KIS CAPITAL PARTNERS

Asia Long Short Fund & Asia Long Short Cayman Fund US$ Series Monthly Report
February 2013

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
2013	-0.94%	2.20%											1.24%
2012	2.33%	2.89%	0.73%	-1.50%	1.35%	-1.00%	0.24%	3.70%	-0.19%	1.39%	-0.13%	1.17%	11.41%
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

Performance: 2.20%

ROLLING 12 MONTHS

Performance: 7.12%

SINCE INCEPTION

Annualised Performance: 18.34%

SINCE INCEPTION, OCTOBER 2009

Cumulative Performance of A$1000 invested: A$1778

FUND INFORMATION

Fund Denomination:	A$
Investor Type:	Sophisticated/Wholesale
Management Fee:	1.5%
Performance Fee:	20%
	Fees are shown exclusive of GST
Performance Hurdle:	RBA Cash Rate
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
2013	-1.29%	2.13%											0.81%
2012							-0.21%	2.59%	-0.60%	1.04%	-0.57%	0.95%	3.20%

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. Results to December 2012 have been audited by Ernst & Young Partnership.

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

MONTHLY
Performance: 2.13%

ROLLING 8 MONTH
Performance: 4.04%

SINCE INCEPTION
Annualised Performance: 6.12%

SINCE INCEPTION, JULY 2012
Cumulative Performance of US$1000 invested: US$1040

FUND INFORMATION

Share Class Denomination:	US$
Investor Type:	Eligible Investor
Management Fee:	1.0%

The management fee increases to 1.5% from July 2013 and 2.0% from Jan 2014

Performance Fee:	20%
Performance Hurdle:	None
Subscription:	Monthly
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, Indonesian, Malaysian and Singaporean Equities. Australian, Hong Kong and US Index Futures. Australian and Hong Kong Equity Options. Australian Index Options.

Portfolio Hedge – Australian Equity Warrants. Australian Index Options.

Convertible Bonds – Australian Listed Hybrid Securities. Convertible Bonds on HK Issuer.

Equity Arbitrage – Australian Equities and Index Futures.

Special Situations – Australian, Canadian, Hong Kong, Indonesian and Singaporean Equities. Indonesian ETF. A$/C$ FX.

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

Most equity markets have been experiencing strong rallies this year.

Australia was early to this movement with the ASX 200 rallying hard from a low of the 16th November 2012. To put a perspective on this rally the following table is quite informative (this ignores dividends):

Date	% Movement since 16th Nov 2012	Annualised % Return
30th November 2012	+4.5%	+157%
31st December 2012	+8.5%	+89%
31st January 2013	+12.5%	+76%
28th February 2013	+17.7%	+77%

The consistency of the annualized return in the last three rows is very pronounced and cannot be sustained indefinitely.

We have also heard a lot of comment in relation to the fact that in March, many US equity indices posted new highs whilst the key Australian index remains 25% below its 2007 peak. A key point here is to look at the performance in US$ where that gap closes to 16%.

That gap is further eroded if dividends are considered. The current US S&P index has a 2% dividend yield vs. a 4% dividend yield on the ASX 200.

Another observation of the equity rally that has been experienced in Australia (and from observations and conversations this has been the case for a lot of the world) is that it has not been broad based. Generally stocks that have performed well have been mega caps and high dividend yield stocks. Once again a table is informative in reviewing this

Index	Performance for Year to Feb 28
All Industrials	+12%
compared to All Resources	+2%
Outperformance:	10%
Financial Sector (including Banks and REITs)	+17%
compared to Materials Sector	+1%
Outperformance:	16%
ASX 200 (Large Caps)	+10%
compared to Dow Jones Australian Small Cap Index	+2%
Outperformance:	8%

Normally an outperformance of defensive names vs. cyclical names would indicate the market is risk off and concerned about economic growth. In this environment you would expect to see equity markets down, bond yields down, bond prices up and commodity prices falling.

Until February Australian bonds had not been rallying and indeed in March they have been falling.

Commodities that are seen to 'store value', such as gold, have been falling; but those that reflect economic demand, such as iron ore, have been stable.

So what kind of market are we in?

Our view is that what we have experienced is an equity rally driven by investors who cannot tolerate the low interest rates offered by bond markets. They are switching into equities that they see as safe and provide a yield superior to that which they were receiving on their fixed income investments.

