Dear Investors:

The Fund was up 1.7% for the quarter, and 10.1% for the year. The portfolio has a Price to Book ratio of 2.1x, a PE of 13.8x, a dividend yield of 3.8%, and an ROE of 14.2%. It is 58% invested.

The optimism of spring has been followed by the discontent of summer. Talks of troubles in the EU and a slowing global economy are once again making the headlines. It appears that China is slowing in part due to tightening credit conditions. The new leadership, it seems, is laudably trying to correct the structural imbalances in the Chinese economy. Such actions in the longer term are necessary but could cause upheaval in the near future. It also means that valuations that were not cheap to begin with, appear even more expensive with the lack of growth.

During the quarter, we added to existing positions but we also used the opportunity to exit other companies. **Natural Beauty** was an idea that did not work out. We were attracted to the company initially due to its exposure to the Chinese consumer. Prior to our entry, it had stumbled due to some inventory management issues and a lack of focus in its brands. A new set of management was brought in to fix the problems and it looked poised for a recovery. We felt valuations justified the expected growth; it was also debt free and came with a nice dividend. Unfortunately, things did not work out quite the way we envisioned, with sales decreasing. Moreover, top management also turned over yet again. Hence we exited our position. Will things improve? Perhaps. Wouldn't we then make a much bigger return in such a scenario? Probably. But the reality is our original thesis did not play out. In my view, it is better to realize the mistake. Loss aversion can play tricks with the mind, and is a dangerous drag to future portfolio returns. Our other exit was profitable and prospects are still pretty good, but the opportunity to add was limited. It was a strategic decision to keep the portfolio more focused.

At some point Quantitative Easing will end. And it is more than likely that interest rates in the US will rise. At present, the Fed is giving out mixed signals. The end of Quantitative Easing will be a tricky balancing act for the Fed.[1] It will be further compounded by the unwillingness of other central banks to raise their rates, as their economies are still in the rut. As bottom up investors, we don't trade our positions around expected interest rates. But interest rates do have long term effects on valuations. In addition, businesses with significant debt levels will be affected with higher interest rates. We will be watching this aspect carefully.

Goh Yew Liang
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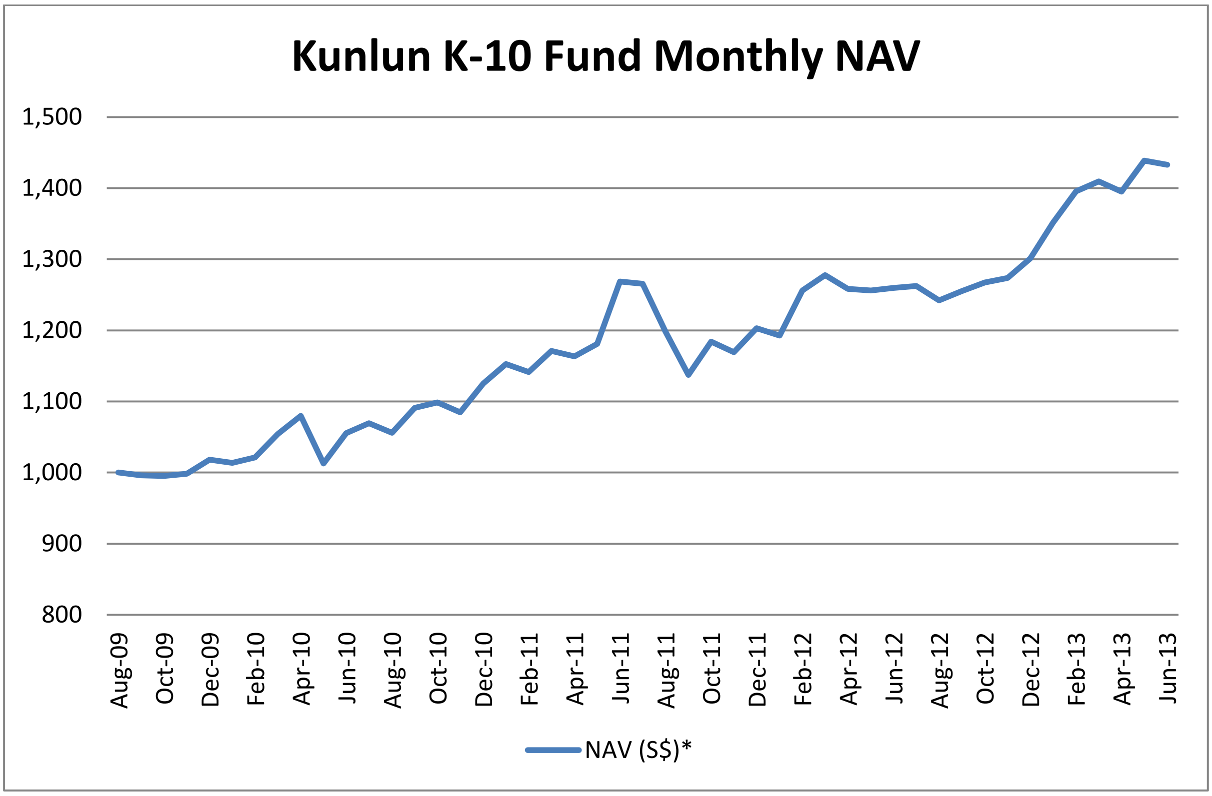
[1] For those who follow the markets more actively: Don't you find it strange that the Mr. Market reacts negatively to good economic news these days? It seems he is drunk on liquidity, and good news means the end of his stimulants.


Kunlun K-10 Fund Monthly NAV
1,500
1,400
1,300
1,200
1,100
1,000
900
800
Aug-09
Oct-09
Dec-09
Feb-10
Apr-10
Jun-10
Aug-10
Oct-10
Dec-10
Feb-11
Apr-11
Jun-11
Aug-11
Oct-11
Dec-11
Feb-12
Apr-12
Jun-12
Aug-12
Oct-12
Dec-12
Feb-13
Apr-13
Jun-13
NAV (S$)*