To the Investors of the Kunlun K-10 Fund:

The fund rose 3.5% from January to March. The NAV is now $1054.263, after fees. The portfolio's Price to Book is 1.6x and has a trailing P/E of 10.9x. The dividend yield is 3.9% and ROE is 15.6%. The fund is now about 75% invested with 16 positions. During the quarter, we added several names to the portfolio and disposed of 3 positions.

Hongwei was sold because we realized we were uncomfortable with a.) the continued decline in the core business, b.) the significant increase in their trading business and c.) the corresponding increase in receivables. We believed revenue would improve as the economy recovered. Against better judgment, we bought in because it was trading at very low valuations with significant insider buying. The other 2 companies were sold because they were just too illiquid to build adequate positions. When it comes to naming positions, we will try to observe a few rules: We want to give as much color into our investment process as possible without compromising performance. We think it's more important you know the rationale behind the investment process rather than the actual name. Companies are generally not named until we've disposed of the position. The types of stocks that we deal in are relatively illiquid and the opportunity may arise for us to reenter at some point.

We currently hold 3 positions which I would term "special situations". Quite frankly, I didn't expect to see much of these in Asia; perhaps it's a sign that majority owners in Asia are seeing the benefits of maximizing shareholder value.

We invest from a bottom up perspective but it pays to take a look at the macro situation. The fiscal problems of certain European countries particularly Greece (and now Portugal) have been well highlighted by the press. It would be good to keep that on one's radar. Another problem that I feel has been glossed over is the next wave of Option ARM mortgage recasts in the US that are in the process of beginning. The first wave began with the resets of the subprime loans in 2007 and we experienced the effects of that in 2008/2009. What I don't know is how many of these instruments have since been rolled over or declared delinquent in the past 2 years. Those would be mitigating factors to any recast payment shock. The current low interest rate environment will also mitigate loans from breaching their covenants and triggering a recast. I have no firm conclusions at present, but given the low rate environment, payment shock may not occur just yet. However, this hidden debt would have an auto-catalyzing effect, in the event of a downturn or a high interest rate environment. Thoughts and comments are welcome.

While valuations are by no means egregious, they are on the high side, especially with tepid growth projected going forward. I think prices have run ahead of themselves but (judging by history) will continue to do so. As our positions hit intrinsic value, we will adhere to a strict discipline of selling down. We will most likely be focusing on the special situations portion of the portfolio, if we were to make purchases over the next few months.

One final note: I had originally intended to write semiannual newsletters. However, there's been a request by clients for more updates. The world moves faster and faster! Hence, what I plan to do is to write quarterly reports to keep you updated on the portfolio but most of my commentary will be saved for the half yearly reports. As always, your views would be appreciated.