

Kunlun Capital

Dear Investors,

The Fund was down 4.9% for the quarter, but remains up 1.8% for the year. The portfolio has a Price to Book Ratio of 1.5x, a PE of 13.3x, a Dividend Yield of 4.9% and an ROE of 11.3%. It is 48% invested.

Volatility did not abate in the 3rd quarter. The markets (or herd I might add) decided to focus on issues like China's tepid growth and the impending Fed Rate rise, none of these being new issues in our opinion. One recent event we have been observing with great interest is the Russian intervention in Syria. Its immediate implications for Asian markets is not clear for now, but we feel this is a game changer and will have reverberations in the longer run. For example, how will the Saudis react to the Russian "incursion"? Would they be willing to subvert a superpower, particularly when they are distracted by a war in Yemen and a bleeding treasury caused by low oil prices? Will the US be distracted by the Middle East, and not pivot to Asia as promised? How will China react in such a scenario? It is important to think about these issues from time to time.

Meanwhile, on the home front, we sold out of **Perennial Real Estate**. It was a special situation investment where we hoped to capitalize on discrepancies in pricing. The scenario we predicted did materialize, but prices did not react as envisioned. We exited at a slight loss, or near breakeven when corporate actions were taken into account.

The volatility in the past few months has provided us opportunities to add to our positions and to explore new ideas. Generally speaking, stocks with clear growth paths continue to exhibit extremely rich valuations, while cyclicals and those with poor growth have been beaten down quite a bit. What is unclear is whether the current valuations of the cheap stocks take into account all the bad news. The Graham side of us is no doubt drawn to such companies. Perhaps some risk taking should be warranted, given our high cash levels? We are interested, but will demur for the moment.

It is tempting to trade the volatility. We claim no special skills in such tactics. For us, it is best not to be distracted and to keep a clear head. Now more than ever more, we must focus on the fundamentals: Growth, Cash Flow, Returns on Capital and Valuation.

Goh Yew Liang
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