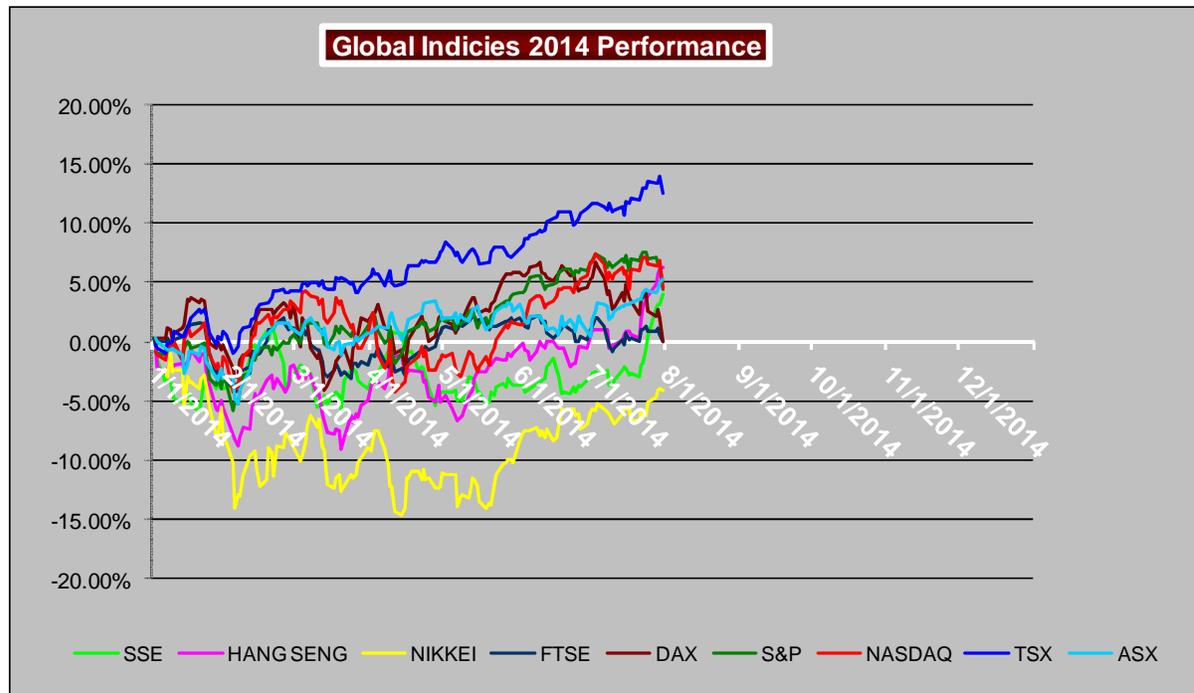


## GDB August 2014 Newsletter

### Monthly Market Summary:

2014 July Market Activity		
SSE COMPOSITE	<i>2,201.56</i>	+9.12 (0.45%)
HANG SENG	<i>24,756.85</i>	+1,566.13 (+6.75%)
NIKKEI 225	<i>15,620.77</i>	+250.80 (+1.63%)
FTSE 100	<i>6,730.10</i>	-13.80 (-0.20%)
DAX	<i>9,407.48</i>	-425.59 (-4.33%)
DOW	<i>16,563.30</i>	-263.30 (-1.56%)
S&P 500	<i>1,930.67</i>	-29.56 (-1.51%)
NASDAQ COMPOSITE	<i>4,369.77</i>	-38.41 (-1.51%)
ASX 200	<i>5,632.90</i>	+237.20 (+4.40%)
TSX COMPOSITE	<i>15,330.70</i>	+184.70 (+1.22%)



**Investment Themes:**

Strings of geopolitical risks have rattled the markets in July and August. From the escalation of tension between Russia and the West on Ukraine, to military incursions in Gaza, to the uprising of ISIS and US's air strikes in Iraq, risk-off events have caused capital to flee risky assets leading to significant pull backs in major equity markets around the world.

