

## Market and Fund Review

King Tide finally erased the first quarter's losses and is once again back at its highwater mark following a gain of 1.8% in June. Our benchmark meanwhile rose 4.1% this month with a 3.3% gain for the NZX 50, a 2.9% gain for the ASX All Ords and a currency gain of 1.2%.

Year to date the fund is up 0.3% versus 3.8% for our benchmark while over 12 months the fund is up 17.1% versus 18.6%.

After the brief spike in volatility experienced earlier in the year calm has returned to the markets. Indeed, over the last 12 months the volatility of the ASX has been 45% below its long-term average while the NZX has been a remarkable 65% lower than average. Whether or not this portends the end of the bull market (as it did in 2007) we are not willing to speculate but the bears certainly seem to be getting more column inches. As always, we are actively positioning the portfolio to limit the pain we experience in a market downturn.

Our small cap managers were once again the largest contributors for the month led by Smallco (+4.1%) and LHC (+3.9%) who were also the best performers for the quarter up 10.1% and 6.4% respectively. The largest detractors were L1 (-6.3%) as popular growth/momentum stocks continued to rally vs out of favour value stocks; and Firetrail (-3.3%) which gave up some of last month's gains.

This month is an opportune time to review our two Regal funds, the **Atlantic Absolute Return Fund** and the **Tasman Market Neutral Fund**, as they have been the two best performing funds in the portfolio over the last 12 months.

Regal Funds Management was founded in Sydney in 2004 by Phil King and has been 30% owned by Ascalon, an arm of Westpac, since 2010. With more than \$1bn in funds under management Regal is one of Australia's most highly decorated and best performing hedge fund managers, which has enabled them to attract top talent and access trading opportunities not available to smaller managers.

	3mth	6mth	1yr	2yr p.a.	3yr p.a.	5yr p.a.
<b>Atlantic Absolute Return Fund</b>	6.0%	-0.3%	92.4%	12.0%	20.7%	39.4%
<b>Tasman Market Neutral Fund</b>	2.6%	7.8%	34.7%	6.5%	8.3%	11.5%
<b>S&amp;P/ASX All Ords Acc Index</b>	8.0%	4.0%	13.7%	13.4%	9.5%	10.3%

Regal currently manages a number of funds across four broad equity strategies focusing on Australia and the wider Asian region. In addition to their flagship funds Tasman and Atlantic, Regal manages two active extension funds (130% long/30% short) the Australian Long/Short Equities Fund and the Australian Small Companies Fund as well as two pre-IPO funds, Emerging Companies Funds I & II.

Regal utilises a fundamental bottom up stock selection process but also attempt to identify macro factors and trends that may impact a company. Short positions are generally designed to generate alpha rather than as a tool to hedge stock or sector specific risk and may be held for years before the thesis plays out.

Tasman typically maintains a beta neutral portfolio - where returns are expected to move independently of market moves - with net exposure typically 0-30% and gross exposure generally 200-300%. Unlike some market neutral fund managers, Regal does not seek to hedge away all sector or factor risk, but actively seeks to profit from these exposures.

Although focusing on the same investment universe, Atlantic is a very different animal, with net exposure averaging around 200% and gross exposure typically ranging from 350-450%. Both funds can invest across the market cap spectrum although they have tended to tilt towards small and mid-cap stocks. Likewise, although predominantly focused on Australasian markets in recent years they have increased their Asian exposure in line with their growing capabilities and the number of investment opportunities.

Like most successful managers Regal's tendency to take positions contrary to market consensus means their performance often zigs when the market zags and vice versa. Atlantic in particular is a case in point, achieving an annual return of 36.7% since inception despite drawdowns of -43%, -53% and -69%. In each instance the fund recovered over a period of 12 to 18 months, however the high levels of volatility (typically 30-40% p.a.) and gearing mean Atlantic can quickly overwhelm the rest of rest of the portfolio unless it is actively managed.

This can be problematic due to the fund's quarterly liquidity nonetheless we endeavour to smooth King Tide's exposure through time by adding after drawdowns and trimming following periods of strong performance. Indeed, this is why we are currently trimming Atlantic after it has returned 92% in the last 12 months.

