

## Fund Overview

King Tide Asset Management Limited (King Tide, or KTAM) is a specialist and independent investment management company based in New Zealand, and the manager of the King Tide NZ/Australian Long/Short Equity Fund (the Fund). • The Fund seeks to generate at or above equity market returns with lower volatility by investing in the best long/short equity managers in Australasia. We research and select managers who employ risk based strategies to extract gains from the divergent sectors in the Australasian markets, where there is very little hedge fund activity. King Tide's management committee and board have more than 90 years combined experience in capital markets and fund selection • We apply in-depth quantitative research which is overlaid by comprehensive qualitative analysis of each fund we select • We constantly monitor existing and new funds, making changes as we see fit • We believe in 'skin in the game' and all of our managers are large investors in their own funds • In keeping with this principle, King Tide personnel are the largest investors in the King Tide Fund. King Tide has a simple, transparent, and tax effective "PIE" structure, making it appealing to NZ and offshore investors alike.

Fund size	NZ\$20.3m		KT NZD	Benchmark
Inception Date	January 1, 2012	1 Month	-1.00%	3.39%
Unit Price	1.287272	6 Month	-3.63%	8.43%
Since Inception p.a.	4.8%	1 Yr	-8.10%	8.81%
Benchmark	90% All Ords Accum/10% NZX50	2 Yr p.a.	8.73%	7.65%
Application	Monthly	3 Yr p.a	8.47%	6.08%
Liquidity	Monthly with 35 days notice	Annualised SD	7.91%	11.37%
Administration fees	0.75% total, incl Trustee, Custodian, Audit	Beta	0.47	1.00
Performance fee	10% with high water mark	Largest monthly loss	-4.16%	-6.26%
Administration	Adminis	Sharp Ratio 3 yr (RFR=RBNZ cash)	0.19	0.44
Legal Counsel	Minter Ellison Rudd Watts	Avg Return in Market Positive Mths	1.41%	2.62%
Auditor	PWC	Avg Return in Market Negative Mths	-1.50%	-2.99%

## Monthly Performance Review

King Tide was down -1.00% in December, closing out our worst quarter since inception, with a -7.31% loss. Our benchmark rose 3.39% in December on the back of a strong rally in large cap stocks in Australia which drove the All Ordinaries Accumulation Index up 4.17% or 3.79% in NZD.

The Australian Index rose 4.41% in the quarter, but NZ equities fell -6.52%, so our blended benchmark rose just 2.02%.

The stronger NZD was a factor again in December, strengthening 0.37% against the AUD. We have only a small amount of hedging in place, given the extended level of the NZD. We do not have a strong view on the currency going forward but there has been a lot of good news locally and one would assume this is reflected in the current pricing.

Manager returns in December ranged between +4% and -10%. Our best performing fund was Auscap, which rose 4%, slightly less than the market, but a solid result nonetheless. Of all the funds we track, only a handful beat the market, and most of them are "extension" funds which run a core 'market' portfolio and overlay this with a 30%/30% long/short book. These have been among the worst performers over the longer term, but this year, staying close to the market has been a successful strategy.

Regal, who over the last thirteen years has built a track record second to none in Australian equities, rounded out a harrowing year with another down month across their main funds. However, there were signs of a bottoming half way through December after which they clawed back around half of that month's losses. Their problems have all arisen from stock selection, seeming to own everything which has been heavily sold. One of their largest positions is in the mining company Syrah. This business has been heavily shorted and since June 2016, fell from \$6.52, bottoming on December 13 at \$2.64. Regal has maintained its weighting by buying more throughout the year. The stock is now trading at \$3.47, thirty percent above its December lows.

Eight of our fifteen funds made money in December. L1, our latest addition was up 2.2%, and is diversified across 86 different positions (averages 69), and was 62% net long as at December 31. One of their biggest positions is Bluescope Steel and they remain very positive on the stock. In their December newsletter, they point out that most sectors in the Australian market are trading at one standard deviation above average, which they say is justifiable given interest rates remain very low.

