

## Fund Objective

KIS Capital Partners Pty Ltd [KIS Capital] is an Australian based hedge fund investment manager with an Asia ex Japan trading focus. The KIS Asia Long Short Fund Australian Dollar Denominated [A\$] Australian Unit Trust and the KIS Asia Long Short Cayman Fund and Cayman Master Fund are trading focused funds whose objectives are to generate high absolute returns. Trade selection and portfolio management are based on three distinct principals of: Liquidity, Transparency and Risk Management. KIS Capital looks to build a portfolio of 'winning' trade ideas and hedge unwanted market risk.

## Performance for KIS Asia Long Short Fund

Performance data for the Master Series of the KIS Asia Long Short Fund Australian Dollar [A\$] denominated Australian Unit Trust [AUT].

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012	2.33%	2.89%	0.73%	-1.50%	1.35%	-1.00%	0.24%	3.70%	-0.19%				8.75%
2011	1.35%	0.81%	-2.20%	1.14%	3.32%	-2.69%	2.70%	3.88%	1.02%	2.48%	0.36%	-0.02%	12.60%
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. Cumulative returns are shown assuming distributions are reinvested. 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 2012 have been audited by Ernst & Young Partnership.

## Fund Performance Profile : KIS Asia Long Short Fund A\$ AUT

MONTHLY		FUND INFORMATION	
Performance:	-0.19%	Fund Denomination:	A\$
<b>ROLLING 12 MONTHS</b>		Investor Type:	Sophisticated/Wholesale
Performance:	11.82%	Management Fee:	1.5%
<b>SINCE INCEPTION</b>		Performance Fee:	20%
Annualised Performance:	19.68%	<i>Fees are shown exclusive of GST</i>	
<b>SINCE INCEPTION, OCTOBER 2009</b>		Performance Hurdle:	RBA Cash Rate
Cumulative Performance of A\$1000 invested:	A\$1714	Subscription:	Monthly
		Redemption:	Monthly
		Inception:	Oct 2009
		Domicile:	Australia
		Prime Broker:	Deutsche Bank
		Auditor:	Ernst & Young
		Legal Counsel:	Minter Ellison
		Risk Management:	Imagine
		Fund Administrator:	TMF FundServices (Australia)
		Trustee:	KIS Capital
		Investment Manager:	KIS Capital

## Performance for KIS Asia Long Short Cayman Fund US\$ Series

Performance data for KIS Asia Long Short Cayman Fund United States Dollar [US\$] denominated Series [Cayman Fund].

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2012							-0.21%	2.59%	-0.60%				1.76%

Returns shown are net of fees for the US\$ class (inception, July 2012). Returns for other classes may differ.

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. The fund will be audited by Ernst & Young Partnership in December 2012.

## Fund Performance Profile: KIS Asia Long Short Cayman Fund US\$ Series

<b>MONTHLY</b>		<b>FUND INFORMATION</b>	
Performance:	-0.60%	Share Class Denomination:	US\$
<b>ROLLING 3 MONTH</b>		Investor Type:	Eligible Investor
Performance:	1.76%	Management Fee:	0.5% increasing over time to 2.0%
<b>SINCE INCEPTION</b>		Performance Fee:	20%
Annualised Performance:	7.23%	Performance Hurdle:	None
<b>SINCE INCEPTION, JULY 2012</b>		Subscription:	Monthly
Cumulative Performance of US\$1000 invested:	US\$1018	Redemption:	Monthly
		Inception:	July 2012
		Domicile:	Cayman
		Prime Broker:	Deutsche Bank
		Auditor:	Ernst & Young
		Legal Counsel: Henry Davis York, Shipman and Goodwin LLP & Walkers	
		Risk Management:	Imagine
		Fund Administrator:	TMF FundServices (Australia)
		Independent Board:	Refer to Private Placement Memorandum for details, Vice Presidents of Walker Fund Services
		Investment Manager:	KIS Capital

## Strategies used this month

**Equity Long/Short** – Australian, Hong Kong and Singaporean Equities. Australian Equity Options. Australian, Singaporean & US Index Futures.

**Portfolio Hedge** – Australian Equities and Equity Warrants. Australian Index Options. Options on US Listed Exchange Traded Funds.

**Equity Arbitrage** – Australian Equities.

**Convertible Bonds** – Australian Listed Hybrid Securities.

**Special Situations** – Australian and Hong Kong Equities. Australian Listed Hybrid Securities. Australian Index Options.

Most exposures are now booked via portfolio total return swaps and CFDs between the Funds and the Prime Broker. This improves operational efficiency and facilitates cost saving. References above refer to the underlying exposure of the total return swaps and CFDs.

## Monthly Summary

Early in the month we were concerned that when Ben Bernanke spoke he would either announce an insufficiently large extension of Quantitative Easing [QE] to satisfy the market or the market would already have discounted the impact of QE. As a result, we spent approximately 20bp of AUM on options to protect the downside of the portfolio. Most of this premium was lost over the month as markets responded positively to the QE measures announced.

It is clear that QE can be used to support asset values, but it does not appear to have stimulated the economy either in the US or Europe. Economic data coming from Europe remains poor. The RBA is still cutting rates in Australia to try and get ahead of the economic slowdown expected from less resource demand. US employment data is turning better but looking at the segments where employment has been created, it could be a US election support bubble (US employment data is not seasonally adjusted for the impact of employment created by short term contract election employment).

