

K2 Global High Alpha Fund

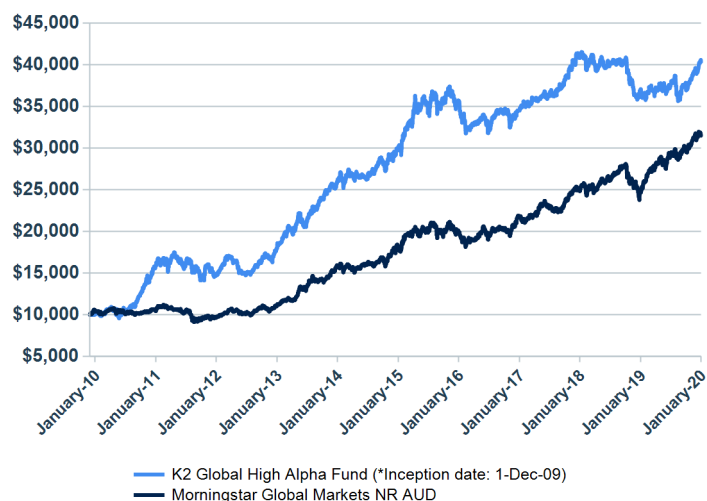
31 December 2019



The K2 Global High Alpha Fund is an Absolute Return equities fund. The fund is index-unaware, aiming to produce positive absolute returns over the long term with a capital preservation mindset. The Fund's mandate allows it to actively manage its net market exposure – utilising both cash and shorts to help protect clients' capital.

	1 Month	3 Months	1 Year	3 Years (%pa)	5 Years (%pa)	10 Years (%pa)	Inception (%pa)	Inception Date
Performance (Net of Fees)	2.2%	6.6%	9.0%	5.3%	6.1%	14.9%	14.8%	1-Dec-2009
Average Net Exposure	85.7%	84.3%	70.3%	74.4%	78.4%	81.6%	81.1%	

Growth of \$10,000



Commentary

The K2 Global High Alpha Fund returned 2.2% for the month of December.

Global equity markets capped off a stellar 2019 driven by strong gains throughout the month in the US, Asia and European key indices. However, the MSCI AC World TR Net AUD Index declined slightly by -0.44% in December due to the strong rise in the AUD. In the UK a landslide win for Boris Johnson has given him a mandate to action Brexit on his terms, providing the market with greater certainty which they dutifully applauded. In the US, once again a trade deal with China appears to have been agreed in principal while the Fed have indicated that interest rates are unlikely to rise for some time yet. In the meantime, the Fed appear to have re-instigated quantitative easing, although officially called something else, it does have the same effect of adding liquidity to the system. To put this in context, since the end of August 2019 the Fed balance sheet has increased by approx. US\$400bn. This equates to roughly 87 S&P500 points for every US\$100bn.

A strong positive contributor to fund performance in December included Freee, a Japanese listed accounting software company. Founded in 2012, Freee aims to achieve in Japan what Xero has accomplished in Australia and New Zealand albeit with a considerably larger addressable market. Currently the largest player in the Japanese cloud accounting and HR software markets Freee is well positioned to benefit as overall cloud penetration in Japan is still in its early stages which over time should approach rates of other developed markets (ie. Japan 14.3% compared to US 52.5% and Australia 61.2%). Looking forward Freee has ambitious plans to move beyond accounting solutions to target the market for all back office spending in addition to offering more broad based financial services.

The AUD ended the month up 3.86% versus the USD at 0.7024. The fund is currently 95% hedged to the AUD providing capital protection against a rising AUD. Net exposure has remained steady at 83.5%.

Top 5 Stock Holdings	Current	Monthly Move
Seven Group Holdings Ltd	3.3%	-0.2%
Kina Securities Ltd	3.2%	0.0%
Money3 Corp Ltd	3.2%	-0.1%
Summerset Group Holdings Ltd	2.8%	-0.2%
Macquarie Group Ltd	2.7%	-0.2%

Month End Exposures	Current	Monthly Move
Communication Services	1.7%	-0.1%
Consumer	16.3%	-0.7%
Energy	3.2%	+0.2%
Financials	25.6%	+0.1%
Health Care	10.6%	-3.1%
Industrials	10.6%	-1.0%
Information Technology	8.7%	-0.8%
Materials	3.4%	0.0%
Other	2.2%	+0.1%
Real Estate	3.9%	+0.3%
SHORTS	-2.9%	+1.3%
Number of Positions	67	+1
Gross Equity Exposure	89.2%	-6.2%
Cash Weighting	16.5%	+3.6%
Net Equity Exposure	83.5%	-3.6%
Currency Exposure Hedged of AUD	92.1%	-1.4%

Fund Characteristics

FUM	AUD \$47m
Portfolio Managers	Campbell Neal, David Poppenbeek, Josh Kitchen and Tony Sutton
Strategy	International Equities
Objectives	To deliver consistent absolute returns over the investment cycle with a focus on capital protection during periods of market declines
Return Target	+10% pa over the long term
Number of Stocks	Up to 120
Cash	Up to 100% of portfolio
Distributions	Annually
Management Fee	2.05%
Buy/Sell	Monthly Application/Redemption
Performance Fee	20.5% of the amount by which the NAV per unit exceeds the High Water Mark

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K2 Global High Alpha Fund Net Monthly Returns in AUD

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin YTD	Fin YTD Index (1)	Average Cash	Average Short	
2009/10						0.8	-1.3	3.5	4.6	-0.3	-5.4	1.8	3.4	1.5	33.7%	-0.3%	
2010/11	5.3	1.4	13.2	9.0	5.9	10.2	0.8	2.0	0.7	3.4	-1.7	-3.1	56.6	3.5	9.6%	-0.8%	
2011/12	1.0	-3.1	-8.6	8.9	-3.3	-3.5	6.2	7.9	0.0	-2.5	-7.3	-2.3	-8.0	-2.6	29.0%	-0.7%	
2012/13	1.5	4.5	4.0	3.5	-1.0	6.9	4.9	4.4	2.2	4.4	1.8	-0.8	42.7	31.0	13.9%	-0.4%	
2013/14	4.9	2.2	4.7	4.3	3.2	1.6	0.3	2.4	-0.6	0.1	0.2	-1.7	23.7	19.6	8.0%	0.0%	
2014/15	4.6	1.6	1.6	1.1	1.2	3.3	4.8	4.5	2.4	3.2	3.7	-3.5	31.9	23.9	9.2%	-0.1%	
2015/16	4.5	-2.4	0.7	3.1	-1.9	-1.0	-4.7	-4.7	1.6	0.8	2.1	-4.1	-6.4	-0.6	18.1%	-0.5%	
2016/17	3.8	2.2	-0.1	-1.9	0.6	1.5	2.2	-0.8	2.6	0.0	1.9	-0.9	11.8	15.4	19.7%	-2.4%	
2017/18	0.1	3.7	1.4	3.6	1.8	1.2	-0.4	-0.2	-1.3	0.2	-0.7	0.6	10.4	15.1	16.4%	-3.0%	
2018/19	0.6	0.5	-0.3	-4.9	-5.3	1.6	-3.3	3.8	-1.2	2.7	-1.8	1.3	-6.6	10.5	38.3%	-6.2%	
2019/20	2.0	-3.5	2.8	0.9	3.4	2.2							7.8	8.7	17.6%	-2.4%	
													Incept	303.4	214.9		
													Incept	14.8%pa	12.0%pa	19.4%	-1.5%

(1) Morningstar Global Markets NR AUD

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