

KTAM NZ/Australian Long/Short Equity Fund

Financial Statements

For the Year Ended 31 March 2014

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Directory

THE MANAGER

King Tide Asset Management Limited
G1/29 Scanlan Street
Grey Lynn
Auckland, New Zealand

DIRECTORS OF THE MANAGER

Robert James Campbell
Henri Eliot
Mark Houghton
Alistair John Sutherland

THE TRUSTEE

Public Trust
Level 35, Vero Centre
48 Shortland Street
Auckland, New Zealand

ADMINISTRATION MANAGER

Adminis
Level 3
10 Federal Street
Auckland, New Zealand

AUDITOR

PricewaterhouseCoopers
188 Quay Street
Auckland 1142

BANKER

ANZ Bank NZ Limited

CORRESPONDENCE

All correspondence and enquiries to the Trustee about the Fund should be addressed to the Trustee, Public Trust, at the above address.

Statement by the Manager

The KTAM NZ/Australian Long/Short Equity Fund ("The Fund") was constituted under a Master Trust Deed dated 25 November 2011 and an Establishment Deed dated 25 November 2011 (together, "The Trust Deed"). The Trust Deed was entered into by Public Trust ("The Trustee") and King Tide Asset Management Limited ("King Tide" or "The Manager").

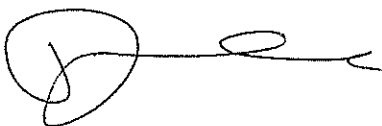
STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of the KTAM NZ/Australian Long/Short Equity Fund as at 31 March 2014, and of the results of its financial performance and cash flows for the year ended on that date in accordance with the requirement of the Trust Deed dated 25 November 2011.

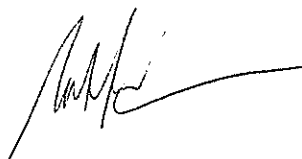
It is believed that there are no circumstances that may materially and adversely affect any interest of the Unit Holders in the assets other than those already disclosed in this report.

For and on behalf of the Manager:

King Tide Asset Management Limited



.....
Director
18 September 2014



.....
Director
18 September 2014

Statement of Comprehensive Income

For the year ended 31 March 2014

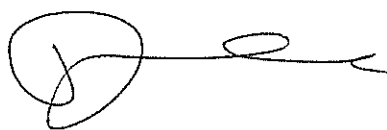
	Notes	Year ended 31 March 2014 \$'000	Year ended 31 March 2013 \$'000
Income			
Interest income		17	6
Dividends and distributions		256	268
Net changes in fair value on financial assets and financial liabilities held at fair value through profit or loss		(183)	(124)
Total income		90	150
Expenses			
Management fees	3	94	116
Other expenses		5	19
Total operating expenses		99	135
Operating (loss)/profit		(9)	15
Total comprehensive (loss)/income for the year attributable to Unit Holders		(9)	15

Statement of Financial Position

As at 31 March 2014

	Notes	As at 31 March 2014 \$'000	As at 31 March 2013 \$'000
Current assets			
Cash and cash equivalents		860	578
Financial assets held at fair value through profit or loss	4	<u>9,283</u>	<u>9,695</u>
Total assets		<u>10,143</u>	<u>10,273</u>
Current liabilities			
Related party payables	3	7	6
Financial liabilities held at fair value through profit or loss	4	25	-
Unit Holder tax liabilities payable		<u>55</u>	<u>47</u>
Total current liabilities		<u>87</u>	<u>53</u>
Total liabilities		<u>87</u>	<u>53</u>
Net assets		<u>10,056</u>	<u>10,220</u>
Represented by:			
Net assets attributable to Unit Holders		<u>10,056</u>	<u>10,220</u>

For and on behalf of the Manager, King Tide Asset Management Limited, who authorised the issue of the Financial Statements on 18 September 2014



.....
Director



.....
Director

Statement of Changes in Funds Attributable to Unit Holders

For the year ended 31 March 2014

	Notes	Year ended 31 March 2014 \$'000	Year ended 31 March 2013 \$'000
Net assets attributable to Unit Holders at the beginning of the year		10,220	8,488
Proceeds from units issued		574	2,498
Redemption of units		(674)	(734)
Unit Holders tax paid		(55)	(47)
Net (decrease)/increase from transactions in units		(155)	1,717
Total comprehensive (loss)/income for the year attributable to Unit Holders		(9)	15
Net assets attributable to Unit Holders at the end of the year		10,056	10,220

