

## Market and Fund Review

It was another solid month for King Tide, ending the month up 2.4%, and closing in on the fund's high water mark, set in September last year.

Our blended benchmark meanwhile was up 2.1%, with Australian equities (+1.7%) slightly shading their New Zealand counterparts (+1.0%), with the difference being due to a 0.6% increase in the AUDNZD exchange rate.

Among our managers, Atlantic was the standout performer (+8.4%), taking their gains year-to-date to 74.3%. They were followed by solid performances from LHC (+5.7%), Totus (+4.9%) and EGP (+4.8%). This month's laggards included Firetrail (-5.0%), 8EC (pre-Tax NTA -4.7%) and L1 (-2.8%). Thankfully, 8EC's share price was up +10.3% as it moved towards the fund's NTA (Net Tangible Asset backing).

As expected, 8EC has finally moved to liquidate the fund and distribute the capital to investors, resulting in Aurora withdrawing its opportunistic \$0.82 scrip bid. It has been a sorry saga for 8EC, which listed on the ASX in December 2015. Despite strong performance in its first year, it traded at a wide discount to its NTA, which resulted in a disappointing up-take of the options, causing the fund to remain subscale, with poor liquidity, perpetuating the discount to NTA. Performance also dropped off. Thankfully we bought into 8EC at a wide discount, and will end up with only a small loss of capital after taking account of the dividends received.

While the listed structure can have advantages for managers, there are some pitfalls for investors particularly in sub-scale listed investment companies: small funds can result in high costs per share; discounts can widen, making it very difficult to get out; management's desire to retain fees sometimes runs contrary to shareholder's desire to redeem; the closed end structure means it may be difficult to wind-up the fund; illiquid assets attract fire-sale prices in a wind-up scenario. In the end there is no substitute for strong performance and as always it is a case of caveat emptor.

### LHC Capital Australia High Conviction Fund

LHC Capital is a single strategy boutique investment manager, founded in Sydney in May 2011 by Stephen (the Sheikh) Aboud and Marcus Hughes.

Stephen, has more than 25 years' experience, having previously spent 12 years running a high conviction smallcap strategy for the Lowy Family. Prior to this he had a decade on the Australian equity desks at Deutsche Bank and Macquarie Bank. Marcus meanwhile has 15 years' experience including six years at high profile Sydney manager Caledonia, and five years in London with UBS and storied hedge fund Citadel.

As the name suggests, LHC is a high conviction absolute return manager with a focus on Australian small to midcap industrial companies. Gross and net limits are 200% and 100% respectively although the fund has more commonly run with a gross of 100-150% and a net of 40-70%. The fund typically holds 8 to 10 core long positions with a portfolio weight greater than 5% but have a cap of 15% at time of purchase.

	6mth	1yr	2yr p.a.	3yr p.a.	5yr p.a.	SI p.a.
LHC	16.7%	29.3%	14.3%	6.9%	12.0%	16.8%
ASX All Ordinaries	15.3%	10.5%	10.7%	10.5%	8.0%	8.1%

LHC targets a return of 10-15% p.a. through the cycle and have comfortably achieved that over the last seven years, with an annual return of 16.8%, more than double the All Ords which has returned 8.1% p.a. However, it has not been all smooth sailing for the fund which endured 18 months of purgatory between October 2016 and February 2018 which saw the fund fall more than 17% from its highs. During this period nothing seemed to work, including standing on the CBL landmine which saw a 6.5% position go to zero.

As is natural when a manager goes through a difficult period we began to question whether this was a 'normal and to be expected occurrence', bad luck or mismanagement. Was there anything to suggest they changed their process, or had the fund grown too large for the strategy - the fund has limited capacity and had been soft closed since June 2017 and recently hard closed. Often it is impossible to determine conclusively but thankfully we stayed the course and it has been a pleasing return to form for LHC, having returned 29.3% over the last twelve months.

