by it in properly performing any of its duties, exercising any of its powers, or omitting to act in relation to the Fund, or attempting to do so. Subject to the Corporations Act, provided K2 acts in good faith and without negligence, it is not liable to investors for losses in relation to the Fund (except in certain circumstances, where it can be indemnified from the Fund).

## 02 How the Fund works

The Fund is an Australian registered managed investment scheme and unit trust. In a unit trust structure, when you invest your money, it is pooled with other investor funds. Each unit represents an equal share in the net assets of the Fund, however no investor is entitled to any specific or part asset of the Fund. The rights of unitholders are set out in a Fund's constitution.

### Investment structure



### Investment strategy

The Fund aims to deliver investors strong capital growth over the long-term. K2's investment parameters allow both Long and Short investment in equity markets, with the added flexibility of investing in cash. The Fund carries specific capacity limits, enabling them to remain versatile and protect their ability to continue to achieve their performance objectives.

The K2 Asian Fund invests in listed equities in the Asian region (excluding Japan). This can include companies that operate businesses in the Asian region but are listed on exchanges outside of Asia.

The Fund invests across a range of sectors that the investment team believes will add greatest value.

For more information about the Fund's investment strategies, please refer to section 05 on page 06 of this PDS.

## The Fund at a glance

K2 Asian Fund	
Fund category	Asian listed equities (ex Japan)
APIR code	KAM0100AU
Inception date	1 September 1999
Suggested investment timeframe	Long-term
Typical number of stocks held	Up to 80
Investment management fee	1.36% p.a. (incl. GST & RITC)
Performance fee	15.38% p.a. (incl. GST & RITC) of the amount by which the NAV per unit exceeds the High Water Mark after a net 6% p.a. hurdle
Buy/Sell spread	+/-0.25%
Investment objective	The Fund aims to deliver capital growth over the long-term by seeking out opportunities in undervalued companies in all market cycles
Investment style	Flexible to reflect the economic cycle
Unit prices	Available at <a href="http://www.k2am.com.au">www.k2am.com.au</a>
Applications	By 2pm on the Business Day you wish to apply
Minimum initial investment	\$20,000
Minimum additional investment	\$10,000
Valuation	Daily
Redemptions	By 2pm on the Business Day you wish to redeem ( <b>Valuation Day</b> )
Minimum withdrawal	\$10,000
Access to your investment	Within five Business Days from the date you redeem
Reporting	Monthly reports, transaction confirmations, holding statements, semi-annual investment reports, annual distribution and tax statements are all available via the K2 online investor portal at <a href="http://www.k2am.com.au">www.k2am.com.au</a> or are sent via email
Distributions	The Fund may pay distributions shortly after 30 June each year. Distributions can be made more frequently at K2's discretion
Responsible Entity & Investment Manager	K2 Asset Management Level 44, 101 Collins Street, Melbourne, Victoria 3000
Contact	Client Services Telephone: +61 3 9691 6191 Fax: +61 3 9691 6170 Email: <a href="mailto:invest@k2am.com.au">invest@k2am.com.au</a>
Administrator	State Street Australia
Auditor	KPMG Australia



## 02

### How the Fund works cont...

#### Access to investment

You can usually access your investment within five Business Days from the date you redeem as long as you redeem by 2pm on that day.

Exceptional circumstances may arise where the ability to access your investment is restricted and you may have to wait a period of time before you are able to redeem. This may occur, for example, if equity markets suspend trading or if the Fund becomes illiquid. Short delays may occur if you redeem shortly after 30 June while distributions are being finalised.

#### Distributions

To prevent the Fund from incurring a tax liability, the Fund may pay distributions shortly after 30 June each year. Distributions can be made more frequently at K2's discretion. Distributions are calculated based on the Fund's net income at the end of the distribution period divided by the number of units on issue. You can reinvest your distribution automatically into the Fund or have it paid directly to your bank account.

A distribution of net income generally forms part of a unitholder's assessable income, and you will be liable to pay tax on that income. At the time of distribution, the value of each unit will be reduced by the distribution amount.

## 03

### Benefits of investing in the Fund

Investing in the Fund offers a range of benefits, including:

#### Expertise

You benefit from the skill and experience of K2's dedicated equity investment team. K2's portfolio managers bring with them their own investment style while still adhering to the Fund's portfolio rules and guidelines.

#### Flexibility

The Fund invests in a diverse range of listed equities rather than reflecting an index or benchmark. Portfolio managers have the added flexibility to buy Long and Short Sell, as well as hold cash in different market cycles.

#### Liquidity

You can add to or reduce your investment on a daily basis.

#### Client Service

We will provide you with regular statements of your investment and updates on the performance of the Fund and current market conditions. You will also be able to track your investment at all times through our online investor portal at [www.k2am.com.au](http://www.k2am.com.au).

#### Risk Management

K2 employs various risk management strategies including but not limited to stop loss guidelines and exposure limitations. Stringent compliance procedures are also implemented.

## 04

### Risks of managed investment schemes

Any financial investment is not without associated risks. All asset classes carry varying degrees of risk.

When considering any investment in a managed investment scheme, it is important that you understand:

- the value of investments will go up and down;
- the level of returns will vary, and future returns may differ from past returns;
- returns are not guaranteed, you may lose some of your money and past performance is not necessarily indicative of future performance;
- laws affecting registered managed investment schemes may change in the future;
- assets with the highest long-term returns may also carry the highest level of short-term risk; and
- the appropriate level of risk for each investor will vary depending on a range of factors, including age; investment time frames; where other parts of the person's wealth are invested; and the investor's risk tolerance.