Statement of Cash Flows

For the year ended 31 March 2014

	Notes	Year ended 31 March 2014 \$'000	Year ended 31 March 2013 \$'000
Cash flows from operating activities			
<i>Cash was provided from</i>			
Proceeds from sale of financial instruments held at fair value through profit or loss		5,874	4,831
Proceeds from sale of derivatives		89	-
Dividends and distributions		256	268
Interest income		17	6
<i>Cash was applied to</i>			
Purchase of financial instruments held at fair value through profit or loss		(5,608)	(7,241)
Purchase of derivatives		(54)	-
Transaction costs on securities and derivatives		(3)	-
Operating expenses		(65)	(150)
Amounts held for investment by investment manager		-	1,043
Net cash inflow/(outflow) from operating activities	8	476	(1,243)
Cash flows from financing activities			
<i>Cash was provided from</i>			
Applications		524	2,498
<i>Cash was applied to</i>			
Withdrawals		(627)	(734)
Unit holder tax paid		(48)	(9)
Net cash (outflow)/inflow from financing activities		(151)	1,755
Net increase/(decrease) in cash and cash equivalents		325	512
Net cash and cash equivalents at the beginning of the year		578	59
Foreign exchange gains/(losses) on cash and cash equivalents		(43)	7
Net cash and cash equivalents and borrowings at the end of the year		860	578
Comprising:			
Cash and cash equivalents		860	578
Net cash and cash equivalents and borrowings at the end of the year		860	578

Notes to the Financial Statements

For the year ended 31 March 2014

1. General information

The KTAM NZ/Australian Long/Short Equity Fund ("The Fund") is a unit trust under the Unit Trusts Act 1960. It is registered and domiciled in New Zealand. The financial statements for the Fund have been prepared in accordance with the Financial Reporting Act 1993 and the Trust Deed. King Tide Asset Management Limited is the Manager and Public Trust is the Trustee. Adminis Limited is the Administration Manager. Adminis replaced BNP Paribas Securities Services as Administration Manager from 1 October 2013.

The Fund is governed by a Master Trust Deed dated 25 November 2011 and an Establishment Deed dated 25 November 2011 (together, "The Trust Deed"). The Trust Deed was entered into by Public Trust and King Tide Asset Management Limited.

The Fund commenced operation on 21 December 2011.

The Fund aims to provide local and international investors with diversified, active exposure to New Zealand and Australian equity markets through allocating capital to a select group of funds (the "Underlying Funds") domiciled in these markets whose principal activity is long/short equity investment. It is intended that the Fund will invest in no less than eight and no more than fifteen Underlying Funds. The Fund's investment objective is to achieve positive absolute returns over any rolling three to five year period irrespective of market trends.

1.1 Reporting Period and Comparative Financial Information

The financial statements are for the year end 31 March 2014, with the comparative for the year from 1 April 2012 to 31 March 2013.

1.2 Statement of Compliance

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) and other applicable Financial Reporting Standards as appropriate for a profit-oriented fund.

The financial statements comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the period, unless otherwise stated.

2.1 Basis of preparation

The financial statements of the Fund have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the Financial Reporting Act 1993. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Manager to exercise its judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

The Fund has adopted External Reporting Board Standard A1 Accounting Standards Framework (For-profit Entities Update) (XRB A1). XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. The Funds are tier 1 entities. There was no impact on the current period or prior year financial statements.

(a) Presentation

The financial statements are prepared in New Zealand dollars and all values are rounded to the nearest thousand dollars (\$'000). However where specific amounts are referred to in the note wording, the figures are rounded to the nearest dollar.

(b) Standards and amendments to existing standards effective 1 January 2013 affecting the Fund

NZ IFRS 13, 'Fair value measurement'

The standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. If an asset or a liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread. The use of last traded prices is recognised as a standard pricing convention within the industry. In the prior year, the Fund utilised bid and ask prices for its listed financial assets and liabilities in accordance with NZ IAS 39. The change in valuation inputs is considered to be a change in estimate in accordance with NZ IAS 8.

The impact of adopting the standard is an increase in net assets attributable to Unitholders of \$10,569 as at 31 March 2014. The impact on the Fund's financial position from adopting the standard for future periods cannot be estimated.

