KING TIDE ASSET MANAGEMENT

QUARTERLY REPORT

	King Tide	Blended Benchmark*
Quarter NZDs	1.71%	5.93%
Quarter AUDs	3.62%	7.91%
Year to Date NZDs	-3.09%	4.39%
Year to Date AUDs	1.92%	9.60%

King Tide's third quarter was defined by our poor relative return in July, when our benchmark rose 5.80% versus a rise of just 1.16% for the Fund. In the ensuing two months, King Tide marginally outperformed the benchmark.

As discussed in monthly reports, we have had one manager in particular who has suffered significant losses year to date, and again in the third quarter. In July, this manager dropped -12% in a market which rose. We have spent a lot of time talking to the manager and questioning his decisions, but in the end have decided to stay invested. The main reason for holding on is that we believe it is more probable the losses will be followed by a decent bounce. It would be frustrating to redeem at the bottom. Also, it is a very small position now, so further losses would have a much smaller impact on our overall result. Nevertheless we are disappointed and feel the manager should have managed his exposures better. It will remain a very small position for us.

Three other managers also lost money in July, which if you remember, was a turn-around month for the market, triggered by the new rules announced by Dragghi concerning European intervention, and his 'whatever it takes' rhetoric regarding preserving the Euro. The strong rally was very "index driven". It was more about buying 'the market' than individual stocks. The largest ten stocks in the Australian market accounted for 84% of the ASX200 index's gains. Money also chased yield, and a select group of ten high yielding dividend stocks accounted for 80% of the Index's gains.

The NZ market followed a similar pattern in July. Gains in Telecom accounted for 25% of the NZ market's 4.4% gain. This pattern is not particularly suited to long/short strategies, and all of our managers underperformed in July.

Since then, the market has begun to re-think the case for a seamless solution to Europe's debt problems, and there has been heightened attention to Asian growth, particularly of course China, Australia's most important trading partner.

Markets, as defined by our benchmark which is 90% the ASX200 and 10% the NZX50, have been basically flat, rising 0.64% in August and falling -0.52% in September. King Tide rose 1.3% in August and fell -0.72% in September, although these numbers are in NZ dollars and hide the underlying performance of the managers. In Australian dollars, the Fund rose 2.1% and 2.0% respectively in August/September versus the benchmark's 1.4% and 2.2%.

The last two months have been more in line with our expectations for the Fund. We are expecting to see some better results from managers who have suffered drawdowns, while the core larger weightings in the fund will continue to be very defensive, and will tend to outperform when markets fall.

One of the key tenets of King Tide's existence is that we will always be hedged and therefore you will not have to fear market downturns, or try and time your entry/exit into and out of the Fund. As we all know, "markets give, and markets take away". We have seen a strong run in equities over the last three years, (although the Australian market has lagged). There are risks to this rally which are widely known. Whether a correction happens soon, or some time in the next two to three years, no-one knows. All we know is, that the longer the rally continues, the closer the next correction gets.

As referred to above, the Australian market has lagged the NZ market and this has been especially pronounced in the nine months since King Tide began. The All Ords has risen 5.9% in this time versus a rise of 17.1% for the NZX50. Even when you look back three years, the NZ market has more than doubled the return of the Australian market, gaining 6.6% p.a. versus 2.6% p.a. (for perspective, the S&P500 has risen 5.9% p.a.)

When you go back ten years, the Australian market has been one of the best performing share markets, gaining 9.5% p.a. versus NZ's 7.0% p.a. and the S&P500's 0.0% p.a.

This is of interest to us given King Tide is 90% invested in Australian equities. One of our managers commented on the recent divergence as follows:

"Australia is currently being smashed by the stalling of the resource boom, but continues to offer a much broader market with higher liquidity than New Zealand where the dearth of well-priced equities is increasingly apparent. So whilst current momentum is with New Zealand at about twice the quarterly return of Australia, we continue to expect Australia to be an important hunting ground for us in the future."

An Australian based manager summarises their outlook which sees opportunities on both the long and short side:

We remain cautious with respect to the short-term trajectory of the Australian economy in the face of the mining slowdown. Leading indicators hint at further headwinds as we head into year-end with transport companies, as an example, providing feedback that volumes have declined in August and September and this has been backed up by recent port statistics. These are usually good indicators of the health of the private sector and suggest we may be about to see another round of downgrades within trading updates at AGMs in October and November. These events can be a source of strong short side alpha. Despite these headwinds, markets continue to rally which suggests valuations remain attractive, particularly when measured against bonds. We are also seeing early signs of a pick-up in corporate activity which supports this view on value. This offers long side opportunities as well among companies with attractive assets and strong cash flows in particular.

Overall, King Tide provides a broad exposure to both the NZ and Australian markets. In September for example, you, as an investor in King Tide owned Fisher and Paykel Appliances and Pumpkin Patch, which both rose precipitously, as well as Ecoya and A2 Corporation, two small NZ businesses, which have had great runs recently.

In Australia Guildford Coal rose 25% in September and is a large position for one manager, while more mainstream stocks like Telstra and Newscorp are mentioned in monthly reports as preferred holdings. On the short side managers are finding opportunities in mining services and in some of the more popular high yielding names which have been bid up too high.

We have continued to search our new managers, and have a short list of four other funds we are currently researching. Two of our managers are closed to new money, and one is closed to outside investors but remains open to existing investors.

We have made no changes to the original nine managers, but we have allowed weightings to change both through the variable performance of the different funds and through the allocation of new capital.

All of the fund directors are invested in the Fund and two have added to their investment in the last quarter.

Sub-manager performance table
As at 30 September 2012

	1 month %	3 mths %	1 year %	2 years % pa	3 years % pa	4 years % pa	5 years % pa
Sub-managers							
Manager 1	-2.1	-0.4	0.9	16.1	24.2	26.0	23.2
Manager 2	0.6	-0.1	-17.8	2.8	20.8	30.5	11.1
Manager 3	-3.4	-2.5	8.9				
Manager 4	4.8	17.8	42.6	31.0	27.4	37.3	
Manager 5	-0.9	2.9	8.6	8.8	9.5	12.6	10.7
Manager 6	-2.6	-2.1	2.5	4.5	9.8	13.9	
Manager 7	-0.9	4.7	-8.5	9.3			
Manager 8	-2.8	-15.2	-48.1	-27.5	-12.6	3.7	6.5
Manager 9	3.1	8.9	21.9	14.2	12.7	16.5	10.3
	0.0	0.0					
Total fund							
Gross	-0.6	2.1	2.9	10.1	15.0	20.7	15.8
Net admin fee	-0.7	1.8	1.6	8.7	13.5	19.2	14.3
Net all fees	-0.7	1.8					
Benchmark	-0.5	5.9	8.6	-1.6	1.4	3.5	-3.0

We look forward to your continued support and to delivering on our endeavour to generate a solid return for all of our investors whilst keeping a defensive strategy in place.

Sincerely,

Mark Houghton

CEO