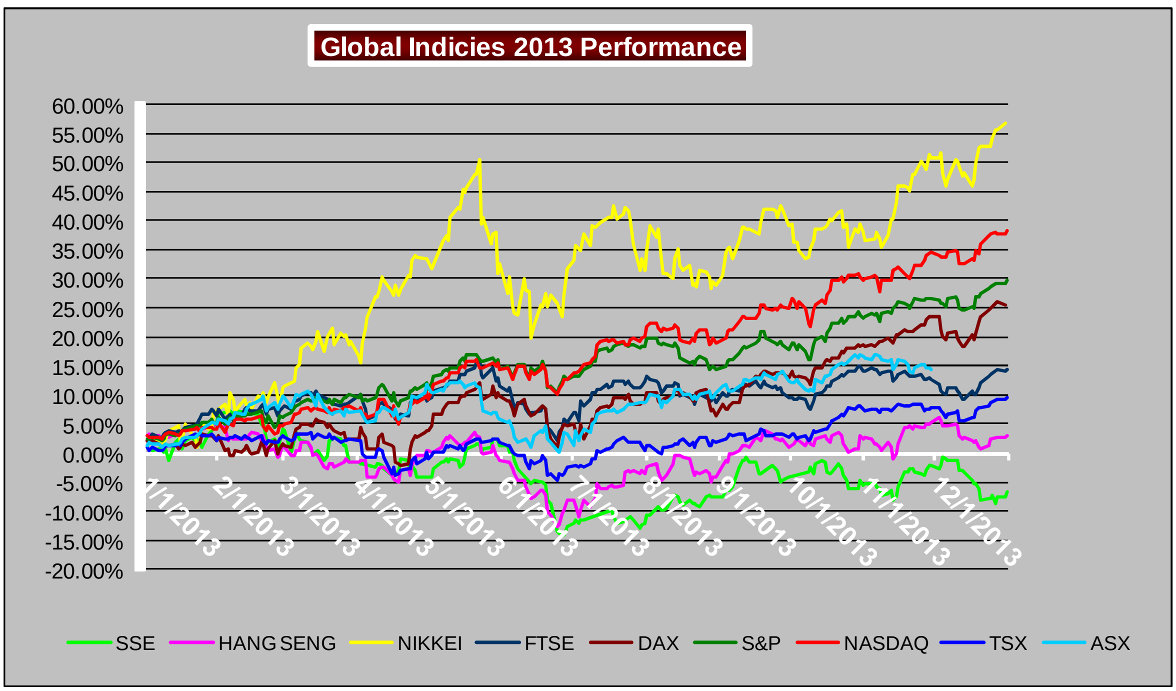
GDB January 2014 Newsletter

Monthly Market Summary:

2013 December Market Activity		
SSE COMPOSITE	***2,115.98***	-104.52 (-4.71%)
HANG SENG	***23,306.39***	-574.90 (-2.41%)
NIKKEI 225	***16,291.31***	+629.44 (+4.02%)
FTSE 100	***6,749.10***	+98.50 (+1.48%)
DAX	***9,552.16***	+146.86 (+1.56%)
DOW	***16,576.66***	+490.25 (+3.05%)
S&P 500	***1,848.36***	+42.55 (+2.36%)
NASDAQ COMPOSITE	***4,176.59***	+116.70 (+2.87%)
ASX 200	***5,352.20***	+32.10 (+0.60%)
TSX COMPOSITE	***13,621.60***	+226.20 (+1.69%)
TSX VENTURE	***931.97***	-2.92 (-0.31%)



Investment Themes:

Welcome back to our Newsletter and we hope all of you had a great Holiday season. During Christmas, a number of us from GDB Capital embarked on a journey to South East Asia, in particularly, Thailand and Vietnam. We are so impressed with the economic growth and potential in the region, we want to share some of our observations with you here.

For Thailand, we travelled mainly to the country's capital Bangkok and to the resort areas in the south, namely, Phucket, Koh Phangan, and the Phi Phi Islands. In term of tourism, we think of Thailand as the Mexico of Asia. Round trip flights to Thailand from major air hubs in Asia range from USD 200 to USD 600, making it affordable for travelers from all around Asia to visit. As developing economies in Asia become more affluent, we foresee healthy growth for the tourism industry in Thailand. For instance, the number of travelers from China has been increasing significantly due to the recent visa-policy relaxation. According to "Chinese International Travel Monitor" (CITM), 80% of Thai hoteliers had experienced an increase in Chinese guests over the past year, with 64% seeing growth of more than 10 per cent.