## NZD \$10,000 Invested at Inception



Performance Metrics (%)	KT NZD	Benchmark *
<b>1-Month</b>	1.79%	4.11%
<b>3-Month</b>	5.37%	11.04%
<b>6-Month</b>	0.32%	3.78%
<b>1-Year</b>	17.09%	18.58%
<b>3-Year p.a.</b>	7.73%	8.88%
<b>5-Year p.a.</b>	9.64%	9.24%
<b>Since Inception p.a.</b>	6.12%	9.24%

\* 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
<b>3-Yr Standard Deviation</b>	8.21%	12.10%
<b>3-Yr Sharpe Ratio</b>	0.62	0.46
<b>Standard Deviation (Since inception)</b>	7.66%	11.33%
<b>Sharpe Ratio (Since inception)</b>	0.44	0.58
<b>Ave Rtn in Market Positive Months</b>	1.52%	2.72%
<b>Ave Rtn in Market Negative Months</b>	-1.36%	-2.86%
<b>Up Capture</b>	0.56	1.00
<b>Down Capture</b>	0.48	1.00
<b>Annualised Tracking Error</b>	8.20%	n/a
<b>Beta</b>	0.47	1.00
<b>Maximum Drawdown</b>	-10.71%	-10.57%
<b>Annualised Alpha</b>	0.39%	n/a
<b>Worst Month</b>	-4.16%	-6.26%
<b>Best Month</b>	5.07%	7.31%

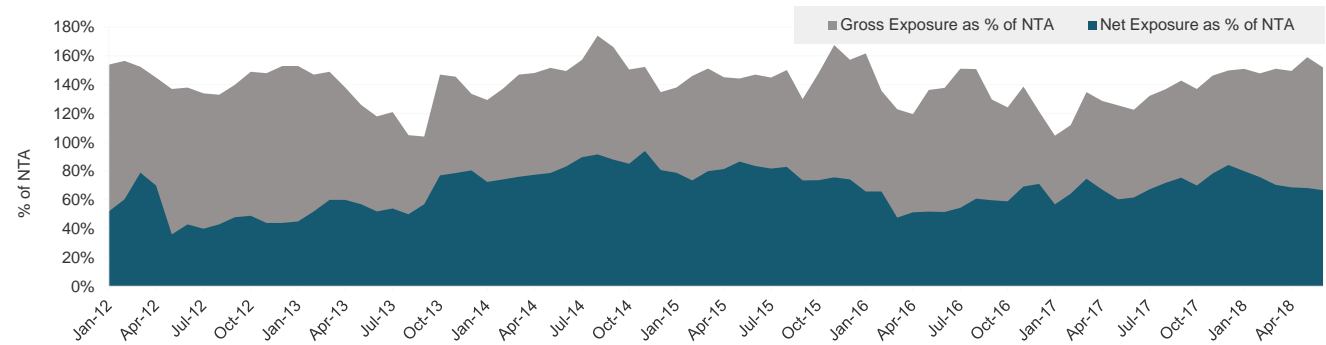
^ RFR = RBNZ 90 day bank bill rate

## 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%	-3.25%	-1.43%	1.57%	1.91%	1.79%							0.32%

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

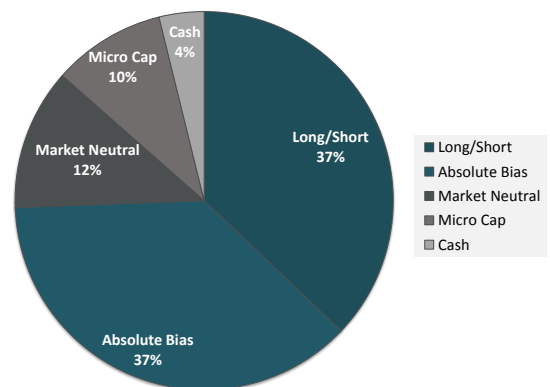
## Gross and Net Exposure (% of Net Assets)



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

Fund name	Strategy	% of assets
Auscap Long Short Australian Equities Fund	Long/Short	10.82%
Atlantic Absolute Return Fund	Long/Short	9.19%
Tasman Market Neutral Fund	Market Neutral	8.85%
Sandon Capital Activist Fund	Absolute Bias	7.67%
Milford Australian Absolute Growth Fund	Absolute Bias	7.65%
The Level 18 Fund	Absolute Bias	7.35%
LHC Capital Australia High Conviction Fund	Long/Short	7.30%
Smallco Investment Fund	Absolute Bias	7.08%
L1 Capital Long Short Fund	Long/Short	7.03%
Wilson Asset Management Equity Fund	Absolute Bias	6.96%

## 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.

