K2 Asset Management
Level 32, 101 Collins Street Melbourne Victoria 3000 Australia
Telephone 61 3 9691 6111 **Facsimile** 61 3 9691 6170
Website k2am.com

K2 Asset Management Ltd

Taxation Information Sheet – 6 June 2018

Taxation of Registered Managed Investment Schemes

The following information is a tax summary based on tax laws current at the date of this document. The purpose of this information is to provide a general outline of the Australian tax implications for Australian resident investors who hold an interest in the Funds on capital account. This general summary is not intended to be authoritative or a complete statement of the applicable laws. Prospective investors are advised to seek independent professional advice relevant to their own particular circumstances before investing in the Funds.

Taxation of the Funds

The Funds are registered within Australia for tax purposes, with income determined for each Fund annually.

The Funds qualify as Attribution Managed Investment Trusts (AMITs) and K2 Australian Small Cap Fund and K2 Global Equities Fund have elected into the AMIT regime. K2 Global High Alpha Fund, K2 Australian Absolute Return Fund, K2 Asian Absolute Return Fund and K2 Select International Absolute Return Fund intend to elect to apply the AMIT regime in respect of the year ended 30 June 2018. This election is irrevocable.

The Funds intend to attribute all of the taxable income (including net taxable capital gains) of the Fund to investors under the AMIT regime, therefore, generally the Funds should not be subject to Australian income tax.

The Funds will issue an AMIT member annual statement (AMMA statement) to investors each year. The AMMA statement will provide details of each component of the Fund's income and tax offsets attributed to investors.

The Funds should not be subject to tax because the Funds will distribute all of the taxable income to investors and will not over distribute tax offsets.

Regardless of whether the Funds qualify as AMITs, on the basis that investors will be presently entitled to the net income of each Fund (including net taxable capital gains), the Funds should not be subject to Australian income tax other than if the Fund has an under distribution of income or an over distribution of tax offsets.

If the Funds do not qualify as AMITs in an income year, the Funds will provide investors with a distribution statement which will provide details of the income and tax offsets distributed to investors.

The Funds have made the Managed Investment Trust (MIT) capital account election. Consequently, all gains and losses from disposal of qualifying assets (for example shares in a company or units in a unit trust) are treated as being on capital account for tax purposes in an income year where the Fund qualifies as a MIT. This election is irrevocable.

In the case where a Fund makes a loss, for tax purposes the Fund cannot distribute the loss to investors. However, subject to that Fund meeting certain conditions, the Fund may be able to take into account the losses in subsequent years.

Taxation of resident investors

Generally, an investor will be subject to tax on their share of the Funds' taxable income in each financial year. The AMMA statement will provide investors with the components of taxable income that will be included in the investors' assessable income, together with tax offsets that may be utilised by investors.

If the Funds do not qualify as AMITs in an income year, investors will be subject tax on their entitlement to the net income of a Fund for a financial year. The Funds will issue a distribution statement to investors which will provide details of the amounts to be included in their assessable income, together with tax offsets that may be utilised by investors.

If investors have elected to have income distribution by Funds reinvested into additional units in the Funds, investors will remain subject to tax as outlined above.

Due to the possibility of investors moving into and out of each Fund at different points in time, there is a risk that taxation liabilities in respect of gains that have benefited past investors may have to be met by subsequent investors.

Risks of investing shortly before 30 June

The Funds intend attributing the taxable income of the Fund to investors that are registered holders of units on 30 June each year. These amounts generally form part of an investor's assessable income, and investors will be liable to pay tax on that income. Where the Fund subsequently distributes such amounts, the value of each unit will be reduced by the distribution amount.

Investors purchasing units on or shortly before 30 June will be attributed with a share of the Funds' taxable income for a whole income year. Such attribution (depending on the investor's tax circumstances) will be likely to create a tax liability for the investor.

Capital gains tax discount

Investors may be attributed with capital gains realised by the Fund. Investors that are individuals or superannuation funds may be entitled to a capital gains discount where the capital gain has arisen from an investment held continuously by the Fund for at least 12 months. Companies are not entitled to the discount.

Imputation credits and franked dividends

Investors may be attributed with franked dividends and imputation credits. Generally, investors should include the franked dividends and the franking credits (imputation credits) which are attributed to them in their assessable income. Certain additional requirements, including the 45-day holding period rule may need to be satisfied in order to obtain franking credits in relation to dividends. The investor's particular circumstances (and those of the applicable Fund) will be relevant to determine whether the investor is entitled to any franking credits.

Foreign income

The Funds may derive foreign sourced income that is subject to tax overseas. Investors should include both the foreign income and the amount of the foreign income tax offsets attributed to them in their assessable income. Investors may be entitled to foreign income tax offsets that may be used to offset the Australian tax payable on the foreign source income.

Tax free distributions and tax deferred distributions

The Funds may distribute amounts to investors in excess of the taxable income attributed to investors. Distributions of such amounts are generally not subject to tax. Although the receipt of non-assessable amounts is generally not subject to tax, the receipt of certain non-assessable amounts may have capital gains tax consequences. Broadly, the receipt of certain non-assessable amounts may reduce the cost base of the investor's investment in a Fund. The impact of the reduction to the cost base may result in either an increased capital gain or a reduced capital loss on the subsequent disposal of the investment in a Fund.

Increase in cost base of units

Under the AMIT regime, generally, where the cash distribution paid to a investor is less than the taxable income attributed to the investor, the cost base of the investor's investment in a Fund may be increased. The impact of the increase to the cost base may result in either a decreased capital gain or an increased capital loss on the subsequent disposal of the investment in a Fund.