

Market and Fund Review

As we write this in late March, February performance has already faded into insignificance as global equity markets freefall on the back of the Covid-19 pandemic. Cash is king and investors that want cash appear to be willing to dump assets at any price. At times like these it is tempting to capitulate and join the stampede for the exit, but history tells us if you weren't ready or agile enough to get positioned in the very early stages of the drawdown you are likely to compound your error by selling when the market is already significantly down.

For the record King Tide experienced its worst ever month in February, falling -7.9% versus a fall of -7.2% for our benchmark. The Australian market was the main culprit with the All Ords down -8.1%, marginally ahead of its small cap counterpart, down -8.7% while the NZX50 down a mere -3.9%.

The All Ords actually hit an all-time record high on the 20th of February, at that point up more than 2% for the month, before falling 9.7% in the final week of the month as it became apparent that Covid-19 had spread beyond China's borders. While some argue that the market was overvalued and was looking for a reason to sell-off, the unknown quantity of the virus and the speed of the drawdown caught most market participants wrong footed.

This was what is known in the lexicon as the ultimate "black swan" event, one that no one could have foreseen let alone modelled in their valuations. With the benefit of hindsight, it is obvious that we always run a risk of a global pandemic, however there is really only one data point for comparison, the 1918 to 1920 Spanish Flu. Not only is there insufficient market data to make direct comparisons, anyone who accounted for the risk in their valuations would potentially see stocks as overvalued and remained underinvested for long periods of time.

Initially it was pleasing to see our low beta and market neutral managers such as Sage's Absolute Fund, Firetrail and Totus had protected our capital, while Millex, QVG L/S, Arnott and Level 18 had outperformed on a relative basis. Nevertheless, the fund's performance failed to live up to our expectations.

There were broadly speaking four main reasons for this.

Firstly, we have been adding to our small cap long only strategies in recent years which although we have every confidence they will generate attractive returns over the medium to long term, can be expected to fall as much if not more than the market in the short term. While adding to our small cap exposure could be judged as an allocation error, we fundamentally believe small cap managers running small funds have a huge advantage over their large cap peers and can be expected to bounce harder and faster when the market turns.

Secondly some of our long/short managers who have the ability to protect capital, were for whatever reason overly optimistic on the prospect of economic growth and hence particularly badly positioned leading into the sell off, either through carrying too much market risk or being in the wrong sectors.

Thirdly we had Atlantic drop 32%, a record in the 16-year life of this fund, as the fund's size, extreme leverage and the market's illiquidity highlighted the embedded risk in this strategy. Atlantic went into the month with a gross exposure of 526% and a net long exposure of 207%, which under normal conditions might be expected to fall around twice as much as the market, however their short book in particular failed to dampen the losses in the long book.

And fourthly, we had LHC, who wrote down the value of their large holding in suspended iSignthis for a second time, this time from 55 cents to 7.7 cents, reducing the holding to around 2.5% of the portfolio. This contributed around two thirds of LHC's 18.5% loss for the month, however, the pain of further write-downs has now been taken leaving us largely with a free option if/when iSignthis resume trading.

NZD \$10,000 Invested at Inception



Performance Metrics (%)	KT NZD	Benchmark *
1-Month	-7.95%	-7.19%
3-Month	-9.14%	-6.08%
6-Month	-9.10%	-2.67%
1-Year	2.59%	9.38%
3-Year p.a.	3.64%	8.60%
5-Year p.a.	4.38%	7.31%
Since Inception p.a.	4.13%	8.21%

* 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	9.25%	11.63%
5-Yr Sharpe Ratio	0.23	0.44
Standard Deviation (from inception)	8.55%	11.38%
Sharpe Ratio (from inception)	0.19	0.50
Ave Rtn in Market Positive Months	1.46%	2.70%
Ave Rtn in Market Negative Months	-1.61%	-2.86%
Up Capture	0.54	1.00
Down Capture	0.56	1.00
Annualised Tracking Error	7.86%	n/a
Beta	0.54	1.00
Maximum Drawdown	-12.89%	-12.21%
Annualised Alpha	-1.37%	n/a
Worst Month	-7.95%	-7.19%
Best Month	5.07%	7.31%

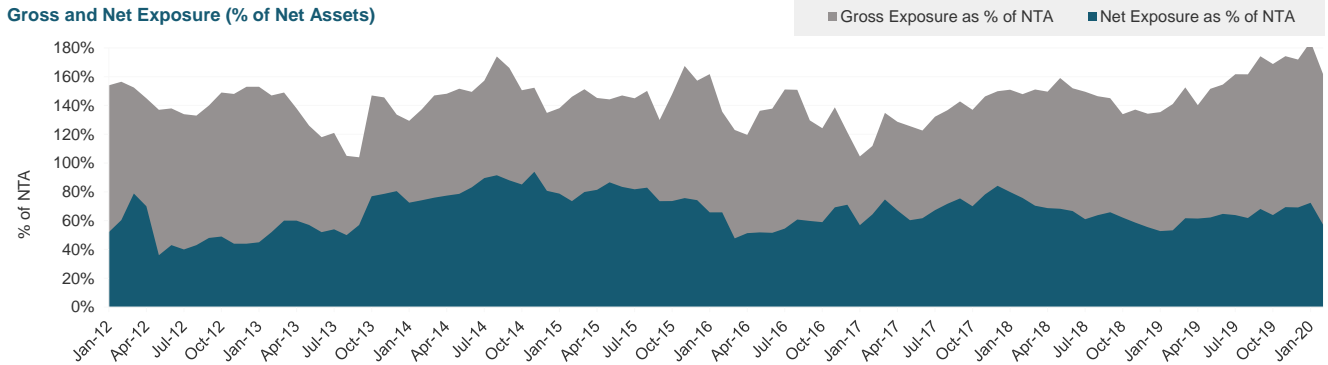
^ RFR = RBNZ 90 day bank bill rate

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%
2020	0.20%	-7.95%											-7.77%

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

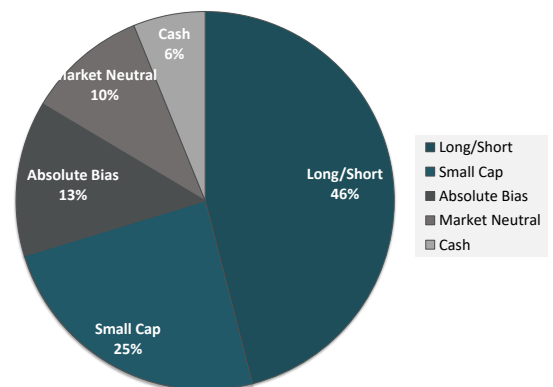
Gross and Net Exposure (% of Net Assets)



Top 10 Funds: (% of Net Assets)

Fund name	Strategy	% of assets
Sandon Capital Activist Fund	Small Cap	8.71%
Totus Alpha Fund	Long/Short	8.34%
The Level 18 Fund	Absolute Bias	8.25%
Firetrail Absolute Return Fund	Market Neutral	8.17%
Auscap Long Short Australian Equities Fund	Long/Short	7.57%
L1 Capital Long Short Fund	Long/Short	7.17%
Atlantic Absolute Return Fund	Long/Short	6.74%
LHC Capital Australia High Conviction Fund	Long/Short	5.62%
QVG Long Short Fund	Long/Short	5.56%
Smallco Investment Fund	Small Cap	5.02%

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.

