

Market and Fund Review

King Tide gained 2.6% in December, capping off a strong year for the Fund which was up 17.5%. The benchmark, (90% All Ords Accumulation and 10% the NZX50 Gross), was also strong in December and over the year, gaining 1.5% and 19.5% respectively.

This month is King Tide's sixth anniversary during which the Fund has grown by 46.6% (6.6% p.a.) while over the same time period our benchmark has returned 71.2% (9.4% p.a.). While on the surface it is disappointing to "underperform" our benchmark, it is to be expected during a strong bull market given the amount of protection our managers carry. When assessed on a risk-adjusted basis we see that this has been achieved with approximately two-thirds of the volatility of the market which is not surprising as the average market or net exposure of our managers through this period has also been about two-thirds.

Looking more closely at the last four years, during which King Tide has been employing currency hedging, we see that the Fund is up 50.0% (10.7% p.a.) versus 42.6% (9.3% p.a.) for our benchmark. This is a particularly pleasing result given that once again it has been achieved with about two-thirds of the market exposure.

The bulk of KT's underlying exposure is in Australian equities, so while we put forward a benchmark it is merely to provide a useful gauge as to what equity markets are doing. It is not something we consider when making investments, nor do any of our underlying managers take into account a company's market weighting in making their selections. Our exposure to NZ equities is mostly as a result of Australian based funds finding attractive opportunities in our market.

King Tide is a fund of funds, but of course, each fund owns businesses and/or shorts businesses depending on their own analysis of a company's value versus where it is trading on the market.

Ownership of these businesses is one step removed when you invest in funds, and two steps removed when you invest in a fund of funds. Nonetheless, an investment in KT is an investment in a broad and diversified portfolio of equities, both long and short. The beauty of our strategy is that we don't have just one manager working for us, but a team of outstanding managers which we monitor closely.

We are also on the lookout for new fund launches. In December we added Milford's new Australian Absolute Growth fund, managed by Will Curtayne. Milford has a strong team in Australia and here in NZ, and this fund will feed off the best ideas of their fixed income and equity teams.

The calendar year is usually a time when we look to recalibrate our investments and think about what the new year may bring.

There is no doubt investors are feeling pleased with themselves after multi-year gains. However, the GFC still lurks and those who missed the signals then, are on high alert to ensure they don't make the same mistake again. The problem is however, while cognisant of the growing risks of rising markets, it is hard to recall the feelings associated with losing money. It is like trying to imagine being cold when lying on the beach in Hawaii, or the reason you leave your umbrella at home after weeks of dry weather.

As the emotions heal from the GFC, investors will become complacent as to the risks they are exposed to. The massive move into ETFs and low-cost index strategies is an example of this. Try selling an index fund or market linked ETF to investors in 2009.

While King Tide has managed to keep pace and in fact outperform equity markets over the last four years, we have yet to go through a bear market. As with most long/short strategies, we expect the bulk of our outperformance will come when markets go through their next bear phase.

We believe protecting the downside is fundamental to long term outperformance.

We have had our drawdowns, but our largest months of outperformance have come in months when markets have fallen more than -4.0%. There have been 8 such months with an average fall of -5.2%. In those months KT has fallen on average -1.4%. This is an important statistic because larger falls in market indices tend to be 'market events' driven by sentiment. It gives us confidence that the collective efforts of our underlying managers to hedge out market risk are working.

NZD \$10,000 Invested at Inception



Performance Metrics (%)	KT NZD	Benchmark *
1-Month	2.63%	1.52%
3-Month	9.30%	9.21%
6-Month	16.71%	14.27%
1-Year	17.54%	19.49%
3-Year p.a.	11.59%	11.46%
5-Year p.a.	7.86%	8.31%
Since Inception p.a.	6.59%	9.37%

* 90% All Ords Accum/10% NZX50

Fund Overview

King Tide Asset Management ('King Tide') is a specialist, independent investment management company and the manager of the "King Tide NZ/Australian Long/Short Equity Fund". We research and select managers who employ risk based strategies to extract gains from the divergent sectors in the Australasian equity markets. The King Tide team have more than 100 years experience in capital markets as managers, investors and allocators of capital. We look for great people, an alignment of incentives, and skin in the game. The fund offers access to some of Australasia's best "risk-based" equity managers. King Tide has a simple, transparent, tax effective "PIE" structure, making it appealing to NZ and Offshore investors.

Risk Metrics	KT NZD	Benchmark
3-Yr Standard Deviation	8.07%	11.78%
3-Yr Sharpe Ratio	1.11	0.75
Standard Deviation (Since inception)	7.72%	11.37%
Sharpe Ratio (Since inception)	0.49	0.58
Ave Rtn in Market Positive Months	1.50%	2.67%
Ave Rtn in Market Negative Months	-1.33%	-2.94%
Up Capture	0.56	1.00
Down Capture	0.45	1.00
Annualised Tracking Error	8.30%	n/a
Beta	0.46	1.00
Maximum Drawdown	-10.71%	-10.57%
Annualised Alpha	0.76%	n/a
Worst Month	-4.16%	-6.26%
Best Month	5.07%	7.31%

