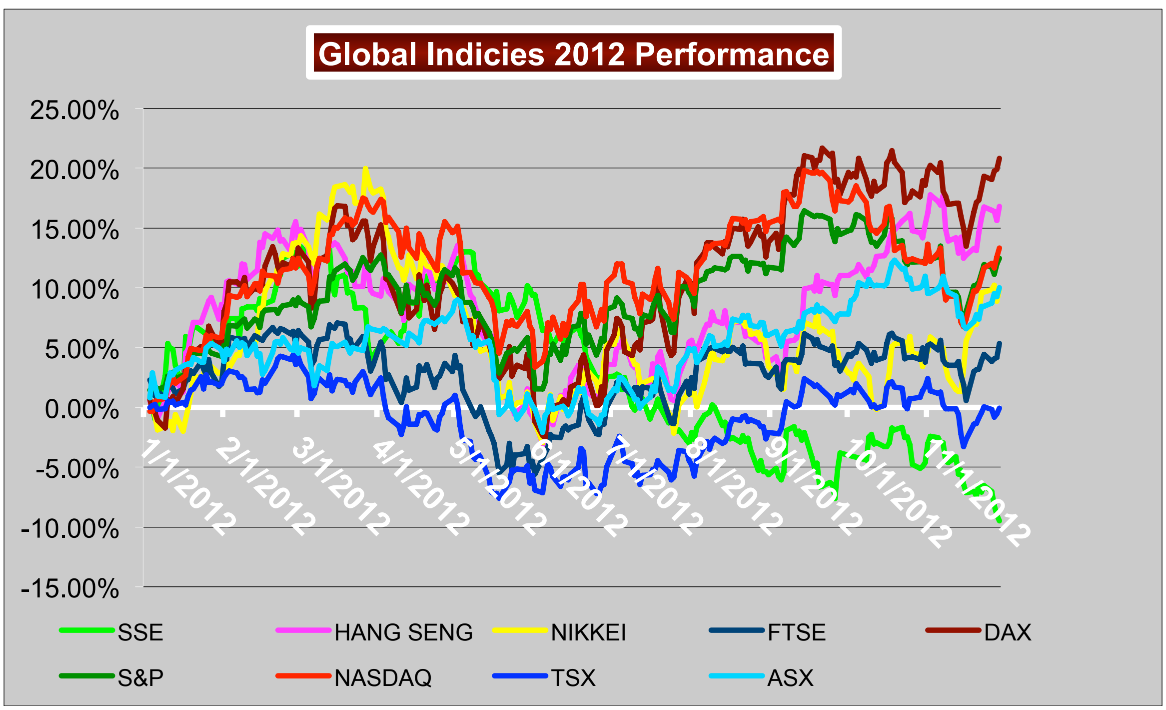
GDB January 2013 Newsletter

Monthly Market Summary:

2012 December Market Activity		
SSE COMPOSITE	*2,269.13*	+289.01 (+14.60%)
HANG SENG	*22,656.92*	+626.53 (+2.84%)
NIKKEI 225	*10,395.18*	+949.17 (+10.05%)
FTSE 100	*5,897.80*	+31.00 (+0.53%)
DAX	*7,612.39*	+206.89 (+2.79%)
DOW	*13,104.14*	+78.56 (+0.60%)
S&P 500	*1,426.19*	+10.01 (+0.71%)
NASDAQ COMPOSITE	*3,019.51*	+9.27 (+0.31%)
ASX 200	*4,649.00*	+143.00 (+3.17%)
TSX COMPOSITE	*12,433.50*	+194.10 (+1.59%)
TSX VENTURE	*1,221.30*	+0.40 (+0.03%)

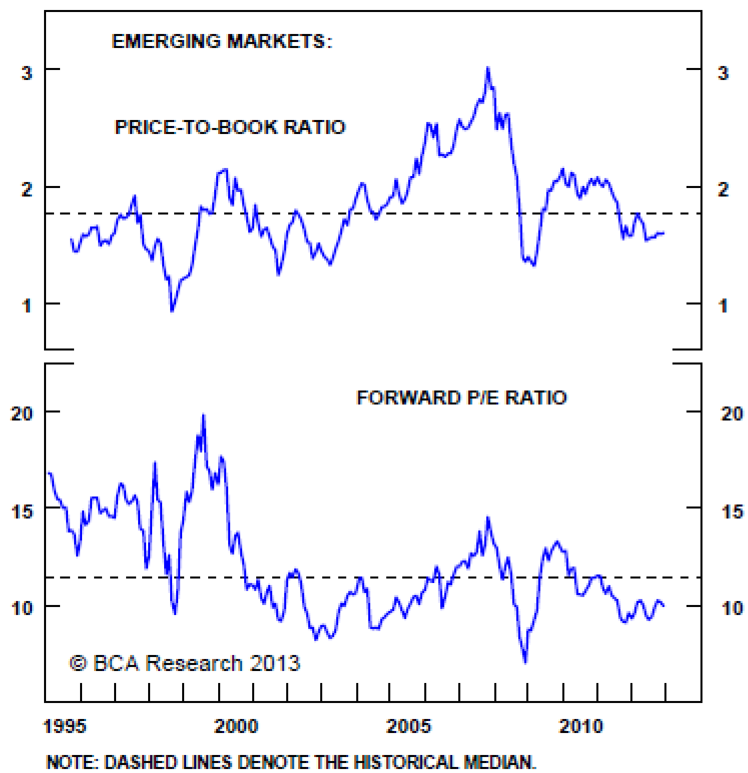


Investment Themes:

Stock markets around the world started 2013 in rally mode kicked off by an eleventh hour deal on the US fiscal cliff. Other factors that are contributing to the rally include positive economic data from China, Japan's monetary easing and 10 trillion yen stimulus program, pressure easing in the Euro region, and continued economic improvement in the US with a return of momentum in the housing sector. We expect 2013 to be a positive year for risky assets given the low yield environment around the world. Below are three key themes that we believe will dominate the early part of 2013.

