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# KINGSLAND CAPITAL

December 4, 2008

Dear Investors:

A brief update as we head in to the end of a very trying year:

The markets remain extremely difficult. With the overall leveraged loan market trading close to 70 percent of par, we are clearly in uncharted territory. Coupled with the dislocation experienced this year in the short-term financing markets, CLOs have faced their share of challenges.

As most of you are aware, beginning in the second quarter of 2007, Kingsland's view with respect to operating forecasts for portfolio holdings turned decidedly negative. This included a view that capital availability would be, at best, limited, and more likely unavailable for any portfolio credits facing a refinancing, covenant amendment, or other need for liquidity. This caused us to reduce certain positions and sell others in entirety. We outlined this outlook, including our expectation for higher market default levels, in previous investor letters.

On the positive side, the great majority of sales executed as a result of the change in forecast were "good" sales, with trading levels continuing to drop, in some cases precipitously. We were, for a period of time, able to increase overall par value of the portfolio due to the fact that most of our purchases were made at prices between 85 and 100 percent of par. We continue to view the higher-rated segment of the market as attractive relative value at current price levels and will continue purchases of this type.

Credit market conditions have unfortunately continued to deteriorate, with new investment capital virtually non-existent. The absence of the CLO buyer with no replacement in sight has pushed leveraged loan market technicals to an overwhelmingly negative position. Many performing loans currently trade at cents on the dollar, and expectations for default levels are increasing as a weakening global economic scenario unfolds. The rating agencies have signaled their expectation of a higher level of CCC downgrades. We weigh all of this in combination with the absence of DIP financing for credits seeking protection under the bankruptcy law. Accordingly, our market view for the lower-rated segment of the market, including valuation and recovery scenarios, has worsened appreciably.

As a result of this outlook, Kingsland has recently undertaken a series of portfolio sales, particularly of holdings rated "CCC" or those considered to be at risk for downgrade to that level. Technicals for this segment are much worse than for the market as a whole, mainly as a result of a lack of buyers, rather than a large number of sellers. We believe that borrowers facing this circumstance are at a distinct disadvantage with respect to access to

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capital in a market that was already extremely challenging, and probability of default has increased dramatically. Further, the absence of DIP financing noted above will affect the workout process, having a significant negative impact on recovery values. Sales of this type have generally resulted in par erosion, although we have been able to soften the blow somewhat by reinvesting the cash at discounted levels. Notwithstanding the negative impact on the overall par value of the portfolio resulting from these sales, we believe that we are ultimately preserving value for the portfolios as prospects dim for low-rated credits. Most, if not all, of these credits are now trading at levels significantly below our sale price. Many have no bid at all.

We understand that there are risks to this strategy, and acknowledge that par erosion does cause concern. However, we believe that we are ultimately preserving value for the portfolio through execution of our trading strategies. We continue to work to improve the overall quality level of the portfolio, while still operating within the constraints of our structure. As noted above, we are continuing to purchase higher-rated assets at discounted price levels, partially offsetting the lower-rated sales.

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](mailto:siino@kingslandcap.com) or 212-763-8362). Vince can also address specific data requests on any of the portfolios.

We remain available to discuss this and other topics related to the portfolios. Please feel free to contact me directly with any questions or other inquiries you might have ([delucca@kingslandcap.com](mailto:delucca@kingslandcap.com) or 212-763-8352).

Yours very truly,

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

Joyce C. DeLuca  
Managing Principal  
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