

Market and Fund Review

In January, global equity markets continued their Fed fuelled rally, which kicked off in the last week of December, gaining 7.8% after falling -22.5% from peak to trough between January 26th and Christmas day last year.

NZ and Australian equities fared far better over 2018. Between January's peak and December's low, NZ rose 3.2%, and Australia dropped -7.7%. As you would expect, NZ equities lagged in January, but still managed a 2.0% gain, and the Australian equity market rose 4.0%. Small companies in Australia, which had fallen -20.6% from peak to trough last year, bounced 5.7% in January.

King Tide rose 1.9% which was a bit less than what we had hoped for but reflects the underlying positioning of our managers and the diverse non-market related strategies of our underlying funds. At the end of December, the portfolio was 135% gross and 56% net long. Put another way, the combined positioning of our managers was 96% long and 40% short.

A number of managers went into January defensively positioned with high levels of cash and/or portfolio protection via index shorts. There was general nervousness that the December quarter capitulation signalled the end of the bull market. Even as markets rallied in January, and further in February, some believe this to be nothing more than a bear market bounce. Others believe the capitulation signalled the end of a short but sharp bear market.

We don't know whether the bull market is over, we simply observe that this is the third 'almost bear market', since the GFC, following near 20% corrections in 2011 and 2015. In the 1990's there were two similar sized drawdowns, one in 1990 and the other in 1998. The 2000's were a terrible decade for stocks, with the market in bear territory for 3.5 years in total, falling 49% between 2000-2002 and then the 57% collapse in 2008. With the internet revolutionising businesses and business models, perhaps we are in for a long period of global growth?

Montaka, a global equity manager produced a white paper on the subject. They argue, that over the past four years the US share market drove more than 80% of the total return of the MSCI World. They also estimate that approximately 70% of US equity returns over this period were driven by tax cuts. Adjusting for the one-off upward earnings revision from tax cuts, global equities would have returned just 1.6% p.a. rather than the headline 4.5% p.a. This, they believe, is less than earnings growth over the same period, meaning global equities are cheaper now than they were four years ago.

On a similar note, small cap manager QVG believe valuations in Australian small industrials are attractive despite the January bounce. They point to the spread between the earnings yield and the risk-free rate, which is as large as it has been since July 2013. This augers well for returns over the medium to long term if earnings expectations are met.

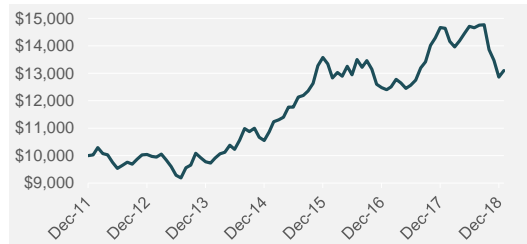
However, others point to the mounting geo-political risks, China's apparent slowdown, the trade war and Brexit, all feeding into slower global growth. As they point out, it is not unusual to see market rallies in bear markets. In the dot.com bust between September 2000 and October 2002 referred to above, the market had three bounces of around 20% on the way to a -48.9% fall. During the GFC, there were six strong moves higher, ranging between 6% and 24%.

It appears we have managers on both sides of this argument. What was pleasing for us in January was the strong performance of the managers which suffered the most in the last quarter. Our three best performing funds in January were our three worst performing in the last quarter. Leading the way was Regal Atlantic with 7.0%, followed by Smallco +6.2% and QVG +5.1%. We also had market neutral fund Regal Tasman gain +4.9% and L1, which has struggled since launching their record-breaking listed fund in April last year, gain 4.4%, its first positive result in six months.

A number of our managers went into 2019 defensively positioned. PIE Emerging Companies for example, is holding half their portfolio in cash, and another smallcap fund we recently added, Millex Ethical Fund has a large short position over the Australian market.

LHC had an excellent year in 2018, so it was not surprising to see them underperform in January, gaining just 1.3%, made up of 3% on their long book and -1.7% on their shorts. In their January report, LHC points to the growing risk of the declining housing market in relation to consumer facing businesses, and will be keenly observing the results of these businesses in the February reporting season. LHC has now closed their fund, bringing to six the number of KT managers closed to new money.

