Dear Investors:

The fund fell 10.3% during the quarter but remains up 1.1% for the year. The invested portfolio's Price to Book ratio is 1.3x, has a P/E of 7x, dividend yield of 4.2% and an ROE of 21%. The portfolio was about 60% invested through the quarter. Given the turbulence in the economic climate, the P/B ratio and dividend yield might be more relevant metrics during this period.

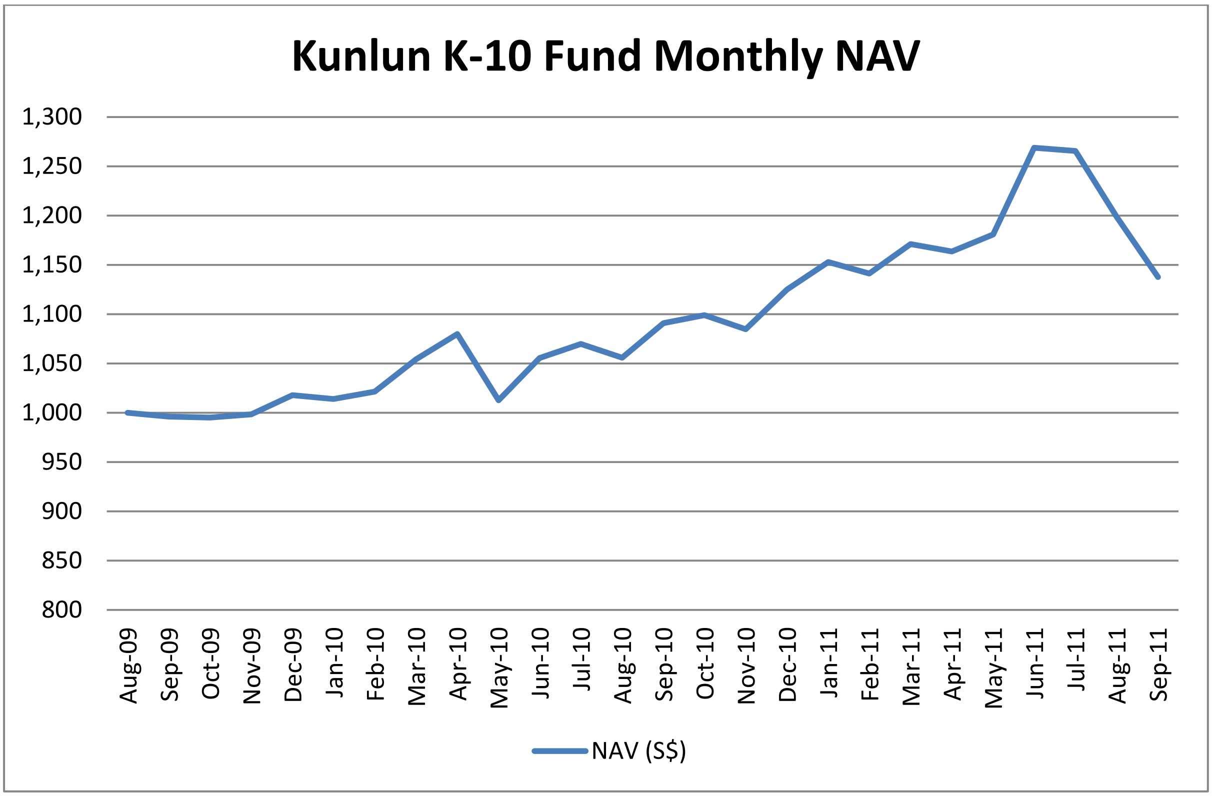
Against our own wise counsel, we started deploying some of our excess funds in August into companies that we perceived to be of value. Of course Mr. Market thought otherwise and promptly battered them down. We are confident that most of our new positions (with the exception of one) should eventually achieve intrinsic value. We will continue to hold on to them, bruised face notwithstanding.

It seems that the mess in Europe has the likelihood of causing contagion around the world. Stock markets have fallen more or less uniformly throughout the world and the macro factor is outweighing any good news on the micro side. Two things strike out: First, it seems that much more needs to be done by all parties in order for the issue to be resolved. Governments (European and non-European) will probably have to ante up more money to recapitalize the banks and countries. Bondholders will need to accept larger haircuts to their positions. Citizens will have to tighten their belts further with more taxes and austerity measures. The repercussions of each of these actions are enormous. For example, bondholders accepting larger losses could falter the banking system while citizens accepting greater austerity could result in more civil disorder and lower growth, exacerbating the problem.

The second issue which could have profound effects is the reluctance of the stronger countries to bail out the weaker countries. Most notably the Germans refusing to fund more bail outs could lead to much greater stress within the system. I sympathize with the reluctance of the Germans to bail out their fellow Europeans, but at the same time, the effects could be seismic if they do not. How much more will they tolerate? Personally, I suspect not much more…

Against this bleary backdrop, there is some cheer. Some stocks have become cheaply valued again. It is likely that that the problems in the European countries will create an overhang within the markets over the next few months, but at the same time we must balance that against individual stock prices and potential. Many of the liquid small caps are now priced cheaply and we are actively looking in that space. In summary, we would be net buyers today, just a little more picky than usual.

Goh Yew Liang
12 October 2011


Kunlun K-10 Fund Monthly NAV
1,300
1,250
1,200
1,150
1,100
1,050
1,000
950
900
850
800
Aug-09
Sep-09
Oct-09
Nov-09
Dec-09
Jan-10
Feb-10
Mar-10
Apr-10
May-10
Jun-10
Jul-10
Aug-10
Sep-10
Oct-10
Nov-10
Dec-10
Jan-11
Feb-11
Mar-11
Apr-11
May-11
Jun-11
Jul-11
Aug-11
Sep-11
NAV (S$)