

## 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 absolute returns with low volatility and correlation to other assets. 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
2014	1.17%	1.76%	0.70%	-0.77%	0.21%	0.95%	0.91%	-0.10%	-0.08%	-1.10%			3.67%
2013	-0.94%	2.20%	0.54%	0.83%	3.00%	0.36%	1.89%	1.03%	1.18%	1.44%	1.82%	-0.06%	14.06%
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 2014 have been audited by Ernst & Young Partnership.

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

MONTHLY		FUND INFORMATION	
Performance:	-1.10%	Fund Denomination:	A\$
<b>ROLLING 12 MONTHS</b>		Investor Type:	Sophisticated/Wholesale
Performance:	5.50%	Management Fee:	1.5%
<b>SINCE INCEPTION</b>		Performance Fee:	20%
Annualised Performance:	15.46%	<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\$2077	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
2014	0.66%	1.56%	0.62%	-1.02%	0.03%	0.67%	0.57%	-0.36%	-0.45%	-1.31			0.94%
2013	-1.29%	2.13%	0.18%	0.55%	2.33%	0.14%	1.59%	0.77%	1.03%	1.30%	1.49%	-0.31%	10.31%
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) foundation series. Returns for other series 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 2013 have been audited by Ernst & Young Partnership.

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

<b>MONTHLY</b>			<b>FUND INFORMATION</b>	
Performance:		-1.31%	Share Class Denomination:	US\$
<b>ROLLING 12 MONTH</b>			Investor Type:	Eligible Investor
Performance:		2.13%	Management Fee:	1.5%
<b>SINCE INCEPTION</b>			<i>The management fee increases to 2.0% from Jan 2014 for non-Foundation Series Investors The Management fee remains 1.5% for Foundation series Investors, the Foundation series remains open but is subject to closure without notice.</i>	
Annualised Performance:		6.14%	Performance Fee:	20%
<b>SINCE INCEPTION, JULY 2012</b>			Performance Hurdle:	None
Cumulative Performance of US\$1000 invested:		US\$1149	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 Intertrust Corporate Services (Cayman) Limited
			Investment Manager:	KIS Capital

## Strategies used this month

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

**Arbitrage** – Australian and Hong Kong Equities. Hong Kong Index Futures and Options.

**Portfolio Hedge** – Australian and Canadian Equity Warrants. Australian and US Index Options. Australian equity options.

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

**Special Situations** – Australian, Hong Kong and UK Equities. Australian Listed Hybrid Securities. Hong Kong Equity Rights

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

We are positive on China.

### Investment opportunity:

We believe the Shanghai Hong Kong Connect will present amazing opportunities to investors especially those based in the Asian region. This initiative will open a market that is the second most active in the world and has a retail driven investor base. The broader equity market itself is a relatively stable environment having daily volatility similar to other large international equity markets but with a high degree of dispersion of individual stocks and sectors around these markets. As short selling becomes possible, this market will be a stock pickers dream.

### Economic situation:

The last year in China has been dominated by a fierce crackdown on corruption. From a variety of sources this has led to the following:

- 450 official club house close
- 2600 official buildings that were earmarked for construction cancelled
- 4100+ officials caught on extravagance
- 4100+ officials caught on gifts
- 7100+ officials caught gambling
- 27,000 OS trips/junkets cancelled
- the Government spend has fallen significantly Year on Year
- thousands of Government cars confiscated
- many government houses built for private use confiscated
- many Government officials expelled from the party
- “naked officials” (head lives in China while family lives abroad) can no longer hold Government position
- some provinces hosting court jury’s in the public squares, to publicly shame individuals & their families
- many CEOs/management expelled from companies.

On the 23rd July the Chinese Government launched “operation fox hunt”, which is looking to punish corrupt officials that moved overseas with Government funds. Already 130 individuals caught, and the PBOC believe 16-18,000 officials have left the country since the mid 90’s with a total of US\$131bn public funds. In 2013 alone, 1100 Government officials went on overseas holidays and never returned.

We feel this action has been a serious, but necessary, drag on economic activity but that this initiative is coming to an end.

This will naturally lead to an improved backdrop for economic activity but simultaneously the Chinese Government is recognizing a need to stimulate the economy. E.g. restrictions on property purchases are being reduced, implementation of a fairer rule of law and initiatives such as the Silk Road infrastructure point to this.

## Long Short

This portfolio produced a loss of 21bp.

We suffered on our short positions in Consumer Staples and long in Financials.

In Consumer Staples we are short Metcash Ltd (MTS.AX) and Woolworths Limited (WOW.AX) these positions cost 42bp. We maintain a short position here: both companies are very susceptible to competition from new market entrants Aldi & Costco and we expect the Australian Competition and Consumer Commission involvement in the industry via the issue and implementation of the Food and Grocery Code of Conduct to be very detrimental to the Coles and Woolworth's duopoly.

In Financials we suffered on our long position in AMP (AMP.AX) and our short positions in the big 4 Australian Banks.

We see that AMP.AX is a possible acquisition target and have been holding call options on the name to benefit if this occurs. AMP.AX has run a reasonably successful financial services business and built a strong brand awareness but its next step is to improve the retailing of its products and services. Wesfarmers (WES.AX) have shown their ability to acquire and manage businesses such as Coles so we see a possibility here.

We have been selectively short the big 4 Australian Banks. The Murray Financial System inquiry is highlighting the high degree of leverage and concentration to the Australian housing market. We do not expect these stocks to collapse but it is hard to maintain the price momentum they have experienced given valuations. For example Commonwealth Bank of Australia (CBA.AX) is on 2.7x price to book ratio, 5% net/7% franked dividend yield (vs a 2.5% risk free rate) and a 15 P/E for a mature market with limited growth vs China Construction Bank (0939.HK) on a 0.9 price to book, 7% dividend yield (vs a 0% risk free rate) and a 5 P/E for a developing market with growth potential.

## Arbitrage

This portfolio lost 20bp. We continue to hold a basket of mid cap HK listed names vs short HSCEI futures. We expect that the Shanghai-HK Connect initiative will allow mainland China investors to access this market cap segment and introduce a significant marginal buyer leading to a rally in these names.

## Portfolio Hedge

In a reversal of last month's profit this portfolio lost 17bp.

In September we purchased an S&P put spread, during October we moved this position to the Long Short portfolio to cover the downside risks that were developing.

## Convertible Bonds

This portfolio did not make a significant contribution to the funds' returns this month.

## Special Situations

This portfolio lost 50bp this month.

The main loss in this portfolio was on SAI Global Ltd (SAI.AX) which cost 32bp. We moved this position to the L/S portfolio in the middle of the month as the merger approaches had completely failed and our continued long was based on the fundamental value that had been created in the stock by the 30% fall from the high achieved after the merger approach was made in May. By managing the position in this way we recovered 2/3rd's of the loss in the Long Short 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 impact of interest rate differentials reduced the performance of the US\$ series by 27bp.

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