KINGSLAND CAPITAL

June 30, 2009

Dear Investors:

A brief update at the midpoint of the year:

With best efforts not to be outdone by 2008, the first half of 2009 has certainly not lacked for excitement. At the start of the year, the markets looked quite grim, and then quickly seemed to forget that 2008 ever happened, posting a strong rally. High yield and leveraged loans were particularly strong performers, generating returns of 27.2%[1] and 27.1%[2], respectively. While we maintain a somewhat negative fundamental outlook, we did participate in the rally. Beginning in late 2008, we began increasing our allocation to bonds through the investment grade market. Spreads in that market widened beyond all historical experience, reaching 541 basis points[3] at the high point in December. Considering that the last time we saw high grade spreads even close to these levels was over seven years ago, we knew this was an opportunity not to miss. While investment grade spreads remain wide to historical norms, we believe the opportunity has largely passed. Thus we have sold out of most of those positions, recognizing handsome gains. Beginning in late January and continuing through May, we also added to our loan and high yield bond positions, focusing on undervalued credits where our analysis suggested that the credit would perform through the cycle and we were being compensated for the risk. As with our investment grade purchases, we began selling in mid-June as our market view indicated that the rally was running out of steam. We have recognized additional gains in these positions, and for the most part are holding cash, as the market continues to weaken.

Our earnings outlook is cautious to negative: many companies have been able to take costs down to bare bones levels and report better than expected earnings in the first (and maybe second) quarter. We like to say that a company can only cut its 401K match once, and without follow through on the revenue line (see consumer outlook below), sustained earnings growth is unlikely in many cases. Default rates, while somewhat mitigated by first half refinancings and the infamous "amend and extend" deals, will pick up as we move through the year

[1] Credit Suisse High Yield Index as of June 30, 2009
[2] Credit Suisse Leveraged Loan Index as of June 30, 2009
[3] Credit Suisse Liquid U.S. Corporate Index as of June 30, 2009

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(Kingsland is expecting the peak to occur sometime in the next six to nine months).

Our trading volumes have picked up this year. Looking at preliminary numbers, our portfolio turnover through June is about equal to the level for all of 2008, at approximately 35%. This is in keeping with our view that active, as opposed to passive, investment strategies are most advantageous during periods of market dislocation. We expect that our trading volumes will remain elevated throughout the year.

Our actions as outlined above have added value to our portfolios across the board. We will continue to trade to improve portfolio value as opportunities arise. Over the summer months, you should expect to see cash positions increase generally (at least until we determine that market pricing is more in keeping with our fundamental outlook and forecasts), and our fixed rate holdings decrease as we complete our profit taking against the investment grade positions and reduce risk by reducing our allocation to high yield bonds in favor of leveraged loans. This should best position us to take advantage of any correction or market weakness.

Turning to our outlook: While Kingsland is best known as a bottoms-up credit investor (and we continue to believe that is the name of the game in high yield), the current environment demands a greater focus on the macro picture. Our view with respect to economic fundamentals is generally negative. While we have heard much discussion about "green shoots", and the market has certainly wanted to go nowhere but up for most of the first half, we just haven't been able to get on board. I don't know what planet those green shoot guys live on, but where I live unemployment continues to increase and housing prices continue to come down. I frankly don't see how you get a recovery with those factors in play. Nearly all of the data relative to the consumer: employment data (hours worked, average weekly earnings, jobless claims, continuing claims), savings rate, unsold home inventories, debt/assets, and debt/net worth all indicate that discretionary spending is not likely to resume any time soon. This cycle is not a "typical" manufacturing/inventory recession but rather a credit contraction cycle. As such, recovery to a sustainable level of growth will take longer than the average recession as the economy transitions to the new paradigms through further deleveraging of households and businesses and lower levels of consumption. We acknowledge that there may be a pick up in inventories and other one-time benefits from the government stimulus package(s), but we do not see the follow through that will allow growth to continue. In fact, the noise out of Washington indicates that the political will to keep the money flowing may not live as long as the need for the stimulus. In the meantime, we are as pleased as anyone to see the data coming in "less bad" (what our Rob Perry more fancily calls the "second

derivative" argument), but we think the road to recovery is long, and a little bit bumpy.

We also spend some time thinking about the possible unintended consequences of government involvement in a large segment of the economy: financials, auto, energy, housing, and healthcare. At the moment we view this as an additional risk to be factored into the equation, and will keep you posted as our view evolves.

Back to the market: Notwithstanding the fact that you might have found the previous paragraphs to be somewhat depressing, we also note that periods of dislocation such as these present compelling opportunities for credit market investors, and due to the circumstances, depth and length of this cycle, some of the best we have seen in our careers.

Currently, we find both under- and over-valued opportunities in the leveraged loan, high yield, and to a certain extent, CDS (mainly short-term) markets. Early-cycle distressed opportunities (we define these as within sectors where all of the credits have already defaulted, such as auto) and DIP financings also present compelling risk-adjusted returns. As the default cycle peaks, we expect that more traditional distressed plays will present, and there will continue to be value plays in performing assets and DIPs.

From a market liquidity perspective, there has been some improvement over the last six months. The rally alone has helped in that regard. Additionally, beginning late last year, many new brokerage firms opened their doors to take advantage of the void left by the departure of three sizeable market participants (Bear Stearns, Merrill, Lehman). These new participants are generally commission-based and are therefore willing to work on some of the smaller, less liquid transactions where the flow traders might not. A buy-side direct trading exchange has also formed, providing additional liquidity to the market; Kingsland is a participant on this exchange.

We remain available to discuss our views on the market 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 or 212-763-8352).

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.

Yours very truly,

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Managing Principal
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