Kunlun Capital

Dear Investors,

The NAV rose to $1090.885 in the 3rd quarter, an increase of 3.4%. The portfolio has a trailing PE of 8.5x, P/B of 1.6x and dividend yield of 4.3%. The ROE is 16.4%. Last quarter we added 3 new positions, added to an existing position and sold out of 2 positions. We remain about 70% invested.

We sold out of **Swissco** upon its takeover by C2O. This was a workout that proved to be quite profitable. Swissco is a service provider for offshore oil and gas industries. It operates a young fleet of offshore support vessels like tugs and barges. The industry has had extremely good growth dynamics for the past 5 years. When we purchased Swissco, C2O had already announced its intentions to buy out the firm. Moreover, the controlling shareholder had confirmed his desire to sell. It seemed likely that C2O would secure funding to complete its takeover, yet the stock was not trading anywhere close to its buyout price, which presented us an opportunity to enter. Valuations at the entry price were near book value, and even if the transaction had not gone through, we perceived little downside. Fortunately, the takeover took place, allowing us to realize a good rate of return in 6 months.

As we enter the final quarter of the year, it is interesting to see the big (and not so big) countries around the world racing to depreciate their own currencies. It seems the bigger the country, the greater the desire. I used to think that strong countries wore their strong currencies like a badge of honor. Times have indeed changed. Singapore is a notable exception and has indicated a shift to a stronger currency. One of the quirks of the K-10 Fund is that the denomination is SGD and not the more typical USD, which is fortunate for investors in the fund.

Protectionist rhetoric has only increased in the past few months. In addition to trade protectionism, complaints of currency manipulation are back in vogue. In my opinion, there is some truth to the undervaluation of certain emerging currencies. However, I do not believe a sudden shock revaluation of currencies is of benefit to anyone. Legislators and regulators on all sides must work to resolve the imbalance in a gradual process. It is quite likely that this is just political maneuvering, particularly in the run up to the US November midterm elections. Nonetheless, the trading of barbs may be carried one step too far and lead to a real trade war. A 2011 version of the Smoot-Hawley Tariff Act would be disastrous for the global economy. Unfortunately for the global economy (and all of us), the problems are many and the solutions few and far away. This all bodes well for gold. While gold has had a good run recently, the intentional currency depreciation by the major powers and the increasingly protectionist stance adopted by politicians should continue to provide tailwinds for the metal.

Investors in the fund will know of my long time partiality to gold (and silver). At present, the fund is not invested in any gold mine even though we feel strongly about the case for gold. Part of the problem is that we cannot get comfortable with the geo-political risks of such mines, particularly for those in the smaller cap space. Another risk is the high valuations. So for now we will stay out; investors should plan accordingly.

Goh Yew Liang
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