

# Kunlun Capital

Dear Investors:

The Fund is flat for the quarter, and is up 4.3% for the year. The portfolio's price to book ratio is 1.8x, PE is 10.7x, has a dividend yield of 4.5% and ROE of 18%. The fund is 61% invested.

Though the invested level remains similar to the previous quarter, we were more active than the numbers belie. We exited 2 positions and are in the process of exiting a 3<sup>rd</sup> - **LMA International**. We initiated 3 new holdings and also added to our current positions.

**PEC**, one of the positions we exited, has a solid balance sheet and was bought at cheap valuations. A good portion of its business comes from recurring maintenance revenue. Unfortunately overall business conditions have not proven to be as resilient as we believed, and we chose to exit.

**LMA** is a medical device manufacturer with a dominant market share. We had been tracking it for some time; we finally decided to initiate a position as the company became more focused and exited unprofitable product lines. The new CEO was also committed to reducing costs, paying better dividends, and buying back shares. We initiated our position at about 8x earnings. Recently, the assets of the company were purchased by a larger company at a substantial premium over the market price (and our purchase price). The company will then be liquidated, and the proceeds returned to shareholders.

Our exposure to food stocks have proven beneficial to the portfolio, however our investments in Hong Kong have not done as well. Smaller cap stocks in Hong Kong have been languishing for the better part of the year. Valuations are now definitely on the cheap side and tempting. On the flip side, recent visits to Hong Kong companies indicate that business tempo continues to be slow with the recovery tepid. A real dilemma... We will monitor the situation as I believe this will present a good opportunity in the not too distant future.

Finally, I would like to clarify a few questions I've received about the Fund. At present, there is only one share class which is denominated in Singapore Dollars. The returns presented, on the website and newsletters, are in Singapore Dollars and net of all fees. Investors who do not consider the Singapore Dollar their home currency should take into account potential currency fluctuations. It is quite different from most other funds that are denominated in US Dollars, but then again, we've never tried to follow the crowd.

Goh Yew Liang  
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