Kunlun Capital

Dear Investors,

The Fund was up 1.7 % for the quarter, and down 0.2% for the year.

In September, we celebrated 7 years as a fund. 7 years is an arbitrary number but it represents a sufficiently long enough period to pause and reflect on our results. When we first started, we had two simple goals: The first was not to lose any money. The second was to beat the indexes over the long term.

With a performance of +66.2% over 7 years or 7.5% compounded annually[1], we have achieved our first objective. We have consciously never compared ourselves to a benchmark from the very beginning. I believed linking ourselves to a benchmark would inevitably lead to irrational competitive decisions which would ultimately hamper our performance. I have always advocated that it is more important that the results beat your own personal hurdle, whatever that may be. However, it is occasionally useful to compare performance with general markets, like perhaps once every 7 years…

For the purpose of comparison, I have chosen the MSCI AC Far East ex Japan All Cap Gross. We look for companies in many of the countries represented in the index. For the seven-year period, the index returned 56.7% or 6.6% annually. A better comparison, I believe, are the end June 2016 numbers as this was just before we started selling down our portfolio. By that measure, the fund posted a 63.4% return, or 7.5% p.a., vs the index which returned 45%, or 5.6% p.a. Whatever measure you choose, we have beaten the indexes.

The fund's results were solid but not stellar by any means. It should be noted that we achieved these returns on the back of extremely low interest rates, no leverage and an underinvested portfolio. Fortuitously, the fund was up every single year and had very low volatility. Personally, I had hoped to do much better but I cannot complain about the results.

7 years is also an apt time to reflect on the future. Over the past 7 years, we have done reasonably well, performance-wise, and just as importantly, I have had great fun running the fund. However, after a period of serious reflection, I believe this is also an appropriate time to shut the fund down.

When we first started the fund, regulators around the world generally adopted a light touch approach. Oversight was minimal. Words like FATCA and CRS did not exist. In short, we could focus on investments unabated and undisturbed. The past few years, in contrast, have been a deluge of new rules and regulations. It seems every day we learn of a new procedure we have to adopt to be in compliance of the ever evolving standards. I understand such rules have been put in place for valid reasons. Unfortunately, the net result is that we spend more and more time on administration and compliance, and less and less time focusing on investing, my raison d'être. I find myself becoming an expert in AML/ CFT statutes and CRS IGAs as opposed to financial statements and economic trends. Certainly we could outsource these aspects of the business away but there are limits to that, especially in a boutique fund.

In late June, I initiated a sell down of the fund. At that point, I had not made up my mind to shut the fund down yet. I simply felt it was a good opportunity to take stock of our positions. I had read previously that the famed value investor Michael Steinhardt used to sell off his entire portfolio. If he really did like his sold off positions that much, he would immediately buy them back afterwards. This

[1] As of 31 August 2016

exercise removed any anchoring and sunk cost biases that he may have had for his existing positions. It is a radical move but it forces you to acknowledge your mistakes, something most of us cannot do until too late. I know many people go through that theoretical exercise of “fantasy selling” down the portfolio and then “buying” the positions back. Trust me, having gone through this exercise, fantasy selling is just that, a fantasy.