Going against the grain during the above turbulent times are the performances of the Shanghai Composite Index and the Hang Seng. Prior to July, S&P and NASDAQ were returning around 5% for the year, while the Shanghai Composite Index was down 4% and the Hang Seng was down 0.5%. During July and August, while most of the other equity markets in Europe and North America headed south, the Shanghai Composite has risen 9% and the Hang Seng up 8% respectively from the end of June.

We attribute much of the gains observed in these two markets to the anticipation of the Hong Kong–Shanghai Stock Connect project that is set to launch in October. The Stock Connect is a mutual market access program, through which investors in Hong Kong and China can trade and settle share listed on each other's market via the exchange and clearing house in their local market. This will allow another channel for foreign investors to invest in China's A shares which is currently restricted only through the QFII and RQFFI schemes that are only available to qualified institutional investors. Through the Stock Connect program, all Hong Kong and overseas investors including retail and hedge funds will be allowed to trade Shanghai A shares via their local brokers in Hong Kong. The initial quota for northbound flow from Hong Kong is set at RMB 300 billion aggregate (approx. USD 50 billion) with daily quota of RMB 13 billion (approx. USD 2 billion). This will be a significant liberalization of the Chinese equity market which has been in a slump over the last decade. Currently, unsophisticated domestic retail investors account for over 80% of the trading in the Shanghai Stock Exchange. With more fluid access to inflows of foreign and more sophisticated institutional capital, the value proposition offered by the Shanghai A shares will be properly reflected over time. The current valuation on the A-shares are amongst the lowest of all major global indices, trading at roughly 10x P/E.

As of the end of 2013, the Hong Kong Stock Exchange is the world's 6<sup>th</sup> largest stock market by market capitalization at USD 3.1 trillion and the Shanghai Stock Exchange is ranked 7<sup>th</sup> by market capitalization at USD 2.4 trillion. The combined market cap of the two exchanges, at USD 5.5 trillion, will allow them to become the third largest market by capitalization after NYSE Euronex (US) and NASDAQ OMX (US). Given the improved market access and its significant market size, A shares may be added to the global index (e.g. MSCI Emerging Market) which would result in substantial liquidity flow into A share market.

Another reason why stocks in the Shanghai Composite is likely to rise in the near term is the valuation gaps between dual listed companies that trades both in Shanghai (through A shares) and Hong Kong (through H shares). The A shares of the same companies that also trades in Hong Kong experience an average discount of 10% at the end of July, the highest in seven years. The disconnect could be attributed to the downbeat mood in Shanghai surrounding domestic stocks, where majority of the participants are retail investors who have simply lost faith in domestic stocks. With liberalization of market access, this may attract foreign arbitrageurs and bargain hunters that will bring the valuation of A shares in line with their H share peers.

Top 20 A+H Shares By Mkt Cap

Top 20 A+H Stocks by Market Capitalisation					
Company	A+H Mkt Cap (US\$b)	A shares			H Share Premium
		Mkt Cap (US\$b)	Mkt Cap Rank	ADT (US\$m)	
PetroChina Co Ltd	470.9	235.5	1	20.3	-10.6%
ICBC	417.0	208.5	2	84.8	14.3%
China Construction Bank Corp	371.3	185.7	3	25.6	12.0%
Agricultural Bank of China Ltd	268.1	134.1	4	80.4	15.1%
Bank of China Ltd	249.2	124.6	5	35.1	6.7%
China Petroleum & Chemical Corp	205.0	102.5	6	93.8	12.2%
China Life Insurance Co Ltd	144.2	72.1	7	18.5	16.6%
Ping An Insurance Group Co of China Ltd	118.5	59.3	8	45.4	16.8%
Bank of Communications Co Ltd	108.0	54.0	9	146.9	4.3%
China Shenhua Energy Co Ltd	103.0	51.5	10	15.9	15.6%
China Merchants Bank Co Ltd	90.5	45.3	11	61.5	9.4%
China Minsheng Banking Corp Ltd	70.3	35.1	12	99.0	-3.1%
China CITIC Bank Corp Ltd	64.8	32.4	14	62.2	-12.0%
China Pacific Insurance Group Co Ltd	60.4	30.2	15	14.0	17.0%
CITIC Securities Co Ltd	47.6	23.8	19	146.6	13.7%
China Everbright Bank Co Ltd	42.3	21.2	20	117.5	6.5%
Byd Co Ltd	38.4	19.2	/	3.4	-27.7%
Anhui Conch Cement Co Ltd	33.6	16.8	24	30.8	21.0%
Haitong Securities Co Ltd	31.0	15.5	25	78.6	0.8%
Great Wall Motor Co Ltd	30.0	15.0	27	4.7	-30.3%
<b>Top 20</b>	<b>2964.3</b>	<b>1482.3</b>		<b>1185.1</b>	<b>10.7%</b>
<b>All A+H (54)</b>	<b>3458.5</b>	<b>1729.5</b>		<b>3486.9</b>	<b>-4.1%</b>

