

### Market and Fund Review

Equity markets continued to rebound in February from their late 2018 sell off with the Australian All Ords and NZX 50 rising 6.1% and 3.8% respectively. The smaller end of the market led the way with the Small Ords gaining 6.8% while the banking sector was also up strongly after the banks appeared to escape the more penal of the royal enquiry's recommendations.

Our blended benchmark finished the month up 5.0% versus a gain of 3.6% for the fund, with the stronger NZD once again providing a headwind, up 0.9%.

Turning to our managers, Regal was the standout performer, with both Atlantic and Tasman rising by record amounts, up +29.2% and +10.9% respectively. Virtually everything they touched turned to gold including such disparate sectors as the tech darlings (Appen +47% & Altium +32%) and small cap miners (Jupiter +39% & Nickel Mines +40%).

It is a welcome return to form for Atlantic having fallen -41% in 2018, however they remain -22% below their high-water mark. Tasman's strong performance was also a good reminder that although market neutral funds tend to perform independently of markets, when you combine fundamental investing both long and short with a bit of leverage it can be a heady cocktail. Since inception in 2007, Tasman has returned 15.4% p.a. versus the All Ords 4.5% p.a. It is with some regret that we have decided to redeem Tasman as their increased exposure to Asian markets means it is hard to make the case that they maintain a 'primary focus on Australasian equities' and hence fall outside of King Tide's mandate.

Other funds with strong performance included Smallco (+13.7%) and QVG (+6.9%) who both run effectively long only strategies focusing predominantly on small cap growth companies. We expect these managers to have large drawdowns during market corrections, and indeed they were down -15.8% and -20.8% in Q4 versus -13.7% for the Small Ords. The flip side is they tend to recover quickly and are currently up +20.8% and +12.4% YTD.

In a month in which a number of arguably expensive growth stocks rallied strongly, it was no surprise that most funds carrying low net market exposure wound up on the negative side of the ledger. This included Totus Alpha (-1.4%) and Firetrail (-1.1%) who are both currently market neutral. It was a similar story for Arnott (+0.5%), currently ~15% net short.

Totus Alpha is a relatively new addition to the King tide stable, and is in the mould of traditional long/short fund managers with a flexible mandate that has seen net exposure range from short 40% to long 100%, although it has averaged 40% net long since the fund's inception in April 2002. Similarly, while gross exposure has at times peaked near the fund's limit of 325%, it has averaged 220% since inception and is currently running at 168% (approximately 84% short, 84% long).

	6mth	1yr	2yr p.a.	3yr p.a.	5yr p.a.	SI p.a.
<b>Totus Alpha Fund</b>	-10.6%	-6.4%	14.1%	6.8%	13.3%	18.0%
<b>ASX All Ordinaries</b>	-0.7%	6.6%	8.7%	12.7%	7.4%	9.7%

Ordinarily we would be wary of adding a fund that has returned 18% p.a. over almost seven years, as performance chasing is rarely a winning strategy. However, we take some comfort from the fact that Totus is currently enduring a difficult period having underperformed the wider Australian market by 13% over the last 12-months. We will be looking to build on our current small allocation over the coming months.

Totus has a number of attributes that we find attractive in a fund, not least of which is a return series that has been virtually uncorrelated to the wider market, and a record of protecting capital when the market sells off. In fact, Totus has returned, on average, +1.8% in the 15 worst months since inception, during which the market has averaged -4.3%.

It is for good reason, then, that manager Ben McGarry has acquired a reputation as one of the best short-sellers in the Australian market, having sniffed out many of the recent market scandals such as Quintus and Blue Sky, something he puts down to his background as a Chartered Accountant. Shorting is certainly not for the faint hearted, and for many managers, it is not worth the time and effort needed to gain comfort around a short idea, so we value managers who have a natural affinity for shorting.

While Totus is a bottom up stock picker, the strategy attempts to identify 5 or 6 structural themes on both the long and short side, resulting in a diversified portfolio that typically holds 40-60 long positions and 50-70 shorts. The fund also has the ability to invest internationally, something that seems imminently sensible to us when whole sectors of the local market appear wildly overvalued e.g. technology while comparable global companies look cheap.

Finally we like Totus' desire to manage their capacity. At \$200m the fund has a relatively long runway before they reach their \$500m soft close target, and we were impressed by their willingness to cut their management fees as the fund has grown.

