

## Market and Fund Review

King Tide ended the year on a negative note due to currency translation and one outlier result from an underlying manager which we will discuss at the end of this commentary. In December King Tide fell -1.5% with -1.0% of that from currency. In the December quarter underlying managers fell -0.5% and currency added another -2.6% for a net return of -3.1%.

Over the calendar year King Tide rose 17.3%. Eight managers beat the All Ords 24.1%, three managers had single digit returns, two of which were running market neutral strategies, and one fund, Arnott Opportunities, lost money -1.7%.

The Australian share market fell -1.9% in December and this blew out to -3.0% when translated into NZDs. Over the year it rose 24.1%, and NZ shares rose 31.4%. Currency effects were less than 1% over the year.

The continued strong rally in equities is being nicknamed TINA, "There Is No Alternative". Investors have been prepared to pay more for each dollar of earnings as they seek a return on their savings. We call this 'multiple expansion', and it accounted for 22.7% of the 23.8% return for the ASX300 last year. Dividends added another 5.0% while earnings contributed -3.9%. Average company earnings fell last year.

This phenomenon is not unique to Australia. By some estimates the multiple expansion in US stocks accounted for more than 90% of price gains in 2019, with the average forward PE expanding from 14 to 19 times. The NZ market is trading on a multiple of 32.9x compared to the median 19.8x using Jarden forecasts (taken from Matt Goodson's Salt fund commentary). This made NZ the second-best equity market in the world in 2019, behind the US.

All that to say, if lower interest rates have driven the markets higher, and these lower interest rates are due to economic weakness, then signs of economic strength, which we are seeing, may in fact be bad news for equity markets. It may be the year of good news is bad news.

The investment committee made several changes during the year. We redeemed Regal Tasman Market Neutral due to their increased weighting to Asia, which took them outside our mandate. To maintain exposure to Regal we added to Regal Atlantic. Wilson Asset Management has a growing number of listed funds, and one small unlisted in which we were invested since November 2013. This was redeemed due to the large increase in Wilson's funds under management, which makes it more challenging to maintain their excellent long term track record.. In keeping with our belief in being early investors when we can assess a manager's ability, we are seeding Chris Stott's new fund at the end of this month (January 2020). Chris was previously CIO at Wilson. Interestingly, we are also invested in the Level 18 fund, where Matt Kidman is a partner. Matt was CIO at Wilson before Chris.

We have redeemed our investment in PIE Emerging Companies and are gradually redeeming Milford Australia Absolute Return. PIE has increased their funds under management from an initial \$25m hard close to over \$500m now in small caps. While still a manageable sum given the talent they have, it was becoming less clear to us who was managing what, and we had other early stage funds with similar approaches which we decided to switch into. We added Saville Capital Emerging Companies and Millex Ethical fund. Saville's manager, Jonathon Collett has closed the fund at \$50m to enable him to continue to generate strong returns. Five of our underlying funds are closed to new investors.

Milford is an outstanding manager. Our decision to redeem was more that the absolute fund is less aggressive than we had initially thought in terms of having a portfolio of fundamental long and short positions.

Other additions into new funds were QVG long/short, being run alongside QVG's long only fund which we already own, Sage Capital, Sean Fenton's new business, ex Tribeca where he ran the Alpha Plus fund. We have invested in the Sage equivalent and their market neutral fund. Sage employs a combination of fundamental and quantitative analysis, and this appeals to us given the strengths and weaknesses of these two approaches. We trimmed Smallco, Auscap, L1 and LHC.

One of our funds, LHC, managed by Stephen Aboud and Marcus Hughes is a large shareholder in a company called iSignthis, which has been suspended from trading and is under investigation by the Australian regulator. In speaking with Stephen, he is holding his supportive view of the business, however other managers we have talked to have very different opinions. Time will tell. LHC undertook an independent valuation of their holding which resulted in a write down based on a 'suspension discount' rather than any change in the underlying business. This led to them reporting a -10.9% loss for the month which reduced their annual return to 14.7% and accounted for more than half of KT's December loss.