We are wary of this environment for a few reasons:

- Rallies cannot continue at a near 80% annualized rate indefinitely, especially if the investors who are fuelling this rally are likely to be satisfied with a much lower return. Investors who moved early to this trend will be satisfied with their capital gains. Equity dividend yields will have fallen due to share price appreciation. The capital stability of the short dated interest markets will appeal. The investors who were early to the trend will reverse their previous trade selling equities and buying debt instruments.

- Economic data is not showing a robust environment, nor is it reflecting a very weak environment. To keep rallying this hard we need sense that a corner has been turned in the global economy. This cannot be said for European or Chinese data.

We expect equity markets to continue to trend higher but at a much lower momentum and with some short term drawbacks.

This is a market that suits KIS as stock picking gains merit.

E.g. we have observed a blanket buying of dividend yield without sufficient attention to the quality of the earnings that support this dividend yield. The first time one of these less robust companies announces a drop in the dividend paid, the investors who fled the bond market will be forced to realize that unlike coupons, dividends are not fixed.

A final observation:

The picture below was taken from a hotel window in Tianjin.

What you are looking at is extreme pollution, not fog or rain

KIS expects that the National People's Congress and the Chinese People's Political Consultative Conference will focus on this issue in the near term as it is now getting some very serious public attention.

KIS has successfully played this theme on stocks with an environmental theme both in solar and water purification, making 40bp year to date. The problem now is that many of these stocks have had incredible performance and their share prices cannot be justified under normal valuation metrics.

We expect the China Nuclear Program to be quietly accelerated as the long term solution. In the near term we expect some form of mandated exhaust scrubbing to be the proposed solution. We are struggling to find a direct way to play this theme but continue to research it.

Long Short

The portfolio contributed 2.06% to the Australian Unit Trust Return and 2.17% to the Cayman Fund. The difference was predominantly driven by difficulties in allocating futures in an exact ratio to match the ratio of AUM of the funds.

The main element to the success this month has been the outsized contribution of our winning ideas compared to the loss incurred in our losing ideas.

The loss we suffered on our short ASX 200 index hedge, used to offset the board market risk on our portfolio which contained more long than short ideas, was limited to 37bp on the Australian Unit Trust and 29bp on the Cayman Fund. For most of the month we ran a portfolio with a slight long bias i.e. with a smaller index short position, using stop losses to protect against a significant reversal in the bullish trend.   We also made use of index put options which offered good risk/reward compared to a short index option position.

Our largest loss on a single name was on Paladin Energy Ltd [PDN] where we positioned on the long side. This followed our thematic that there was a likely change of sentiment coming to nuclear power as a less polluting energy source. We stopped out when the stock trended down toward the end of the month for a loss of 25bp on the month.

We will look to reenter this trade at a future point though we will always run this with a tight stop. We feel that PDN's balance sheet is over stretched and its total production cost is lower than the current price of Uranium. These factors are detrimental to PDN but markedly increase its sensitivity to the price of Uranium and sentiment to nuclear power.

On the winning side:

- Santos Ltd [STO] contributed 47bp of this month's return. We feel that consolidation in the Cooper Basin is inevitable and STO assets are well positioned and key to this consolidation. We executed this opinion via call options and benefited from the strong performance of the stock on the month.

- We built a long position in Indophil Resources NL [IRN] this month selling approximately quarter of the position towards the end of the month. This generated 63bp of profit. IRN is not well loved by the fund management community as it experienced a failed merger attempt in 2010 slumping more than 50% in a day. It rallied back to close this gap before entering a down trend that lasted all of 2011 and 2012 and destroyed 75% of the value of the company.

  IRN is well supported by the cash it currently has on its balance sheet of approx 0.20 cents a share. At the lower end of its trading range we believe the share gives excellent optionality on a possible overturn of the mining ban in the Philippines.

- Southern Cross Media Group [SXL] was our largest contributor at 76bp. SXL had lagged the rally in the media sector. We had noticed a tendency for stocks whose announced results exceeded poor expectations to rally aggressively after the announcement. This was our expectation for SXL and it occurred. We continue to hold a reduced long position as we have an expectation that consolidation in the media sector could push the stock still further.

Portfolio Hedge, Convertible Bonds and Equity Arbitrage

These portfolios did not have a significant impact on returns this month.

Special Situations

This portfolio generated 13bp of this month's return.

There was no single line or underlying contributing a significant profit or loss with the special situations portfolio.

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$. The cost of this hedge for February was 0.27%.

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