

## Market and Fund Review

November was another disappointing month for King Tide, falling -2.8%, although we take some solace from the outperformance versus our blended benchmark which fell -3.7%. Once again, the strong Kiwi dollar (+2.0%) impacted performance with the Australian All Ords down -2.2% for the month (-4.2% in NZD) and the NZX 50 up +0.8%.

Over 12 months the Australian market is down -1.1% (-5.2% in NZD), however this hides a significant divergence between sectors, ranging from Health Care (+15.3%) to Utilities (-12.0%) while Emerging Companies have also found the going tough (-11.7%). It has been much smoother sailing on this side of the Tasman with a gain of +7.8 for the New Zealand market, one of the best in the developed world.

Turning to our managers, as mentioned last month we welcomed QVG, who were down 1.1% for the month, however through the vagaries of poor timing and bid/offer spreads they were down -4.0% in our portfolio. Luckily, we only have a toehold position and will look to add to it over the coming months. More significantly Regal's recent woes continue, with Atlantic falling -10.0% and Tasman down -5.6% while both Auscap and L1 reached record drawdowns -14.7% and -22.1% respectively. Not a pretty picture at all.

With markets around the world weakening by the day and several of our managers experiencing difficult times it is an opportune time to discuss our expectations for both our managers and King Tide's performance if we enter a prolonged bear market.

It has become almost a cliché for fund managers to describe risk as a permanent loss of capital rather than short term fluctuations in prices however this can mean very different things to different people. At one extreme, US money market funds famously "broke the buck" during the GFC when they traded below par. Although only one money market fund actually realised losses, and that recovered more than 99% of net assets, the shock to the system precipitated the failure of Lehman Brothers and brought the financial system to the brink of collapse.

At the other end of the spectrum is Warren Buffett whose No.1 Rule for investing (never lose money) is quoted ad infinitum, although more prosaically he once said "we will attempt to bring risk of permanent capital loss (not short term quotational loss) to an absolute minimum". So how has he lived up to that goal? The answer, as is often the case, is it depends. The reality is that although Berkshire Hathaway has compounded at over 20% per year there have been three occasions when the stock price has fallen 50% or more and anyone who sold at the lows would certainly have realised a capital loss, at least when measured relative to the highs.

What is important here is the time frame over which we measure performance. As we have often said, even the best managers can go through prolonged periods of underperformance which is why most equity managers typically say their performance should only be judged over the medium term (3-5 years) or longer if at all possible.

The GFC was a stark example of the potential drawdown risk associated with equity markets. From a maximum drawdown of -41% the NZX 50 took 48 months until it hit a new high, spending a total of 68 months underwater. The ASX All Ords spent 71 months underwater while the ASX Small Ords is 133 months and counting since it's all time high!

Looking across King Tide's managers, five were operating during the GFC with average drawdowns of -49% and average time to recover of 22 months, although this ranged from 9 to 48 months. Other than the depth of the drawdown the key differentiator of the time to recover was the use of leverage and the ability to deploy significant cash. The key for the investor was to have the mental fortitude to stay the course, as even if you had had the misfortune to invest at the absolute peak of the market those managers have subsequently returned an average of 12.4% p.a.

More recently in the 83 months of King Tide's existence the NZX 50 has had a maximum drawdown of -7.0%, the All Ords -12.2% while the Small Ords peaked at -19.8%. In fact, the current -10.8% drawdown is both the largest for our blended benchmark and the seventh time the market has drawn down more than 6%. On five occasions the market had regained its losses within six months, with the sixth taking 11 months, a reminder of how benign markets have been.

Despite this in the last two years we can look to drawdowns by Atlantic (-52.5%), Tasman (-30.7%), Pie Growth (-19.7%) and LHC (-16.5%) to get a feel for the size of potential drawdowns in normal times. Both PIE and LHC subsequently made new highs within 18-months while Atlantic and Tasman were on track to beat them until the recent bout of market weakness.

So, what does this mean for King Tide? To date the fund's largest drawdown has been -10.7%, during which the fund spent a total of 26 months below its high-water mark, including a 10-month recovery from the July 2013 nadir. Unfortunately, this doesn't make for a useful comparator as a significant portion of that performance was driven by adverse currency movements before the fund had the ability to hedge.

What we can say is our average net market exposure of 60% suggests we should expect the fund to fall (and rise) by a similar proportion (assuming our managers displayed no skill). Layering on skill, random variability and/or luck and the divergence can multiply, and while we would never discount the probability of underperforming in a down market there is every likelihood King Tide could significantly outperform as we saw with the 18% outperformance between July and December 2015.

