



K2 Asset Management Holdings Ltd

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2019 Financial Year End

“Value investing will prevail”

The 2019 financial year (FY19) was without a doubt a difficult one for active investment managers. Passive investment strategies continued to play a dominant role for investors, with market participants appearing happy to pay any price for a select basket of index stocks. At this late stage in the cycle, it appears that valuation and process are being completely overlooked, testing the patience of active investment managers and unitholders alike. Through this, K2 remains steadfast in the belief that valuations still matter and are vital for long term outperformance. To hold a position that is not based on appropriate valuation metrics is against our core values. We remain confident that the experience and commitment to the business embedded in our investment team will pay significant dividends to unitholders and shareholders in the future.

This is the first financial year K2 has recorded a net loss before income tax. The cost base has and will continue to be “right sized” with expenses anticipated to be reduced by over 30% in the 2020 financial year. K2 remains in a strong balance sheet position holding \$12.6 million in cash.

The performance of the K2 Funds and funds under management (FUM) as at 30 June 2019 is detailed in the table below:

K2 Fund	Financial year fund performance*	Since inception fund performance (p.a.)*	Since inception index performance (p.a.) #	FUM \$million
K2 Australian Absolute Return Fund	-7.6%	+10.4%	+8.7%	137.9 AUD
K2 Select International Absolute Return Fund	+0.7%	+9.6%	+7.3%	32.4 AUD
K2 Asian Absolute Return Fund	+0.5%	+9.2%	+6.5%	16.6 AUD
K2 Global High Alpha Fund	-6.6%	+14.8%	+11.5%	30.1 AUD
K2 Global Equities Fund (KII)	-8.5%	+0.0%	+8.4%	5.0 AUD
K2 Australian Small Cap Fund (KSM)	-9.5%	+7.4%	+8.5%	17.8 AUD
Total				239.8 AUD

The above information is unaudited. *Financial year performance figures are based on a financial year ended 30 June and are net of all fees. # The K2 Australian Absolute Return Fund is compared to the All Ordinaries Accumulation Index, the K2 Select International Absolute Return Fund is compared to the MSCI World AC Index (AUD), the K2 Global High Alpha Fund is compared to the MSCI World AC Index (AUD), the K2 Global Equities Fund is compared to the MSCI World AC Index (AUD) and the K2 Australian Small Cap Fund is compared to the Small Ordinaries Accumulation Index. The K2 Asian Absolute Return Fund is compared to the MSCI Asia ex Japan Index (AUD). Prior to 1 October 2017, the K2 Asian Absolute Return Fund was compared to the MSCI Asia Pacific ex Japan Index (AUD). FUM figures are pre-distributions payable for 30 June 2019.

While attracting additional FUM is still a key focus, outflows disappointingly continued. K2 sees the outflows as a symptom of the late stage of the current growth/ momentum market cycle. In FY19, significant progress was made by partnering with Principals Funds Management to access quality participants in the wholesale market. We believe this is where FUM growth will ultimately come from, with the wholesale market understanding equity cycles and the value of a long-term track record.

K2 doesn't necessarily believe there needs to be a catalyst that will force market participants to return to valuation and profit models. We believe investors will soon reach a point where they see the gap in pricing between value and growth as being far too wide and unsustainable. In the three years leading up to 30 June 2019, the All Ordinaries Accumulation Index has risen 43%, while an equal weighted representation of the entire market has only returned 18%.

K2's focus on absolute investment returns for unitholders hasn't changed. Long term growth is the core of the business and our 20-year track record stands as witness. Investing with a valuation metric has shown to outperform in the long run and history shows that valuations matter.

In the wake of FY19, K2 will stay true to our strategy with conviction through the late stage of this economic cycle. K2's performance has earned performance fees every year since inception 20 years ago (averaging \$10 million per annum over the journey). K2 remains confident that our strategy, processes and people will stand us in good stead for the future.

If we provide consistent long-term outperformance while minimising risk, the value of our offering will be rewarded from both the retail and institutional markets.