As of 11 August 2014, Mkt Cap Rank is among all SSE stocks, ADT indicates Average Daily Turnover

China financial companies are also potentially big beneficiaries from the stock exchanges link. The cross border activity will be significant in terms of volume. The northbound daily quota of RMB 13 billion (USD 2 billion) is equivalent to 17% of Shanghai's daily volume last year while the southbound quota of 10.5 billion (USD 2.6 billion) makes up about 20% of Hong Kong's daily trading volume. This leaves the brokers as the most obvious winner. The Chinese banks may also see increased demand for currency exchange and loans. In addition, the largest three Chinese banks are trading below book value in Shanghai, making them compelling long term investments.

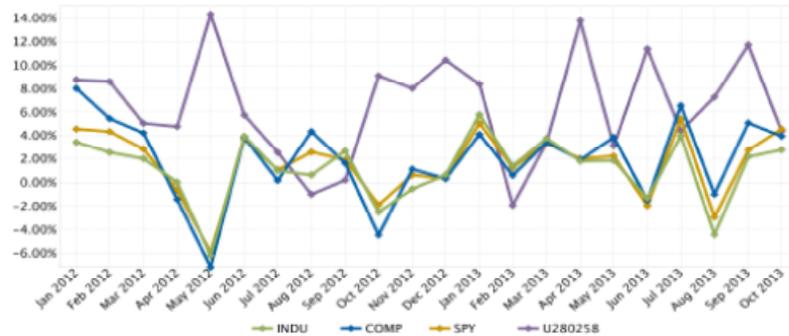
We believe the Hong Kong-Shanghai Connect program may be the catalyst to breathe life into the otherwise stagnant domestic Chinese equities market. Especially when valuations are stretched in many of the developed markets, the introduction of more relaxed market access to the China A shares presents an attractive investment opportunity into the world's second largest economy.

## Investment Opportunities:

### 1. GDB Monthly Income Fund

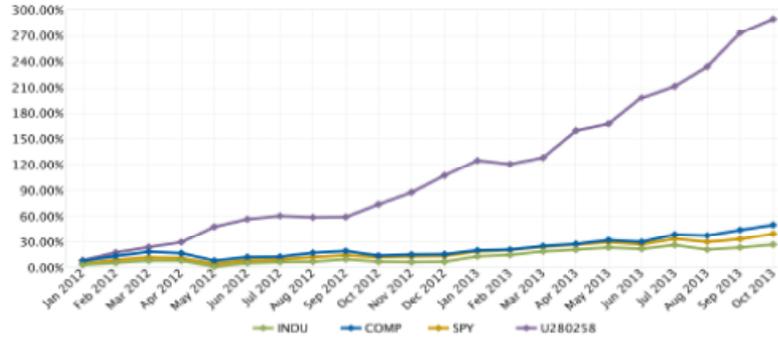
Fund managed by GDB Capital. Event-driven investments using hedging strategies and combinations of long/short positions in equities, futures, and commodities and their derivatives. Fund targets gross pre-tax IRR of 20% per annum, and returned 108% in 2012 and 194% in 2013. Following are the benchmark comparisons of GDB Fund performance against the major US Indices.