## NZD \$10,000 Invested at Inception



Performance Metrics (%)	KT NZD	Benchmark *
1-Month	2.37%	2.12%
3-Month	7.37%	7.16%
6-Month	8.19%	15.06%
1-Year	0.82%	9.39%
3-Year p.a.	3.21%	10.55%
5-Year p.a.	7.02%	8.05%
Since Inception p.a.	5.21%	8.78%

\* 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
5-Yr Standard Deviation	8.68%	12.16%
5-Yr Sharpe Ratio	0.40	0.57
Standard Deviation (from inception)	8.14%	11.39%
Sharpe Ratio (from inception)	0.32	0.54
Ave Rtn in Market Positive Months	1.56%	2.71%
Ave Rtn in Market Negative Months	-1.62%	-2.90%
Up Capture	0.57	1.00
Down Capture	0.56	1.00
Annualised Tracking Error	7.82%	n/a
Beta	0.52	1.00
Maximum Drawdown	-12.89%	-12.21%
Annualised Alpha	-0.54%	n/a
Worst Month	-6.13%	-7.04%
Best Month	5.07%	7.31%

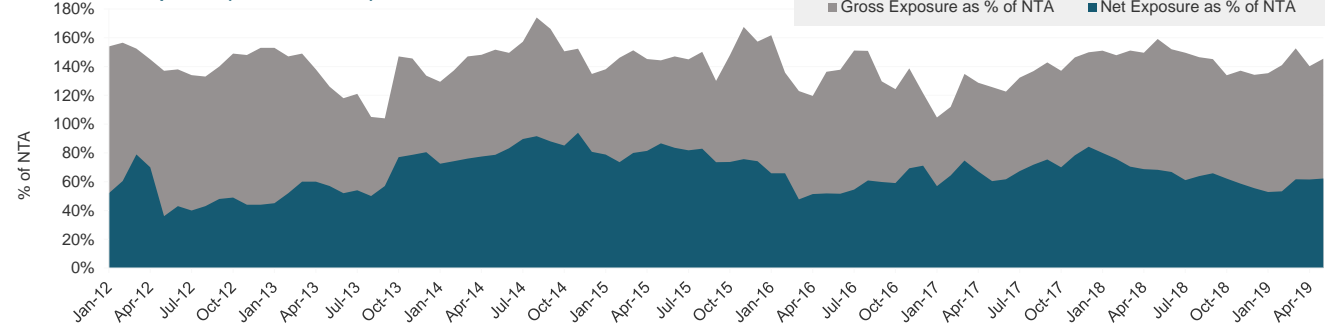
^ RFR = RBNZ 90 day bank bill rate

**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%	3.57%	0.63%	4.24%	2.37%								13.27%

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

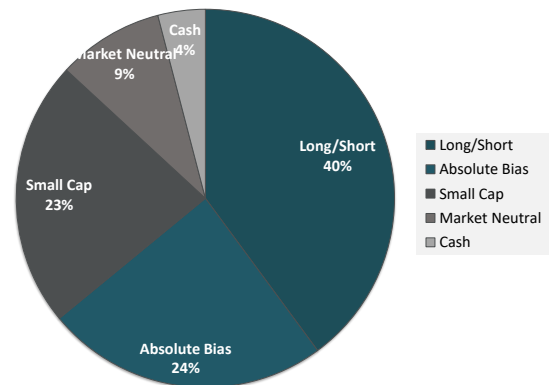
**Gross and Net Exposure (% of Net Assets)**



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

Fund name	Strategy	% of assets
Milford Australian Absolute Growth Fund	Absolute Bias	8.40%
Atlantic Absolute Return Fund	Long/Short	8.40%
Sandon Capital Activist Fund	Absolute Bias	8.40%
Auscap Long Short Australian Equities Fund	Long/Short	8.33%
LHC Capital Australia High Conviction Fund	Long/Short	7.54%
The Level 18 Fund	Absolute Bias	7.35%
Smallco Investment Fund	Small Cap	6.72%
L1 Capital Long Short Fund	Long/Short	6.42%
Firetrail Absolute Return Fund	Market Neutral	5.81%
Totus Alpha Fund	Long/Short	4.42%

**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.

