

Market and Fund Review

King Tide ended the quarter on a positive note, with a gain of 1.69% in September versus the benchmark's -1.42%. In the quarter, King Tide rose 6.79%, and year to date we're up 7.6%, having all but recovered the losses of last year.

The broad Australian market was flat in September but the small ords index rose 1.3%. Our portfolio of Australian managers, comprising fourteen funds, on average rose 3.0%, reduced to 1.2% when measured in NZDs. NZ shares rose 1.5% thanks to outsized gains in A2 Milk, Xero and Fisher and Paykel Healthcare.

In the quarter the All Ords rose 1.0% (4.7% in NZDs) and the NZ market rose 4.2%.

The market environment has become more favourable for fundamental investors again this year. We are seeing better results from our managers and from managers we follow. More than 80% of the ninety or so managers on our research database beat the market in September, and year to date, more than half have outperformed. Last year only 15% of funds outperformed the Australian market's 11.7%.

After a few quiet years, with very few fund launches, this year has seen a flood of new funds coming to the market. We have seen Macquaries launch two new long/short strategies, leveraging off their long only funds, JCP have launched two new long/short strategies after losing large mandates in their long only business. A number of top performing small cap teams have left large institutions and started their own boutiques, Spheria out of Schroders, Lennox out of Macquaries, and QVG out of Ausbil. These are all high-quality management teams, but unfortunately don't meet our criteria with long only mandates. Spheria, who teamed up with Pinnacle, has raised more than \$400m in their first year and are now raising up to \$250m for a listed investment company. Wilson recently raised \$150m for a listed microcap fund, and demand has seen it trade at a 10% premium to its underlying value.

This leads us to the other notable change we are observing, which is the flow of funds into what are generally considered (not by us) to be 'alternative strategies'. Five of our underlying funds are now closed to new investors because of the strong growth in their funds under management (FUM). L1, the best performing long/short fund in Australia over the last 3 years, had \$150m when we invested in November 2016. It is now approaching \$1bn and has indicated it is about to close to new investors. Spheria and Wilson mentioned above along with LHC (now soft closed) have all attracted significant capital. Regal raised \$87m late last year for a pre-ipo and micro-cap fund with a five year lock up.

One of our fundamental beliefs, and one for which there is ample research to support, is that size impedes performance. It is difficult for managers to close off the flow of funds. Often, the level they have in mind when they start their funds gets pushed out. Even though they have the incentives to limit size, such as their own capital invested and performance fee structures, there is also the allure of being bigger and the risk of a poor period of performance which may see fund flow reverse. Turning off the tap is not an easy decision, but one we believe is a trade off with long term performance.

We were therefore pleased to be seed investors in a new launch in September, a small cap manager who soft closed at launch with \$50m and will hard close the fund at \$100m. On the flip side, we have redeemed from a very good manager at the end of October because FUM across the firm has grown well beyond what we consider to be an optimal size for generating outperformance in the Australian market.

Capacity is different for different investment strategies. Typically, a concentrated small cap manager (depending on your definition of smallcap) will struggle above \$250m, while a large cap fund with a broader mandate, may be able to handle \$1bn. Some managers, like Wilson, which now has \$2bn across a number of mandates, may still be able to perform, with their multi-pronged approach to investing. Their size does provide better access to 'deals' not offered to smaller funds. Still it becomes more difficult.

Across our portfolio, total FUM of our fourteen underlying funds (two redemptions in October) is around \$4bn. Fund size ranges between \$46m and \$1.4bn, with nine funds managing less than \$300m. Average tenure is 7.4 years ranging from 2 months to 14.4 years. Five funds have been going for more than 10 years, with the same key people at the helm, and these five have averaged 19% p.a. from inception. Four of those five have averaged 15% p.a., with one fund, Regal Atlantic, skewing the average higher.

There are two other early stage funds on our radar and we have capacity to build on a number of our current funds which operate under the radar and have room to grow their FUM.

As always, we appreciate the trust you have placed in us to invest your capital and can assure you that the team at King Tide are heavily invested alongside you.

