

## Market and Fund Review

King Tide rose 3.6% in July, rebounding from the previous month's disappointment. This was a slight outperformance versus our benchmark which gained 2.9%, with contributions of 3.0% and 3.4% for the All Ords and NZX50 respectively, while the NZD gained 0.1%.

For the first seven months of the year KT has returned 15.0%, our best start to year yet, but we have a way to go to match the 28.7% in 2015.

July was good month for our managers with 17 out of 18 funds ending in the black, and the standout performance coming from Atlantic +17.1%. It marks a stunning return to form for Atlantic, which is up 92% YTD and back above its high-water mark, after being down -42% in 2018. The flipside of this performance is that the position has grown from 4.2% at the start of the year to 9.2% as of month end. With our ability to manage the position size limited by the fund's quarterly liquidity, Atlantic's impact on both our performance and volatility could become even more significant by the time the next redemption window opens at the end of December.

It's worth reiterating that although a key consideration when selecting our managers is their ability to protect capital, this doesn't mean they all can or will, as illustrated by our -12.8% in Q4. While this is painful in the short-term it is almost unavoidable when we have managers such as Atlantic, which was down -38.0%. Atlantic, however, have proven over more than 15 years that they can successfully manage risk during which they have generated one of the most impressive track records in the Australian market, as well as being by far the biggest contributor to King Tide's returns since our inception.

Among our other managers this month there were honourable mentions for QVG Long Short (+6.1%), possibly benefiting from their recent launch and low FUM as well as EGP & Auscap (who were both +6.1%) as previously beaten down value stocks have been showing signs of life.

The laggard this month was Sandon who fell -0.2%. Sandon are currently in the process of merging their LIC (ASX:SNC) with Ron Brierley's Mercantile (ASX:MVT), which will create a combined entity with net assets of approximately \$100m. The merger formalises the previous relationship whereby Sandon managed the Mercantile portfolio on a day-to-day basis, with Sir Ron joining SNC's board. The increased firepower should be a positive development for Sandon as it will give them the ability to take larger stakes in target companies and hence have greater leverage in their activist campaigns.

## Milllex Ethical Fund

This month we take a closer look at the Milllex Ethical Fund, a relatively new addition to our portfolio and one we have been adding to since January.

Milllex is an Australian wholesale unit trust managed by MX Capital which was founded in September 2017 by sole portfolio manager Weimin Xie.

Weimin was previously a Portfolio Manager at boutique fund manager Ophir Asset Management, where for three years he contributed towards one of the best track records among Australian small cap managers, outperforming the Small Ordinaries Index by 10% p.a. Prior to this he spent six years as an analyst at Komos Asset Management which also had a track record of outperformance.

The fund's objective is to significantly outperform its 7.5% absolute return hurdle, which is the long-term return for Australian small cap equities, by investing in a portfolio of high growth value-accretive businesses. While ethical investing is all the rage these days, Milllex's negative screen has an empirical basis and results in investment universe that has historically produced significant outperformance.

Milllex typically invests in a concentrated portfolio of 10-20 Australian small and mid-cap stocks, although the broad mandate allows an allocation of up to 15% international stocks. Likewise, there are no limits on the fund's cash weighting and it can also short-sell stocks. Weimin has indicated he is unlikely to short stocks, at least in the medium-term, given their capped upside and the additional resources could detract from his focus on finding great longs.

Milllex has had a pretty strong start to life since launching in January 2018, returning 45.4% or an annualised 26.7% p.a. This is even more impressive when you consider the fund has been carrying an average of 30% cash. The fund has also had significant hedges in place in the form of short index futures. While this has meant that in the first six months of the year the fund has carried net equity exposure of only 11.5%, in a strongly rising market it can create a large drag on the fund's performance.

While still early days, we have been impressed by Weimin's stock picking ability as well as his commitment to protecting capital. His flexible mandate, alignment, long term investment horizon (lifetime commitment), and commitment to limiting the fund's size (soft close at \$100m) are all things we look for when allocating to a manager and we have every expectation that it will be a successful partnership.