(c) Standards and amendments to existing standards not yet adopted

Amendments to NZ IAS 32, 'Offsetting financial assets and financial liabilities'

This standard is effective for annual periods beginning on or after 1 January 2014. These amendments clarify the offsetting criteria in NZ IAS 32 and address inconsistencies in their application. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

NZ IFRS 9: Financial Instruments

This standard replaces NZ IAS 39 Financial Instruments: Recognition and Measurement. This standard is effective for annual periods beginning on or after 1 January 2018. NZ IFRS 9 has three classification categories for debt instruments: amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ('FVPL'). The determination is based on an entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Investments in equity investments are always measured at fair value. However, an irrevocable election can be made to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity investment is held for trading, changes in fair value are presented in profit or loss. This standard removes the requirement in IAS 39 to measure unquoted investments at cost when the fair value cannot be reliably determined. For financial liabilities, the standard retains most of the NZ IAS 39 requirements. An additional presentational requirement has been added for liabilities designated at fair value through profit and loss. Where the fair value option is taken, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income.

NZ IFRS 9 incorporates new hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures.

NZ IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. The ECL model constitutes a change from the guidance in IAS 39 and seeks to address the criticisms of the incurred loss model which arose during the economic crisis.

The Trusts are yet to consider the financial impact of adopting this standard.

2.2 Foreign currency translation

Functional and presentation currency

Items included in the Funds' Financial Statements are measured using the currency of the primary economic environment in which they operate (the "functional currency"). This is the New Zealand dollar, which reflects the currency of the economy in which the Fund competes for funds and are regulated. The New Zealand dollar is also the Funds' presentation currency.

The Manager considers the New Zealand dollar the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The New Zealand dollar is the currency in which the Fund measures its performance and report their results, as well as the currency in which the Fund receives subscriptions from investors.

Transactions and balances

Transactions in foreign currency are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on monetary and non-monetary financial assets and liabilities held at fair value are recognised in the profit or loss within the fair value net gain or loss.

2.3 Financial assets and financial liabilities at fair value through profit or loss

a) Classification

The Fund classifies its investments in unit trusts, and derivatives, as financial assets or financial liabilities at fair value through profit or loss. This category has two sub-categories: financial assets or financial liabilities held for trading; and those designated at fair value through profit or loss at inception.

(i) Financial assets and liabilities held for trading

A financial asset or financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if on initial recognition is part of a portfolio of identifiable financial investments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivatives are also categorised as held for trading. The Fund does not classify any derivatives as hedges in a hedging relationship.

(ii) Financial assets and liabilities designated at fair value through profit or loss at inception

Financial assets and financial liabilities designated at fair value through profit or loss at inception are financial instruments that are not classified as held for trading but are managed, and their performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy.

The Fund's policy requires the Investment Manager and the Board of Directors to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

(b) Recognition, measurement and de-recognition

Recognition

Regular purchases and sales of investments are recognised on the trade date – the date on which the Fund commits to purchase or sell the investment. Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed as incurred in the statement of comprehensive income.

De-recognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

Measurement

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the statement of comprehensive income within other net changes in fair value of financial assets and liabilities at fair value through profit or loss in the period in which they arise. This includes both realised and unrealised gains and losses.

Revenue Recognition

Dividend income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within dividend income when the Fund's right to receive payments is established.

Interest on debt securities at fair value through profit or loss is recognised in the statement of comprehensive income within interest income based on the effective interest rate. Dividend expense on short sales of equity securities is included within other net changes in fair value on financial assets and financial liabilities at fair value through profit or loss.

(c) Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets¹ (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. Prior to 1 April 2013, the quoted market price used for financial assets held by the Fund was the current bid price; the quoted market price for financial liabilities was the current asking price. The Fund adopted NZ IFRS 13, 'Fair value measurement', from 1 April 2013; it changed its fair valuation input to utilise the point within the bid-ask spread that is most representative of fair value. Where a last traded price is available in an actively traded market, the last traded price is used. In instances where a last traded price is not available but the bid, mid and/or ask price is available, then the mid-price is used or calculated from the bid and ask prices. Where only a bid price is quoted, then the bid price is used to determine fair value.

The fair value of financial assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's length transactions, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

d) Transfers between levels of the fair value hierarchy

Transfers between levels of the fair value hierarchy are deemed to have occurred at the beginning of the reporting period.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash at bank, demand deposits and advances with an original maturity of three months or less. Cash and cash equivalents with original maturities of three months or less that were not acquired to meet short term cash commitments are classified as investment securities. For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of the above, net of outstanding bank overdrafts.

