

Kunlun Capital

Dear Investors,

The Fund was up 2.6% for the quarter, but down 1.8% for the year. The portfolio has a Price to Book Ratio of 1.6x, a PE of 13.6x, a Dividend Yield of 5.4%, and an ROE of 10.3%. It is 55% invested.

It was as if the crash early this year never happened. ASEAN markets continued to climb in the 2nd quarter, although growth was partially interrupted by Brexit. During the quarter, we exited **ARA Asset Management** and **Advanced Card Systems Holdings**. Advanced Card was a small position for us. It was purchased around 9x PE. We expected it to benefit from the growth in contactless payments. It seemed Mr. Market agreed, and sent valuations soaring. We pride ourselves as long term investors but price is an important element of the value equation. We felt that the current valuations did not justify growth prospects and sold out.

The implications of Brexit, both social and economic, will be felt in the years to come. Quite surprisingly, the Bank of England did not cut interest rates, although their hand may be forced soon enough with sputtering growth and volatility in the markets. The use of interest rates to suppress volatility in the market is not an overt objective, but I believe it is in the thought process of many policy makers. Suppressing volatility without fixing the underlying causes will only serve to make markets more volatile and fragile in the future.

It appears, with Brexit, the tightly wound spring created by the twin stresses of income inequality and ultra-low interest rates may finally be uncoiling. However, the markets, particularly the US markets, seem to have brushed aside all concern. There really is too much cash sloshing around; when, and how this will end is beyond me. The markets we have focused on: Hong Kong and Singapore, have recovered but not benefited as much as the other ASEAN markets. At present, we are wary. We are reassessing our portfolio and are net sellers.

The BVI and Singapore will be adopting the Common Reporting Standard. In order to comply with the new regulations, we will be sending some documentation in the coming weeks. It would help us tremendously if you could return the completed forms promptly. Compliance in the financial sector has increased tremendously since we started. While we understand the need for increased regulation and enforcement, such rules are making it very difficult for small financial firms to operate. Unfortunately, it does not seem to be abating anytime soon.

Goh Yew Liang
28 July 2016

