

Fund Objective

KIS Capital Partners is an Australian based hedge fund manager with an Asia ex Japan trading focus. The KIS Global Multi-Strategy Fund is a trading focused fund whose objective is to generate high absolute returns via the execution of three core strategies: 1) Equity Long Short 2) Special Situations; & 3) Macro Hedge. KIS also deploys capital to both 4) Convergence & 5) Convertible Bond strategies as scale and market environment allow. Trade selection and portfolio management are based on three distinct principals of: Liquidity, Transparency and Risk Management. Generally, KIS looks to build a portfolio of 'winning' trades and then hedges potential macro risks.

Performance

This month's update includes performance data for the Master Series of the KIS Global Multi-Strategy Fund (KIS GMSF), trade summaries and strategies deployed in July 2011.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	1.35%	0.81%	-2.20%	1.14%	3.32%	-2.69%	2.70%						4.35%
2010	2.15%	2.46%	2.79%	3.05%	4.09%	-0.76%	-0.95%	1.23%	1.63%	1.42%	3.24%	2.84%	25.66%
2009										4.45%	4.82%	1.75%	11.40%

Returns shown are pre-tax and net of fees for the Master Series (inception, October 2009). Returns for other series may differ. Please contact the manager or fund administrator for more information. Investors should receive a monthly NAV statement directly from the fund administrator. Please contact SSG.AUS@TMF-Group.com if you have not received your NAV statement. Returns are independently calculated by the fund administrator on an unaudited basis. Results to June 2010 have been audited by Ernst & Young Partnership.

Monthly Summary

This month the KIS GMSF produced a return of 2.70%. The return in the twenty two months since inception is 46.08%. The rolling twelve month return has been 15.60%.

At the end of the month the US Republicans and Democrats managed to reach an accord on the US debt ceiling and avoid a potential default. Although we applaud this as the pragmatic step required in the short term, the size of the unfunded liabilities in the US mean that significant policy shifts and spending cuts will be the only way to avoid a default.

The following link http://www.kpcb.com/usainc/USA_Inc.pdf is an exceptionally detailed review published in Feb 2011. This report was commissioned by George Shultz, ex Secretary of State; Paul Volcker, Chair of the Office of the President Economic Recovery Committee and Michael Bloomberg, the Mayor of New York; amongst others. The report views the US as if it was a corporation and highlights its shortcomings. These shortcomings focus on the growth in entitlement spending, which is largely unfunded. The Congressional Budget Office estimates that within 15 years (i.e. by 2025), the cost of entitlement spending and servicing of interest will absorb all of USA's Federal revenue. In 1999 this was estimated to occur in 2060, in 11 years of time the estimate has changed by 35 years.

The US debt problem will not be resolved by a small increase to the debt ceiling and a committee driven approach to finding budget cuts. A more aggressive stance will be required.

We remain cautious on European economies. It is getting progressively harder to keep forestalling the default of the smaller, peripheral European currency member countries. As this risk is pushed further away, the affect of supporting them provides a contagion to the larger and less peripheral countries.

At KIS Capital we are committed to making money in all markets. We do not believe in benchmarking as an excuse for poor performance. We remain committed to producing positive returns to investors by stock selection and trading whilst trying to protect against the broader macro risks. Our main reward is sharing with our investors in the performance of the fund. We are invested alongside the funds investors.

FUND PERFORMANCE PROFILE

MONTHLY

Performance: 2.70%

ROLLING 12 MONTHS

Performance: 15.60%

SINCE INCEPTION

Cumulative Performance: 46.08%

FUND INFORMATION

Fund Denomination:	AUD
Investor Type:	Sophisticated/Wholesale
Management Fee:	1.5%
Performance Fee:	20%
Management and Performance Fee are shown ex. GST	
Performance Hurdle:	RBA Cash Rate
Subscription:	Monthly
Redemption:	Monthly
Start Date:	Oct 2009
Domicile:	Australia
Prime Broker:	Deutsche Bank
Auditor:	Ernst & Young
Legal Counsel:	Minter Ellison
Risk Management:	Imagine
Fund Administrator:	TMF FundServices (Australia)

FUND DESCRIPTION

Global Multi-Strategy

Strategies used this month

- Equity Long/Short – Australian, Hong Kong, Singaporean & US Equities, Options, Warrants and Index Futures.
- Macro Hedge – Australian, Hong Kong & US Equity Options and Warrants. Foreign Exchange and OTC options on Foreign Exchange. Australian & US Government Bond Futures and Australian Government Bonds.
- Convertible Bond Trading – Australian & Hong Kong Convertible Bonds and Credit Default Swap on Australian Issuer.
- Special Situations – Australian, Hong Kong, Malaysian & Singaporean Equities, Equity Rights and Index Options.

