Dear Investors,

The Fund was up 2.8% for the quarter and 17% for the year, setting a new high water mark. The portfolio has a Price to Book Ratio of 2x, a PE of 15.9x, a Dividend Yield of 4.2% and an ROE of 12.5% . It is 59% invested and Portfolio Turnover was 17%

2013 proved to be a fruitful year for the Fund by most accounts. Despite being only 60% invested for most of the year, the Fund managed to garner a solid absolute return of 17%, outpacing relevant regional indexes that were mostly in the low single digit territory. Do note, comparisons with indexes are best served when viewed over the long term versus a short period of time, like a year. As they say: "One Swallow doesn't make a Summer." In addition, it is our view that it is more important to view the Fund's return versus your own required rate of return, contrary to conventional and "expert" opinion.

We started the year nearly 75% invested but the invested level decreased to about 60% over the year. The main reasons were profit taking on positions, cutting names in the portfolio to make it more focused, and some new asset inflows. We have always been judicious about accepting new funds, given the relative illiquidity of our positions, and will continue to do so. Ideally speaking, a dollar cost averaging method of asset addition would probably suit the Fund best.

Looking forward to 2014, our crystal ball continues to be murky. The ASEAN region is starting to sputter after a couple of good years. China is recovering, albeit not to former levels. The USA seems to be pulling itself out of the doldrums. A mixed bag in my view... Valuations are high yet we do continue to find ideas, although at a much slower rate. (**Huge Tip:** Be cautious when a fund manager tells you he has ideas!) We added a new position to the portfolio during the quarter. Traditionally, we have always preferred dividend yielding stocks, and we continue to do so. However, it is worth noting our 2 newest positions do not pay dividends. We were attracted to the growth potential and decided to compromise on this aspect. We are cognizant of this deviation from the norm. In short, potential investments abound, but quality is dropping. Perhaps these investments are a cue to the waning bull market?

There are some longer term issues that I have been pondering over: 1.) The markets that we invest in/ look at happen to have very unequal income distributions. As economies become increasingly digitized and knowledge based, the gaps between the haves and have-nots will become even more apparent. I am not sure how such situations will play out socially and politically 2.) Such countries (and others) want to grow their economies. Growth, however, is viewed primarily from the prism of GDP which implies greater production and consumption, consuming ever more resources 3.) Yet resources are finite. They are, however, not treated as such. 4.) Scant attention is also being paid to the environment. By and large, it is subject to the tragedy of the commons. Attempts to account for the appropriate use of common goods i.e. taxes have thus far been unsuccessful. 5.) Finally, populations are greying. How will all this play out? At this point it is difficult to answer, but it is better to recognize the issues than to be oblivious to it. The key takeaway for now is that I do not believe any of this is priced in the markets.

Lest we be labelled perma-bears, I would like to note that we are predominantly a long-only fund, which means that it generally pays off to be optimistic, not pessimistic. But good investors, we feel, need to look at all aspects, and not be blindly deluded.

Kunlun Capital

Goh Yew Liang
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