## NZD \$10,000 Invested at Inception



Performance Metrics (%)	KT NZD	Benchmark *
1-Month	-1.49%	-2.51%
3-Month	-3.12%	-1.84%
6-Month	5.73%	3.92%
1-Year	17.34%	23.89%
3-Year p.a.	6.55%	11.34%
5-Year p.a.	7.42%	9.85%
Since Inception p.a.	5.28%	8.90%

\* 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	8.60%	11.20%
5-Yr Sharpe Ratio	0.59	0.67
Standard Deviation (from inception)	8.11%	11.10%
Sharpe Ratio (from inception)	0.34	0.57
Ave Rtn in Market Positive Months	1.49%	2.68%
Ave Rtn in Market Negative Months	-1.42%	-2.74%
Up Capture	0.55	1.00
Down Capture	0.52	1.00
Annualised Tracking Error	7.85%	n/a
Beta	0.52	1.00
Maximum Drawdown	-12.89%	-12.21%
Annualised Alpha	-0.47%	n/a
Worst Month	-6.13%	-7.04%
Best Month	5.07%	7.31%

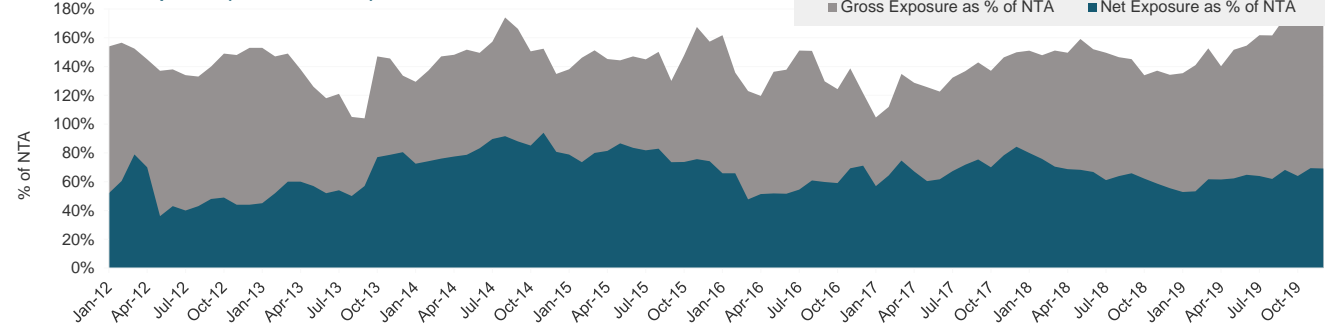
^ RFR = RBNZ 90 day bank bill rate

**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%	3.52%	1.82%	-0.14%	-1.52%	-1.49%	17.43%

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

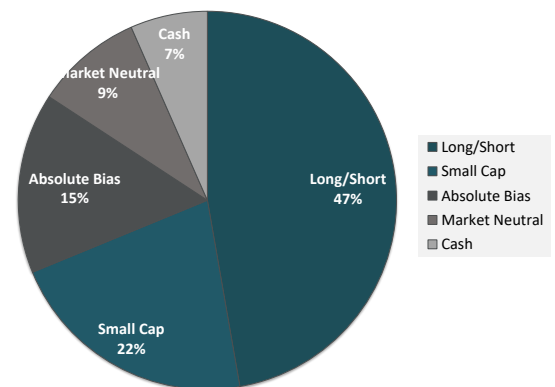
**Gross and Net Exposure (% of Net Assets)**



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

Fund name	Strategy	% of assets
Atlantic Absolute Return Fund	Long/Short	8.68%
Sandon Capital Activist Fund	Small Cap	8.62%
Firetrail Absolute Return Fund	Market Neutral	7.77%
The Level 18 Fund	Absolute Bias	7.72%
Totus Alpha Fund	Long/Short	7.61%
Auscap Long Short Australian Equities Fund	Long/Short	7.58%
L1 Capital Long Short Fund	Long/Short	6.92%
LHC Capital Australia High Conviction Fund	Long/Short	6.57%
QVG Long Short Fund	Long/Short	5.07%
Smallco Investment Fund	Small Cap	4.92%

**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.