Another of our managers, LHC, was hit by two very large downgrades in two core positions. The name LHC derives from Lanterne High Conviction Fund. High conviction means high weightings and LHC will invest up to 15% in businesses in which they have a high level of confidence. Though highly experienced investors, they are not infallible and mistakes are costly, and sometimes the market can be wrong, both of which can lead to losses. In December, there was perhaps an example of each. Two of their large positions (they generally have four or five, along with ten or so smaller weightings), Sirtex and Mayne Pharma fell 50% and 16% respectively, resulting in a -9.7% fall in the fund. (Mayne Pharma has fallen 37% over the past four months). The other leg to their strategy is to short large caps. Obviously, when the market rallies on the back of a macro event like the US election result, good shorts are very hard to find, and simply maintaining the discipline of having short exposure cost them -1.68% in December. We understand this strategy carries significant short term risk, but LHC's results since inception have been outstanding, gaining 165% versus the ASX Small Ords 4%, leading to an information ratio of 4.41 (a measure of beta-adjusted excess return).

Paragon, Wavestone, Monash, Smallco and Wilson all rose less than 1%, while Bennelong Long/Short, which we have now fully redeemed, fell -3.2% and 8EC's share price was down -0.5% despite their underlying portfolio gaining 2%. This gain however was offset by the dilution effect of 7m options exercised at \$1 in December, so the underlying fund NTA rose by just 0.2% to \$1.12 per share. This is the only LIC (Listed Investment Company) we own. The share price ended the year at \$1.01.

Both PIE funds were weaker, but have been among the better performing funds in the sector once again in 2016.

Now that we have redeemed from Aspiring, the two PIE funds are our only NZ based funds, which means even less exposure to NZ equities than we have had in the past. We are not averse to adding a NZ fund, but only if it meets all of our criteria. We are ambivalent as to whether our managers are NZ or Australian based, and to the exposure we may have to each market, given our returns will not be driven by the market, but by the stock selection and strategies implemented by our managers.

On the regulatory front, we have received the necessary approvals from the FMA to transition the Fund seamlessly to a wholesale fund and we will be writing to unitholders about this in the near future. The Fund will be open to new investment as at January 31.

Depending on Fund flows, we intend adding one new underlying manager on February 1, bringing the total to 16, although one is a very small position which we may redeem. There are a couple of other funds we are considering.

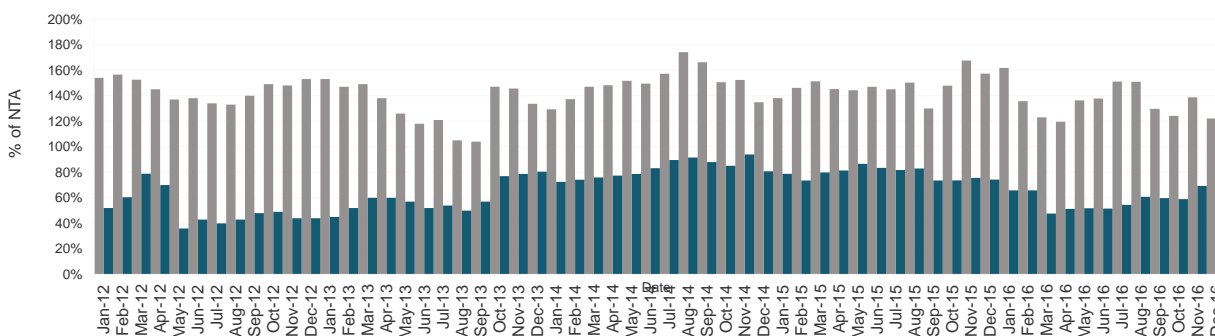
King Tide - Fund Performance vs. Benchmark (Net of Fees)