2.5 Presentation of Cash Flows

For the purposes of the Statement of Cash Flows, proceeds from the sale and purchase of investments designated at fair value through profit or loss are considered operating activities. These transactions maintain the operating capability of the Fund even though the investments may not be acquired specifically for resale or trading. Where distributions are immediately reinvested into units, the cash value is included in cash provided.

2.6 Interest income and dividend income

Interest income on assets held at fair value through the profit or loss is included as interest in the Statement of Comprehensive Income using the effective interest rate method. Changes in fair value for such instruments are recorded in accordance with the policies described in note (2.3b). Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded in the Statements of Changes in Net Assets Attributable to Unit Holders as a Unit Holder tax liability. Fund distributions are recognised on a present entitlement basis.

2.7 Interest Expense

Interest incurred on borrowings is included as interest expense in the Statement of Comprehensive Income on an accruals basis.

2.8 Receivables

Receivables may include amounts for dividends, interest, trust distributions and amounts due from brokers for securities sold that have been contracted for but not yet delivered by the end of the accounting period. Receivables are initially recognised at cost, being the amounts receivable. They are subsequently measured at fair value, being the initially recognised amount reduced for impairment as appropriate. Any impairment charge is recognised in the Statements of Comprehensive Income.

2.9 Payables

These amounts represent liabilities and accrued expenses owing by the Fund at year end and may include amounts due to brokers for securities purchased that have been contracted for but not yet delivered by the year end. Payables are stated at their amortised cost which is deemed equivalent to their fair value.

2.10 Expenses

All expenses, including the Funds' management and trustee fees, are recognised in the Statement of Comprehensive Income on an accruals basis.

Performance fees are recognised in the Statement of Comprehensive Income when earned. The performance fee is settled through the cancellation of units held by investors.

2.11 Transaction costs

Transaction costs are costs incurred to acquire financial assets or liabilities at fair value through profit or loss. They include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in profit or loss as an expense.

2.12 Taxation

Income Tax

The Fund has elected to become a Portfolio Investment Entity ("PIE") for the purposes of the Income Tax Act 2007. Under current taxation law the Fund pays no income tax on the taxable income of the Fund and all taxable income and associated tax credits applicable are allocated to investors, in proportion to the units they hold on the days when taxable income and credits arise.

The Fund deducts tax from each investor's allocation using each investor's Prescribed Investor Rate ("PIR") which is capped at 28% and pays the tax to the taxation authorities on behalf of the investor.

PIE tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities on behalf of the investors based on the current period's taxable income.

Goods and Service Tax (GST)

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

2.13 Redeemable Units and Unit Holder's Funds

The Fund issues units that are redeemable at the Unit Holders' option and have identical features and are therefore classified as equity. The units can be put back to the Fund's monthly for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the balance date if Unit Holders exercised their right to put the units back to the Fund.

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of the units redeemed. Units are issued and redeemed at the holder's option at prices based on the Fund's net asset values per unit at the time of issue or redemption. The Fund's net asset values per unit are calculated by dividing the net assets attributable to the Unit Holders of the Fund with the total number of outstanding units of the Fund.

2.14 Critical accounting estimates and judgements

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are outlined below.

(a) Fair value of derivative financial instruments

The Fund may, from time to time, hold financial instruments that are not quoted in active markets, such as over-the-counter derivatives. Fair values of such instruments are determined by using valuation techniques.

(b) Fair value of securities not quoted in an active market

The fair value of such securities not quoted in an active market may be determined by the Fund using reputable pricing sources (such as pricing agencies) or indicative prices from bond/debt market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. The Fund would exercise judgement and estimates on the quantity and quality of pricing sources used. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognised as standard within the industry.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The determination of what constitutes 'observable' requires significant judgement by the Fund. The Fund considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

(c) Fair value of investments in other funds

The fair value of investments in Investee Funds that are not quoted in an active market is determined primarily by reference to the latest available redemption price of such units for each Investee Fund, as determined by the administrator of such Investee Fund. The Fund may make adjustments to the reported net asset value of various Investee Funds based on considerations such as:

- the liquidity of the Investee Fund or its underlying investments;
- the value date of the net asset value provided;
- any restrictions on redemptions; and
- the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by the Investee Fund's advisors.

