

## Market and Fund Review

May was another solid month for King Tide, ending the month up 1.9%.

By comparison our benchmark was up 2.4% on the back of a weaker NZD (-1%) while local equity markets remain relatively buoyant with the NZX up 2.5% and the ASX up 1.5%.

Over 12 months KT is up 16.1% compared to 14.5% for our benchmark, however we readily admit the futility of judging returns over such a short length of time. Indeed, you only need look back one month and the relative 12-month performance was 12.1% vs 5.5%.

Despite our comment in the previous paragraph we'll continue to write on the month to month gyrations of our underlying managers if only to provide a little colour as to what may or may not be working for them.

Firetrail is off with a hiss and a roar and was the leading fund in the portfolio last month rising 6.4%, although rather unfortunately King Tide was still building its position with the result that we missed out on most of the gains. Although early days the strong performance plays to our belief that early stage funds managing small amounts of money have an advantage over their larger competitors.

Meanwhile the laggard for the month was L1, which fell -3.8%, the fund's worst month to date. This period of weak performance has coincided with the recent launch of L1's \$1.3 billion listed investment company (ASX:LSF). The managers have highlighted the recent surge in momentum/growth stocks versus their tilt towards value stocks however this could also be a precursor of things to come in light of our belief that size is an impediment to performance. While we still rate the L1 team extremely highly there is no doubt it is a different proposition managing north of \$3 billion rather than the \$200m they managed when we first invested.

Another recent addition to the King Tide portfolio is the Arnott Opportunities Fund, eponymously named after its founder and portfolio manager Kenny Arnott.

Kenny has a storied reputation having originally cut his teeth as a cotton trader in the early 90's followed by a spell trading commodities and derivatives for Macquarie Bank before founding Arnott Capital in 1999. After six highly successful years trading capital for friends and family Kenny and Co-PM Steve Clarke launched the Arnott Opportunities Fund in 2005 and quickly grew it to more than \$1 billion under management.

Despite preserving capital through the GFC, and unlike a number of managers who gated their funds, the decision was made to honour all redemptions on request which resulted in a number of investors withdrawing their capital and indirectly led to the fund closing in late 2010.

Following a two-year sabbatical Kenny and Steve relaunched the strategy with internal capital in June 2013 before reopening the fund to external investors in late 2017. Alignment of interests between managers and investors remains front and centre of Arnott's ethos with the result that the fund charges no management fee and a 25% performance fee while FUM is expected to be capped at approximately \$100m in an effort to maximise performance.

	3mth	6mth	1yr	2yr p.a.	3yr p.a.	5yr (SI) p.a.
Arnott Opportunities Fund	-2.8%	7.0%	20.6%	17.7%	18.7%	30.2%
S&P/ASX All Ords Acc Index	1.2%	3.1%	10.8%	10.5%	6.4%	9.1%

Arnott's investment strategy can best be described as an attempt to use second level or lateral thinking in order to uncover trading ideas that provide optionality. That is, situations where the upside far outweighs the downside. To do this they are extremely active, very much using a trader's mentality, whereby high conviction positions can be relatively large (5-10%) while losing positions are ruthlessly cut.

The Australian equity portfolio typically consists of 40 to 70 positions split between a long only small cap book and a long/short large cap book, where shorts are used to generate alpha rather than as a hedging tool. Arnott then overlays the equity book with a third book of global futures and options in order to generate the portfolio's overall positioning.

The end result is that the portfolio exposure can move around a lot from month to month, with gross exposure typically ranging from 50 to 300% and net exposures expected to be +/- 120%, while volatility has historically been 30%-40% higher than the market. The fund's gross exposure has been wound back over recent months and currently sits at ~45% while the net exposure is ~10%.