	2016	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
King Tide NZD		-1.73%	-3.82%	1.54%	-1.04%	2.80%	-2.32%	4.29%	-2.10%	1.83%	-2.31%	-4.16%	-1.00%	<b>-8.10%</b>
Blended Benchmark*		-3.05%	-1.96%	7.31%	1.48%	1.36%	-4.36%	7.25%	-2.64%	1.79%	-1.60%	0.28%	3.39%	<b>8.81%</b>
	2015	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
King Tide NZD		2.99%	3.40%	0.60%	0.82%	3.25%	0.00%	3.09%	0.50%	1.32%	2.26%	5.07%	2.27%	<b>28.65%</b>
Blended Benchmark*		4.91%	3.25%	-1.38%	0.34%	3.94%	-0.07%	1.67%	-6.04%	-4.34%	1.11%	3.34%	0.19%	<b>6.50%</b>
	2014	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
King Tide NZD		-0.46%	1.81%	1.63%	0.55%	2.54%	-1.46%	3.27%	4.00%	-1.02%	1.15%	-2.99%	-1.10%	<b>7.95%</b>
Blended Benchmark*		-2.40%	3.02%	0.83%	2.16%	1.96%	-2.86%	5.53%	2.72%	-5.04%	4.59%	-6.26%	-1.10%	<b>3.02%</b>
	2013	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
King Tide NZD		-0.73%	-0.23%	1.09%	-2.16%	-2.41%	-3.30%	-1.03%	4.04%	1.00%	4.44%	-1.56%	-1.53%	<b>-2.67%</b>
Blended Benchmark*		3.74%	3.06%	0.10%	1.32%	-4.72%	-3.76%	0.51%	4.29%	0.28%	5.69%	-3.28%	-2.19%	<b>4.49%</b>
	2012	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
King Tide NZD		0.29%	2.61%	-2.09%	-0.45%	-2.75%	-2.23%	1.16%	1.19%	-0.74%	1.83%	1.63%	0.15%	<b>0.44%</b>
Blended Benchmark*		2.74%	1.92%	0.38%	1.72%	-5.40%	-0.89%	5.33%	1.55%	-0.09%	3.70%	1.18%	2.19%	<b>14.85%</b>

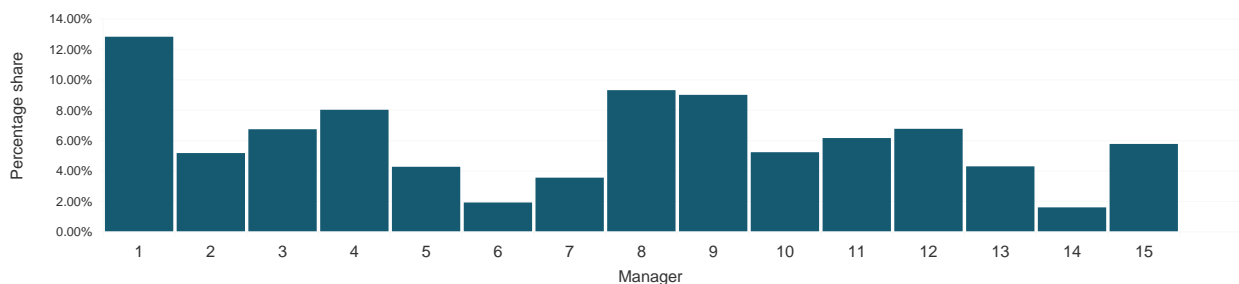
\*90% All Ordinaries Accum/10% NZX50

Gross and Net Exposure (% of Net Asset)

■ Gross Exposure as % of NTA ■ Net Exposure as % of NTA



Manager Weightings: % Share of total King Tide capital



Note: An updated version of our prospectus and investment statement are both available on our website.

King Tide's performance is expressed in NZ dollars, and currency fluctuations may significantly impact on 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.