



K2 SELECT INTERNATIONAL ARF

MONTHLY REPORT – 31 AUGUST 2009

Global Market Review

The K2 Select International ARF returned 2.13% for the month of August. The MSCI World Index (in AUD terms) returned 2.8%. Global markets were broadly positive again in August as the macro economic landscape continued to improve in tandem with corporate profits. Significantly for equity markets it is now apparent that manufacturing activity is rising to expansionary levels, unemployment in the US is peaking at or below 10%, house prices are rising globally, consumer confidence is returning and expectations for corporate profits continue to be ratcheted higher. Accommodative monetary policy also appears sustainable in light of muted inflation concerns. Europe was the standout outperformer as economic data from Germany and France improved ahead of expectations while relative valuations remain well below historical levels. In the US, the search for laggards reached a peak in August as the poster children of the global financial crisis - Fannie Mae, Freddie Mac and AIG - all rose over 200%. In another positive development for markets, M&A was back on the agenda in the US with two deals totalling USD10bn announced at the end of the month. Further gains in equity markets were stymied by a significant fall in the China A Share market (-21.8% for the month) as concerns arose over potential policy tightening coupled with high valuations and significant retail investor activity. Despite weakness in Asia, copper prices rose 7% while the AUD managed a 1% gain for the month.

Outlook

With governments unlikely to withdraw stimulus spending and central banks under no inflationary pressure to engineer an exit strategy the sweet spot for global equities looks likely to continue over the medium term. Global economic growth is likely to return to most developed economies in the 3rd quarter of 2009 and companies are also likely to enjoy the benefits of the global inventory re-stocking cycle. Combined with equity markets that still trade some 15-20% below pre Lehman's collapse levels we see ample room for global stocks to continue their recent performance. Key risks to this outlook are likely to come from any misguided efforts to re-regulate the global banking system at the upcoming September G20 meeting and markets moving to force central bankers to consider a premature exit strategy from accommodative rates. Longer term, huge issues remain as to the level of developed world government debt, over geared developed world consumers and the extent to which current stimulus measures have borrowed from future spending. But for now the recovery will dominate with the true longer term effects of the economic crisis unlikely to become apparent until the 2nd half of 2010.

Strategy

The K2 Select International ARF maintained net equity exposure above 80% throughout the month of August. Regionally, Asia took a breather over the month with most of our performance gained from the UK / Europe and the US. During the month we reduced exposure to HK/China and increased exposure to under-valued laggards in Japan and Europe. Longer term we maintain our bias to Asian markets based on higher levels of government saving and better demographic and consumer trends. On currencies we continue to hedge all of our international investments back to AUD so as to protect the return on our investments in AUD terms.

Portfolio Realised Gains & Losses – August

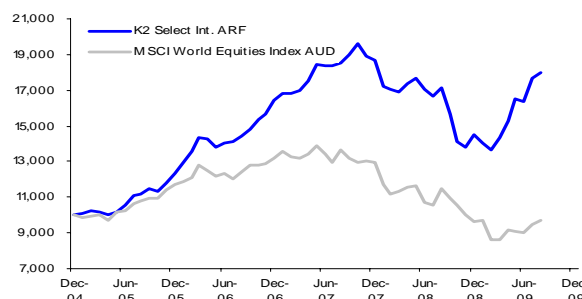
Long Sales		
Australia	Profits	Campbell Brothers, JB Hi-Fi, Wotif.com
China	Profits	Beijing Enterprises Water, China Metal Recycling, Johnson Electric, Poly HK,
	Losses	China Everbright Ltd, Franshion Properties, KWG Property
Euroland	Profits	Hochtief, Kloeckner, Peugeot
Hong Kong	Profits	Citic Pacific
	Losses	G Resources
United Kingdom	Profits	Bellway, British Airways, Segro, Taylor Wimpey
United States	Profits	Bank of America, Ingersoll Rand, Prudential Financial

Performance to 31 August 2009

1 Month	2.13%
3 Months	9.17%
6 Months	32.02%
1 Year	5.17%
3 Years (p.a.)	7.71%
Since Inception (p.a.)	13.44%

The Fund's aim is to generate an 15%+ per annum return, net of fees and expenses, over an investment cycle.

Growth of AUD\$10,000



Returns are based on NAV per unit plus distributions reinvested net of management fee and performance fee accruals.

Fund Details (Unaudited)

Net Asset Value Per Unit:	A\$134.46
Distribution 30/06/09:	-
Distribution 30/06/08:	-
Fund Size	A\$135.7m
Start Date:	1/1/05
S&P Fund Rating	★★★

Top 5 Large Cap Holdings	Country	%
Morgan Stanley	United States	2.9
JB Hi-Fi	Australia	2.1
Macquarie Bank	Australia	2.0
AMP	Australia	1.9
Bank of America	United States	1.8

Geographic Exposure %

Equity	Long	Short	Net Equity
Australia	19.5	-0.1	19.4
Euroland	7.7	0	7.7
HK China	7.6	-0.7	6.9
Hong Kong	8.3	0	8.3
India	0.4	0	0.4
Japan	8.2	0	8.2
Korea	0.9	0	0.9
Norway	1.7	0	1.7
Singapore	0.3	-0.3	0.0
Switzerland	2.1	0	2.1
Taiwan	2.7	0	2.7
UK	6.3	0	6.3
USA	19.2	0	19.2
Other	2.4	-1.0	1.4
Total Equity	87.3	-2.1	85.2
Total Cash			14.8
Total Equity and Cash Exposure			100.0
Net AUD Exposure after Hedging			90.2%

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K2 Select International Fund



Financial Year Returns

K2 ASSET MANAGEMENT

K2 Select International Net Monthly Returns in AUD														MSCI (1)
Year	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Fin YTD	Fin YTD
2004/05							0.9	1.3	-0.4	-1.4	1.4	3.8	5.6	2.3
2005/06	4.9	0.7	2.6	-1.0	4.2	4.4	5.1	4.4	5.7	-0.1	-3.6	2.0	33.2	20.6
2006/07	0.4	2.1	2.8	3.6	2.0	4.8	2.4	0.1	1.1	3.1	5.1	-0.3	30.7	8.4
2007/08	0.1	0.6	2.6	3.4	-3.7	-1.1	-8.0	-0.6	-1.2	3.0	1.8	-3.4	-7.0	-20.2
2008/09	-2.5	2.9	-8.6	-9.7	-2.5	5.1	-3.1	-2.8	4.9	6.9	7.8	-0.7	-4.0	-15.9
2009/10	7.6	2.2											9.9	8.3
*Estimated Return Since Inception													80.1	-2.69

Key Statistics	Return (CAGR)	Standard Deviation (Annualised)	Alpha (Annualised)	Beta	Sharpe Ratio (6.0%)
Since Inception	13.5	12.8	14.2	0.6	0.7
MSCI (1) Since Inception	-0.6	13.2	N/A	N/A	-0.5

NOTE: (1) MSCI AC World Index with Dividends, expressed in AUD