Commodities prices will climb supported by stimulus programs and improved economic conditions. Japan approved a 10.3 trillion yen ($116.8 billion) stimulus program on public works, incentives for corporate investment and financial aid for small businesses. In China, the government is also expected to increase spending in infrastructures such as railways. Chairman of China Railway Group, one of the top railway construction companies has revealed that investment in railway is expected to reach RMB 600 billion in 2013. The amount of investment will likely match that in 2009 when the China introduced a massive stimulus package to combat the global financial crisis. In the US, a recovery is slowly taking shape. Barring from any unexpected political headwinds, such as the sparring between Democrats and Republicans on the debt limit increase and additional spending cuts, the US should enjoy a +2% GDP growth in 2013. All the above factors should sustain the continuation of the commodity super cycle in 2013, especially in key commodities such as crude, iron ore, and copper.

Shift away from sovereign debt to riskier assets. With the low interest rate environment around the world orchestrated by the central banks and negative real interest rates for investors in sovereign debt, the appeal of sovereign treasury and bonds are ever diminishing. Multinational corporations are flush with cash, and with improved economic conditions, we expect there to be a shift in sentiment favoring corporate bonds especially in the high-yield sector and quality dividend stocks for yield hungry investors and pension funds. Also, ECB's LTRO and OMT programs have effectively taken the pressure off the Euro region, at least for the time being. The "kicking the can down the road" strategy has proved effective as investors grew fatigued and desensitized from news coming out from Europe. The economic conditions have not dramatically improved, however the sentiment from investors has. This along with some of the best stock performances in 2012 will lead to the return of capital flow into the Euro equities markets. We also are positive on emerging markets equities as we expect there to be policy relaxation and improved economic outlook in 2013 for many of the emerging countries. Emerging market equity valuations are also reasonable and below historical levels.



Following is a chart of the market performance for 2011 and 2012. As we can see, government bond returns are meager in comparison to riskier assets such as equities and corporate bonds. And the risk premiums on these riskier assets are attractive. Although past performances are no way indicative of the future, we expect some band wagon effect to channel additional investments into these sectors as investors pile on.

	END-2011 %	END-2012* %
MSCI INDEX - TOTAL RETURNS**		
UNITED STATES	2.0	17.7
CANADA	-10.0	6.4
EURO AREA	-14.0	20.9
U.K.	-1.8	10.9
JAPAN	-18.6	15.4
EMERGING ASIA	-17.2	20.3
LATIN AMERICA	-19.1	7.8
10-YEAR GOVERNMENT BOND RETURNS**		
UNITED STATES	16.2	2.2
GERMANY	13.3	5.8
JAPAN	2.5	3.1
U.S. CORPORATE BOND RETURNS		
INVESTMENT-GRADE	8.6	9.4
HIGH-YIELD	5.4	17.1
BRENT OIL PRICE ($ BARREL)	107.6	108.0
GOLD PRICE ($ OZ.)	1531	1696
TRADE-WEIGHTED DOLLAR***	73.3	72.9

* DATA REFERS TO PERIOD ENDED DECEMBER 18, 2012.
** ALL MARKETS IN LOCAL CURRENCY TERMS, EXCEPT FOR EMERGING ASIA AND LATIN AMERICA, WHICH ARE IN U.S. DOLLARS.
***VERSUS MAJOR CURRENCIES, SOURCE: FEDERAL RESERVE.

Source: BCA Research

Political and geopolitical risks lurking in the background. The tug of war between Democrats and Republicans over the US debt limit, Germany's election in September, the ongoing tension in the Middle East, civil unrest in Syria and Egypt, and the dispute over Diaoyudao/Senkaku Islands are all factors we will be monitoring closely in 2013. Among them, the US debt ceiling debate and the tension between Japan and China are most likely to cause the greatest disruptions to markets. In 2011, the debate over the debt ceiling between the White House and the Congress resulted in US losing its AAA rating, which then sent the markets around the world into a tail spin. The Dow Jones Industrial Average plunged 635 points (5.6%) in one day! Fast forward to February 2013, déjà vu, round two of debt ceiling drama will unfold in the coming month. Any impasse or delays on increasing the debt limit will likely fuel a surge in volatility, especially in the complacent market sentiments observed now by the historical low VIX levels, the market's fear indicator. The Diaoyudao/Senkaku Island conflict in the East is still under-covered in the media compared to an abundance of coverage of Syria and the Middle East. If the conflict flares up, it will cause great economic roadblocks for both countries. The damage will be felt more so by Japan in our view as the country has already been hit by a slowing export market prior to the conflict and the fact China is its biggest trading partners. As of now, the latest developments are not encouraging with both countries showing a gradual escalation in responses over the situation.

Overall, we see 2013 as a return of appetite for riskier assets and low interest rates around the world will force investors to allocate capital to higher yield products. Economies around the world will continue on its path to recovery led by emerging markets growth.

Investment Opportunities:

1. **Sino-GDB 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, minimum investment US$100,000. GDB will insure against investment losses up to 5% of investor's original investment.