

Market and Fund Review

King Tide fell -4.5% in December, leading to our largest drawdown since inception, and a result we believe is at the extreme of possible outcomes for our portfolio.

Investing in managers who ignore market indices, and implement a range of different strategies opens us up to significant divergence from market returns, particularly in the short term. This can be evidenced by our annual returns versus our benchmark.

Return for 12 months ending:	Benchmark	King Tide
31/12/2018	-6.75%	-12.28%
31/12/2017	19.49%	17.54%
31/12/2016	8.81%	-8.10%
31/12/2015	6.50%	28.65%
31/12/2014	3.02%	7.95%

The average annual difference between our returns and the returns of the market, as defined by our benchmark, is +/-10.3%. By far the biggest divergence was 2015, when we outperformed by 22.2%. This was an outlier year, and as unlikely an outcome as the past 12 months, where we underperformed a down market. In our December 2015 newsletter we wrote: *"The margin of King Tide's outperformance of its benchmark is well above our expectations and clearly not a margin we would expect to occur very often"*.

What makes this past year most disappointing was that we lost money in a sharply down market. The diversity in manager styles and strategies which has led to strong outperformance in down markets over the life of the fund, didn't occur in any of the past three months. **On the 12 previous occasions the market has fallen more than 3% in a month, King Tide has, on average, fallen only one third as much.**

Just as 2015 was unusual in that all of our managers had strong returns, so 2018 was the reverse, with one exception. In trying to understand what made this period different we have made a number of observations.

Firstly, both in the quarter and over the year active managers in general have struggled. We track 110 funds which are Australasian focused and actively managed. Only four of these funds made money in the quarter and the average return was -9.5% versus the All Ords -9.0%. Over the calendar year the average return of these funds was -5.2% versus the All Ords -3.5%. Over 5 years, these same managers have (on average) outperformed the All Ords by 2.1% p.a. Fund of Funds returns have reflected this general weakness. The Eurekahedge Apac L/S Equities FoF Index was down -7.0% in the quarter and -14.7% over the calendar year.

Secondly, the carnage in the underlying market was masked by the outperformance of large caps and particularly large resource stocks. Most of our managers operate outside of the top 50, understandably, given it is ostensibly the least efficiently priced part of the market. In the quarter, large caps outperformed small/mid, with the ASX50 (large caps) falling -6.8%, while the Midcap 50's fell -13.1%, the Small Ords -13.7% and the Emerging Companies index's -16.4%. When you translate these numbers into NZDs in which we report, the drawdowns become very large indeed – Small Ords -17.1% etc.

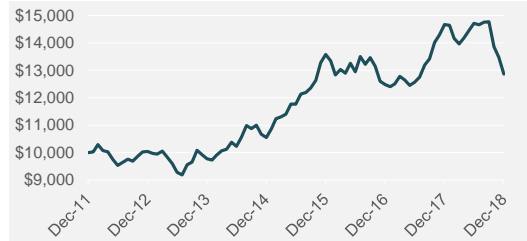
Further, through the year, the strongest sector has been resources, where we are underinvested. Some of our managers avoid resource stocks altogether because of their dependency on commodity prices, which are unpredictable. In December this sector skew was extreme, with BHP and Rio gaining 10% and 7% respectively, contributing 0.72% to the ASX100's return of 0.27%. The take away is that stocks in the All Ords outside of the top 100 fell on average -4.2%. And over the calendar year, the ASX100 Resources rose 5.3% while the ASX Midcap 50 fell -7.4%, the ASX small ords -8.7% and emerging companies -20.0%.

In December the market appears to have become strongly macro driven. The main drivers were a slowing China, slowing global growth, trade wars and a Fed determined to raise rates. Our managers tend to be fundamentally driven. Most will tend to stay the course on positions that fall for no fundamental reason.

We would expect to see a strong rebound. A number of our managers have had their worst periods since inception. In our experience, all managers go through tough periods. Our worst performing funds last year were among our best over the longer term.

Our research effort has never been more focused. We have recently made small allocations to two early stage managers, and there are some exciting new fund launches coming up this year. We continue to monitor our existing managers and will act when we see material changes to personnel or alignment of interest.

