

### Market and Fund Review

King Tide started the year marginally in the red with a return of -0.2% in January versus a fall of -0.8% for our benchmark. It was a disappointing month for local markets given the strength of global equities with the MSCI ACWI (All Country World Index) rising 5.7%.

Locally the NZX50 was up 0.5% while it's Australian counterpart was down -0.3%, although this drops to -1.0% in NZ dollar terms due to the strengthening Kiwi dollar. Over recent months the Kiwi dollar has continued to surprise on the upside, confounding most market pundits who continue to forecast central banks will gradually normalize (increase) interest rates on the back of increased growth and higher inflation. This is expected to lead to a weaker kiwi as the interest rate differential dissipates, and indeed the US and Australian 10yr bond yields have reached parity for the first time since 2000.

As we go to press the re-emergence of volatility at the start of February has roiled global equity markets however it remains to be seen what will be the flow-on effects for local markets or if this marks the beginning of the end for the current bull market. Needless to say, we won't be making any kneejerk changes to the portfolio as all of our managers have been added to a greater or lesser extent for their long-term ability to protect investors capital.

While a downturn in equities never makes for a comfortable ride for investors most active managers generally welcome market corrections and the increased volatility it generates as this tends to throw up opportunities to buy great businesses at attractive prices. One manager that has excelled at buying quality businesses at favourable prices for the best part of two decades is Smallco, the focus of this month's manager review.

### Smallco Investment Fund

Smallco is a Sydney based boutique fund manager, founded in 2000 by Rob Hopkins and Bill Ryan who first worked together at ANZ Securities in 1996. They have subsequently added four more portfolio managers, and together average more than 20 years' experience, surely one of Australia's most experienced specialist small cap teams.

Smallco currently manage approximately \$850m spread across three strategies; their flagship Smallco Investment Fund (SIF) which launched in October 2000, a family office mandate, and the Smallco Broadcap Fund (SBF) which was added in October 2008.

SIF utilises a fundamental bottom up investment style best described as a "Growth at a Reasonable Price" (GARP). They define the Smallco "sweet spot" as companies with a market cap between \$100m to \$500m, although their broad mandate allows them also take advantage of opportunities in larger cap and microcap stocks.

The focus on quality businesses with strong cash flow means resources stocks are generally excluded from the portfolio which typically holds between 25 and 35 stocks. As the manager says: "A concentrated portfolio of good companies is better than a large number of mediocre holdings".

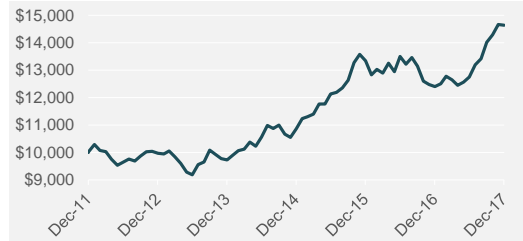
Although the managers are allowed to gear SIF's net exposure up to 130% at cost, this ability hasn't been used in more than a decade, with net exposure typically hovering around 80%. Likewise, although the fund can short sell up to 30% of the fund at cost, historically it has used this ability very sporadically and can go years on end without shorting. To date the 20% average cash weighting (max 50% allowed) has been used as the main means of downside protection.

In its 17+ years of existence SIF has produced one of the most enviable track records in Australia with initial investments currently up 10x since inception (14.5% p.a.) and unlike most outstanding managers who tend to accumulate assets and invariably run into capacity issues they have made the conscious decision to focus on performance with the fund currently hard closed to new and existing investors at approximately \$360m.

	3mth	6mth	1yr	3yr p.a.	5yr p.a.	10yr p.a.
Smallco Investment Fund	5.85%	15.95%	24.65%	16.58%	19.03%	13.83%
ASX All Ordinaries	3.33%	8.44%	12.64%	7.92%	9.14%	5.19%

Since we first invested in July 2014 SIF has returned 16.6% p.a. versus 7.0% for the ASX All Ords and 9.7% for the Small Ords.

### NZD \$10,000 Invested at Inception



Performance Metrics (%)	KT NZD	Benchmark *
1-Month	-0.17%	-0.82%
3-Month	4.44%	1.56%
6-Month	14.82%	11.51%
1-Year	18.02%	19.16%
3-Year p.a.	10.44%	9.39%
5-Year p.a.	7.98%	7.34%
Since Inception p.a.	6.47%	9.09%

\* 90% All Ords Accum/10% NZX50

### Fund Overview

King Tide Asset Management ('King Tide') is a specialist, independent investment management company and the manager of the "King Tide NZ/Australian Long/Short Equity Fund". We research and select managers who employ risk based strategies to extract gains from the divergent sectors in the Australasian equity markets. The King Tide team have more than 100 years experience in capital markets as managers, investors and allocators of capital. We look for great people, an alignment of incentives, and skin in the game. The fund offers access to some of Australasia's best "risk-based" equity managers. King Tide has a simple, transparent, tax effective "PIE" structure, making it appealing to NZ and Offshore investors.

