
KINGSLAND CAPITAL

September 14, 2007

Dear Investors:

While we wait along with the rest of the world for the First Data deal to hit the market, I thought it appropriate to share a brief market and fund update with you.

You are all undoubtedly aware of the significant risk re-pricing that has occurred in the credit markets and increased volatility in both the credit and equity markets, and have heard enough about the causes (subprime mortgage market, etc). I will spare you another rehash, and instead focus on the question at hand—where do we go from here? A simple question, but not so simple an answer.

Directionally it seems clear that market fundamentals will weaken over the next several quarters, but this is not a particularly sophisticated insight. Refining the question, how severe a market downturn can be expected? Let's look at the pieces of the puzzle. The most troubling issue is the lack of liquidity in the global credit markets. We will leave aside for the moment the serious issues surrounding commercial paper rollovers, and focus on the leveraged loan market. Completion of one (and then another and another) of the slate of LBO financings currently scheduled to come to market is necessary to break the logjam. The First Data deal and, if that one gets done, the few deals that follow it, will clarify the spread levels where loans and bonds will trade in the primary markets, and in turn will affect secondary market spreads either positively or negatively (we think negatively, i.e.; wider).

While we're on the subject, who will buy First Data and the other mega-deals that are slated to come to market in the fourth quarter? The new issue CLO market has also been severely impacted by the credit crunch, and cannot be expected to soak up the supply of new loans. We have not yet seen evidence of another pocket large enough to pick up the slack, thus our view that spreads are headed wider. This, as an aside, can lead to an interesting circular discussion...if the new loans don't have the benefit of the CLO demand then the resulting spread levels might be wide enough to encourage new CLO issuance based on an improved arbitrage between asset spreads and cost of funding. So you see why market participants are watching and waiting for the First Data deal, and why it will be so important an indicator of future market direction.

Moving on, an issue which goes hand in hand with market liquidity is the underlying strength (or lack thereof) of the U.S. economy and the resulting credit quality of corporate issuers (i.e.; default rates). Kingsland has no doubt that the problems in the U.S. mortgage markets will negatively impact consumer spending, and the credit crunch (that same commercial paper problem we continue to ignore for purposes of this writing) will negatively impact corporate issuers; even the best quality issuers will find a higher cost of funding. The lower quality issuers may find that there is no financing available at all. So we directionally agree with Moody's on this one, but withhold judgment for the moment on the severity.

Kingsland Capital Management, LLC
1325 Avenue of the Americas
27th Floor
New York, NY 10019

PHONE (212) 763-8356
FAX (212) 763-8373

All of this discussion translates into Kingsland's view that the market will weaken—wider spreads and somewhat higher default rates over the coming quarters. To a certain extent, we feel that we have been given a gift: rarely is the writing on the wall so clear, and seen early enough that portfolios can be repositioned before the fundamental credit picture actually changes. We have worked over the past month to position the portfolios to that view, and feel quite comfortable with the overall quality, even should the financing markets remain tight. This should allow us to withstand short- to intermediate-term mark-to-market and protect us from having to sell deteriorating credits into an already weak market.

Specifically, we completed a full portfolio review in late July-early August. Most of you are aware that Kingsland reviews all portfolios on a quarterly basis. Portfolio positions are re-evaluated in the context of current market conditions. Forecasts of operating results for the coming three and twelve month periods are refreshed, and risk rankings are updated if necessary. The portfolio review process typically generates trading flows, either to optimize the portfolio from a risk/reward perspective, or for credit reasons. In this case, we watch-listed eight names out of a total of 220¹, and found many optimization trades whereby we are able to improve credit quality, improve spread levels, and even increase overall par value of the portfolios in some cases.

Due to the severity of the correction and complete lack of liquidity during those weeks, we decided to take a second look at the portfolio, this time looking specifically at a set of six metrics for each name: ratio of free cash flow to debt less than or equal to 2.5%, significant debt amortization or maturity within the next 24 months, Kingsland rating of 8 or higher (Kingsland ratings are 1 through 10, best to worst), single facility operator, expected covenant violation in the next 12 months, and negative revenue and/or EBITDA trend. Any credit with any of these characteristics was re-reviewed in the context of the current lack of financing availability to determine whether the overall risk profile would increase over time. We did not add any additional names to our watch list as a result of this process, which gave us comfort that our original portfolio review was valid, but we were able to uncover several additional optimization trades. One point of clarification: watch-listed names are simply that, and are not perceived to be in imminent danger of default. We have sold all or part of four of the names, and will likely swap the other names out as part of our optimization trading over the coming months.

We did do some opportunistic buying during the past month, and are largely invested at this point, with the exception of our Kingsland V portfolio (in ramp-up phase), which has approximately 5% cash available. We expect to see some good relative value opportunities from the current forward

¹ The eight watchlist names are as follows: Six Flags (1st lien, covenant lite – sold), iPayment (1st lien – sold 50% of the position), Ginn Resorts (1st lien – sold 50% of position), Landsource (1st lien), North Las Vegas (2nd lien), IAP (1st lien), French Lick (bonds), 24 Hour Fitness (1st lien – sold), Hovstone (1st lien). These eight names aggregate 3.19% of total portfolio holdings (prior to sales noted) on a dollar basis. Not all names are held in all portfolios and therefore percentages for individual portfolios may differ.

pipeline of primary issuance, depending on final terms. Most of these deals will come with good covenant packages, call protection, and attractive pricing. We also see good relative value opportunities available in CLO mezzanine tranches, although our buying capacity in this area is quite limited by the baskets in our existing funds. We see some select opportunities in the bond market but still believe that the best opportunities in this market segment are yet to come, and thus will remain underweight for the near term.

In other news, Kingsland IV went effective on September 10, 2007. Our first coupon payment is expected October 16, 2007. We expect to complete the ramp for Kingsland V in the next few weeks, with a first payment date scheduled for January, 2008.

Please visit our website to find updated fund summaries on each of the portfolios (these summaries are updated monthly). If you need a secure password, please contact Vincent Siino, Kingsland's Director of Portfolio Administration (siino@kingslandcap.com or 212-763-8362). Vince can also address specific data requests on any of the portfolios.

I plan to provide another update in October. In the meantime, please feel free to contact me directly with any other questions or inquiries you might have (delucca@kingslandcap.com or 212-763-8352).

Yours very truly,

A handwritten signature in cursive script that reads "Joyce C DeLucca".

Joyce C. DeLucca
Managing Principal
Kingsland Capital Management, LLC