Before making an investment in the Fund, you should consider if it is appropriate for your individual circumstances and if necessary, seek professional advice. Risks that should be considered when investing in the Fund include, but are not restricted to, the following:

- **Market Risk**  
Changes in regulatory and economic policy, political events, technology, economic cycles, investor sentiment, environmental and social climate can all impact financial markets.
- **Equity Specific Risk**  
Individual companies the Fund invests in can have specific factors that can impact their stock valuation. This can include market cycles, internal management changes and product/service demands. Some securities may also become illiquid and as a result it may be difficult to exit the position.
- **Currency and Interest Rate Risk**  
Currency markets can be volatile and are subject to a range of influences. Currency risk occurs where the underlying assets of the Fund are denominated in a currency other than Australian dollars. Changes in interest rates and exchange rates may impact economic conditions and stock valuations both positively and negatively.

## 04

### Risks of managed investment schemes cont...

#### – Short Selling Risk

Short Selling carries particular risks that traditional Long positions do not. With a Long position, the value of the asset cannot drop below zero, thereby placing a limit on the possible loss inherent in the asset. In a Short position, where the purchaser expects the asset to depreciate, there is a risk that the asset could appreciate. Short Selling theoretically has unlimited risk of loss because there is no limit on the level to which a position may appreciate before it is closed out. Short selling can be a form of leverage and may magnify any gains or losses in the Fund.

#### – Leverage Risk

The Fund may implement investment strategies that use leverage. The exposure of a leveraged portfolio to movements in the instruments and markets in which it invests can be greater than the value of the assets within the Fund. Therefore, if a Fund is leveraged and generates a positive return, the returns will be greater than the returns generated by an equivalent unleveraged fund. Similarly if the leveraged Fund generates a negative return, the losses will be greater than the losses generated by an equivalent unleveraged fund. For more information see section 05 on page 08.

#### – Counterparty and Broker Credit Risk

Credit risk is the risk of loss caused by another party, including the Prime Broker or Administrator, defaulting on their financial obligations. For more information see section 09 on page 16.

#### – Derivative Risk

The Fund may use various derivative instruments, including futures, options, forward contracts and other derivatives. The more volatile nature of these instruments may impact the returns of the Fund.

While K2 actively manages both market and currency risk, many risks remain outside K2's control. Accordingly, no guarantee can be made that these risks will not eventuate. However, K2 has adopted various risk management strategies to help minimise identified risks. These include, but are not limited to, stop loss guidelines for all positions, exposure limitations on asset classes, internal trading systems that allow continuous transparency to the Fund's assets, annual reviews of service providers, ongoing audit, compliance monitoring and conflicts management policy.

### Ways to reduce or manage risk:

#### Seek professional advice

K2 recommends you seek professional advice to assist in understanding your current financial situation and your individual investment objectives.

#### Invest for the long term

Historically, growth assets have achieved the highest returns over the long term, with the greatest risk in the short-term.

#### Individual investment strategy

You should consider the following factors before investing in the Fund:

- your risk profile;
- your investment timeframe;
- the level of return you are seeking;
- whether you are investing for income or growth; and
- your current financial situation.

## 05

### How we invest your money

#### Investment Objective

The Fund aims to deliver capital growth over the long-term by seeking out opportunities in undervalued companies in all market cycles.

#### Suggested Investment Timeframe

Long-term

#### Potential Risk Level

High

#### Investor Suitability

The Fund may be suitable for you if:

- you have a long-term investment period;
- you seek diversification within traditional asset class exposure; and
- your risk tolerance is high and you are comfortable with the level of risk associated with the Fund.

#### Description of the Fund and its Assets

The Fund invests in listed equities throughout the Asian region (excluding Japan). This can include companies that operate businesses in the Asian region but are listed on exchanges outside of Asia.

## 05

### How we invest your money cont...

The Fund typically holds up to 80 different stocks in a range of sectors but may also hold up to 100% cash, depending on market conditions.

#### Investment Strategy

K2 employs a top-down macroeconomic view with bottom-up stock selection to identify investment opportunities.

Continuous macroeconomic analysis of market conditions determines this Fund's net equity exposure. This top-down overlay provides our investment managers with the autonomy to invest in a benchmark unaware manner, in sectors and regions that they believe will add the most value.

K2's investment strategy intends to produce investment returns by:

- adopting a flexible investment style that reflects the economic cycle;
- actively adjusting net equity exposure;
- identifying major themes or catalysts in a timely manner;
- being index unaware with a Long bias; and
- allocating capital dynamically.

The Fund's ability to produce investment returns is dependent on a wide range of factors, none unusual or unique to the Fund. The Fund's performance returns may be impacted either positively or negatively by market conditions, interest rates, equity specific factors, liquidity and currency movements. Refer to section 04 on page 05 for more information on risks.

K2 will notify you of any change in the Fund's investment strategies, however the strategies are not expected to change over the life of this PDS.

#### Types of Assets Held

The Fund primarily invests in listed equities across the Fund's various geographic regions. If deemed appropriate, the Fund may hold up to 100% cash. Consistent with typical industry practices, the reference to listed equities includes investments in entities that plan to list on a securities exchange within the next 6 months.

