



## KING TIDE ASSET MANAGEMENT

### QUARTERLY REPORT

	King Tide	Blended Benchmark*
Quarter NZDs	-5.35%	-4.56%
Quarter AUDs	-6.11%	-5.38%
Year to Date NZDs	-4.63%	-1.45%
Year to Date AUDs	-2.03%	1.56%

At the end of the quarter, KT had nine managers, with allocations ranging between 3.7% and 15.2%. Allocation changes have been influenced by performance, but we have also managed weightings to some degree. In the quarter we effectively reduced exposure to one manager by not adding new money. This has been, at the margin, positive for the fund.

We had two managers with drawdowns of 30% plus in the quarter. They are our two smallest positions and have annualized volatility of 40%, which does make quarters of +/-30% possible. While we are disappointed this has occurred in only our second quarter, we realize that the structure of King Tide allows exposure to this type of manager. And despite such extreme results, our overall performance over the quarter, is less than one percent lower than the market (as represented by our benchmark).

Apart from the two big losers, only one other manager underperformed in the quarter. Six managers beat the market (blended benchmark) by between 0.5% and 11.4%.

The Australian dollar appreciated by 1% in the quarter, providing a currency benefit to the fund.

The Australian market as measured by the ASX200 index was firm in April before plunging more than 7% in May, as global macro-economic fears re-surfaced. This pessimism continued through June to the last day of the quarter, when European leaders emerged from a Brussels summit with resolve and some political will to move towards some kind of fiscal



union. The Australian equity market rallied in the last hour of trading, as did equity markets globally, but the optimism was short lived.

The NZX 50 followed a similar pattern, rallying 3% between March and early May, before falling -7% through to the end of June.

The main positive that we took from the second quarter, was King Tide's 3% outperformance in May. This was a good test of our strategy. The benchmark fell -5.8%, and even though we had two managers with big negative numbers, we had seven managers which outperformed. Looking back over the last five years, the manager mix we currently have would have typically beaten the market by an average of 3% in months when equity markets were down by around 6% or more. We were pleased that this was what actually happened.

We also take heart from the fact that had we launched in July last year instead of January this year, our current managers would have been ahead of the market by about nine percent (the market fell -10.7% in the year ending June 30, 2012).

Looking forward, we would expect the pattern of outperformance in down months to continue, but we would caution that if the equity market rallies strongly, we may continue to lag the benchmark.

The reason for this is the high levels of uncertainty which still exist around Europe and China. Most of our core managers are running very low net exposures. Three managers, representing forty-one percent of the fund are less than 17% net long, and two others, representing a further twenty six percent of the fund are less than 40% net long.

We are currently looking at adding one new manager when fund flows allow, and have two others on watch.

Despite the very large drawdowns of two of our managers, we have decided to remain invested with them. Both of these funds have shown an ability to significantly outperform in stronger markets, which will help us to narrow the probable deficit from other larger core managers should markets rally from here.

Most managers are commenting on the macro back drop simply because it is having such an influence on stock price movements. Energy and resource sectors are very weak on the back of concerns over a slowdown in China and Europe, and apparent softness in the US. So as



the manager quoted below says, ‘despite attractive valuations’ these sectors are simply totally out of favour.

In his June report, a manager who is running a very low net position of 10.1% as at 30 June, wrote:

“In Australia, the extreme polarity of stock/sector returns persisted. Despite attractive valuations, resources and cyclical industrials continue to trade lower, on China concerns and, in some cases (Billabong, Ten Network) a horrific combination of earnings downgrades and highly dilutive equity raisings. Defensive and especially yield stocks continued to be re-rated aggressively, with Financials finishing up +4.5% in June, thanks to the yield appeal of REITs and banks, despite continued erosion of underlying rental revenue and (we fear) credit quality, respectively.

We finish with our standard disclaimer - markets have been dancing close to a cliff’s edge for some while as governments and central bankers continue to defer and delay the pain of recapitalization and restructuring that is ultimately coming, and it appears that the world may be running out of silver bullets at this juncture. Visibility remains low, systemic risks are elevated, near-term earnings highly unreliable, yet yields are low and cash levels very high. In summary, this remains as difficult a backdrop for equity investment as we can remember, and our focus remains squarely on risk management.”

In conclusion, I want to thank all of you who have invested in our fund. We believe that in time you will see the efficacy of our strategy and model and we continue to work hard to make sure the building blocks are in place.

Today, we registered our third Prospectus, which included financials and audit report from PricewaterhouseCoopers, who completed their first audit on the fund as at 31 March. We will be posting out the financial statements to you tomorrow.

Sincerely,

Mark Houghton  
CEO