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



Performance Metrics (%)	KT NZD	Benchmark *
<b>1-Month</b>	3.57%	4.95%
<b>3-Month</b>	0.76%	7.38%
<b>6-Month</b>	-8.02%	-4.20%
<b>1-Year</b>	-4.19%	4.01%
<b>3-Year p.a.</b>	1.89%	11.65%
<b>5-Year p.a.</b>	6.49%	7.62%
<b>Since Inception p.a.</b>	4.35%	8.05%

\* 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
<b>3-Yr Standard Deviation</b>	8.84%	12.28%
<b>3-Yr Sharpe Ratio</b>	-0.03	0.78
<b>Standard Deviation (Since inception)</b>	8.12%	11.52%
<b>Sharpe Ratio (Since inception)</b>	0.21	0.47
<b>Ave Rtn in Market Positive Months</b>	1.51%	2.73%
<b>Ave Rtn in Market Negative Months</b>	-1.62%	-2.90%
<b>Up Capture</b>	0.55	1.00
<b>Down Capture</b>	0.56	1.00
<b>Annualised Tracking Error</b>	7.95%	n/a
<b>Beta</b>	0.51	1.00
<b>Maximum Drawdown</b>	-12.89%	-12.21%
<b>Annualised Alpha</b>	-0.97%	n/a
<b>Worst Month</b>	-6.13%	-7.04%
<b>Best Month</b>	5.07%	7.31%

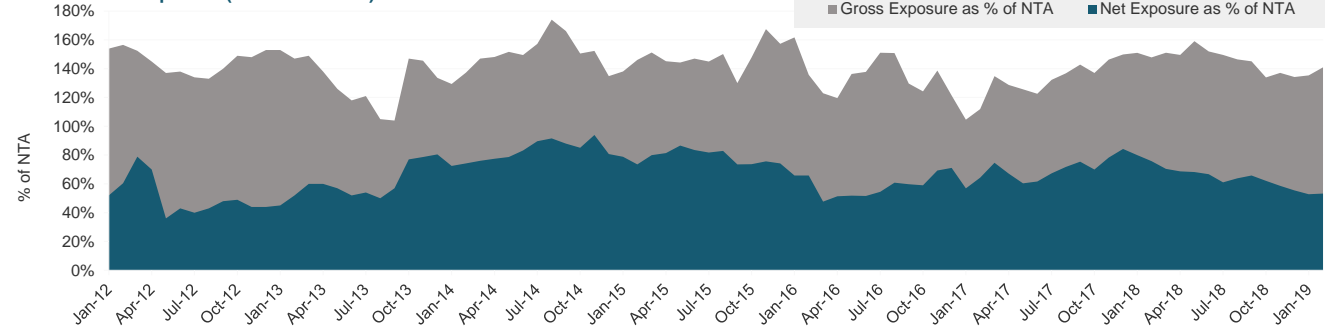
^ RFR = RBNZ 90 day bank bill rate

**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%	3.57%											5.50%

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

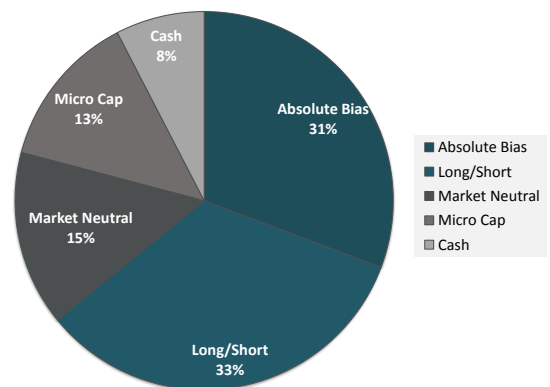
**Gross and Net Exposure (% of Net Assets)**



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

Fund name	Strategy	% of assets
Auscap Long Short Australian Equities Fund	Long/Short	9.02%
Tasman Market Neutral Fund	Market Neutral	8.70%
Milford Australian Absolute Growth Fund	Absolute Bias	8.36%
Sandon Capital Activist Fund	Absolute Bias	8.14%
The Level 18 Fund	Absolute Bias	7.52%
LHC Capital Australia High Conviction Fund	Long/Short	7.16%
Smallco Investment Fund	Absolute Bias	6.72%
L1 Capital Long Short Fund	Long/Short	6.63%
Firetrail Absolute Return Fund	Market Neutral	6.28%
Atlantic Absolute Return Fund	Long/Short	5.45%

**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.