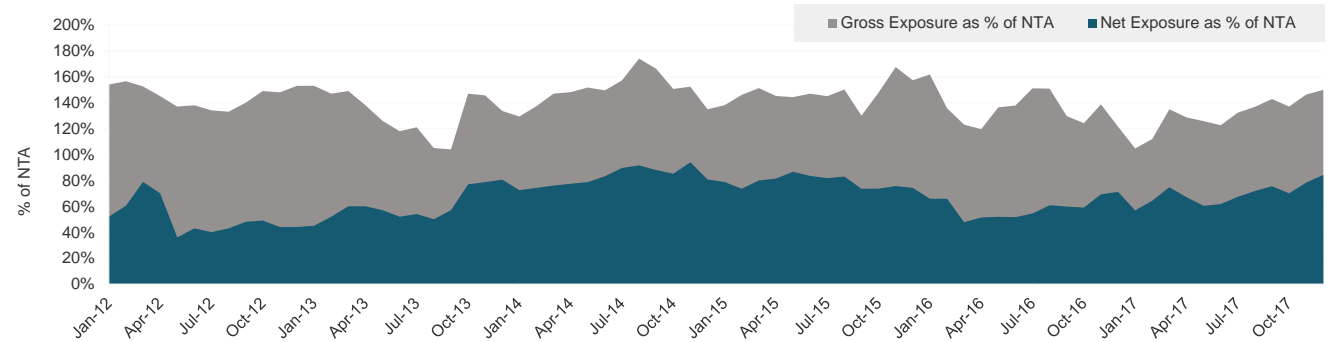
^ RFR = RBNZ 90 day bank bill rate

King Tide - Fund Performance (Net of Fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	0.29%	2.61%	-2.09%	-0.45%	-2.75%	-2.23%	1.16%	1.19%	-0.74%	1.83%	1.63%	0.15%	0.44%
2013	-0.73%	-0.23%	1.09%	-2.16%	-2.41%	-3.30%	-1.03%	4.04%	1.00%	4.44%	-1.56%	-1.53%	-2.67%
2014	-0.46%	1.81%	1.63%	0.55%	2.54%	-1.46%	3.27%	4.00%	-1.02%	1.15%	-2.99%	-1.10%	7.95%
2015	2.99%	3.40%	0.60%	0.82%	3.25%	0.00%	3.09%	0.50%	1.32%	2.26%	5.07%	2.27%	28.65%
2016	-1.73%	-3.82%	1.54%	-1.04%	2.80%	-2.32%	4.29%	-2.10%	1.83%	-2.31%	-4.16%	-1.00%	-8.10%
2017	-0.58%	0.81%	2.20%	-1.02%	-1.60%	0.93%	1.48%	3.50%	1.69%	4.47%	1.93%	2.63%	17.54%

Performance results are presented net of all transaction costs, investment management and performance fees incurred by the Fund.

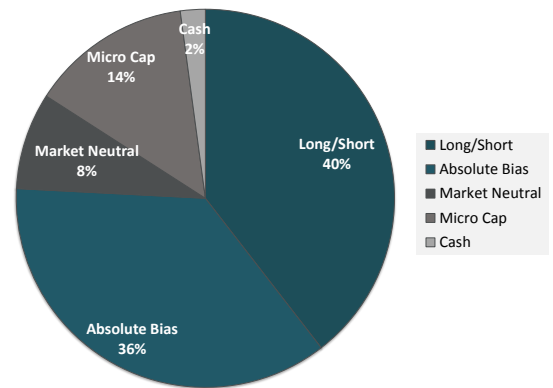
Gross and Net Exposure (% of Net Assets)



Top 10 Funds: (% of Net Assets)

Fund name	Strategy	% of assets
Auscap Long Short Australian Equities Fund	Long/Short	13.00%
L1 Capital Long Short Fund	Long/Short	10.04%
Atlantic Absolute Return Fund	Long/Short	9.29%
Wilson Asset Management Equity Fund	Absolute Bias	8.80%
Tasman Market Neutral Fund	Market Neutral	8.27%
Sandon Capital Activist Fund	Absolute Bias	7.40%
Milford Australian Absolute Growth Fund	Absolute Bias	7.39%
LHC Capital Australia High Conviction Fund	Long/Short	7.18%
Smallco Investment Fund	Absolute Bias	6.39%
The Level 18 Fund	Absolute Bias	6.33%

Strategy Weightings: (% of Net Assets)



Fund Information

Name	King Tide NZ/Australia Long Short Equity Fund
Structure	Wholesale Unit Trust
Domicile / Currency	New Zealand / NZD
Inception	31 December 2011
Management Fee	0.50%
Performance Fee	10.00%
High Watermark	Yes
Minimum Investment	NZD\$10,000
Subscription Frequency	Monthly
Redemption Frequency	Monthly
Buy / Sell Spread	0.30%

Service Providers

Trustee	Guardian Trust
Fund Administrator	Adminis
Fund Custodian	Adminis
Legal Advisor	Minter Ellison Rudd Watts
Fund Auditor	PWC

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Note: King Tide's Information Memorandum is available on request. King Tide's performance is expressed in NZ dollars, and currency fluctuations may significantly impact 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.