**Time Period Benchmark Comparison**



Date	INDU	COMP	SPY	U280258
Jan 2012	3.40%	8.01%	4.55%	8.77%
Feb 2012	2.53%	5.44%	4.31%	8.60%
Mar 2012	2.01%	4.20%	2.81%	5.03%
Apr 2012	0.01%	-1.46%	-0.68%	4.74%
May 2012	-6.21%	-7.19%	-5.92%	14.32%
Jun 2012	3.93%	3.81%	3.64%	5.73%
Jul 2012	1.00%	0.15%	1.06%	2.53%
Aug 2012	0.63%	4.34%	2.56%	-1.03%
Sep 2012	2.65%	1.61%	1.90%	0.18%
Oct 2012	-2.54%	-4.46%	-1.91%	9.12%
Nov 2012	-0.54%	1.11%	0.62%	8.03%
Dec 2012	0.60%	0.31%	0.32%	10.43%
Jan 2013	5.77%	4.06%	5.04%	8.38%
Feb 2013	1.40%	0.57%	1.22%	-1.94%
Date	INDU	COMP	SPY	U280258
Mar 2013	3.73%	3.40%	3.31%	3.37%
Apr 2013	1.79%	1.88%	2.00%	13.77%
May 2013	1.86%	3.82%	2.23%	3.09%
Jun 2013	-1.36%	-1.52%	-1.98%	11.38%
Jul 2013	3.96%	6.56%	5.41%	4.39%
Aug 2013	-4.45%	-1.01%	-2.97%	7.27%
Sep 2013	2.16%	5.06%	2.72%	11.74%
Oct 2013	2.75%	3.93%	4.54%	4.35%
Date	INDU	COMP	SPX	U4280258
Nov 2013	3.48%	3.58%	2.80%	6.49%
Dec 2013	3.05%	2.87%	2.36%	5.44%

## Cumulative Benchmark Comparison



Date	INDU	COMP	SPY	U280258
Jan 2012	3.40%	8.01%	4.55%	8.77%
Feb 2012	6.01%	13.89%	9.06%	18.13%
Mar 2012	8.14%	18.67%	12.13%	24.07%
Apr 2012	8.15%	16.94%	11.37%	29.95%
May 2012	1.44%	8.53%	4.77%	48.56%
Jun 2012	5.42%	12.66%	8.58%	57.06%
Jul 2012	6.48%	12.83%	9.73%	61.03%
Aug 2012	7.15%	17.73%	12.54%	59.38%
Sep 2012	9.98%	19.62%	14.69%	59.66%
Oct 2012	7.19%	14.28%	12.49%	74.22%
Nov 2012	6.61%	15.55%	13.20%	88.22%
Dec 2012	7.26%	15.91%	13.56%	107.84%
Jan 2013	13.45%	20.61%	19.28%	125.27%
Feb 2013	15.04%	21.31%	20.74%	120.90%
Date	INDU	COMP	SPY	U280258
Mar 2013	19.32%	25.43%	24.74%	128.34%
Apr 2013	21.46%	27.78%	27.24%	159.78%
May 2013	23.72%	32.66%	30.07%	167.80%
Jun 2013	22.03%	30.64%	27.50%	198.28%
Jul 2013	26.86%	39.20%	34.39%	211.37%
Aug 2013	21.22%	37.80%	30.40%	234.01%
Sep 2013	23.84%	44.77%	33.94%	273.20%
Oct 2013	27.24%	50.46%	40.02%	289.44%
Date	INDU	COMP	SPY	U280258
Jan 2012 to Oct 2013	27.24%	50.46%	40.02%	289.44%
Date	INDU	COMP	SPY	U280258
Nov 2013	3.48%	3.58%	2.80%	6.49%
Dec 2013	6.63%	6.55%	5.23%	12.28%
Nov 2013 to Dec 2013	6.63%	6.55%	5.23%	12.28%

Total 301.72%