## NZD \$10,000 Invested at Inception



Performance Metrics (%)	KT NZD	Benchmark *
1-Month	-2.85%	-3.68%
3-Month	-8.71%	-10.78%
6-Month	-6.81%	-4.93%
1-Year	-5.74%	-3.79%
3-Year p.a.	0.49%	7.27%
5-Year p.a.	6.29%	5.74%
Since Inception p.a.	4.40%	7.24%

\* 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	8.59%	12.14%
3-Yr Sharpe Ratio	-0.20	0.42
Standard Deviation (Since inception)	7.94%	11.51%
Sharpe Ratio (Since inception)	0.22	0.40
Ave Rtn in Market Positive Months	1.46%	2.66%
Ave Rtn in Market Negative Months	-1.52%	-2.94%
Up Capture	0.55	1.00
Down Capture	0.52	1.00
Annualised Tracking Error	7.99%	n/a
Beta	0.50	1.00
Maximum Drawdown	-10.71%	-10.78%
Annualised Alpha	-0.50%	n/a
Worst Month	-6.13%	-7.04%
Best Month	5.07%	7.31%

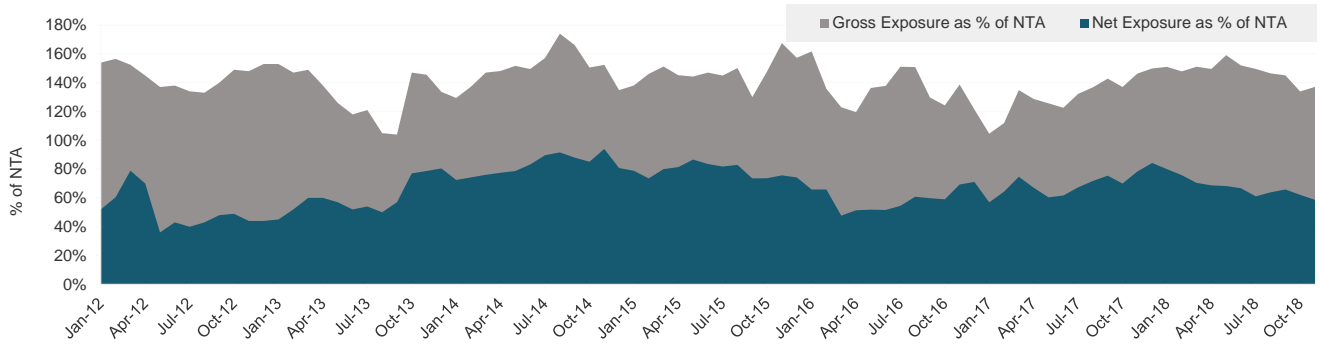
^ RFR = RBNZ 90 day bank bill rate

**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%	0.63%	0.10%	-6.13%	-2.85%		-8.16%

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

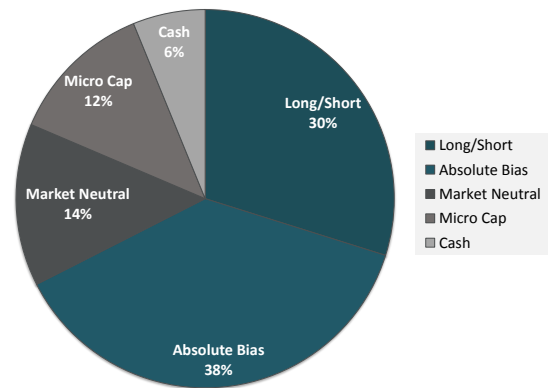
**Gross and Net Exposure (% of Net Assets)**



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

Fund name	Strategy	% of assets
Auscap Long Short Australian Equities Fund	Long/Short	9.31%
Milford Australian Absolute Growth Fund	Absolute Bias	8.24%
Sandon Capital Activist Fund	Absolute Bias	8.23%
Tasman Market Neutral Fund	Market Neutral	7.52%
The Level 18 Fund	Absolute Bias	7.51%
Smallco Investment Fund	Absolute Bias	7.05%
Wilson Asset Management Equity Fund	Absolute Bias	6.98%
LHC Capital Australia High Conviction Fund	Long/Short	6.73%
Firetrail Absolute Return Fund	Market Neutral	6.50%
L1 Capital Long Short Fund	Long/Short	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**

437 Lake Road, Takapuna  
 P.O.Box 33-1583  
 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.