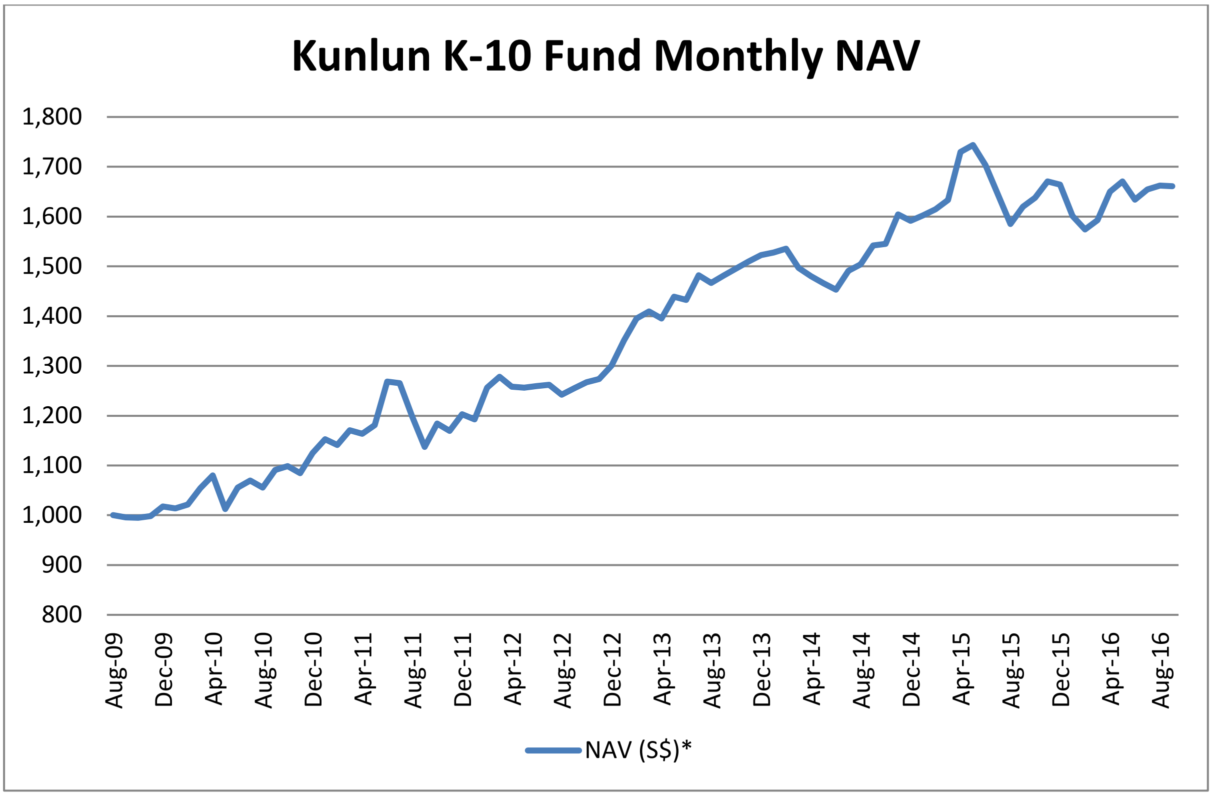
After the sell down, the situation became much clearer. We realized that we would definitely buy back a third of the portfolio, we would perhaps buy the second third back, and we most certainly would not buy back the last third. The investment landscape, as we see it, is stark. Low interest rate policies have pushed stocks with some growth to grossly inflated prices. Investors are also desperate for yield, and willing to overlook principal protection in order for a few more basis points of interest. On the other hand, quite a few stocks are languishing at very cheap prices, but perhaps rightfully so, as their growth outlook is bleak.

Faced with a portfolio that was almost 100% in cash and an ever harsher regulatory landscape, I decided that it was an opportune time to return the money to you, my investors. We end close to our high water mark with an absolute return of 66.1 %, or 7.4% per annum[2]. I am thankful for the trust you have placed in me over the years; I am glad that the trust translated to a tangible and, hopefully, meaningful return. We aim to return the funds in early November 2016.

Over the next few weeks, I hope to be contacting you in person to follow up. Till then.

Goh Yew Liang
7 October 2016

[2] As of 30 September 2016


Kunlun K-10 Fund Monthly NAV
1,800
1,700
1,600
1,500
1,400
1,300
1,200
1,100
1,000
900
800
Aug-09
Dec-09
Apr-10
Aug-10
Dec-10
Apr-11
Aug-11
Dec-11
Apr-12
Aug-12
Dec-12
Apr-13
Aug-13
Dec-13
Apr-14
Aug-14
Dec-14
Apr-15
Aug-15
Dec-15
Apr-16
Aug-16
NAV (S$)*