The Fund may also use exchange-traded and over-the-counter derivative instruments. Equities are denominated in their local currency. Currency is taken into account at the portfolio level and positions are adopted purely as a hedging tool to reduce overall currency risk.

The Fund may make other investments as permitted by its constitution.

#### Derivatives

If used, derivatives may include swaps, futures, options and forward contracts. Such instruments are used within the Fund sparingly and the Fund does not have pre-determined allocation ranges for these asset types. K2 will only engage reputable financial institutions (such as the Prime Broker) as a derivative counterparty.

#### Short Selling

Short Selling may be used when specific opportunities or market conditions have the potential to increase returns. Short positions are subject to diligent ongoing exposure risk review by the investment team and stringent stop loss guidelines. Refer to section 04 on page 06 for more information on risks associated with Short Selling.

#### Liquidity

As the Fund only invests in listed equities, under normal market conditions, K2 reasonably expects to be able to realise at least 80% of the Fund's assets, at the value ascribed to those assets in calculating the Fund's net asset value, within 10 Business Days. K2 monitors the Fund's portfolio on an ongoing basis, having regard to the overall liquidity profile of the Fund's underlying investments.

## 05

### How we invest your money cont...

#### Leverage

K2 may use leverage to increase the net invested position of the Fund greater than the Gross Asset Value of the Fund. In addition, in order to implement any Short positions or derivative exposure, equity and/or cash may be required to be deposited in the Prime Broker as collateral. The maximum allowable leverage in the Fund is 150% of the Net Asset Value of the Fund, that is for every \$1 invested, the gross invested position of the Fund taking into account all securities and derivatives held, is limited to \$1.50. For the purposes of this calculation, the notional value of the derivatives is used.

The following is a simplified worked example of how leverage works in the Fund. This example assumes the maximum anticipated level of leverage being, Gross Exposure of 150%. This example additionally assumes that the Fund is fully invested and ignores fees and expenses.

**Utilising leverage at 150% will mean that for each \$100,000 invested, the Gross Exposure will be \$150,000:**

- A 10% increase in the value of equity positions held by the Fund results in a 15% increase in return to investors (\$15,000 gain for the Gross Exposure of \$150,000); and
- A 10% decrease in the value of equity positions held by the Fund results in a 15% loss to investors (\$15,000 loss for the Gross Exposure of \$150,000).

**In the above example, if no leverage was used, the Gross Exposure on \$100,000 invested would be \$100,000:**

- A 10% increase in the value of equity positions held by the Fund results in a 10% increase in return to investors (\$10,000 gain for the Gross Exposure of \$100,000); and
- A 10% decrease in the value of equity positions held by the Fund in a 10% loss to investors (\$10,000 loss for the Gross Exposure of \$100,000).

As the example shows, the use of leverage increases the size of any potential gains or losses to your investment.

Please note that the above example has been provided for reference purposes only. Any assumptions underlying these examples are hypothetical.

#### Valuation, Location and Custody of Assets

The Fund invests in listed equities in various geographic regions, which are either held by the Prime Broker or in custody accounts with State Street Australia Ltd or Morgan Stanley Private Bank National Association. The roles performed by these custodians are set out in section 09 on page 17. Non-cash assets are exchange traded and therefore valued accordingly. Please refer to section 07 on page 15 for key aspects of the Fund's unit pricing policy.

#### Labour Standards and Environmental, Social and Ethical Considerations

Labour standards and environmental, social and ethical considerations are taken into account in the selection, retention or realisation of investments relating to the Fund to the extent that these may affect the performance of an investment.



## 06

### Fees and costs

It is a legal requirement to display the following consumer advisory warning at the beginning of the fees section of a PDS. The fee example provided in the consumer advisory warning box does not specifically relate to the Fund, and is a standard example prescribed by law.

#### Did you know?

**Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns.**

**For example, total annual fees and costs of 2% of your investment balance rather than 1% could reduce your final return by up to 20% over a 30 year period (for example, reduce it from \$100,000 to \$80,000).**

**You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.**

**You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the fund or your financial adviser.**

#### To find out more

If you would like to find out more, or see the impact of the fees based on your own circumstances, the Australian Securities and Investments Commission (ASIC) website ([www.moneysmart.gov.au](http://www.moneysmart.gov.au)) has a managed investment fee calculator to help you check out different fee options.

This document shows fees and other costs that you may be charged. These fees and costs may be deducted from your money, from the returns on your investment or from the assets of the managed investment scheme as a whole. You should read all the information about fees and costs because it is important to understand their impact on your investment.

