

### Market and Fund Review

King Tide fell -3.25% in February versus -1.36% for the blended benchmark. There were two semi-extraneous factors in February which negatively impacted performance. Firstly we were caught short on our currency hedging, with less than 20% of our AUD exposure covered. This hurt us in February to the tune of -1.2% and has in fact cost us more than 2% over the last three months. While annoying this is a loss we expect to get back.

The second was more permanent, with one of our underlying managers, LHC, carrying a large position in CBL. As you may know, CBL is a NZ listed global insurance company, which was forced into liquidation by the Reserve Bank of NZ in February, with no warning given to shareholders. As information comes out, it appears the company has been grossly mis-managed and light has been shone on the questionable track record of a number of the people involved in the business. LHC had a 7.9% position, which they wrote down to zero, resulting in a loss of -6.5% for the month. Frustratingly, they were having their best month ever on the short side, making 2.4%, with short positions in Retail Food Group, Domino's Pizza and Harvey Norman. Their long book ex CBL was down 1%.

These two events turned an average month, roughly in line with the market into a poor month. Between them, currency and CBL cost us close to -1.7%.

The main negative contributor outside of these was from our largest weighting, Auscap, which fell 4.3%, mostly we suspect from their large holdings in real estate investment trusts (REITs) and a long position in JBHFi, which fell 10%. This is a large drawdown for Auscap, but we place little importance on single monthly numbers. In fact even one year or even two or three year numbers carry very little information about a manager if looked at without any knowledge of a managers' strategy or style.

I remember well the first six years of Platinum - launched by Kerr Neilson and Andrew Clifford in 1994 - in which they seriously underperformed global equity markets, as they were unwilling to participate in the dot.com boom. Had you redeemed and gone to a 'better' fund, you may well have lost half your money in the dot.com crash, and missed Platinum's phenomenal outperformance.

To further illustrate the point, in the latest Berkshire Hathaway annual report, there is a table which shows the four worst drawdowns in the Berkshire Hathaway share price. Few would argue that theirs is one of the best investment track records of any investor. Yet, on four occasions, over periods spanning less than one month to almost two years, the share price dropped dramatically.

Period	High	Low	Percentage Decrease
March 1973-January 1975	93	38	(59.1%)
10/2/87-10/27/87	4,250	2,675	(37.1%)
6/19/98-3/10/2000	80,900	41,300	(48.9%)
9/19/08-3/5/09	147,000	72,400	(50.7%)

All investment strategies in equity markets will go through periods of loss and/or underperformance. It is important to understand this and to have confidence that your strategy and process will deliver outstanding results over time. We seriously doubt KT investors will ever experience drawdowns of this magnitude, but we will have months like February, and years like 2016.

KT is still lagging our selected benchmark since inception, but over 1yr, 3yrs, 4yrs and 5yrs, we have delivered net returns higher than our 90/10 benchmark, and we have achieved these with less volatility. For example, over 5 years KT's volatility was 8.2% versus the market's 11.7%. Higher returns with lower volatility are hard to find. When markets fall, on average we fall about half as much. Because of this we have produced positive 'alpha' of 0.29% p.a. since inception, and over the last 5 years, annualised alpha of 2.7%. Alpha is a gauge of an investment's performance against an index, that measures whether it performs better or worse than its beta suggests. n.b. King Tide has an average beta since inception of 0.47, implying it has taken less than half the systematic or market risk of its index.

Our portfolio is currently invested in fourteen funds (counting the two PIE funds as one), and we are in the process of redeeming one of these, a small position in Monash. We have a number of funds under review to add.