3. Related Parties

The Fund is managed by King Tide Asset Management Limited ("The Manager"). The co-managers of King Tide Asset Management Limited are Mark Houghton and Robert Campbell. Mark Houghton is the co-founder and the largest shareholder of Saxe-Coburg Ltd., which manages private client portfolios for New Zealand investors. Rob Campbell is the second largest shareholder of King Tide Asset Management, and has responsibility for compliance and marketing, as well as being Chairman and an integral part of the investment committee. The other members of the Board of the Manager are Alistair Sutherland and Henri Eliot.

As outlined in the Fund's Deed of Establishment, the Manager intends to pay the fees of the Trustee, together with the expenses of operating the Fund, such as custody and audit fees, out of its management fees.

All related party transactions are made at arm's length on normal commercial terms.

3.1 Manager fees

The Manager is entitled to a fee, payable out of the fund, in relation to the services it provides as the manager of the Fund of 0.75% of the gross asset value of the Fund. The Manager's fee was reduced to 0.75% from 1.25%, effective from 1 February 2013. The fee is calculated monthly based on the Fund's gross asset value as at the last business day of each month and will be paid in arrears immediately following the determination of the net asset value of the Fund each month and on the date of termination of the Fund. Total manager fees included within management fees in the statement of comprehensive income for the year amounted to \$75,823 (2013: \$116,000). As at 31 March 2014, \$6,541 (2013: \$6,000) remained payable to the Manager by the Fund.

3.2 Performance fees

The Manager is entitled to be paid a performance fee which is equal to 10% of each Unit Holders' profit after the deduction of Management Fees. The performance fee is subject to a high water mark, which means that performance fees are only payable to the Manager when there is a positive difference between a Unit Holder's total cumulative profit at the end of a month and the previous highest cumulative profit determined. The high water mark ensures that the manager can only charge performance fees on new profits earned for each Unit Holder. Performance fees are calculated and payable monthly. Any performance fees payable are recognised as an expense in the Statement of Comprehensive Income and settled by cancelling the individual Unit Holders' units to the value of the performance fee. Total performance fees for the year amounted to \$8,091 (2013: nil).

3.3 Trustee fees

Public Trust is entitled to a fee for the services it provides as Trustee of the Fund of up to 0.08% per annum of the Fund's gross asset value, subject to a minimum fee of NZ\$25,000 per annum. The Trustee's fees are paid by the Fund Manager. Total Trustee fees for the period amounted to \$25,000 (31 March 2013: \$71,687).

3.4 Audit fees

PwC is entitled to a fee for the services it provides as Auditor of the Fund. The Auditor's fees are paid by the Fund Manager. Total Audit fees for the period amounted to \$13,800 (31 March 2013: \$9,660).

3.4 Related Party Fees

The Fund has incurred the following fees to the related parties:

	Year ended 31 March 2014 \$'000	Year ended 31 March 2013 \$'000
King Tide Asset Management Limited	76	116

The Fund owe the following amounts to related parties at balance date:

	31 March 2014 \$'000	31 March 2013 \$'000
King Tide Asset Management Limited	7	6

3.5 Related party holdings in the Fund

At 31 March 2014 and 31 March 2013, the directors of King Tide Asset Management held units or had subscribed for units in the Fund. Their unit holdings held either directly or indirectly as beneficial owners were:

	31 March 2014 000's	31 March 2013 000's
Directors of King Tide Asset Management Limited	2,176	2,156

4. Financial assets and liabilities at fair value through profit or loss

4.1 Financial assets

	31 March 2014 \$'000	31 March 2013 \$'000
Financial assets held for trading		
Foreign exchange options	64	-
Total financial assets held for trading	64	-
Designated at fair value through profit or loss at inception		
Australian Listed unit trusts	102	-
Australian Unlisted unit trusts	6,720	7,111
New Zealand Unlisted unit trusts	2,397	2,584
Total designated at fair value through profit or loss at inception	9,219	9,695
Total financial assets held at fair value through profit or loss	9,283	9,695

4.2 Financial liabilities

	31 March 2014 \$'000	31 March 2013 \$'000
Financial liabilities held for trading		
Foreign exchange forward contracts	5	-
Foreign exchange options	20	-
Total financial liabilities held for trading	25	-
Total financial liabilities held at fair value through profit or loss	25	-