## 06

## Fees and costs cont...

K2 Asian Fund		
Type of Fee or Cost	Amount	How and When Paid
<b>Ongoing annual fees and costs</b>		
<b>Management fees and costs</b> The fees and costs for managing your investments	4.14% p.a. of the Fund's net assets	Management fees and costs are comprised of: <ul style="list-style-type: none"> <li>• A management fee<sup>1</sup>;</li> <li>• Indirect costs; and</li> <li>• Recoverable expenses<sup>2</sup></li> </ul> The management fees are calculated and accrued daily based on the NAV. It is paid monthly in arrears out of the Fund Assets. Indirect costs and recoverable expenses are calculated on the basis of K2's reasonable estimate of such costs and expenses. These costs and expenses are paid directly from the Fund as they are incurred and is reflected in the unit price.
<b>Performance fees<sup>3</sup></b> Amounts deducted from your investment in relation to the performance of the Fund	0.55% p.a. of the Fund's net assets	The performance fee per unit is 15.38% p.a. (incl. GST & RITC) of the amount by which the NAV per unit exceeds the High Water Mark after a net 6% p.a. hurdle. The performance fee is calculated and accrued daily based on the NAV (before performance fee) of the Fund and is crystallised and paid on a semi-annual basis. Performance fees are paid where applicable from redemptions throughout a half financial year on a pro-rata calculation.
<b>Transaction costs</b> The costs incurred by the Fund when buying and selling assets	0.57% p.a. of the Fund's net assets	This estimated transaction fee is incurred on the buying or selling of Fund assets (as it applies). The amount shown is net of any transaction costs recovered from investors via buy-sell spreads.
<b>Member activity related fees and costs (fees for services or when your money moves in or out of the Fund)</b>		
<b>Establishment fee</b> The fee to open your investment	Nil	Not applicable
<b>Contribution fee</b> The fee on each amount contributed to your	Nil	Not applicable
<b>Buy/Sell spread<sup>4</sup></b> An amount deducted from your investment representing costs incurred in transactions by the Fund	0.25% / 0.25%	The buy/sell spread is incurred when you enter or exit the Fund. The money is retained in the Fund and is not paid to K2.
<b>Withdrawal fee</b> The fee on each amount you take out of your investment	Nil	Not applicable
<b>Exit fee</b> The fee to close your investment	Nil	Not applicable
<b>Switching fees</b> The fee for changing investment options	Nil	Not applicable

<sup>1</sup> The management fee for the Fund is 1.36% p.a. (incl. GST & RITC) of the NAV. For further information, please see "Management fees" under the heading "Additional Explanation of Fees and Costs" on page 12.

<sup>2</sup> For further information, please see "Recoverable expenses" under the heading "Additional Explanation of Fees and Costs" on page 12.

<sup>3</sup> The estimated performance fees are based on an average of the previous 5 financial years, 2023, 2022, 2021, 2020 and 2019.

<sup>4</sup> Please see "Buy and sell spreads" on page 13.

## 06

## Fees and costs cont...

**Example of annual fees and costs for the Fund**

This table gives you an example of how the fees and costs for this managed investment product can affect your investment over a 1 year period. You should use this table to compare this product with other managed investment products.

The ongoing annual fees and costs in these tables are an example only and are not additional to the fees and costs in the table on page 10.

<b>K2 Asian Fund Example: Balance of \$50,000, with a contribution of \$10,000 during the year</b>		
Contribution Fees	Nil	For every additional \$10,000 you put in, you will be charged \$0
<b>PLUS</b> Management fees and costs <sup>1</sup>	4.14%	<b>And</b> , for every \$50,000 you have in the K2 Asian Fund you will be charged \$2,070 each year
<b>PLUS</b> Performance fees	0.55%	<b>And</b> , you will be charged \$275 in performance fees each year
<b>PLUS</b> Transaction costs	0.57%	<b>And</b> , you will be charged \$285 in transaction costs
<b>EQUALS</b> Cost of the K2 Asian Fund <sup>2</sup>		<p>If you had an investment of \$50,000 at the beginning of the year and you put in an additional \$10,000 during the year, you would be charged fees of:</p> <p style="text-align: center;"><b>\$2,630</b></p> <p><b>What it costs you will depend on the fund you choose and the fees you negotiate.</b></p>

<sup>1</sup> Management fees and costs are charged on your investment amount and any contribution made during the year. This example assumes the \$10,000 contribution occurs at the end of the first year, so that management fees and costs are calculated using the \$50,000 balance only.

<sup>2</sup> This cost does not include any advice fees paid to your financial adviser.

## 06

### Fees and costs cont...

#### Additional Explanation of Fees and Costs

##### Management Fees and Costs

The management fees and costs of the Fund is expressed as a percentage of the Fund's Net Asset Value. The management fees and costs are made up of management fees, estimated indirect costs that may be charged by interposed vehicles including the performance fees of these interposed vehicles as well as recoverable expenses.

##### Management fees

The management fees for the Fund is 1.36% p.a. (incl. GST & RITC) of the Net Asset Value.

Management fees are payable to the Investment Manager. The management fees are accrued daily and paid from the Fund monthly in arrears and reflected in the unit price.

##### Indirect costs

Indirect costs are generally any amount the Responsible Entity knows or estimates will reduce the Fund's returns that are paid from the Fund's assets or assets of the interposed vehicles. An interposed vehicle is generally a body, trust/fund or partnership that the Fund's assets are invested in such as underlying funds and some over the counter derivatives.

##### Recoverable expenses

There are recoverable expenses other than those referred to in the management fees section above that may be reimbursed from the Fund. Responsible entity fees as well as custody, administration, registry and compliance expenses are recoverable expenses. There are also other costs incurred in relation to the operation of the Fund and are not expected to be incurred on a regular basis such as but not limited to holding investor meetings; audit, tax and legal costs; preparation of disclosure documents and overheads. Recoverable expenses have been included in the Management Fees and Costs section in the table on page 10.

