KING TIDE ASSET MANAGEMENT

QUARTERLY REPORT

31 December 2012

	King Tide	Blended Benchmark[1]
Quarter NZDs	3.64%	6.41%
Quarter AUDs	3.10%	5.93%
Year to Date NZDs	0.44%	11.08%
Year to Date AUDs	5.08%	16.10%

The fourth quarter of 2012 saw a strong rally in equity markets. The NZX50 rose 6.1% and the ASX200 was up 6.0% in Australian dollars, or 6.45% in NZ dollars. Currency was less of a factor in the quarter, although the cross was volatile with the Kiwi as low as 0.781 before recovering to 0.7952 at the end of December.

Overall, King Tide had a better quarter and second half of the year lifting the Fund from -4.63% as at June 30 to +0.44% by December 31.

When measured in Australian dollars, the Fund was up 5.1% in our first year compared to a 16.1% return for our blended benchmark.

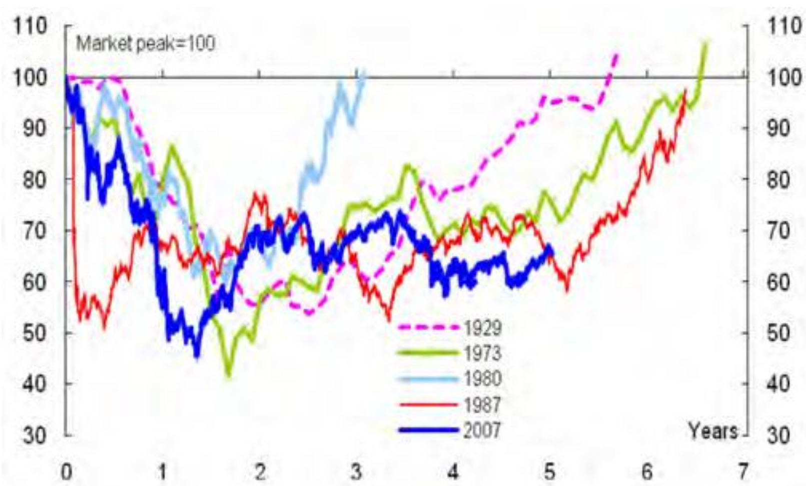
As markets moved higher in the quarter we have seen managers react in different ways. Some managers have remained wary, focusing on the macro risks around the 'fiscal cliff', European unemployment and debt problems and rumours of serious problems in Chinese credit markets. The Australian economy is also far from robust, with rising unemployment, and a clear slow-down in the once thriving resource sector. Most agree that the mining boom is over, and this has implications for not only miners, but for the ancillary industries which service mining operations. Other managers are more pragmatic, focusing on a shift in asset allocation from low yielding cash deposits and bonds, into higher yielding shares. While they

[1] Blended benchmark is 90% ASX 200 and 10% NZX 50 in NZ dollars

concede the mining boom is over, they still foresee strong demand from China and the rest of Asia.

Over the quarter the gross exposure of the Fund moved from 140% to 153% while net exposure moved lower, from 48% to 44%. This is mostly the result of one manager going from 66% net long to -9% net short. The positioning of the underlying funds reflects each manager's view on current market pricing and outlook.

One of our NZ based managers has a very positive outlook on equities. Talk of an equity bubble, he believes are premature. In his January newsletter, he refers to the chart below



to argue that the recovery from 2007-8's share market crash is in its early stages if it follows a similar pattern to previous market recoveries.

At the one year mark it is a good time to reflect on the underlying principals and investment philosophy behind King Tide.

First and foremost, King Tide is a Fund which is built on the belief that the number one principle of wealth creation is to hold on to your capital.

We believe there are a small number of outstanding managers of equities who will, over time, outperform the share market as measured by share market indices. Along with this belief, we have observed that the majority of equity managers do not outperform market indices over time.

King Tide believes in diversification as a fundamental principal of investing, and we are currently diversified across nine underlying funds. One of the things you have to accept when investing in a strategy which values capital preservation above keeping pace with strong markets, is periods of significant underperformance of the market. King Tide is flat over a year when market indices have risen.

King Tide's objective is to make positive returns over a three to five year period regardless of the share market. We will tend to follow a different pattern than the market, as you can see by observing the monthly numbers in our monthly reports.

That is not to say that we are satisfied or complacent about our overall results. We would like to participate in rising markets, and clearly we want to understand each of our managers' positioning. A number of our managers found the market difficult to navigate last year. Those which run market neutral strategies found the high correlation between all listed companies meant there was little to be gained from stock picking. Good and bad companies rose in value. Earnings too were not the driver last year. There was benign earnings growth in most sectors but the market went up as price to earnings multiples expanded.

The NZ market on the other hand offered some good opportunities. One of our NZ based managers collected on many of these with positions in Diligent, Ebos, Skellerup, Telecom, Trademe, Fisher and Paykel Appliances, Restaurant Brands and the float of Fontera. It is nice to know that we are participating in these profits albeit via a 16% weighting in our Fund.

We continue to monitor managers and are currently looking at adding some new managers and cutting positions where mandates have spread.

Of the original nine managers, two are now closed to all new money, and two are closed to new investors, but will still take money from existing investors.

Thank you for your continued faith in King Tide. We think it is a good time to be invested in managers who have the tools available to them to manage market risk

Adding to your investment in King Tide

This year we have set up an automatic payment facility for investors who want to add to their investment in King Tide on a monthly basis. The minimum amount is $200 per month. The forms for this are on our website www.kingtide.co.nz , under Request documentation, application forms, then pages 7 and 8.

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Sincerely,

Mark Houghton
CEO