



The Manager, Announcements
ASX Market Announcements
4th Floor, 20 Bridge Street
SYDNEY NSW 2000
By E-lodgment

21 November 2017

Dear Manager,

K2 Asset Management Holdings Ltd (KAM)
Chairman's AGM address

In accordance with ASX Listing Rule 3.13.3, I attach the Chair and Managing Director's presentation, which will be delivered at the company's annual general meeting at 9:00am today.

Yours sincerely

Hollie Wight
Company Secretary



K2 Asset Management Holdings Ltd Annual General Meeting Chair and Managing Director's address

Presented by Mr Campbell Neal at 9.00am 21 November 2017

Chair's address

Today's address will cover the 2017 financial year end results as well as provide an update on our strategies for the future – what we have implemented and what we intend to implement.

Here at K2 our number one priority as investment managers is to meet the expectations of the funds' unitholders. It is these expectations that must be the focus of our decision making process – how we can provide better returns, better service and better wealth outcomes is at the core of every business decision. Whether it's a decision by an investment manager adding a stock to a portfolio or our back office team working with service providers on unitholder reporting, we continue to be focused on the service that we provide to our clients.

If you break down the K2 business it is a very simple formula – funds under management and fund performance. Funds under management ensure revenue consistency for the business through management fees while fund performance ensures we meet unitholder expectations. This combination done well should ensure the desired outcome for all shareholders.

2017 Market summary and fund performance

If we turn our attention to the funds' performance for the 2017 financial year, all funds returned healthy absolute returns. All funds were above relevant hurdle rates and hence all paid varying levels of performance fees.

Equity markets as a whole held up relatively well during the year, with the Trump administration and the continued fallout from Brexit just two of the obstacles needing careful consideration.

If you look at some of the various market segments there is vast difference in their returns for the year when compared to the market index as a whole. The All Ordinaries Index was up 13.1% for the 2017 financial year but this was really dominated by a few sectors and more specifically a handful of stocks. As a case in point, the financial sector, which represents 37% of the ASX 200, rose 13.5%. Sectors that significantly lagged included the telecommunication sector which finished the year 26.2% lower, primarily on the back of the NBN fiasco.

Generally though, equity indexes have done well over the past year. However, passive inflows have been distorting the flow of capital into our equity markets which means that indexes are no longer necessarily a credible guide to the broader market. It is therefore not surprising to see the different price performance of many stocks in the index versus those that are not. Fundamental valuation or price discovery is very often overlooked when investing in an index versus the broader market, which is a situation that we believe is ultimately unsustainable and will correct at some point in the future.



When looking at the current financial year and fund performance year to date we can see that all funds have started the year on a strong note. The K2 Australian Fund is up 6.7%, the K2 Select International Fund is up 8.8%, the K2 Asian Fund is up 11.0%, the K2 Global High Alpha Fund is up 11.4%, the ASX quoted K2 Global Equities Fund is up 11.4% and the ASX quoted K2 Australian Small Cap Fund is up 9.9% year to date.

Financial results

I will now move on to the financial results for 2017. Some key items to note:

- ▶ Total revenue amounted to \$17.2 million.
- ▶ This was predominantly made up of \$9.3 million in management fees and \$7.3 million in performance fees.
- ▶ Responsible entity income contributed \$436,000.
- ▶ And interest income for the period was \$142,000.
- ▶ Total expenses for 2017 were \$8.5 million.
- ▶ Profit after tax was \$6.1 million.
- ▶ Shareholders received a 2 ¼ cent fully franked dividend for the full year.
- ▶ If we focus on expenditure and drill deeper into the total of \$8.5 million, we again see that employee expenses make up a large proportion of this total. Employees were eligible for bonuses for the 2017 year having met various KPIs and performance based hurdles.
- ▶ Most other expenses remained fairly consistent and overall there was a marginal decrease from the previous year. Outside of employment expenses all other expenses totalled \$1.6 million and this was predominantly made up of occupancy costs, marketing expenses and professional fees. So we see everything else as being relatively lean but we do thoroughly review all expenses and look for efficiencies in all business areas.
- ▶ We will continue to look to reduce costs where possible with the only cost expected to increase in the 2018 year being distribution and marketing expenses as we significantly ramp up our efforts in this area.

The balance sheet continues to show excess cash on deposit. We are prudent in the level of cash we retain and always look at our future conservatively. We continue to have no borrowings and the balance sheet projects a strong business unit.

Funds under management and distribution

Let me now turn to funds under management. It's not surprising that the board and senior management continue to focus on FUM and growing K2's distribution channels.

FUM has seen a decline over the last two years which is primarily a result of the following factors:

Firstly: Negative fund performance impacted FUM in the 2016 financial year. This had a dual impact in that it not only affected fund levels from an actual value point of view but also from a net fund flow perspective as many participants in the industry are very focused on short term performance.