##### Performance Fees

Upon the Fund meeting its performance criteria, a performance fee is payable. K2 will only be eligible to receive a performance fee where the NAV per unit, before performance fees, is above the applicable High Water Mark, subject to a 6% p.a. hurdle. The 6% p.a. hurdle is calculated on a pro rata basis.

The performance fee is calculated and accrued daily based on the NAV (before performance fee) of the Fund and is crystallised and paid on a semi-annual basis at 31 December and 30 June. Performance fees are paid where applicable from redemptions throughout the financial year using a pro rata calculation.

The Fund's performance fee per unit is 15.38% p.a. of the amount by which the NAV per unit exceeds the High Water Mark after a net 6% p.a. hurdle.

The High Water Mark is:

- a) where a performance fee is paid or payable in respect of the immediately preceding half financial year, the highest NAV per unit from which a performance fee has been last deducted in the immediately preceding half financial year; or
- b) where a performance fee is not payable in respect of the immediately preceding half financial year, the higher of:
  - i. the NAV per unit as at the end of the immediately preceding half financial year; and
  - ii. either the relevant NAV on the date of your initial investment in the first half financial year of investment or the last NAV from which a performance fee has been paid, if any.

A High Water Mark is a NAV per unit above which K2 is entitled to charge a performance fee. If the current NAV falls below the High Water Mark, the NAV must reach the High Water Mark and achieve the net 6% p.a. hurdle before K2 receives a performance fee on additional performance above the High Water Mark.



## 06

### Fees and costs cont...

#### **Transaction Costs**

Because the Fund is actively managed, they will incur transaction costs, such as brokerage, buy-sell spread, settlement and clearing costs (including custody costs) and government charges such as stamp duty as a result of the management of the Fund's investment portfolio. This generally happens when the assets of the Fund are changed in connection with day-to-day trading or when there are applications or withdrawals which cause net cash flows into or out of the Fund.

Transaction costs could also include due diligence costs, legal advisory and other professional costs and any failed deal costs of the Fund. Additionally, any costs incurred by an interposed vehicle that is a managed investment scheme may be included as a transaction cost.

Transaction costs are paid out of a Fund's assets and are reflected in the Fund's unit price.

#### **Buy and sell spreads**

The Fund carries a buy/sell spread of +/-0.25% to ensure that the transactional and operational costs associated with an application or redemption are not borne by other investors. The buy/sell spread is an additional cost to you and is incurred when you enter or exit the Fund. The money is retained in the Fund and is not paid to K2. The spread is based on the Fund's average transaction costs and accordingly may be varied by K2 from time to time.

The total transaction costs for the financial year ending 30 June 2023 was approximately 0.61% p.a. of the Fund's average Net Asset Value, of which approximately 0.04% p.a. resulted from facilitating unitholder applications and redemptions and was recovered via the buy/sell spread. The difference of approximately 0.57% p.a. was reflected in the net investment return of the Fund. Estimates provided may differ from actual costs over a period and actual costs may vary in the future.

#### **Other fees and costs**

##### **Advice fees**

Your financial adviser may receive payment for providing advice services to you. These advice fees are additional to the fees and costs shown in the table on page 10 and are paid to your adviser not to the Fund or Responsible Entity.

##### **Borrowing costs**

Borrowing costs are the costs associated with borrowing money or securities. The Fund may enter into borrowing facilities and, if so, the costs of a borrowing facility would be deducted from the Fund's assets and reflected in the unit price. Borrowing costs are additional to the fees and costs in the table on page 10.

##### **Wholesale Clients**

K2 may agree to an alternative fee arrangement with certain wholesale clients that satisfy minimum investment requirements.

##### **Changing the Fees**

All fees and expenses in this PDS can change without your consent, however it is not expected that the investment management or performance fees will change while this PDS is current. At least 30 days' notice will be provided in the event investment management or performance fees increase or there is any other change that requires us to give you prior notice. K2 has the right to recover all proper and reasonable expenses incurred in managing the Fund. Changes in the amount of fees and costs charged by service providers, regulators and other third parties may cause the amount of expenses recovered by K2, including estimated responsible entity fee (if applicable), to increase or decrease from time to time. The Fund's constitution defines the maximum that can be charged for fees described in this PDS.

## 07

### How to transact on your investment

1. Read this PDS.
2. Complete the application form available:
  - (i) online  
Go to [www.k2am.com.au](http://www.k2am.com.au) under 'Apply Now' and follow the instructions to complete your application; or
  - (ii) at the end of this PDS
3. Receive confirmation of your investment via email or post and begin accessing your account via our online investor portal.

### Acquisition and Disposal of Units

#### Applications

##### Initial application for investment

Investors must complete the application form available online at [www.k2am.com.au](http://www.k2am.com.au) under 'Apply Now' or at the end of this PDS. To enable K2 to comply with the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth) new investors must also complete the relevant client identification forms.

##### Application dates

Applications can be processed on any Business Day (**Valuation Day**) with units issued for that same day. Completed forms and cleared funds must be accepted by the Unit Registry by 2pm Australian Eastern Standard Time on a Valuation Day.

**Note: you will need to observe your relevant bank's processing times to ensure the Unit Registry receives cleared funds by the deadline.**

Subject to the Corporations Act, application money received after the deadline will be held in the Fund's trust account, unless directed otherwise in writing by the applicant, and units will be issued on the following Valuation Day. Any interest earned on application money (less applicable withholding tax) paid in advance of a Valuation Day will be credited in favour of the Fund.