Equity Long/Short

We ran a cautiously bearish stance for the month.

The long names we carried were targeted to be well supported in a market downturn or to have specific news on them that was likely to lead to a degree of support in a poor market. Given how poorly positive news was treated on small cap stocks last month we avoided small cap companies that we felt were owned by 'hot money' accounts. Unsurprisingly, given how weak the equity markets were, our long positions did not make significant profits, however they did not lose significant amounts either.

We traded Lynas Corp from the short side on the month. After a weak open to the month, Lynas managed to rally despite mounting difficulties at its Malaysian operations. We lost -51bp in the trading of the name this month. We suspect that the tax breaks Lynas extracted from the Malaysian government will eventually be 'reconsidered' but the timing of this is very difficult to foresee.

Our main focus this month was to trade short positions in stocks that we believed were susceptible to a slowdown in the domestic economy. These included David Jones Ltd, Suncorp Group and Commonwealth Bank. These shorts contributed 132bp of this month's profits.

Finally, we continued to run a short position in Macquarie Group. Macquarie has been noticeably absent from advisory league tables, their infrastructure management model relies on ready funding and there is talk of a slew of departures from the top producers. This short contributed 51bp.

The Equity Long Short strategy continued to contribute the majority of gains to the fund this month contributing a total of 124bp.

Macro Hedge

In total the macro hedges we employed produced 49bp this month.

To protect the total portfolio from the risk of an extreme breakdown of the political and economic situation in Europe, we bought OTC put options on the Euro currency [EUR] vs the US Dollar [USD]. Given the fear of a US default occurring if the debt ceiling was not raised, the Euro was firmer on the month. This move cost us -32bp. We are still pessimistic on the Euro, especially to extreme moves, and continue to hold the puts as protection.

We cut our short Australian Dollar [AUD] vs long USD position early in the month. Although we are bearish on the Australian economy the AUD refused to fall. We feel the AUD is supported on the basis 'it's not the USD or EUR' rather than anything specifically positive on the Australian dollar. Following the old adage "don't fight the tape" we closed the short.

As mentioned last month, we were bullish on Australian bonds. Poor economic data and anecdotal evidence led us to the conclusion that the RBA would not be in a position to increase rates to avert inflation without severely damaging the domestically driven elements of the economy. The bond market caught up with our view by the middle of the month and started to price in the anticipation of the RBA cutting rates. We thought the speed of this change of market opinion was excessive and took the opportunity to short bond futures covering these, as expectations implied in the market price returned to a no change basis. Our positioning at the beginning of the month and our intra-month trading led to a profit of 43bp.

We are bearish the Australian property market, with the obvious negative consequences on the banking industry and the domestic economy. Until the market has a perception that the dividends of these stocks are under pressure, we think there will be a floor to the Australian market. As a result, we looked for secondary and tertiary effects from a falling Australian property market and at the start of the month held puts on Genworth Financial in the US. Genworth provides mortgage indemnity insurance in Australia via its fully owned subsidiary. Genworth announced results significantly lower than analysts expectations and these puts produced a profit of 41bp. We took profit on a large part of this trade as the option premium became too large.

Convertible Bond Trading

Convertible bond trading and positioning did not make a material impact on this month's result.

Special Situations

The primary capital markets appear to have accepted that favorable pricing and a good quality company or story is required to raise money. We participated in IPOs and primary placements in Malaysia and Australia in names such as Augur Resources, Bumi Armada, Indophil Resources, and Mutiny Gold. Given the quality of the companies and stock available we still hold a significant portion of these placements which we have transferred to the Long Short portfolio. In total participation in capital market activities contributed 65bp this month.

Long term holding, Catalpa Resources, rallied this month when it announced it had lined up institutional buyers to clear the stock overhang from its merger with Conquest and issuance of shares to Newmont. We reduced our position into the rally of the stock.

In total this portfolio produced a return of 86bp this month.

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