## NZD \$10,000 Invested at Inception



Performance Metrics (%)	KT NZD	Benchmark *
1-Month	1.91%	2.41%
3-Month	2.03%	1.89%
6-Month	1.15%	1.20%
1-Year	16.10%	14.50%
3-Year p.a.	7.09%	7.40%
5-Year p.a.	8.52%	7.54%
Since Inception p.a.	5.91%	8.68%

\* 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%	11.94%
3-Yr Sharpe Ratio	0.62	0.46
Standard Deviation (Since inception)	7.69%	11.33%
Sharpe Ratio (Since inception)	0.41	0.53
Ave Rtn in Market Positive Months	1.51%	2.70%
Ave Rtn in Market Negative Months	-1.36%	-2.86%
Up Capture	0.56	1.00
Down Capture	0.48	1.00
Annualised Tracking Error	8.22%	n/a
Beta	0.47	1.00
Maximum Drawdown	-10.71%	-10.57%
Annualised Alpha	0.42%	n/a
Worst Month	-4.16%	-6.26%
Best Month	5.07%	7.31%

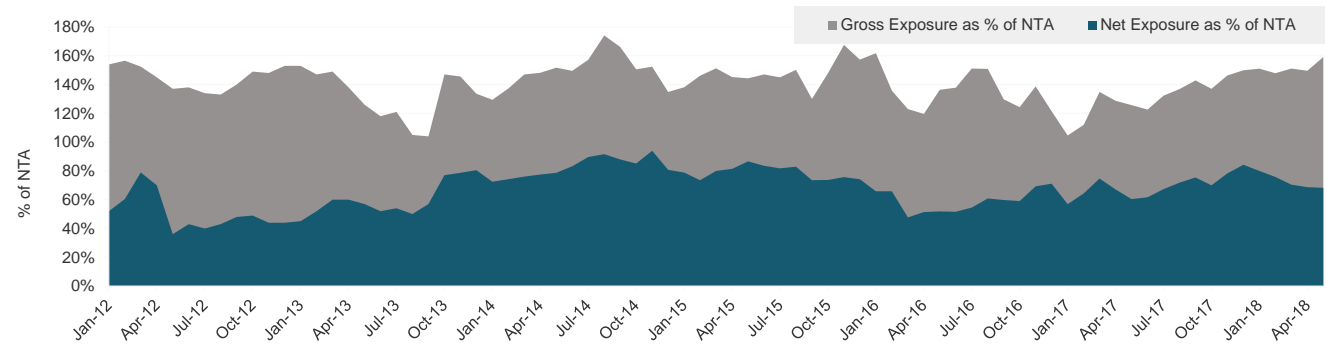
^ RFR = RBNZ 90 day bank bill rate

## 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%	-1.43%	1.57%	1.91%								-1.45%

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

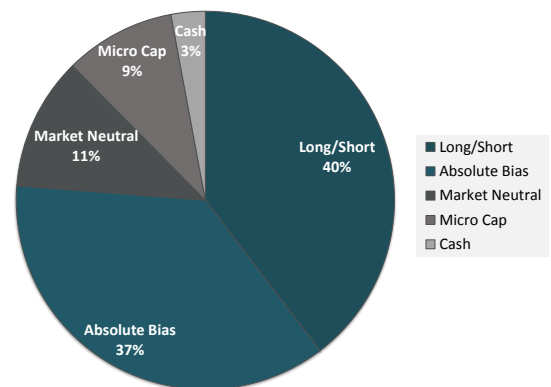
## Gross and Net Exposure (% of Net Assets)



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

Fund name	Strategy	% of assets
Auscap Long Short Australian Equities Fund	Long/Short	10.82%
L1 Capital Long Short Fund	Long/Short	9.96%
Atlantic Absolute Return Fund	Long/Short	8.99%
Tasman Market Neutral Fund	Market Neutral	8.92%
Milford Australian Absolute Growth Fund	Absolute Bias	7.55%
Sandon Capital Activist Fund	Absolute Bias	7.46%
The Level 18 Fund	Absolute Bias	7.28%
LHC Capital Australia High Conviction Fund	Long/Short	7.05%
Wilson Asset Management Equity Fund	Absolute Bias	6.91%
Smallco Investment Fund	Absolute Bias	6.82%

## 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.