K2 reserves the right to refuse any application without giving a reason. If K2 refuses or is unable to process an application it will return the application money to the applicant who will not be entitled to any interest on that money. If a cheque or other deposit is dishonoured, the corresponding units are deemed not to have been issued. K2 and the Unit Registry accept no responsibility for any loss caused as a result of non-receipt of any application sent by facsimile, post or other delivery method.

Applications that are placed for a 30 June or 31 December Valuation Date are allocated units on that day, and will receive any distribution that may be payable. Investors

should note the 'Risks of investing shortly before a distribution period' and read the important information about taxation before making a decision to invest. Go to 'General Information' at [www.k2am.com.au](http://www.k2am.com.au) under 'How to Invest'.

##### Investing through an IDPS

If you are investing through an IDPS, such as a master trust or wrap account, you may need to complete a separate application form and provide a cheque payable to the relevant IDPS operator. Your rights and liabilities will be governed by the terms and conditions of the IDPS disclosure document. Investors should carefully read the terms and conditions of that document before investing in the Fund. Indirect investors investing through an IDPS do not acquire the rights of an investor in the Fund. IDPS investors will receive reporting directly from the IDPS operator, not from K2 and do not have the right to a 'cooling off' period (as described in this PDS) in relation to an investment in the Fund.

##### Additional investments (for existing investors)

Investors can add to their investment by completing an additional investment form available at [www.k2am.com.au](http://www.k2am.com.au). Before completing an additional investment form, investors should ensure they have read the current PDS.

##### Disposal of units

##### Making a withdrawal

An investor wishing to make a withdrawal must complete a redemption form available at [www.k2am.com.au](http://www.k2am.com.au) and submit the completed form to the Unit Registry by 2pm Australian Eastern Standard Time on a Valuation Day.

Withdrawal proceeds will be remitted by electronic transfer to the investor's designated account, normally within five Business Days after the relevant Valuation Day. The minimum withdrawal is \$10,000 (unless otherwise permitted by K2), provided a minimum balance of \$20,000 remains in the Fund, otherwise only a complete withdrawal is permitted.

Short delays may occur if you redeem shortly after 30 June, while distributions are being finalised.

##### Transfer of units

Investors wishing to transfer units to a different entity must complete a standard transfer form, available at [www.k2am.com.au](http://www.k2am.com.au) or by contacting K2. Both the seller and buyer must provide their executed instruction on the same transfer form. If the buyer is a new investor to K2, they are also required to complete an initial application form and client identification form. A transfer of units from one entity to another may have tax implications and you should seek independent advice before proceeding.

## 07

### How to transact on your investment cont...

#### Switching Investments

You may switch all or part of your investment between K2 funds by completing a switch form available at [www.k2am.com.au](http://www.k2am.com.au). A switch is processed as a withdrawal and an additional investment and accordingly the buy/sell spread applies. Switching your investment from one K2 fund to another may have tax implications and you should seek independent advice before proceeding. Minimum investment balances apply to switching between K2 funds.

#### Suspension of issue of units and withdrawal of funds

Under the Fund's constitution, K2 may suspend the determination of the Net Asset Value of the Fund and/or extend the time for paying redemption proceeds in certain circumstances.

Where the Fund is not liquid (as defined in the Corporations Act), an investor does not have a right to withdraw from the Fund and can only withdraw where K2 makes a withdrawal offer to investors in accordance with the Corporations Act. K2 is not obliged to make such offers. You will be notified in writing of any such changes to your withdrawal rights.

#### Retail investors

If you are an eligible retail investor, you may have a right to a cooling off period to ensure that the investment meets your individual needs. The period commences on the earlier of confirmation of the investment being received or available, or the end of the fifth day after units are issued, and lasts for 14 days. The investor is entitled to a refund of their investment, adjusted for any increase or decrease in the NAV between the time the Unit Registry processed the application and the time it receives the notification, as well as any tax and other reasonable administrative expenses and transaction costs associated with the acquisition and termination of the investment. A client's right to cool off does not apply in certain limited situations, such as if the issue is made under a distribution reinvestment plan or represents additional contributions made under an existing agreement. To exercise this right the Unit Registry must be notified in writing.

If you wish to discuss any aspect of the Fund or wish to lodge a complaint, please contact K2 and we will endeavour to resolve your concerns quickly and fairly. If K2 cannot resolve your complaint, you may seek assistance from:

Australian Financial Complaints Authority (AFCA)  
GPO Box 3 Melbourne Vic 3001  
Phone: 1800 931 678  
Website: [www.afca.org.au](http://www.afca.org.au)  
Email: [info@afca.org.au](mailto:info@afca.org.au)

You should quote the following AFCA membership number with your enquiry: 12481.

Please note that different procedures to the above may apply for IDPS investors.

#### Unit pricing (NAV per unit)

The calculation of unit prices is set out in the constitution for the Fund and is performed by the Fund's Administrator each Valuation Day. Broadly, the NAV per unit is calculated by:

1. calculating the Gross Asset Value of the Fund as at the relevant Valuation Day;
2. deducting any liabilities (including the investment management fee);
3. deducting any accrued performance fee after the deduction of liabilities; and
4. dividing the resulting NAV by the number of units on issue, this amount being rounded to the nearest cent (0.5 of a cent will be rounded up).