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



Performance Metrics (%)	KT NZD	Benchmark *
1-Month	-3.25%	-1.36%
3-Month	-0.87%	-0.68%
6-Month	7.34%	5.32%
1-Year	13.27%	12.58%
3-Year p.a.	8.02%	7.74%
5-Year p.a.	7.32%	6.40%
Since Inception p.a.	5.81%	8.72%

\* 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	8.19%	11.56%
3-Yr Sharpe Ratio	0.67	0.45
Standard Deviation (Since inception)	7.77%	11.26%
Sharpe Ratio (Since inception)	0.39	0.53
Ave Rtn in Market Positive Months	1.50%	2.67%
Ave Rtn in Market Negative Months	-1.36%	-2.79%
Up Capture	0.56	1.00
Down Capture	0.49	1.00
Annualised Tracking Error	8.25%	n/a
Beta	0.47	1.00
Maximum Drawdown	-10.71%	-10.57%
Annualised Alpha	0.26%	n/a
Worst Month	-4.16%	-6.26%
Best Month	5.07%	7.31%

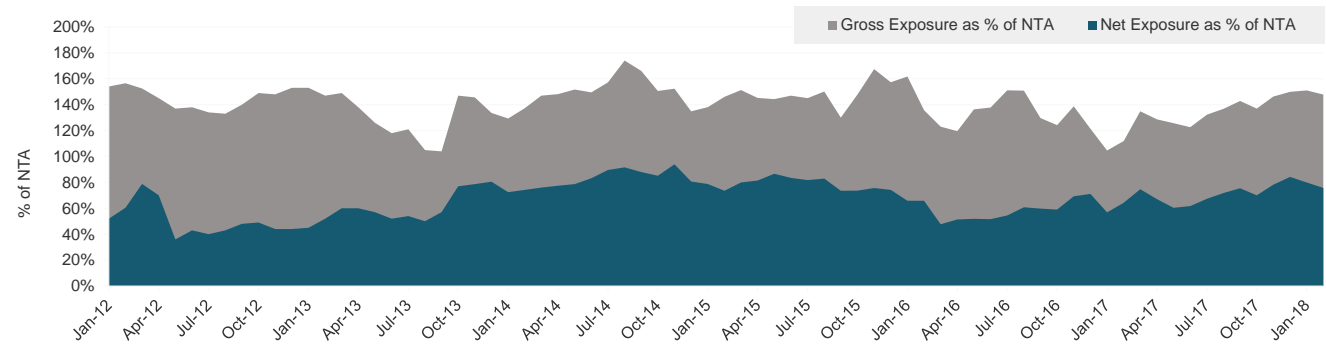
^ RFR = RBNZ 90 day bank bill rate

## 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%	-3.25%											-3.41%

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

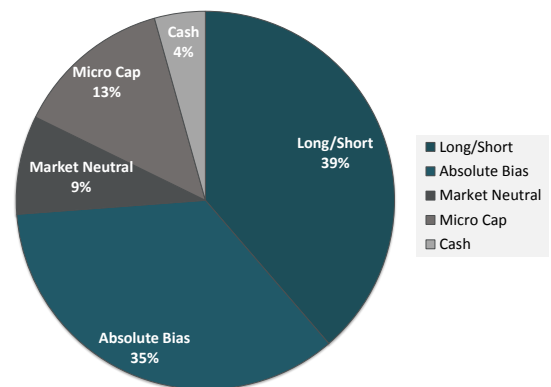
## Gross and Net Exposure (% of Net Assets)



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

Fund name	Strategy	% of assets
Auscap Long Short Australian Equities Fund	Long/Short	12.31%
L1 Capital Long Short Fund	Long/Short	10.57%
Atlantic Absolute Return Fund	Long/Short	8.91%
Tasman Market Neutral Fund	Market Neutral	8.43%
Milford Australian Absolute Growth Fund	Absolute Bias	7.51%
Sandon Capital Activist Fund	Absolute Bias	7.34%
Wilson Asset Management Equity Fund	Absolute Bias	7.02%
LHC Capital Australia High Conviction Fund	Long/Short	6.89%
Smallco Investment Fund	Absolute Bias	6.78%
The Level 18 Fund	Absolute Bias	6.48%

## 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

19 Como Street, Takapuna  
P.O.Box 33-1119  
Auckland 0740, New Zealand

Ph: +64 9 489 3757  
Email: info@kingtide.co.nz  
www.kingtide.co.nz

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.