Secondly: The review outcomes from consultants and rating agencies have been challenging in the past two years for some of our funds. Without the support of these external parties many distribution channels become closed and fund flows from those market segments are out of reach.

And thirdly: A push for fee reductions and the rise in low fee industry funds has been building for a number of



years. Again, in a prolonged period of sustained economic growth it is easy to ignore the market risks or overlook the advanced stage of the business cycle in which we are currently positioned. This environment makes it easy for low fee funds to be appealing.

The challenges identified above have resulted in us implementing a number of significant initiatives.

K2, driven by our distribution team, is methodically working with rating houses and consultants to reconnect and build relationships. Presenting the K2 investment process in detail and accurately articulating our objectives will ultimately open new doors for the distribution of our funds but this does not happen overnight. We are pleased to say that all required K2 funds have positive ratings and we are aiming to continually improve these as a result of performance and through better communication.

In May this year K2 announced a reduction in both management and performance fees for three of its funds with the changes coming into effect on 3 July 2017. This was something that we did not take lightly but it was necessitated by the current environment.

The management fee for the K2 Australian Fund moved from 1.5% p.a. to 1.28%. The K2 Select International Fund's management fee was adjusted from 1.5% p.a. to 1.33% while the K2 Australian Small Cap Fund had its management fee reduced from 2.0% p.a. to 1.28%. The performance fee rate in the above mentioned three funds was also reduced from 20% p.a. to 15%.

Additional changes were also made to the performance fee hurdle rate. The K2 Select International Fund's hurdle was changed to 6% p.a. while the K2 Australian Small Cap Fund, which previously had no hurdle, had a 6% p.a. hurdle introduced, bringing both in line with the K2 Australian Fund hurdle rate of 6% p.a..

These changes to the funds' fee structure followed extensive industry and client consultation as part of a thorough review of K2's distribution and pricing strategy undertaken by the board and senior management. This new fee structure provides the K2 funds with increased opportunities in a number of distribution channels and removes the push back on fees we have experienced in the past.

This move to reduce fees, the first since inception, ensures that K2 remains competitive and at the same time ensures that the business remains profitable. We know the fee changes will have an impact on management and performance fee revenue for the 2018 financial year and beyond. It is our aim that future FUM growth on the back of this fee reduction will more than counteract the short term revenue reduction.

Our new distribution and pricing strategy aims to position K2 as a primary investment choice among the various market segments. As I said previously, there is a methodical process involved. We need to keep on delivering superior fund performance like we have done over the past 18 years, which is something not many industry participants can say. We need to continue to have our unitholders front of mind in every decision we make and allow our distribution team time to communicate this to the industry as a whole.

I have already spoken of the work we are doing which will allow the K2 funds to be available on various platforms. Funds under advice on platforms exceed \$600 billion dollars in Australia and these funds are directed to platforms by over twenty-five thousand financial advisors.

I'm not suggesting that our team will present to all of these advisors, but we will target the ones that best fit our approach. Many of these relationships are already established and an even greater number are being addressed.



A further avenue that we are pursuing is separately managed accounts. This is similar to products we have provided in the past, so we have the skills and experience to easily offer this option to a select group of investors.

In terms of the unitholder experience in the last 12 months we have updated our website to become more intuitive and user friendly. We have also changed how we communicate with unitholders in our monthly reports to ensure that they are getting the information they require in a more informative and time sensitive manner.

We have significantly upgraded and restructured our distribution team and allocated extra resources accordingly. I know these outcomes all sound like basic requirements but I hope it gives you confidence that every aspect of the business has been reviewed and reiterates our focus on building brand awareness and investor loyalty.

Inevitably, fund performance will not go up in a straight line, although as highlighted earlier all funds are performing strongly year to date. We are confident in our investment team and the experience they bring. We believe that we have the best people and processes in place to achieve the outcomes that our unitholders and shareholders expect.

Market Outlook

I will now move onto our market outlook and where the K2 funds are positioned at the moment.

We currently see the Trump Administration, combined with Republican control of the Senate, continuing to enjoy a honeymoon period in 2017. The one year anniversary of the Trump presidency recently passed in early November and we believe that the US will continue to be the key driver behind the global economy.

There is much noise around the US being in the advanced stages of an economic cycle and that is not dissimilar to the Australian market which has experienced the longest period without a recession in the developed world.

There are many academic theories dating back well beyond our times indicating that share markets tend to move up in waves. To be specific, they historically move up in three waves prior to an inevitable correction. On the slide we can see the red line representing the extended bull market since 2009 and the smaller blue lines showing the significant rallies.

The psychology behind these waves has been developed and explored over time. The first wave is explained by your astute investors that buy into a fallen market and recognise undervalued opportunities and true fundamental value. At this point the majority of investors are still recovering from the correction and are too hesitant to return to equity markets.

