Global Multi - Strategy Fund Monthly Report
September 2011

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 September 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%	3.88%	1.02%				9.51%
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 2011 have been audited by Ernst & Young Partnership.

Monthly Summary

One of the observations from this month was the ability of financial pundits to take a market price and assume that it predicted the future. Stories of an implied default probability of 90% for Greece from the Credit Default Swap (CDS) markets were bandied around.

Many presumptions can be used to make a CDS price into a default probability, the key one being the recovery rate. The CDS market tends to presume this is 40% (i.e. for each EUR 100 you lent in the event of default you are repaid EUR 40).

Having survived a variety of financial crisis our experience is: defaults are not as frequent as would be implied using a 40% recovery rate, but if the world is in crisis, we believe the recovery rate to be less than 40%.

In our opinion the probability of Greece defaulting is in the region of 60-70%. However in the event of default, in the near term, lenders will get considerably less than 40%. This does not bode well for the European banking system where the presumption is a 21% haircut i.e. lenders expect to get 79%. This unrealistic assumption needs to be addressed either now or very quickly in the event of a Greek default.

We view it unlikely that the member nations of the Euro will be able to coordinate a consistent approach to saving Greece in the time scale required (hence our 60-70% estimate of a default probability), but the consequence of the default will be worse than most expect.

When a country's own banking system is about to crash you can expect, or hope, to see a more focused response. If Greece defaults, much of the existing European banking system will need to be nationalized, bank equity holders will be close to wiped out and the devaluation of purely financial assets versus hard and semi hard assets will commence. Let us all hope that somehow Greece avoids the default.

The second observation is the disappointing quality of returns from hedge funds as a whole.

The hedge fund industry holds itself up to be an 'alpha generative' proposition i.e. it should make money irrelevant of the direction of markets. This has not been the case in August or September where it can clearly be seen that returns are correlated with market sentiment.

At KIS our intention is to generate returns in good and bad markets, we hope that the past two year's returns and the absence of a meaningful correlation to equity and other markets is a demonstration of this commitment.

FUND PERFORMANCE PROFILE

MONTHLY

Performance: 1.02%

ROLLING 12 MONTHS

Performance: 17.92%

SINCE INCEPTION

Cumulative Performance: 53.50%

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

1. Equity Long/Short – Australian Equities and Equity Options. Australian and US Index Futures. Hong Kong Equities.
2. Portfolio Hedge – Australian Equity Options and Warrants.OTC options on Foreign Exchange. Australian Government Bond Futures. Listed commodity tracker.
3. Convertible Bond Trading – Australian &Hong Kong Convertible Bonds and Credit Default Swap on Australian Issuer.
4. Special Situations – Australian, Hong Kong, Malaysian & Singaporean Equities. Malaysian Equity Rights. Australian Warrants and Equity Index Futures.

Equity Long/Short

This portfolio contributed 101bp of the 102bp of return this month.

Given the threat of a US recession and the possible 'implosion' of the Euro zone, in almost all financial markets we opted to run low levels of overnight risk and to used US index futures as well as Australian Index Futures to help hedge the residual risk from our stock selection. This worked well contributing 30bp of the total return.

Our bearish view on the retail property REITs: CFS, GPT Group and Westfield Retail Trust, contributed 41bp of the return. We fail to see, given the very difficult situation for retailers in Australia, how landlords will be able to continue to increase rents and achieve the same occupancy levels that the analyst community currently has factored into their valuations models. These stocks are supported by their dividends. If these dividends need to be cut these shares have the potential to fall dramatically.

Finally, we were successful in the trading of Atlas Iron Ltd where a fast reversal from a small long position to a more substantive short position which was closed near the month's lows, contributed 24bp. Atlas Iron is a difficult stock to trade: often being rumored to be a takeover target, trading on relatively undemanding PE ratio, no degree of dividend yield support and a high sensitivity to the economic cycle.

Portfolio Hedge

This portfolio did not make a meaningful contribution to the return this month.

Over the course of the month we reduced our use of portfolio hedges. Options became too expensive to use given elevated levels of option implied volatility and skew. As the level of risk we ran reduced to reflect uncertainty of trading environment, we were comfortable to reduce this portfolio.

Convertible Bond Trading

This portfolio contributed -16bp of the total return of +102bp this month. Stress in the Asian High Yield Straight and Convertible Bond (CB) markets lead to a need for other funds to raise capital by liquidations in the better quality CBs. This adversely affected the mark to market value of our high grade holdings, but allowed us the opportunity to increase our exposure to high quality names.

Special Situations

This portfolio contributed +18bp of this month's returns.

The majority of this return came from the trading of Singaporean and HK based merger situations.

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