5. Financial instruments by category

	31 March 2014 \$'000	31 March 2013 \$'000
Assets at fair value through the profit and loss		
Financial assets held at fair value through profit and loss	9,283	9,695
Receivables		
Cash and cash equivalents	860	578
Total financial assets	10,143	10,273
Liabilities at fair value through profit or loss		
Financial liabilities held at fair value through profit and loss	25	-
Other financial liabilities		
Related party payables	7	6
Other payables	55	47
Total other financial liabilities	62	53
Total financial liabilities	87	53

6. Derivative financial instruments

The Fund holds the following derivative instruments:

6.1 Foreign exchange forward contracts

Foreign exchange forward contracts are agreements between two parties to exchange two designated currencies at a specific time in the future. These contracts always take place on a date after the date that the spot contract settles, and are used to protect the buyer from fluctuations in currency prices. Forward contracts are not traded on exchanges, and standard amounts of currency are not traded in these agreements. They cannot be cancelled except by the mutual agreement of both parties involved.

The Fund uses forward contracts to reduce foreign currency exposure. The counterparty to the forward contracts held by the Fund is ANZ Bank NZ Limited.

	Year ended 31 March 2014 \$'000	Year ended 31 March 2013 \$'000
Foreign exchange forward contracts, fair value	(5)	-
Foreign exchange forward contracts, notional value	650	-

6.2 Foreign exchange options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date, a specific amount of foreign currency at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future foreign exchange price. The Fund is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

The Fund uses options to reduce foreign currency exposure. The counterparty to the options held by the Fund is ANZ Bank NZ Limited.

	Year ended 31 March 2014 \$'000	Year ended 31 March 2013 \$'000
Foreign exchange Options, fair value		
Purchased calls	64	-
Sold calls	(20)	-
Foreign exchange Options, notional value		
Purchased calls	3,000	-
Sold calls	(3,000)	-

7. Unit Holder's Funds

	Year ended 31 March 2014 000's	Year ended 31 March 2013 000's
Units on issue at beginning of the year	10,167	7,188
Subscriptions from Unit Holders	532	3,735
Redemptions by Unit Holders	(704)	(756)
Settlement of performance fees by cancellation of units	(8)	-
Units on issue at end of the year	9,987	10,167

8. Reconciliation of (loss)/profit to net cash flow from operating activities

	Year ended 31 March 2014 \$'000	Year ended 31 March 2013 \$'000
(Loss)/profit	(9)	15
<i>Adjustments for:</i>		
Payments for the purchase of investment securities and derivatives	(5,662)	(7,241)
Proceeds from the sale of investment securities and derivatives	5,963	4,831
Realised (gain)/loss on investment securities and derivatives	692	176
Unrealised (gain)/loss on investment securities and derivatives	(509)	(52)
Amount held for investment	-	1,043
Increase/(decrease) in payables	1	(15)
Net cash inflow/(outflow) from operating activities	476	(1,243)

9. Financial risks

9.1 Financial risk factors

The Fund's activities expose it to a variety of financial risks: market risk (including market price risk, currency risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance. The Fund's policy allows it to use derivative financial instruments to both moderate certain risk exposures.

All securities investments present a risk of loss of capital. The maximum loss of capital on purchased options, long equity and debt securities is limited to the fair value of those positions. On written call options, short future positions and on equity and debt sold short, the maximum loss of capital can be unlimited. The maximum loss of capital on written put options, long futures and forward currency contracts is limited to the notional contract values of those positions.

The Fund aims to provide local and international investors with diversified, active exposure to the New Zealand and Australian equity markets, through allocating capital to a select group of long/short equity Underlying Funds domiciled in these markets.

9.1.1 Market risk

(a) Price Risk

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Fund invests in other funds and is susceptible to market price risk arising from uncertainties about future values of those Investee Funds. The investment manager makes investment decisions after an extensive assessment of the underlying fund, its strategy and the overall quality of the underlying fund's manager.

At 31 March, the net fair value of financial instruments exposed to price risk were as follows:

	31 March 2014 \$'000	31 March 2013 \$'000
Unit trusts designated at fair value through profit or loss	9,219	9,695

At 31 March, the sensitivity of the Fund's net assets attributable to Unit Holders to a 20% increase or decrease in prices was as follows:

	31 March 2014 \$'000	31 March 2013 \$'000
20% increase in prices		
AUD	1,365	1,424
NZD	479	515
20% decrease in prices		
AUD	(1,365)	(1,424)
NZD	(479)	(515)

(b) Foreign exchange risk

Currency risk is the risk that the value of the financial instruments will fluctuate due to changes in foreign exchange rates.

