Asia Long Short Fund Monthly Report
May 2012

KIS CAPITAL PARTNERS

Fund Objective

KIS Capital Partners is an Australian based hedge fund manager with an Asia ex Japan trading focus. The KIS Asia Long Short Fund is a trading focused fund whose objective is to generate high absolute returns. Trade selection and portfolio management are based on three distinct principals of: Liquidity, Transparency and Risk Management. KIS looks to build a portfolio of 'winning' trades and hedge unwanted market risk.

Performance

This month's update includes performance data for the Master Series of the KIS Asia Long Short Fund (KIS ALSF), trade summaries and strategies deployed in May 2012.

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%								5.88%
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 2011 have been audited by Ernst & Young Partnership.

Monthly Summary

Concerns remain in relation to a Greek default and Euro exit. We think this is likely but not in the near term. The key questions remains: how will the contagion effect of this be contained from the markets 'attacking' the larger periphery countries such as Spain and Italy?

We are also concerned that the current method of supporting the stressed parts of the European banking system, by Pan European organizations, is not being 'channeled' correctly. The line of credit/bail out given to Spanish banks over the weekend of 9th/10th of June is a good example. The EUR100 billion went to the Spanish FROB (which is itself, a Spanish government initiated banking bailout and reconstruction program). Hence this will become a liability of the Spanish sovereign. In our view the funds should go directly to the banking institutions probably in return for significant equity participation wiping out the majority of existing equity and in addition, with a significant haircut for subordinated bond holders. If this path is not followed, stresses within the banking system will translate into either sovereign defaults, or even more significant austerity measures. These measures would be required to balance fiscal deficits in order to receive further bailouts which will lead to prolonged recessions, fall in tax revenue and a vicious downward spiral leading to sovereign default.

We continue to expect a concerted round of monetary easing or rhetoric to the effect in the week of the 18th June. This follows the Greek election on the 17th June. Currently scheduled for this week are: 18th June G20 meeting in Mexico, 20th June Federal Reserve Meeting, 21st June Eurozone finance meeting and 21st June ECB Governing Council Meeting. This is likely to lead to a rally in risky assets, but these liquidity induced rallies are becoming weaker and shorter as market participants come to the conclusion that 'loose' money conditions alone do not resolve a problem of solvency.

FUND PERFORMANCE PROFILE

MONTHLY
Performance: 1.35%

ROLLING 12 MONTHS
Performance: 14.18%

SINCE INCEPTION
Annualised Performance: 21.18%

SINCE INCEPTION
Cumulative Performance of A$1000 invested:: A$1669

FUND INFORMATION

Fund Denomination:	A$
Investor Type:	Sophisticated/Wholesale
Management Fee:	1.5%
Performance Fee:	20%

Management and Performance Fee are shown ex. GST

Performance Benchmark:	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)

FUND DESCRIPTION
Asia Long Short: please see below for list of countries and strategies employed

Strategies used this month

1. Equity Long/Short – Australian, Hong Kong, Singaporean and US Equities. Australian Equity & Index Options. Australian & US Index Futures.
2. Portfolio Hedge – Australian Equity Options and Warrants. Australian 3 Year Bond Futures.
3. Equity Arbitrage – Australian Equities.
4. Convertible Bond – Australian Hybrid, Convertible Bonds (CBs) and Credit Default Swaps on Australian Issuer. Hong Kong CBs
5. Special Situations – Australian, Hong Kong & Singaporean Equities.

Long Short

This month the Long/Short portfolio was the main driver of returns of the fund contributing 172bp.

Given the weakness of equity markets on the month it is not surprising that our major winners were on short positions and we suffered losses on longs

Longs

Early in the month Woodside Petroleum Limited [WPL] sold down a 15% stake in the Browse gas project for US$ 2billion. This was positive news for WPL and ignited expectation that Shell would also consider selling down its stake in WPL. We believe WPL is under owned by long managers, ahead of the expectation of being able to pick up Shell's stake cheaply. We also feel that the removal of this expected overhang, if Shell's stake was placed, would lead to a rally. The combination of these factors led us to make WPL the fund's largest long position. When the markets turned down sharply, we suffered 40bp of losses on the name.

We also suffered 25bp of losses on Waratah Gold (WGO). When the equity markets started to fall we were aggressive in reducing our exposure to names we considered to have a poor liquidity profile, within the first week of the month we reduced this exposure by 65%. This caution served us well but even with much reduced exposure we suffered some losses. Most notable was WGO whose stock fell 49% over the month.

Shorts

We felt analysts' forecasts were too high for Toll Holdings Ltd [TOL] given the slowing Australian domestic economy. The stock had not factored in the likely poor numbers due to buying support as a result of the high dividend yield. We shorted the stock in the first half of the month and bought back the short after TOL issued a profit warning. This lead to a 53bp profit.

As discussed last month, we have been bearish Mirabella Nickel Ltd [MBN]. We feel the company has ongoing issues given the cost of nickel production vs. sale price. Given the small market cap vs debt outstanding, we thought the company would issue equity, if it could, to avoid any near term liquidity issues. The company announced an 8:13 rights issue on the 15th May and we closed our short position making 38bp on the month.

We also shorted Whitehaven Coal [WHC]. The price of coal has been falling and this has been reflected in the share prices of stocks in the coal sector. WHC had not experienced the same weakness, possibly due to technicalities around its merger with Aston Resources, and we felt that this was unwarranted. This position contributed 43bp of the return.

We have been bearish the mining services sector. Resource stocks had suffered some significant share price declines and capital expenditure plans have been reduced. We had anecdotal evidence in relation to the availability of drill rigs and job application to job vacancy which indicated to us the sector was not as 'hot' as many believed. Valuations of many mining service companies seemed to be reliant of a high growth in earnings which we simply did not believe would come to pass. Across the names we shorted: Ausdrill Ltd [ASL], Boary Longyear Ltd [BLY], Imdex Ltd [IMD], Mondelphous Group Ltd [MND] and NRW Holdings Ltd [NRW], we made 75bp.

Portfolio Hedge.

This portfolio lost 32bp this month. This was mainly a result of trying to trade a reversal in the downtrend in markets mid-month. When the bounce was not forthcoming we stopped out of the hedge and reduced the gross exposure of the fund.

Convertible Bond, Equity Arbitrage andSpecial Situations

These portfolios did not make a significant contribution this month.

Given the poor sentiment in credit markets and the increased funding pressure seen in the banking system, we completely flattened all our convertible bond positions and our exposure to special situations.

Contact Information

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