



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

26 November 2019

Dear Manager

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

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

Yours faithfully

A handwritten signature in dark ink, appearing to read 'H. Wight', written in a cursive style.

Hollie Wight  
Executive Director



## K2 Asset Management Holdings Ltd 2019 Annual General Meeting Chair and Managing Director's address

Presented by Mr Campbell Neal at 9.00 am on 26 November 2019

### Chair's address

Today I will discuss the Company's performance for the year ended 30 June 2019 and touch on the first few months of the current financial year. Matters to be addressed include remuneration, business initiatives and developments, along with the outlook for 2020 and beyond.

### Market summary and fund performance

The 2019 financial year was without doubt a testing one not only for K2 but for active managers in general. The downtrend in value investing and momentum behind passive investing has been unstoppable over the last few years and although there are several signs that a rotation is coming this doesn't alter the difficult market conditions of recent times. The US/China trade war, unrest in Hong Kong, collapsing global bond yields and political tweets from the US are only a few of the challenges that the markets have navigated.

The active management industry has struggled under the weight of investors moving to passive products and 2019 saw an unprecedented number of fund managers close their doors. Reasons behind such closures include significant outflows in active assets under management as the flood of investors continued to move to passive index investing. It is not only the outflows that have hurt the industry but price competition from these low fee passive funds have compounded the situation. There has also been a shift in institutions internalising the management of their funds, again in a cost cutting exercise, exacerbating the outflows from active managers.

The hidden toll on active managers is that redeeming actively managed funds and buying index funds creates selling in stocks that generally have a value metric. As a result, capital flows into funds that replicate an index with little regard for the inherent value of the equity. Active managers put pressure on the prices of the value stocks by needing to sell, and given the recent demise of active managers it is difficult to find buyers for these positions. Prices continue to fall and the underperformance circular loop continues. Index investing is based on the principle that biggest is best. Clearly we know this is not the case. We believe value is always to be considered when investing in any business. We see index investing as a bubble that will break at some point.

The market volatility of the 2019 financial year offered a mixed bag of performance outcomes both broadly and for the K2 Funds. The rapid price rise of some companies where investors were willing to bank on future growth at any price saw many stocks surge well above what we would say was the intrinsic value. In some cases, greatly inflating the index returns they were associated with.

Being in the late stages of any cycle, requires patience and dedication from our investment managers and unitholders alike. Our investment philosophy does not change from our diligent search for profits over promise.



To hold a position that is not based on appropriate valuation metrics is against our core values.

## Financial results

Turning our attention to the financial results of the K2 business and our clear areas of focus: Fund performance and funds under management (FUM). The combination of these two done well will ensure share price growth and provide future dividends.

Looking at the financial results for FY19 in more detail, some of the key items to note are:

- Total revenue amounted to \$4.8 million, \$4.4 million of which was management fees
- Other revenue consisted of responsible entity income contributing \$171,000 and interest income for the period being \$244,000.
- Total expenses were \$6.6 million.
- The company recorded a net loss before tax of \$1.8 million resulting in an after tax loss of \$1.3 million.

This was the first loss before tax that has been recorded since our initial year of operation some 20 years ago.

## Expenses

The business has consistently reduced expenses during the 2019 year and we have continued to do so in the current financial year. We have further reduced our employment expenses by significantly reducing the remuneration of all Executive Directors and senior management, along with reducing overall staff numbers. There have been no short-term bonuses paid to staff and no increases in base remuneration. The total remuneration expense currently sits at approximately \$2.3 million for the 12 months from November 2019.

Outside of employment expenses, our largest expense for the 2019 year was occupancy expenses. We have recently negotiated a sublease agreement on a large portion of our space reducing the direct rental expense by nearly 45%. Fund expenses totalled \$369,000 and again we have found alternatives to reduce this figure in 2020. Outside of those mentioned all other FY19 expenses totalled \$790,000.

Our balance sheet remains exceptionally strong with \$12.6 million of cash on hand as at 30 June 2019. This was a deliberate undertaking over recent years to ensure that the business would have sufficient reserves to survive such testing market conditions. Bringing expenses in line with our revenue is paramount and has been a key focus over the last 12 months. We aim to continue to do this to the best of our ability.

## Distribution & Funds under management

In 2019 we made significant headway with our partnership with Principals Funds Management. Principals have a wide and established distribution channel and access to quality participants in the wholesale market. We believe there are near term opportunities to win mandates from these wholesale clients. Wholesale clients continuously assess alpha generating managers particularly those with long term track records. We are confident in our partnership with Principals and the progress we are making.

Growth in FUM continues to be the main focus area for K2 and the Board. Industry issues have already been touched on in relation to fund outflows, issues to which K2 have not been immune to. Our FUM is not where we want it to be and strategies have been implemented to position K2 for growth in this area.



