

Market and Fund Review

King Tide closed out the month up +0.93% versus a return of +0.52% for our benchmark. The benchmark return was boosted by a strong month for the local NZX 50 (+2.60) while Australia's All Ords eked out a more modest gain of +0.28%. For once the fund was unaffected by currency fluctuations with the exchange rate closing the month relatively unchanged.

It has been a difficult start to the year for many of our managers however the tide appears to have turned over recent months. After underperforming our benchmark by -8.85% in the four months to April KT has narrowed the gap to just -3.86%, and is currently up +0.71% YTD against a return of +4.57% for our benchmark.

Amongst our managers, Regal's Atlantic and Tasman funds topped the table with returns of 4.3% and 3.2%, respectively their best months since July and May 2016. 8EC's pre-tax NAV (net asset value) also returned 3.2% for the month, however it was a major detractor to KT's performance as its share price fell -5.3%.

One of the drawbacks (opportunities) of investing in a LIC (listed investment company) such as 8EC is the share price can often trade at a significant discount or premium to the fund's net asset value. This is often due to recent performance and/or the fund's propensity to pay large dividends. Additionally, a LIC's share price usually lags changes in its NAV as the NAV is generally published well after the end of the month, potentially adding an extra layer of volatility.

Auscap Long Short Australian Equities Fund

This month we begin a series looking at depth at some of our managers. First up is Auscap, a value-based, long short equities manager founded in 2012 by Tim Carleton and Matthew Parker. Both Tim and Matthew are Goldman Sachs alumni, where they worked on the prop trading desk implementing long/short Australian equity strategies and together they have more than 30 years' experience.

Auscap's Long Short Australian Equities Fund utilises a co-portfolio manager structure that employs a fundamental 'bottom-up' approach to stock selection. This approach focuses on purchasing long positions in high quality companies that have a sustainable comparative advantage and that are trading at prices significantly below their long term intrinsic value. Short positions are held in companies that display the opposite characteristics.

The fund has a high conviction approach with the portfolio typically holding from 20 to 30 long positions and 5 to 15 short positions (currently 27 long and 8 short), consisting primarily of large cap stocks (within the ASX200). It is long biased however at times it may be net long, short or neutral depending on the strategies being employed at that time. The fund can be up to 200% gross long or short and up to 150% net long or short, although it has typically been from 90% to 140% long and 10% to 40% short, while the average net exposure has generally been below 100%.

The stated objective of the fund is to generate strong absolute returns in excess of its benchmark (RBA cash rate) over a five-year cycle, although they target performance in the range of 10 to 15% p.a. at a stock level for internal purposes.

In terms of performance the fund has more than doubled the return of the ASX200 since its inception in December 2012, aided a gain of 50% in its first 12 months, an extremely fertile period for long/short managers and not likely to be repeated. Nevertheless, it has continued to put out extremely strong performance numbers despite a more difficult environment, with a gain of +8.0% over the last 12-months.

	3mth	6mth	1yr	2yr p.a.	3yr p.a.	Since Inception
Auscap	-1.17%	0.53%	8.02%	13.91%	14.87%	23.69%
All Ords	-1.54%	2.89%	13.12%	7.42%	6.83%	10.03%

The fund has achieved this with an up capture of 0.95 and a down capture of -0.07 (i.e. on average it has risen in months when the market has fallen). On a risk-adjusted basis the fund is also amongst the best that we follow, with a Sharpe ratio of 1.80 and an Information ratio of 1.13, while its maximum drawdown of -7.55% compares favourably with the market, -12.23%. As always it pays to be cautious when looking at performance numbers for funds that haven't been through a full market cycle.

The fund's strong performance has seen net assets grow from \$8m, when KT first invested in October 2013, to more than \$365m today. Auscap currently estimate the fund would start to hit capacity constraints somewhere around \$2b of FUM, although it is more than likely the fund would be closed to new investors long before it reached this level.