As we see it, there are two newsworthy political/economic issues ahead:

**The US Fiscal Cliff:** This phrase represents the issue the US government will face at the end of the year when the Budget Control Act of 2011 is implemented in order to contain the budget deficit. This would appear to involve either some or all of the following options: increased taxes, spending cuts focused on entitlement programs or cancellation of some of the budget balancing restrictions. We suspect it will be a mix of the three, but with no decision until year end. Although markets fear uncertainty, the threat of the US Government 'running out of money' has been seen before and the problem previously navigated.

**European Union:** An amazing job has been done by various bodies in keeping the dream of the European Union alive. The cost of this in terms of austerity measures, economic contraction and the declining quality of life is beginning to take its toll. Civil unrest will continue whilst unemployment remains elevated, in particular youth unemployment. Greek unemployment is at 25%, with a youth unemployment rate of 55%; Spain unemployment is also at 25% with youth unemployment of 53%. The 'best' that comes out of these levels of youth unemployment is a disillusioned generation; the worst is civil unrest and potentially war. This is a much harder problem to navigate than the US Fiscal Cliff. Interests of economic groups and European nations are not aligned as they are in the US. Keeping banks and countries solvent and able to access the capital markets will stop the immediate calamity of a complete economic failure, but it will not make economies suddenly expand and it will not stop a generation wondering why they are saddled with the debt of their elders and edicts imposed by other nations.

## Long Short

The portfolio lost 24bp of performance in the Cayman fund and 20bp of performance in the AUT.

We had an even split between losing and winning ideas. The magnitude of the return on our ideas was also very similar with an average loss of 7bp on losing ideas vs. a profit of 6bp on winning ideas.

Reviewing specific names and contributors to the portfolio:

Galaxy Resources Ltd. [GXY.AX]: We have been running a short position in GXY since mid July. Our analysis has been that the company's balance sheet is stretched and the price of their main product, Spodumene used in Lithium batteries, is below their true production cost. At the end of the month, the company announced positive news in relation to extending the date on which it has to begin to repay a working capital loan, moving the first payment date from September 2012 to September 2013. Due to the rally in the share price, we had reduced our exposure over the month buying back 60% of the number of shares we had been short, despite this risk reduction the position still produced a loss of 29bp. We still believe that the company will face financing issues, its liquidity position for 2013/2014 financial years looks dire with A\$61.5m of convertible bonds likely to be put back in November 2013. But with the time horizon for its day of reckoning being pushed forward, we do not see an immediate failure of the company and given the volatility of the stock we will be running a smaller short exposure.

Pancontinental Oil & Gas NL [PCL.AX]: On the 10th September PCL announced a hydrocarbon discovery at a well in off shore Kenya. The announcement was very positive leading to broker upgrades and the stock gained 91%. Based on the announcement we formed a view that the stock could have further upside and took a long position of slightly greater than 1% of AUM. On the 12th September Apache Corp, a partner in the well project with PCL announced that the well was to be plugged after declaring it was unable to find commercial quantities of crude or natural gas. PCL stock gave back its gains falling 47%. We exited the position at a loss of 59bp to the fund. We were disappointed by the disclosure process and bewildered as to how PCL could post such a 'bullish' piece of news which was then so quickly dispelled by its business partner.

Sirius Resources NL [SIR.AX]: SIR share price had rallied dramatically following the end of July announcement of an exceptional nickel find. To the start of September the stock had rallied 2,373% from its preannouncement level. The stock continued rallying in September and we felt that a pause in the trajectory of the stock was warranted. This was especially true as over the month, nearly 7m shares were received from exercising options representing more than 2 days average volume to sell. We shorted the stock five times over the month, each time with a tight stop loss, before the stock consolidated, allowing us to make a profit on the name over the month of 32bp of AUM.

## Portfolio Hedge

As detailed above we were worried that either Bernanke would not announce sufficient QE to convince the market the FED were prepared to print the economy out of recession or that the market would buy the rumour and sell the fact. We were wrong as the market seems to have embraced Bernanke's announcements. As a result these hedges lost the Cayman fund 14bp and the AUT 11bp.

## Equity Arbitrage

This portfolio did not have a significant impact on returns this month.

## Convertible Bonds and Hybrid Securities

We have taken recent issuance of Hybrid Securities on Caltex, in one of the only retail segments we like, and Crown, where we remain confident of casinos' ability to generate cash flow in the near term. We expect to exit these positions next month.



## Special Situations

This portfolio contributed a profit of 6bp of profit for both funds

There were two main contributors off setting to create this result this month.

Centaurus Metals [CTM AX]: We received the second tranche of a placement line in this stock. Due to the company's exposure to iron ore the stock had fallen in value and as a result we experienced a loss of 26bp to the funds. The stock is now trading close to the cash value per share and we will hold the position waiting for a better opportunity to exit.

EXCO Resources [EXS AX]: We had positioned ourselves long in EXS following on from Washington H Soul Pattinson & Company's takeover approach [SOL AX]. We expected SOL would increase its bid to secure EXS Directors' shareholders recommendation to accept the offer. This happened on the 19th September when the bid was increased from A\$0.19 to A\$0.265. We exited the position making a profit of 30bp for the funds.

## Currency Class FX Hedge - KIS Asia Long Short Cayman Fund US\$ Series Only

Investments are received in US\$ and spot exchanged to A\$. This FX spot trade is then one month forward FX hedged back to US\$. The cost of this FX hedge is a function of the differential of interest rates between US\$ and A\$. Please note that the monies attract interest in A\$ for the month. The cost of this hedge for September was 0.33%.

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