NZD \$10,000 Invested at Inception



Performance Metrics (%)	KT NZD	Benchmark *
1-Month	1.69%	-1.42%
3-Month	6.79%	4.63%
6-Month	4.99%	0.39%
1-Year	-0.31%	11.63%
3-Year p.a.	7.26%	7.12%
5-Year p.a.	6.72%	7.91%
Since Inception p.a.	5.25%	8.13%

* 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	7.51%	10.41%
1-Yr Sharpe Ratio ^	-0.30	0.91
3-Yr Standard Deviation	8.05%	12.55%
3-Yr Sharpe Ratio	0.56	0.36
Std Dev (Since inception)	7.64%	11.39%
Sharpe Ratio (Since inception)	0.32	0.47
Tracking Error	8.41%	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	1.40%	2.65%
Ave Rtn in Market -ve Months	-1.33%	-3.00%
Up Capture	0.53	1.00
Down Capture	0.45	1.00

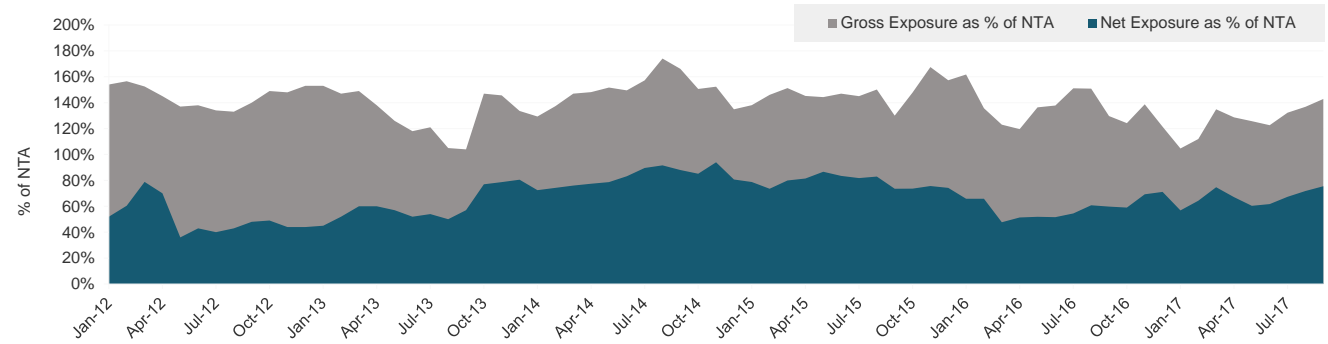
^ RFR = RBNZ 90 day bank bill rate

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%	1.48%	3.50%	1.69%				7.55%

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

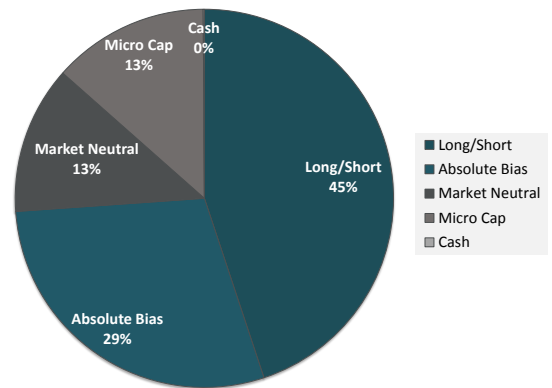
Gross and Net Exposure (% of Net Assets)



Top 10 Funds: (% of Net Assets)

Fund name	Strategy	% of assets
Auscap Long Short Australian Equities Fund	Long/Short	12.77%
L1 Capital Long Short Fund	Long/Short	10.63%
Wilson Asset Management Equity Fund	Absolute Bias	9.09%
Tasman Market Neutral Fund	Market Neutral	7.97%
LHC Capital Australia High Conviction Fund	Long/Short	7.61%
The Level 18 Fund	Absolute Bias	6.68%
Wavestone Australian Absolute Return Fund	Long/Short	6.67%
Atlantic Absolute Return Fund	Long/Short	6.58%
Sandon Capital Activist Fund	Absolute Bias	6.41%
Smallco Investment Fund	Absolute Bias	6.40%

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	0.30%

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.