Risk Metrics	KT NZD	Benchmark
3-Yr Standard Deviation	8.00%	11.59%
3-Yr Sharpe Ratio	0.98	0.59
Standard Deviation (Since inception)	7.68%	11.31%
Sharpe Ratio (Since inception)	0.48	0.56
Ave Rtn in Market Positive Months	1.50%	2.67%
Ave Rtn in Market Negative Months	-1.28%	-2.85%
Up Capture	0.56	1.00
Down Capture	0.45	1.00
Annualised Tracking Error	8.25%	n/a
Beta	0.46	1.00
Maximum Drawdown	-10.71%	-10.57%
Annualised Alpha	0.77%	n/a
Worst Month	-4.16%	-6.26%
Best Month	5.07%	7.31%

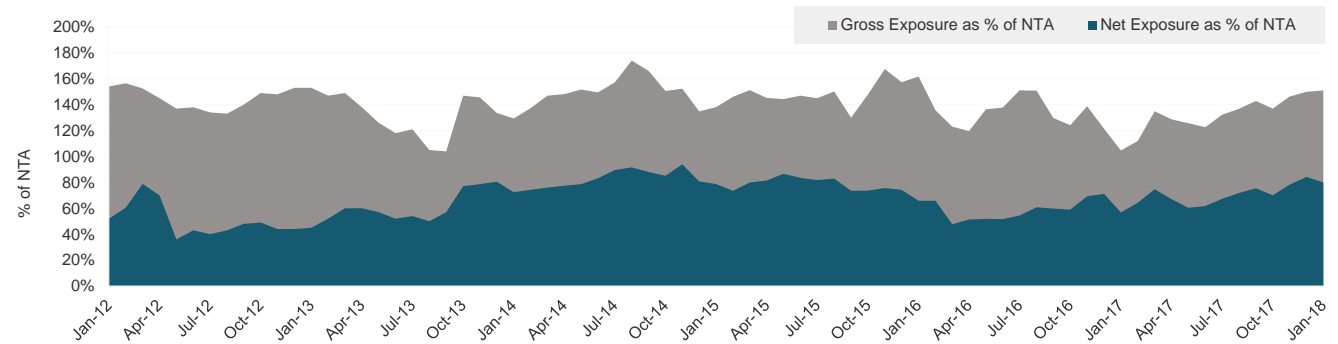
^ RFR = RBNZ 90 day bank bill rate

## King Tide - Fund Performance (Net of Fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	0.29%	2.61%	-2.09%	-0.45%	-2.75%	-2.23%	1.16%	1.19%	-0.74%	1.83%	1.63%	0.15%	0.44%
2013	-0.73%	-0.23%	1.09%	-2.16%	-2.41%	-3.30%	-1.03%	4.04%	1.00%	4.44%	-1.56%	-1.53%	-2.67%
2014	-0.46%	1.81%	1.63%	0.55%	2.54%	-1.46%	3.27%	4.00%	-1.02%	1.15%	-2.99%	-1.10%	7.95%
2015	2.99%	3.40%	0.60%	0.82%	3.25%	0.00%	3.09%	0.50%	1.32%	2.26%	5.07%	2.27%	28.65%
2016	-1.73%	-3.82%	1.54%	-1.04%	2.80%	-2.32%	4.29%	-2.10%	1.83%	-2.31%	-4.16%	-1.00%	-8.10%
2017	-0.58%	0.81%	2.20%	-1.02%	-1.60%	0.93%	1.48%	3.50%	1.69%	4.47%	1.93%	2.63%	17.54%
2018	-0.17%												-0.17%

Performance results are presented net of all transaction costs, investment management and performance fees incurred by the Fund.

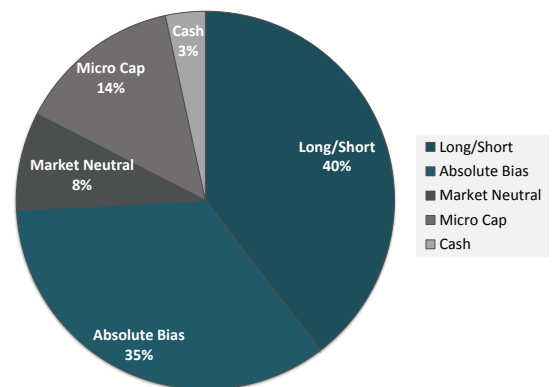
## Gross and Net Exposure (% of Net Assets)



## Top 10 Funds: (% of Net Assets)

Fund name	Strategy	% of assets
Auscap Long Short Australian Equities Fund	Long/Short	12.66%
L1 Capital Long Short Fund	Long/Short	10.45%
Atlantic Absolute Return Fund	Long/Short	9.23%
Tasman Market Neutral Fund	Market Neutral	8.41%
Sandon Capital Activist Fund	Absolute Bias	7.50%
Milford Australian Absolute Growth Fund	Absolute Bias	7.35%
LHC Capital Australia High Conviction Fund	Long/Short	7.25%
Wilson Asset Management Equity Fund	Absolute Bias	6.88%
Smallco Investment Fund	Absolute Bias	6.48%
The Level 18 Fund	Absolute Bias	6.35%

## Strategy Weightings: (% of Net Assets)



## Fund Information

Name	King Tide NZ/Australia Long Short Equity Fund
Structure	Wholesale Unit Trust
Domicile / Currency	New Zealand / NZD
Inception	31 December 2011
Management Fee	0.50%
Performance Fee	10.00%
High Watermark	Yes
Minimum Investment	NZD\$10,000
Subscription Frequency	Monthly
Redemption Frequency	Monthly
Buy / Sell Spread	0.25%

## Service Providers

Trustee	Guardian Trust
Fund Administrator	Adminis
Fund Custodian	Adminis
Legal Advisor	Minter Ellison Rudd Watts
Fund Auditor	PWC

## King Tide Asset Management

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Note: King Tide's Information Memorandum is available on request. King Tide's performance is expressed in NZ dollars, and currency fluctuations may significantly impact the volatility of the fund. In July 2013, the manager changed the investment mandate to allow currency hedging to be used to manage this currency risk. The Manager will actively manage the Fund's Australian dollar exposure with a view to reducing risk and enhancing returns to our investors.

