
KINGSLAND CAPITAL

May 20, 2008

Dear Investors:

The leveraged loan market has been on the upswing for most of the second quarter, certainly from a pricing perspective. The LCD index is well off of its lows (for an apples to apples comparison, the old series is in the 97 range, over 10 points higher than the lows hit back in February, with the current series index in the mid 99's). This rally is generally good for the market, as it has brought some additional liquidity with it. We are of the view, however, that the market is overvalued at current levels.

The new issue market has also picked up, although most of what we see is 2007 vintage deals. Of the current \$90-ish billion forward calendar, all but about \$10 billion is 2007 vintage. The calendar has remained constant at this level for the past few weeks. The theme amongst current new issuance seems to be seasoned issuers with relatively strong credit ratings, and smaller size. We have not yet seen a multi-billion dollar new credit attempt to come to market (new being defined as one where lenders are looking at the credit for the first time). The Clear Channel deal, which left the calendar and then returned (albeit slightly smaller than the original) will be an interesting test case. We do not yet have an expected launch date for that deal, but our guess is it will look attractive from a pricing and structural perspective. This is one factor in our view that the current market is overvalued—while we have said this before, we believe that market clearing terms must be factored in to any new underwritings (lest the agent banks end up with more paper on their books), and thus new issuance will look attractive on a relative value basis against current secondary market offerings. This will put pressure on secondary pricing levels. We also continue to expect a weakening economic environment, and expect that this will have a negative impact on overall credit quality, leading to increased default rates, further pressuring secondary trading levels. Finally, we still have not seen permanent buyers emerge to soak up any potential new issue supply.

We continue to focus on quality optimization of our portfolios, although as noted in my previous letters, we started this process in mid-2007, and at this point, it is largely complete. We do find interesting trades on the margin, and have taken advantage of the recent rally to do some relative value trades, moving out of higher-priced assets and improving par cushion in the portfolios. We completed our regular quarterly portfolio review earlier this month, and did not have any further additions to our watch list.¹ We will continue to monitor existing positions diligently, challenging our assumptions to protect against any potential future problems. We are pleased with the performance of the funds to date, notwithstanding mark-to-market concerns.

The CLO market remains effectively closed, as liability spreads, particularly at the AAA level have continued to widen (current levels look to be wide of L +150) and asset prices have rallied. We expect

¹ Watch list names include Landsource, Century Cable, North Las Vegas 2nd lien, French Lick bonds, Kyle, Rhodes 2nd lien, Metaldyne, and Tribune TLB . All portfolios may not hold all of these names; position sizes may also vary amongst portfolios.

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any new CLO issuance to be timed to the market if relief is found on either or both of these fronts. One piece of good news--LIBOR has remained stable so far this quarter, and we have accordingly seen a pick up in our distribution levels as the portfolios feel the full impact of improved spread levels.

Overall, we remain cautious on the market, while taking advantage of the recent rally. We believe that the early defensive positioning of the portfolios combined with our continued diligence with respect to monitoring remaining positions will help us to insure against an outlook of weakening fundamentals and potentially increasing default rates (on a market, not a Kingsland portfolio, basis).

With respect to new business, we are looking at fund structures that are best suited to take advantage of current market conditions. We expect to begin talking with many of you about these structures towards the end of this quarter.

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.

As always, 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,



Joyce C. DeLucca
Managing Principal
Kingsland Capital Management, LLC