Having seen many a market cycle, we know a few things are certain, one is that money will follow performance and two, managers who have not waived from their investment strategy and stay true to their belief that valuation matters will return to favour.

We acknowledge that this can be a long process. We want to reassure all shareholders that targeted steps continue to be taken with unitholder return and ultimately shareholder value front of mind at all times.

### Outlook

The new financial year will require vigilance and those that can survive the late stage of this passive cycle will be well positioned for the future. Due to the large number of closures and losses of key mandates, there is far less competition within the active space. This will help us in time to come.

The index trade is overcrowded. We know this as we watch investors switch to index-type products. History has shown, that overcrowded trades will inevitably unwind. We believe that indices were never meant to be investment platforms, but timing the turnaround is difficult.

Active managers can thrive in volatile markets and while we never attempt to predict market directions, it would be reasonable to expect that volatility will continue. Investors need active managers that are experienced and disciplined in their investment approach if they are to succeed over the longer term.

This concludes my presentation this morning. 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**  
**2018 Annual General Meeting**  
**Chair and Managing Director's address slide pack**

# K2 Asset Management Holdings Ltd

Annual General Meeting 2019

K2 Asset Management





## Agenda

- ▶ Introduction
- ▶ Chairman's address
- ▶ Receipt of Annual Report
- ▶ Resolution 1: Adoption of Remuneration Report
- ▶ Resolution 2: Re-election of Director – Mr. Mark Newman
- ▶ Resolution 3: Issue of Options to Mr Campbell Neal, Managing Director
- ▶ Resolution 4: Issue of Options to Ms. Hollie Wight, Executive Director
- ▶ Resolution 5: Approval of additional 10% placement capacity

# K2 Asset Management Holdings Ltd

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# K2 Fund performance – FY 2019



	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)
<b>Financial Year 2019 Fund performance*</b>	<b>-7.6%</b>	<b>+0.7%</b>	<b>+0.5%</b>	<b>-6.6%</b>	<b>-8.5%</b>	<b>-9.5%</b>
<b>Since inception per annum performance#</b>	<b>+10.4%</b>	<b>+9.6%</b>	<b>+9.2%</b>	<b>+14.8%</b>	<b>+0.0%</b>	<b>+7.4%</b>

\* Financial Year 2019 performance figures are net of all fees and are based on the financial year ended 30 June 2019.

# Since inception, figures are unaudited and net of all fees up to 30 June 2019 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



	2020 YTD	5 years	7 years	9 years	Since Inception
K2 Australian Fund	<b>3.0%</b>	<b>3.9%</b>	<b>7.2%</b>	<b>5.5%</b>	<b>10.4%</b>
K2 Select International Fund	<b>3.2%</b>	<b>6.9%</b>	<b>9.6%</b>	<b>7.4%</b>	<b>9.5%</b>
K2 Asian Fund	<b>0.2%</b>	<b>3.4%</b>	<b>7.4%</b>	<b>4.4%</b>	<b>9.0%</b>
K2 Global High Alpha Fund	<b>4.6%</b>	<b>6.3%</b>	<b>12.8%</b>	<b>11.9%</b>	<b>14.7%</b>
K2 Global Equities Fund (KII)	<b>1.5%</b>				<b>0.3%</b>
K2 Australian Small Cap Fund (KSM)	<b>7.4%</b>	<b>5.6%</b>			<b>8.1%</b>

\* Year to date performance figures are net of all fees and are based on YTD to 22 November 2019.

# Since inception, figures are unaudited and net of all fees up to 30 June 2019 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).

# Consolidated Financial Results FY 2019



	FY 2018	FY 2019
<b>Income Statement</b>		
Management Fees	\$5,904,284	\$4,366,126
Performance Fees	\$7,641,846	\$16,835
Other revenue	\$529,232	\$415,764
Total Revenue	\$14,075,362	\$4,798,725
Total Expenses	\$6,870,520	\$6,568,685
Net Profit Before Tax	\$7,204,842	(\$1,769,960)
Net Profit After Tax	\$5,220,070	(\$1,341,887)
<b>Balance Sheet</b>		
Total Assets	\$17,534,617	\$14,643,979
Total Liabilities	\$2,897,530	\$1,331,547
Net Assets	\$14,637,087	\$13,312,432

# Expenditure FY 2019



	FY 2018	FY 2019
<b>Income Statement</b>		
Employee benefits expense	(\$5,554,059)	(\$4,980,284)
Depreciation and amortisation expenses	(\$38,705)	(\$24,915)
Marketing expenses	(\$344,579)	(\$320,793)
Occupancy expenses	(\$454,069)	(\$434,386)
Professional expenses	(\$270,622)	(\$249,957)
Technology expenses	(\$148,672)	(\$166,964)
Fund operating expenses	(\$27,557)	(\$369,385)
Other expenses	(\$32,257)	(\$22,001)
<b>Total</b>	<b>(\$6,870,520)</b>	<b>(\$6,568,685)</b>

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