The Fund holds financial instruments and other monetary assets and liabilities denominated in New Zealand and Australian dollar currencies. It is therefore exposed to currency risk, as the value of the financial instruments denominated in Australian dollar will fluctuate due to changes in exchange rates.

The Fund may enter into foreign exchange derivatives both to hedge the foreign currency risk implicit in the value of the portfolio securities denominated in foreign currency. The Trusts may choose not to enter into any foreign currency hedging transactions.

The table below summarises the Fund's exposure to currency risk in New Zealand dollar value of the financial instruments.

	31 March 2014 \$'000			31 March 2013 \$'000		
	Monetary assets	Non-monetary assets	FX Hedges	Monetary assets	Non-monetary assets	FX Hedges
Australia (AUD)	192	6,822	39	514	7,114	-

At 31 March, had the exchange rates between the New Zealand dollar and the foreign currencies increased or decreased by 10% (which is the Manager's assessment of a reasonable movement with regard to historical volatility) with all other variables held constant, the impact on total comprehensive income/(loss) and net assets attributable to Unit Holders, including the effect of foreign exchange hedges (forward contracts and options) would have been as follows:

	31 March 2014 \$'000			31 March 2013 \$'000		
	Monetary assets	Non-monetary assets	FX Hedges	Monetary assets	Non-monetary assets	FX Hedges
NZD + 10%	(17)	(620)	186	(51)	(711)	-
NZD - 10%	21	682	(116)	51	711	-

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Apart from temporary holdings of cash or derivative transactions for the purpose of hedging currency risk, the Fund only invests in underlying funds operated by New Zealand or Australian domiciled long/short equity fund managers. As a result, the fund is not subject to significant amounts of risk due to the fluctuation in the prevailing levels of market interest rates.

Any sensitivity is immaterial.

9.1.2 Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund is exposed to monthly cash redemptions from Unit Holders and has a 35-day notice period for redemption requests. The Fund will generally retain sufficient cash and cash equivalent balances to satisfy its accrued expenses as they fall due. In order to satisfy shareholder redemption requests, the Fund will redeem its investments in Investee Funds, which allow redemptions within one month or less.

The table below analyses the Fund's financial liabilities into (excluding units to Unit Holders that have no fixed maturity dates) relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

	31 March 2014 \$'000	31 March 2013 \$'000
Related party payables		
7 days to 1 month	7	6
Other payables		
Less than 7 days	-	47
7 days to 1 month	55	-

The Fund invests the majority of its assets in Investee Funds. In order to make liquidity available to meet Unit Holder redemption requests, the Fund must provide notice to the investee Funds to redeem the investments. Each investee Fund has a redemption notice period. The table below outlines the Fund's exposure to investee Fund's notice periods.

	31 March 2014 \$ 000's			
	Less than 7 Days	7 Days to 30 Days	30 Days	90 Days
Listed unit trusts	102	-	-	-
Unlisted unit trusts	2,726	1,567	3,818	1,006
Total	<u>2,828</u>	<u>1,567</u>	<u>3,818</u>	<u>1,006</u>

9.1.3 Credit risk

Credit risk represents the risk that a counterparty to the financial instrument will fail to perform contractual obligations under a contract and cause the Fund to incur a financial loss. With respect to credit risk arising from the financial assets of the Fund, the Fund's exposure to credit risk arises from the default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position.

This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

The Fund holds no collateral as security or any other credit enhancements. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated.

The Fund does not use credit derivatives to mitigate credit risk.

The Fund's cash and cash equivalents balances are held with ANZ Bank New Zealand Limited (AA- credit rating).

9.2 Capital risk management

The Fund's capital is represented by net assets attributable to Unit Holders. The Manager's objectives when managing capital are to provide returns for Unit Holders through capital growth. The Fund does this by investing in diversified portfolios of long/short unit trusts in New Zealand and Australia. The Fund may also use derivatives to reduce exposure to foreign exchange. Investment decisions are guided by the mandate included in the investment statement and prospectus.

The Fund strives to invest the subscriptions of Unit Holder funds in investments that meet the Fund's objectives while maintaining sufficient liquidity to meet Unit Holder redemptions.