NZD \$10,000 Invested at Inception



Performance Metrics (%)	KT NZD	Benchmark *
1-Month	0.93%	0.52%
3-Month	-1.69%	-4.06%
6-Month	0.71%	4.57%
1-Year	-2.95%	13.38%
3-Year p.a.	7.09%	6.77%
5-Year p.a.	5.67%	8.37%
Since Inception p.a.	4.24%	7.63%

* 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
1-Yr Standard Deviation	8.05%	12.35%
1-Yr Sharpe Ratio ^	-0.62	0.92
3-Yr Standard Deviation	8.28%	12.73%
3-Yr Sharpe Ratio	0.51	0.31
Std Dev (Since inception)	7.67%	11.45%
Sharpe Ratio (Since inception)	0.19	0.42
Tracking Error	8.47%	n/a
Beta	0.45	1.00
Worst Month	-4.16%	-6.26%
Maximum Drawdown	-10.71%	-10.57%
Ave Rtn in Market +ve Months	1.35%	2.63%
Ave Rtn in Market -ve Months	-1.46%	-3.00%
Up Capture	0.51	1.00
Down Capture	0.49	1.00

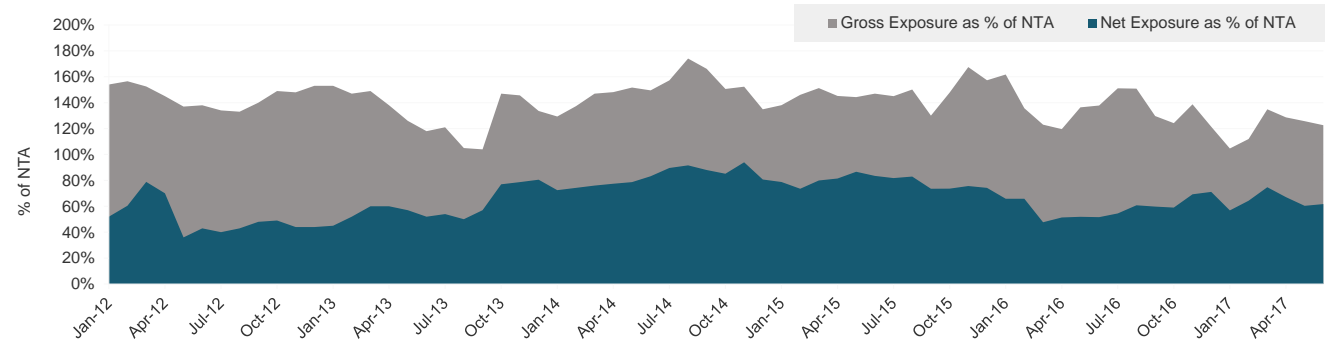
^ RFR = RBNZ 90 day bank bill rate

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%							0.70%

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

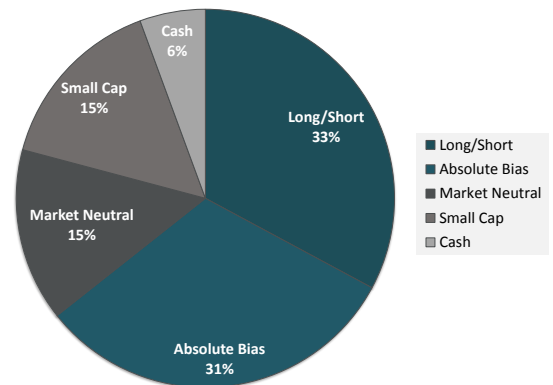
Gross and Net Exposure (% of Net Assets)



Top 10 Funds: (% of Net Assets)

Fund name	Strategy	% of assets
Auscap Long Short Australian Equities Fund	Long/Short	12.08%
L1 Capital Long Short Fund	Long/Short	8.90%
Wilson Asset Management Equity Fund	Absolute Bias	8.81%
Watermark Market Neutral Trust	Market Neutral	7.66%
LHC Capital Australia High Conviction Fund	Long/Short	7.62%
Tasman Market Neutral Fund	Market Neutral	7.13%
Wavestone Australian Absolute Return Fund	Absolute Bias	6.58%
Sandon Capital Activist Fund	Absolute Bias	6.16%
Smallco Investment Fund	Small Cap	6.05%
The Level 18 Fund	Absolute Bias	5.35%

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	0.75%
Performance Fee	10.00%
High Watermark	Yes
Minimum Investment	NZD\$10,000
Subscription Frequency	Monthly
Redemption Frequency	Monthly
Buy / Sell Spread	0.30%

Service Providers

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

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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.