The second wave sees investor confidence return as overall economic conditions improve and company valuations can match expectations. This is generally the most dominant period in a bull market. At this point, after two bull waves astute investors begin to query: Where to from here? What more can a stock deliver? Are fundamentals at a peak?

And that's when the third wave commences and investors with little or no reason jump on board and continue to buy equities for only one reason – that they have been going up and they want to participate, “greed” I guess. This is when all logic, value and predictability leave the market and when the less astute are at their most active.

This stage is where investment managers need to partake in some momentum buying rather than relying purely on fundamental value, and this is where we see the markets currently sitting, with markets being driven largely by



momentum.

That is not to say that we don't see opportunities to generate performance over the year ahead. The last 12 months saw Australian equities rank 65th out of 94 measured primary markets. The prospective dividend yield of the Australian market is the highest of the developed economies and there are expectations that next year Australia's rate of unemployment and inflation will be about 20% lower than the global average.

However, we believe it is fair to say that the Australian market appears to be in stage three. How early or advanced stage three is, is a question that we ask ourselves every day and in every portfolio meeting. Has it got another 12 months left to run or will it end sooner? Many indices around the world including the London FTSE 100 and the S&P 500 all appear to be in this third wave phase.

The K2 funds have historically performed well in times of disruption, as we have the ability to draw upon a number of additional investment tools. It would be fair to say that we are being extremely cautious at the moment. We are very conscious of stock valuations and this third wave. Finally, this is really a time when K2 stands ready to rely on its experience to short sell and use cash when needed.

Outlook for 2018

In terms of an overall outlook for the 2017 / 2018 financial year, like always I'm not going to give any profit forecasts for K2.

As I say every year, we remain confident in our processes and in our people. We have a tried and tested investment team backed by great people in administration. We have seen market cycles over the 18 year journey and remain vigilant in our pursuit to protect capital and create wealth with risk adjusted returns in mind.

This concludes my presentation so before we move on to the formal proceedings of the meeting, on behalf of the board I would like to thank our shareholders for your continued support and I would especially like to thank our staff for your constant dedication and professionalism.

K2 Asset Management Holdings Ltd

Annual General Meeting 2017





Agenda

- ▶ Introduction
- ▶ Chairman's address
- ▶ Resolution 1: Receipt of financial reports
- ▶ Resolution 2: Adoption of remuneration report
- ▶ Resolution 3: Re-election of Director – Mark Newman

K2 Fund performance – FY 2017



	K2 Australian Fund	K2 Select International Fund	K2 Asian Fund	K2 Global High Alpha Fund	K2 Global Equities Fund (KII)	K2 Australian Small Cap Fund (KSM)
Financial Year 2017 Fund performance*	9.0%	15.5%	9.9%	11.8%	12.2%	6.5%
Since inception per annum performance#	11.4%	10.6%	9.9%	18.5%	-0.2%	12.3%

* Financial Year 2017 performance figures are net of all fees and are based on the financial year ended 30 June 2017.

Since inception figures are unaudited and net of all fees up to 30 June 2017 for the K2 Australian Absolute Return Fund (inception date 1/10/99), K2 Select International Absolute Return Fund (inception date 1/1/05), K2 Asian Absolute Return Fund (inception date 1/9/99), K2 Global High Alpha Fund (inception date 1/12/09), K2 Global Equities Fund (inception date 20/07/15) and K2 Australian Small Cap Fund (inception date 1/12/13).

K2 Fund performance – FY 2018 YTD



	K2 Australian Fund	K2 Select International Fund	K2 Asian Fund	K2 Global High Alpha Fund #	K2 Global Equities Fund (KII)	K2 Australian Small Cap Fund (KSM)
Financial year to date Fund performance*	6.7%	8.8%	11.0%	11.4%	11.4%	9.9%

* Financial Year performance figures are net of all fees and are based on the financial year to date ending 17 November 2017.

The K2 Global High Alpha Fund is a monthly priced fund.

Consolidated Financial Results FY 2017



	2016	2017
Income Statement		
Total Revenue	\$14,092,005	\$17,193,534
Total Expenses	\$8,436,822	\$8,471,871
Net Profit Before Tax	\$5,655,183	\$8,721,663
Net Profit	\$3,821,442	\$6,099,229
Balance Sheet		
Total Assets	\$11,904,206	\$16,520,566
Total Liabilities	\$3,461,879	\$5,400,392
Net Assets	\$8,442,327	\$11,120,174

Funds under management



	30/06/2016 FUM \$million (AUD)	30/06/2017 FUM \$million (AUD)
K2 Australian Fund	373.5	305.8
K2 Select International Fund	148.9	82.9
K2 Asian Fund	55.0	45.3
K2 Global High Alpha Fund	53.4	37.0
K2 Global Equities Fund	36.7	24.0
K2 Australian Small Cap Fund	22.0	16.3
TOTAL	689.7	511.3

Distribution



- ▶ Market segments within the K2 distribution strategy



Market cycle