NZD \$10,000 Invested at Inception



Performance Metrics (%)	KT NZD	Benchmark *
1-Month	1.86%	3.98%
3-Month	-5.49%	-1.45%
6-Month	-10.63%	-7.21%
1-Year	-10.50%	-2.24%
3-Year p.a.	-0.60%	9.15%
5-Year p.a.	6.13%	7.22%
Since Inception p.a.	3.89%	7.41%

* 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	8.90%	12.16%
3-Yr Sharpe Ratio	-0.31	0.58
Standard Deviation (Since inception)	8.08%	11.48%
Sharpe Ratio (Since inception)	0.15	0.41
Ave Rtn in Market Positive Months	1.47%	2.69%
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	7.99%	n/a
Beta	0.51	1.00
Maximum Drawdown	-12.89%	-12.21%
Annualised Alpha	-1.10%	n/a
Worst Month	-6.13%	-7.04%
Best Month	5.07%	7.31%

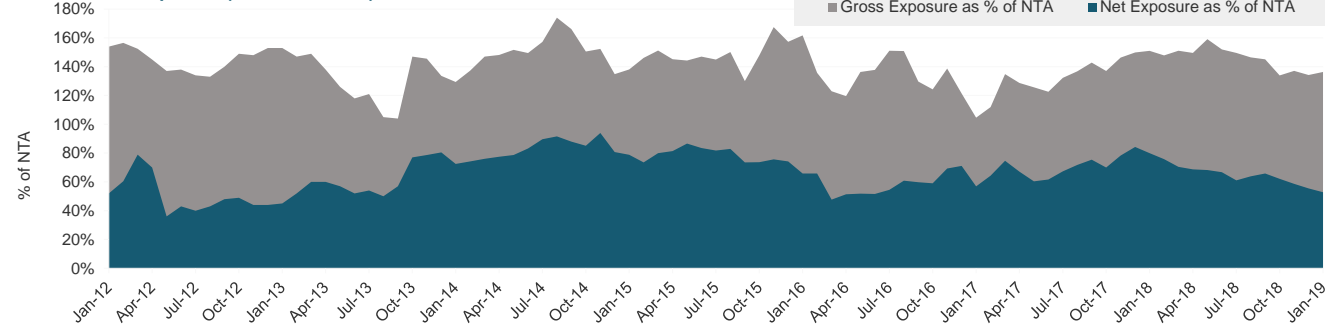
^ RFR = RBNZ 90 day bank bill rate

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%
2019	1.86%												1.86%

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

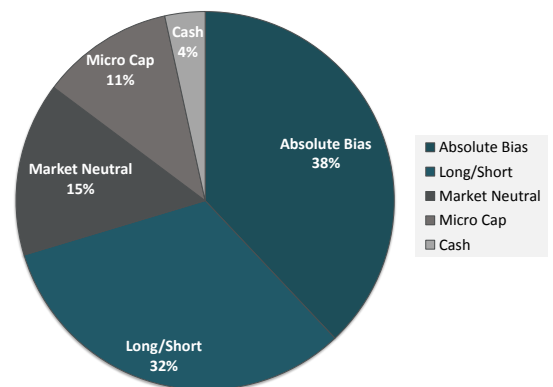
Gross and Net Exposure (% of Net Assets)



Top 10 Funds: (% of Net Assets)

Fund name	Strategy	% of assets
Auscap Long Short Australian Equities Fund	Long/Short	9.33%
Milford Australian Absolute Growth Fund	Absolute Bias	8.69%
Sandon Capital Activist Fund	Absolute Bias	8.23%
Tasman Market Neutral Fund	Market Neutral	8.22%
The Level 18 Fund	Absolute Bias	7.72%
LHC Capital Australia High Conviction Fund	Long/Short	7.17%
Wilson Asset Management Equity Fund	Absolute Bias	7.14%
Firetrail Absolute Return Fund	Market Neutral	6.65%
L1 Capital Long Short Fund	Long/Short	6.60%
Smallco Investment Fund	Absolute Bias	6.18%

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.