The Fund does not have any externally imposed capital requirements. Units may be redeemed on the last business day of each month, or such other dates as the Manager shall from time to time determine, subject to a 35 day notice period from receipt of the redemption request.

9.3 Fair value estimation

As at 31 March 2014, 100% (2013: 100%) of financial assets at fair value through profit or loss comprise investments in Investee Funds that have been fair valued in accordance with the policies set out above. All but one of the unit trusts that the Fund invests in, are not publicly traded. For these investments, redemption can only be made by the Fund on the redemption dates and subject to the required notice periods specified in the offering documents of each of the Investee Funds. The rights of the Fund to request redemption of its investments in Investee Funds may vary in frequency from weekly to quarterly redemptions.

NZ IFRS 13 requires the Fund to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurement. The fair value hierarchy has the following levels:

- **Level 1** inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- **Level 2** inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- **Level 3** inputs are unobservable inputs for the asset or liability.

The fair value of financial assets and liabilities that are not traded in an active market is determined by using valuation techniques. Valuation techniques used for non-standardised financial instruments such as options and other over-the-counter derivatives, include the use of option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

For instruments for which there is no active market, the Fund may use internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry.

	31 March 2014			
	-\$'000			
Financial assets and liabilities	Level 1	Level 2	Level 3	Total
OTC Foreign exchange forward contracts	-	(5)	-	(5)
OTC Foreign exchange options	-	44	-	44
Listed unit trusts	102	-	-	102
Unlisted unit trusts	-	9,117	-	9,117
Total financial assets and liabilities	102	9,156	-	9,258

31 March 2013				
\$'000				
Financial assets and liabilities	Level 1	Level 2	Level 3	Total
OTC Foreign exchange forward contracts	-	-	-	-
OTC Foreign exchange options	-	-	-	-
Listed unit trusts	-	-	-	-
Unlisted unit trusts	-	9,695	-	9,695
Total financial assets and liabilities	-	9,695	-	9,695

The fair value of units held by the Fund in managed investment funds is determined by reference to published prices established by the underlying fund's responsible Manager and are included within level 2.

There have been no transfers between the levels of the fair value hierarchy.

For cash and cash equivalents and payable balances, their respective carrying values approximate their fair values at the reporting dates.

10. Contingent Liabilities and Commitments

The Fund has no material commitments or contingencies at 31 March 2014 (2013: Nil).

11. Events subsequent to balance date

No significant events occurred after balance date.



Independent Auditors' Report

to the unit holders of the KTAM NZ/Australian Long/Short Equity Fund

Report on the Financial Statements

We have audited the financial statements of KTAM NZ/Australian Long/Short Equity Fund (the "Fund") on pages 5 to 23, which comprise the statement of financial position as at 31 March 2014, the statement of comprehensive income, the statement of changes in funds attributable to unit holders and the statement of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information.

Manager's Responsibility for the Financial Statements

The Fund's Manager is responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate and for such internal controls as the Manager determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

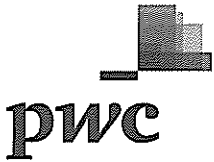
Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Fund's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditors we have no relationships with, or interests in, the Fund.



Independent Auditors' Report KTAM NZ/Australian Long/Short Equity Fund

Opinion

In our opinion, the financial statements on pages 5 to 23:

- (i) comply with generally accepted accounting practice in New Zealand;
- (ii) comply with International Financial Reporting Standards; and
- (iii) give a true and fair view of the financial position of the Fund as at 31 March 2014, and its financial performance and cash flows for the year then ended.

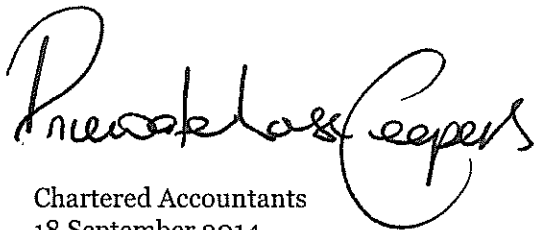
Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 March 2014:

- (i) we have obtained all the information and explanations that we have required; and
- (ii) in our opinion, proper accounting records have been kept by the Fund as far as appears from an examination of those records.

Restriction on Use of our Report

This report is made solely to the Fund's unit holders, as a body. Our audit work has been undertaken so that we might state to the Fund's unit holders those matters which we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's unit holders, as a body, for our audit work, for this report or for the opinions we have formed.


Chartered Accountants
18 September 2014

Auckland