KINGSLAND CAPITAL

January 31, 2008

Dear Investors:

Looking back at our last few investor updates, we note a theme: the expectation of a more severe market downturn and wider spreads in the leveraged loan and bond markets. I think we can safely say that the market downturn is upon us, credit spreads are at or through their historical wide levels, and yet we must caution that we do not believe that we have yet reached the bottom.

The loan market in particular has weakened dramatically. Mark-to-market levels are severe, and other than for credits that are truly distressed, do not meaningfully discriminate on the basis of credit quality. We are seeing much of the market currently trading below 90.

The causes of the most recent leg down are several, but the overriding factor is a lack of liquidity in the financing markets (all of them). Whether you are an individual trying to get a mortgage or a corporation looking for a multi-billion dollar acquisition facility, there are few lending institutions out there willing to take the risk, regardless of the Fed's aggressive easing. The CLO new issue market has been severely downsized, removing a large portion of the buyer universe for leveraged loans. This is mainly due to the ever-widening spreads on the liability side of the equation coupled with an increasingly negative outlook for default levels of corporate debt. Those new buyers that entered the market a couple of months ago (equity income funds, total return swap financings, etc.)? Fifteen point mark-to-market hits have caused most of them to rethink their strategy.

Which brings us to the forced selling. Over the past two weeks, we have seen evidence of forced selling by market value CLOs, TRS programs, or other market-value sensitive funds. We do not have an estimate at this time regarding the size of the expected unwinds, but we believe there is more to come. This can result in a spiral, where market value triggers cause forced selling, which puts further pressure on market values, which triggers more selling, etc. The impact has taken a large portion of the loan market down as much as 10 points over the most recent two-week period.

So what does this mean for us? Well, nobody likes to see the value of their portfolio marked down, but we can take a little bit of comfort in the cash flow arbitrage structure of our funds that insulates us from market valuation pressures. We also take comfort in the fact that we began the process of moving the portfolio to a defensive posture during the second and third quarters of 2007 (see my letter of September 14, 2007), and are continuing that process through today. We have created excess par through trading in all of our portfolios to cushion against any potential surprises that might be on the horizon, and have reduced our watchlist names, both overall and in position sizes to reduce the overall risk level of the portfolios. Our buying, while not extensive, has focused on the loan market (rather than the bond market) at attractive discount prices, and we have accordingly been able to reduce the weighted-average-purchase-price of the portfolios while increasing the weighted-average-spread

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levels. We believe that the early positioning of the portfolios combined with our continued diligence with respect to monitoring remaining positions will help us to weather the storm quite well, despite the discomfort of negative marks.

A few other points to note regarding the portfolios: first, we have been experiencing high volatility in LIBOR rates over the past several months. While the volatility has been reduced, absolute levels are approximately 200 basis points below their recent highs (current 3-month LIBOR at 3.10%). Until we see some stabilization, this may continue to have a negative impact on the level of distributions. Secondly, we have not yet drawn upon our variable leverage facilities (this applies to Kingsland IV and V only). As we stated to investors during the marketing phase of those funds, we did not intend to draw on those lines in a tight-spread environment and while we maintained a negative outlook on the market. We do not have immediate plans to draw on those lines, but believe that we will draw them, at least partially, at some time during calendar 2008 as the market bottoms out.

Which leads me to an important point. Despite the doom and gloom of the current market environment, we believe that it is setting up compelling investment opportunities, particularly in the leveraged loan market, where we have not seen broad market dollar prices at these levels even in previous downturns. Investment returns will be strong with or without the benefit of leverage. While we think the bottom is somewhere below current levels—we expect to see more pressure from forced selling, not to mention that we have not yet seen fundamentals (i.e.; default rates) catch up with the technicals—we recognize that there are many loans that will not default and will ultimately recover their value. Thus we have focused our attention on fund structures that would allow us to take advantage of these opportunities as we move through the cycle. We will keep you apprised of our efforts, and welcome dialogue with you to share insights, compare views, or even just commiserate, for now.

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.

Please feel free to contact me directly with questions or other inquiries you might have (delucca@kingslandcap.com or 212-763-8352).

Yours very truly,

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