

### Market and Fund Review

King Tide was down -0.4% in July compared to a gain of 0.7% for the blended benchmark. The stronger NZD cost us 23 bps.

The benchmark combines the All Ords Accumulation (90%) which rose 0.8% in NZDs, and the NZX50, which fell -0.2%. The All Ords rose 1.2% in AUD.

Given a number of our managers focus on the smaller end of the Australian market, it should be noted that the Small Ords Accumulation Index fell -1.0% in July.

The portfolio is currently invested in 16 underlying funds, managed by 14 underlying managers. We have money in two PIE funds and two Regal funds. There are 14 Australian based managers which make up 89% of the portfolio, 5% in NZ funds and the balance is in cash.

At the end of June, we reduced our weightings in L1, LHC, and both Regal funds, in some cases to rebalance and in others to reflect our belief that funds at their maximum capacity are riskier.

In July, five funds outperformed the market, and three had negative returns. The three best performing funds have been among the worst performing funds in recent times, while the three funds that lost money in July are our three best performing funds over the last 12 months.

Staying with this analysis, our worst performing fund over the last 12 months is L1, with a 1.2% gain. Had you been looking at their one year return just 3 months ago, that number was 20.8% and the three year was 33.9% p.a. It was this phenomenal run which enabled them to raise \$1.4bn for their new LIC (Listed investment company). Funds under management have ballooned threefold in the last 12 months to close to \$4bn.

What is interesting about this is that investors that added to L1 a year ago, did so on the back of a 37-month period in which L1 made 166.3% (41.3% p.a.) versus the All Ords 22.5% (7.4% p.a.). One year later those investors are up 1.2% versus the All Ords 6.6%. Who would have thought?

What investors may have missed, was that L1 is guiding that they can deliver 10% p.a. over the long term. I'm sure the clamour for their LIC was not chasing 10% a year!!

As investors when we consider past returns it is easy to allow them more weight than they deserve. We are all subject to the same emotions of fear and greed. When we see great numbers over a year or two, we are attracted like moths around a light, and when we see a poor year or two, we are quick to look away.

It is difficult. Of course, at the end of the day, performance is what all funds are measured on. Not just absolute returns, but also volatility, drawdowns and attribution (did they just get lucky in one or two stocks). All of these make up 'performance' and how it was achieved. As the simple examples above illustrate, historical returns can be a very poor guide to future returns.

L1's fall from grace has all come in the last three months, and has attracted more attention than normal because the poor run came immediately after their highly successful capital raise. But investors shouldn't be surprised. A fund which employs leverage, and has a volatile return stream (albeit mostly positive until the last three months) is going to have some big down months, there is no escaping that.

And it makes sense. Active managers believe the market is often wrong, overvaluing certain businesses and undervaluing others, sometimes for extended periods of time. If that is the case, a fundamentally driven investor who is skilled at calculating a company's intrinsic value, will often be at odds with the market. By definition, you will often be on the 'other side' of the trade.

One way of avoiding the mistake of focusing on short term performance is to focus on 'process and people'. Is there a valid and thorough process in place and is that process being applied by the person/s who developed it?

Former Wall Street veteran Robert Rubin puts it this way, "A singular focus on outcomes will accommodate a lot of poor, but temporarily lucky processes. In contrast, focusing on process will lead to satisfactory long-term results while allowing for inevitable, albeit unpleasant, periods of unsatisfactory outcomes."

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



Performance Metrics (%)	KT NZD	Benchmark *
1-Month	-0.35%	0.69%
3-Month	3.38%	7.36%
6-Month	0.14%	5.36%
1-Year	14.98%	17.49%
3-Year p.a.	6.52%	8.53%
5-Year p.a.	9.79%	9.28%
Since Inception p.a.	5.98%	9.23%

\* 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	8.10%	12.09%
3-Yr Sharpe Ratio	0.52	0.51
Standard Deviation (Since inception)	7.62%	11.26%
Sharpe Ratio (Since inception)	0.43	0.58
Ave Rtn in Market Positive Months	1.48%	2.68%
Ave Rtn in Market Negative Months	-1.36%	-2.86%
Up Capture	0.55	1.00
Down Capture	0.48	1.00
Annualised Tracking Error	8.16%	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%

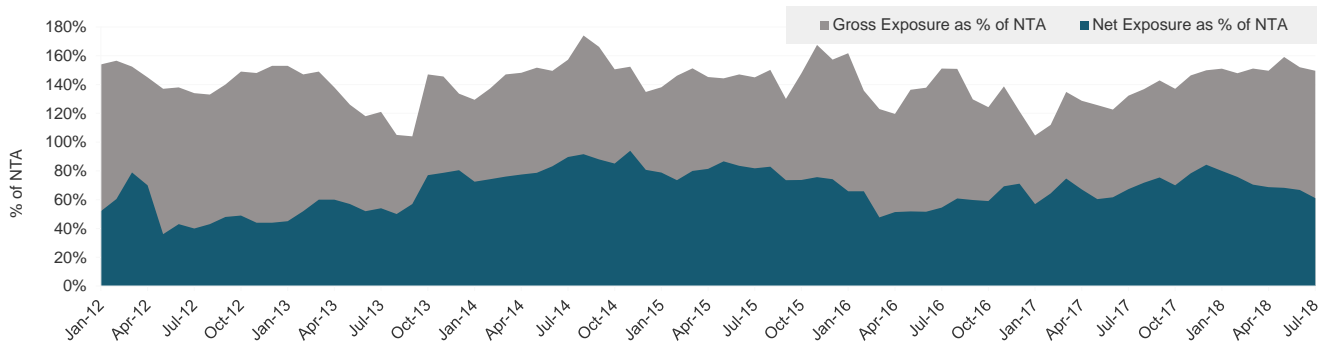
^ RFR = RBNZ 90 day bank bill rate

**King Tide - Fund Performance (Net of Fees). Inception to August 2013, currency unhedged.**

	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%	-0.35%						-0.03%

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

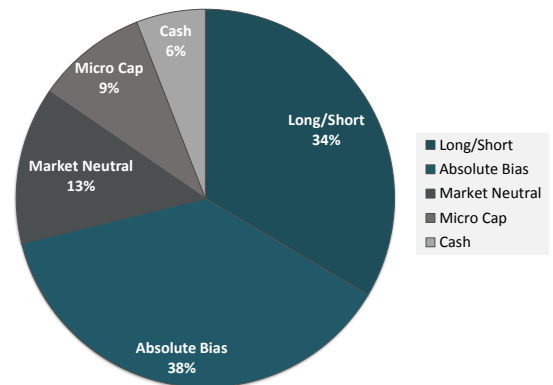
**Gross and Net Exposure (% of Net Assets)**



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

Fund name	Strategy	% of assets
Auscap Long Short Australian Equities Fund	Long/Short	10.08%
Tasman Market Neutral Fund	Market Neutral	8.76%
Sandon Capital Activist Fund	Absolute Bias	7.86%
Milford Australian Absolute Growth Fund	Absolute Bias	7.75%
The Level 18 Fund	Absolute Bias	7.34%
Atlantic Absolute Return Fund	Long/Short	7.33%
L1 Capital Long Short Fund	Long/Short	7.11%
Smallco Investment Fund	Absolute Bias	7.03%
Wilson Asset Management Equity Fund	Absolute Bias	7.01%
LHC Capital Australia High Conviction Fund	Long/Short	6.28%

**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

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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.