## NZD \$10,000 Invested at Inception



Performance Metrics (%)	KT NZD	Benchmark *
1-Month	3.63%	2.90%
3-Month	3.93%	7.13%
6-Month	12.91%	17.97%
1-Year	0.91%	9.47%
3-Year p.a.	3.09%	11.38%
5-Year p.a.	6.97%	8.55%
Since Inception p.a.	5.30%	9.26%

\* 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	8.73%	11.90%
5-Yr Sharpe Ratio	0.51	0.51
Standard Deviation (from inception)	8.18%	11.29%
Sharpe Ratio (from inception)	0.33	0.59
Ave Rtn in Market Positive Months	1.53%	2.70%
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	7.86%	n/a
Beta	0.52	1.00
Maximum Drawdown	-12.89%	-12.21%
Annualised Alpha	-0.69%	n/a
Worst Month	-6.13%	-7.04%
Best Month	5.07%	7.31%

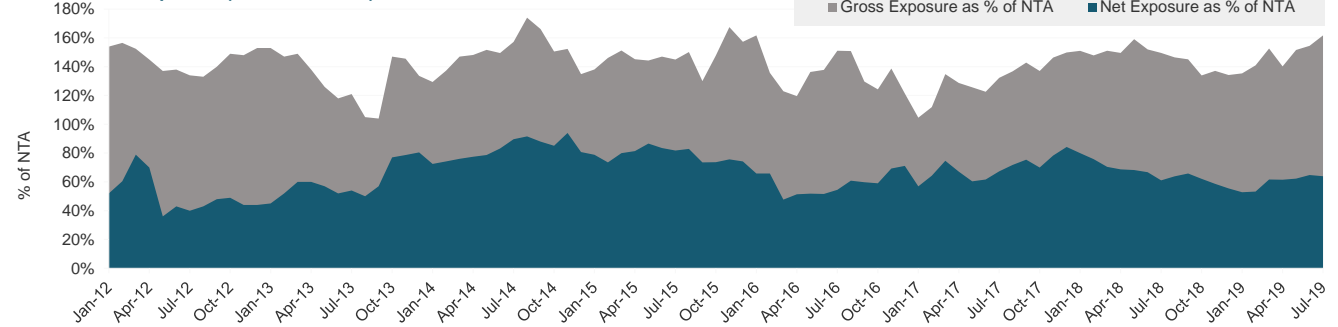
^ RFR = RBNZ 90 day bank bill rate

**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%	-2.03%	3.63%						15.00%

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

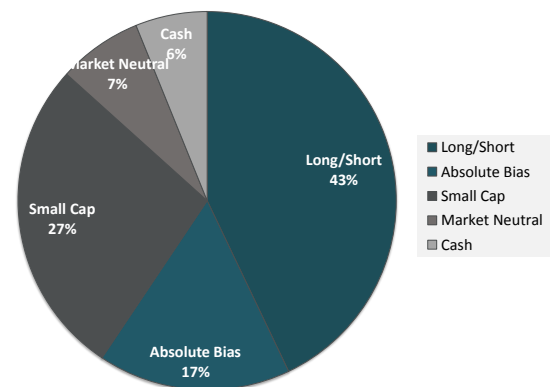
**Gross and Net Exposure (% of Net Assets)**



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

Fund name	Strategy	% of assets
Atlantic Absolute Return Fund	Long/Short	9.15%
Sandon Capital Activist Fund	Small Cap	8.05%
LHC Capital Australia High Conviction Fund	Long/Short	7.83%
The Level 18 Fund	Absolute Bias	7.33%
Auscap Long Short Australian Equities Fund	Long/Short	7.27%
Firetrail Absolute Return Fund	Market Neutral	7.20%
Smallco Investment Fund	Small Cap	6.76%
L1 Capital Long Short Fund	Long/Short	6.65%
Totus Alpha Fund	Long/Short	5.90%
Milford Australian Absolute Growth Fund	Absolute Bias	5.13%

**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.