#### Terms for email or fax instructions

By lodging an email or fax request, the investor releases, discharges and agrees to indemnify K2 from and against all losses, liabilities, actions, proceedings, account claims and demands arising from the email or fax request. The investor also agrees that any payment made in accordance with emailed or faxed instructions shall be in complete satisfaction of the obligations of K2, notwithstanding any fact or circumstances, including that the payment was made without the investor's knowledge or authority. The investor agrees that if the payment is made in accordance with these conditions, the investor shall have no claim against K2 in relation to the payment.

#### Privacy

When processing an application, K2 will be collecting personal information which it may need to provide to third parties, such as its service providers, regulatory authorities as required by law or to satisfy United States requirements (in the case of United States persons). In some cases, the organisations to which K2 or its service providers disclose your information may be located outside Australia (including the United Kingdom, United States, Canada, Singapore, The Netherlands and India), though it is not practicable to list all of the countries in which such recipients are likely to be located. For further information about how we collect, hold, use and disclose your personal information, please read K2's privacy policy, which can be viewed on our website at [www.k2am.com.au](http://www.k2am.com.au).



## 08

## How managed investment schemes are taxed

Investing in a managed investment scheme is likely to have tax consequences. K2's registered managed investment schemes do not pay tax on behalf of investors and you will be personally assessed for tax on any net income and capital gains generated by the scheme. In normal circumstances you should expect that some income and/or capital gains will be generated each year. The taxation of managed investment schemes is complicated and you are strongly advised to seek professional tax advice relevant to your own circumstances before investing in the Fund.

*You should read the important information about taxation before making a decision to invest. Go to 'General Information' at [www.k2am.com.au](http://www.k2am.com.au) under 'How to Invest'. The material relating to taxation may change between the time when you read this PDS and the day when you acquire the product.*

### Foreign Tax Resident Reporting

Laws have been introduced in Australia to implement global standards relating to the automatic exchange of financial account information between tax authorities to ensure that everyone pays the right amount of tax. As a financial institution, K2 must identify accounts held by investors who are foreign tax residents or entities connected to foreign tax residents and report this account information to the Australian Tax Office. This information is then shared with tax authorities in:

- the United States (**US**) under a system known as the Foreign Account Tax Compliance Act (**FATCA**). This is for US citizens and tax residents only and applied from 1 July 2014; and
- other countries under the Common Reporting Standard (**CRS**). The CRS applies to all foreign tax residents from 1 July 2017.

On request from K2, it is important that you provide K2 with information about your tax residency, the nature of your business and any beneficial owners. This will enable K2 to comply with its obligations under the FATCA and CRS laws. If you do not respond, K2 may be required to treat you as if you are a foreign tax resident, even if you are not. Penalties may apply if you deliberately or recklessly provide false or misleading information.

## 09

## The Fund's service providers

The following service providers to the Fund are not responsible for the preparation of this document or the activities of the Fund and therefore accept no responsibility for any information contained in this document. These service providers do not participate in the investment decision-making process.

K2 as responsible entity of the Fund monitors the compliance of all of the following service providers with their contractual obligations through receipt of compliance certifications, performance reviews and audit activity performed by the Fund's external auditor KPMG.

### About the Prime Broker

Morgan Stanley & Co. International plc. (**Prime Broker**), based in London, provides prime brokerage services to the Fund under a standard agreement (**PB Agreement**). These services may include margin financing, clearing, settlement, stock borrowing and foreign exchange facilities. The Fund deals with the Prime Broker mostly through its Sydney office. The Fund may also utilise other members of the Morgan Stanley group of companies and other brokers for executing transactions for the Fund.

The Prime Broker also provides a custody service for those investments of the Fund held by the Prime Broker in accordance with the PB Agreement and the rules of its regulator, the UK Financial Conduct Authority (**FCA**). The Prime Broker may appoint sub-custodians, including other members of the Morgan Stanley group.

### Identification and segregation of Fund assets

In accordance with FCA rules, the Prime Broker will identify, record and hold the Fund's investments so that they are separately identifiable from the Prime Broker's other investments.

### Collateral may not be segregated

Investments which constitute collateral for the purposes of the FCA rules might not be segregated and may be available to creditors of the Morgan Stanley group. The law or market practices in some jurisdictions outside of Australia and the United Kingdom may require that investments are registered in the name of the Prime Broker (rather than a custodian), in which case such investments will not be segregated from the Prime Broker's own assets and, in the event of the Prime Broker's default, may not be as well protected. Cash held by the Prime Broker or its related entities will not be treated by the Prime Broker as client money and will not be protected by FCA 'client money' rules.

### Borrowing of Fund assets

Investments and cash might be deposited by the Fund with the Morgan Stanley group as margin and will also constitute collateral for the purposes of the FCA rules. The Fund's investments may be borrowed, lent or used by the



## 09

### The Fund's service providers cont...

Morgan Stanley group, which would transfer property rights but leave the Fund with a right for the return of equivalent assets. The Fund will rank as unsecured creditors and, in the event of the insolvency of a Morgan Stanley group entity, the Fund may not be able to recover such equivalent assets in full. To better protect investors, K2 and the Prime Broker have agreed at the request of K2 to specific limitations on the borrowing and use of the Fund's assets.

#### Contractual relationship

Consistent with typical industry practice, the liability of the Prime Broker and its related entities is limited to circumstances involving its own negligence, wilful default or fraud, and the Prime Broker benefits from a limited indemnity from the Fund. The Prime Broker can be replaced by K2 by providing written notice. Various notice periods apply depending on the circumstance for termination of the contract.