NZD \$10,000 Invested at Inception



Performance Metrics (%)	KT NZD	Benchmark *
1-Month	-4.49%	-1.60%
3-Month	-12.89%	-11.90%
6-Month	-12.56%	-10.15%
1-Year	-12.28%	-6.75%
3-Year p.a.	-1.78%	6.63%
5-Year p.a.	5.64%	5.87%
Since Inception p.a.	3.66%	6.91%

* 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	8.88%	12.20%
3-Yr Sharpe Ratio	-0.44	0.37
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	-1.62%	-2.90%
Up Capture	0.55	1.00
Down Capture	0.56	1.00
Annualised Tracking Error	8.00%	n/a
Beta	0.51	1.00
Maximum Drawdown	-12.89%	-12.21%
Annualised Alpha	-1.08%	n/a
Worst Month	-6.13%	-7.04%
Best Month	5.07%	7.31%

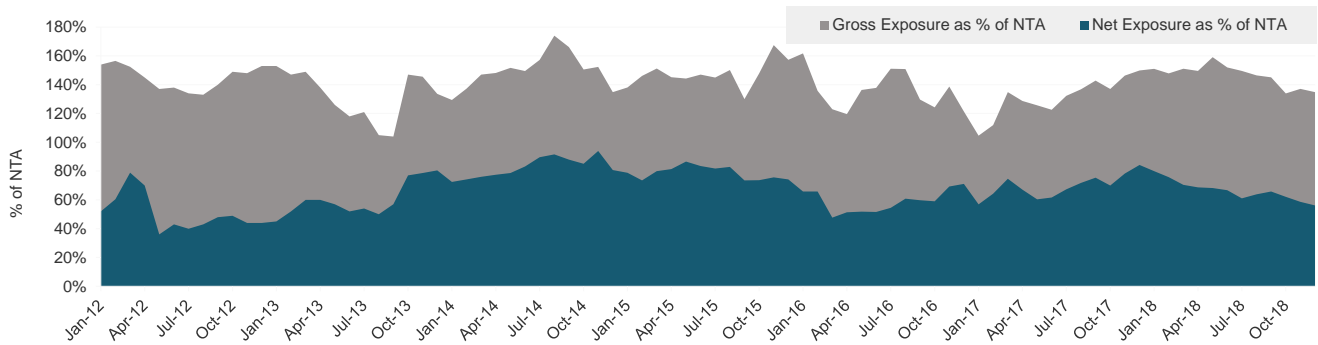
^ RFR = RBNZ 90 day bank bill rate

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%	-4.49%	-12.28%

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

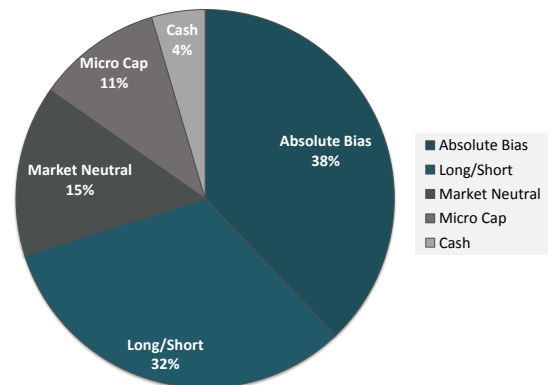
Gross and Net Exposure (% of Net Assets)



Top 10 Funds: (% of Net Assets)

Fund name	Strategy	% of assets
Auscap Long Short Australian Equities Fund	Long/Short	9.40%
Milford Australian Absolute Growth Fund	Absolute Bias	8.77%
Sandon Capital Activist Fund	Absolute Bias	8.34%
Tasman Market Neutral Fund	Market Neutral	7.96%
The Level 18 Fund	Absolute Bias	7.77%
LHC Capital Australia High Conviction Fund	Long/Short	7.19%
Wilson Asset Management Equity Fund	Absolute Bias	7.08%
Firetrail Absolute Return Fund	Market Neutral	6.63%
L1 Capital Long Short Fund	Long/Short	6.43%
Smallco Investment Fund	Absolute Bias	5.92%

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.