#### About the Custodians

##### State Street Australia Ltd

K2 has appointed State Street Australia Ltd (**SSAL** or **Administrator**) (ABN 21 002 965 200, AFSL 241419) to act as global custodian of the Fund on terms consistent with typical Australian market practice. SSAL is the Australian subsidiary of a global business and is based in Sydney. It holds an Australian Financial Services Licence and is subject to ASIC regulation.

As is standard practice for global investment dealings, SSAL engages third party sub-custodians around the world to transact and hold assets for the Fund.

##### Morgan Stanley Private Bank, National Association

Morgan Stanley Private Bank, National Association (**MSPB**), a US national banking association regulated by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, has been engaged to provide additional custody services to the Fund if deemed necessary by K2 on terms consistent with typical market practice.

MSPB can engage unrelated third party sub-custodians, subject to certain duties on MSPB.

MSPB is authorised to transfer certain assets of the Fund's investments to the Fund's prime brokerage account with the Prime Broker in certain situations, consistent with typical market practice. MSPB is not permitted to borrow, lend, charge, rehypothecate, dispose of or otherwise use for its benefit any investment held in custody on behalf of the Fund.

MSPB is an 'insured depository institution', as defined in the US Federal Deposit Insurance Act and certain cash deposits are insured by the US Federal Deposit Insurance Corporation (**FDIC**). However, MSPB may place funds with other depository institutions that may not carry the full protection of FDIC insurance.

#### About the Administrator

##### State Street Australia Ltd

K2 has appointed SSAL based in Sydney to act as Administrator of the Fund. K2 and SSAL have entered into an agreement for administrative services for the Fund that sets out SSAL's role as Administrator, including its rights and obligations and the limits on its liability. Responsibilities of SSAL include:

- calculating the NAV and unit price for the Fund on each Valuation Day;
- preparing unaudited financial statements for the Fund in accordance with international financial reporting standards; and
- providing certain other administrative services.

SSAL's obligations in relation to the Fund are limited to the provision of services to K2, and SSAL has not undertaken any obligations to unitholders.

#### About the Unit Registry

##### Boardroom Pty Limited

K2 has appointed Boardroom Pty Limited (ABN 14 003 209 836) based in Sydney, (**Unit Registry** or **Boardroom**) to provide unit registry services to the Fund. K2 and Boardroom have entered into an agreement that set out Boardroom's responsibilities, which include:

- receiving and processing application money and withdrawal payments;
- maintaining the Fund's register of unitholders;
- preparing annual fee statements for the Fund in accordance with legislation;
- compliance with anti-money laundering and counter-terrorism financing requirements; and
- providing certain other administrative services.

#### Appointment of New Service Providers

K2 may remove the Fund's Prime Broker, Custodian, Administrator or Unit Registry and appoint a replacement at any time without notice to investors. Changes to a key service provider will be disclosed to investors in the Fund's periodic disclosures.

## 10 Information for New Zealand Investors

This offer to New Zealand investors is a regulated offer made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act and regulations made under that Act. In New Zealand, this is subpart 6 of Part 9 of the *Financial Markets Conduct Act 2013* and Part 9 of the *Financial Markets Conduct Regulations 2014*.

This offer and the content of the offer document are principally governed by Australian rather than New Zealand law. In the main, the Corporations Act and the regulations made under that Act set out how the offer must be made.

There are differences in how financial products are regulated under Australian law. For example, the disclosure of fees for managed investment schemes is different under the Australian regime.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian financial products may differ from the rights, remedies, and compensation arrangements for New Zealand financial products.

Both the Australian and New Zealand financial markets regulators have enforcement responsibilities in relation to this offer. If you need to make a complaint about this offer, please contact the Financial Markets Authority, New Zealand (<http://www.fma.govt.nz>). The Australian and New Zealand regulators will work together to settle your complaint.

The taxation treatment of Australian financial products is not the same as for New Zealand financial products.

If you are uncertain about whether this investment is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

The offer may involve a currency exchange risk. The currency for the financial products is not New Zealand dollars. The value of the financial products will go up or down according to changes in the exchange rate between that currency and New Zealand dollars. These changes may be significant.

If you expect the financial products to pay any amounts in a currency that is not New Zealand dollars, you may incur significant fees in having the funds credited to a bank account in New Zealand in New Zealand dollars.

The dispute resolution process described in this offer document is available only in Australia and is not available in New Zealand.

## 11 Terms used in this PDS

**Business Day** means a day other than a Saturday, Sunday or public holiday in Melbourne.

**Gross Asset Value** means the value of all the assets and liabilities of the Fund, prior to fees.

**Gross Exposure** means the exposure value of Long positions plus the absolute exposure value of Short positions.

The **High Water Mark** has the meaning given in section 06 on page 12.

**Long position** or **Long** refers to an asset which is held with the expectation that the value of the asset will appreciate.

**Net Asset Value** or **NAV** means the Gross Asset Value of a Fund, less all fees.

**Short position** or **Short Selling** refers to an investment technique in which an asset is borrowed and then immediately sold in the expectation that the asset will then depreciate. The borrowed asset is repaid by buying back the asset on the market, with the intention of obtaining it at a lower price. The asset is then returned to the original lender.