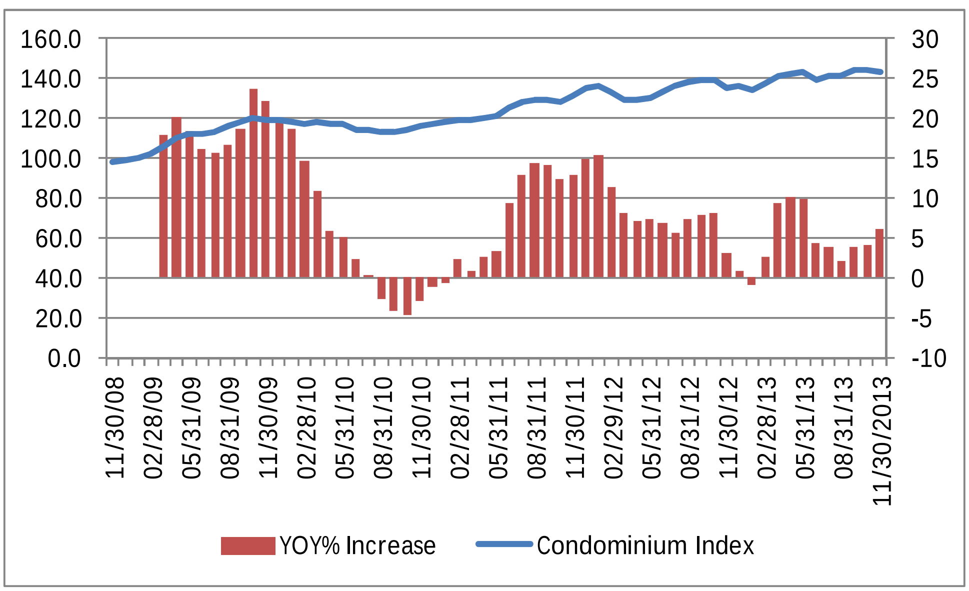
Away from the resort destinations in the south, the capital Bangkok emerges as the country's center of commerce and a hot destination for Western expats. From our interaction with a number of Western residents who live in Bangkok, the cheap cost of living and better job prospects are the main reasons why they move to Bangkok.

With such a buoyant tourism industry and a large expat population, we were curious about the return on property investments in Thailand. Thailand's law currently does not permit foreigners to own land or houses solely under their names, but does make the exception for condominiums as long as foreign ownership in the condominium does not exceed 50%; therefore, we focused much of our research in the condominium market. Our research shows that:

- Rental yields for condominiums in Bangkok range from 5% to 6%.
- Smaller apartments tend to earn higher yields than larger ones
- A one bedroom 50sq meter apartment in posh Bangkok neighborhoods can be obtained at USD 200,000 to USD 250,000

With increase in tourism traffic, services such as Airbnb can significantly boost the rental yields where owners can easily charge $50-$100 per night on a furnished one bedroom condominium. Assuming occupancy rate of 50% (conservative by our estimates, most apartment booking calendars on Airbnb have more than 50% occupancy rate for the current and upcoming months). Using the mid-point price range at a fee of $80, gross yield on a USD 200,000 property improves to 7.2%. We then examined the potential for capital appreciation. We used the Condominium Index from Bank of Thailand as our data source. As you can see in the chart below, although YOY growth has tapered in recent years from their heights prior to the financial crisis, condominium prices are still growing at a healthy single digit blip. The 5 year CAGR returns 8.0%. Combining rental income and property appreciation, the total return from a condominium investment in Bangkok can reach 13% to 14% a year.

Bank of Thailand Condominium Index



We are optimistic about the upside potential for Thailand's property market given the country's economic growth, favorable demographics (less aging population), well developed infrastructure (ranks 47 out of 144 in the Global Competitiveness Report, even higher than China), and growth potential for tourism traffic. On the flip side, the risks of such investment include the difficulty of sales in the secondary market, lack of proper management, oversupply of inventory due to overbuilding, and political instability leading to any changes to property ownership rights.

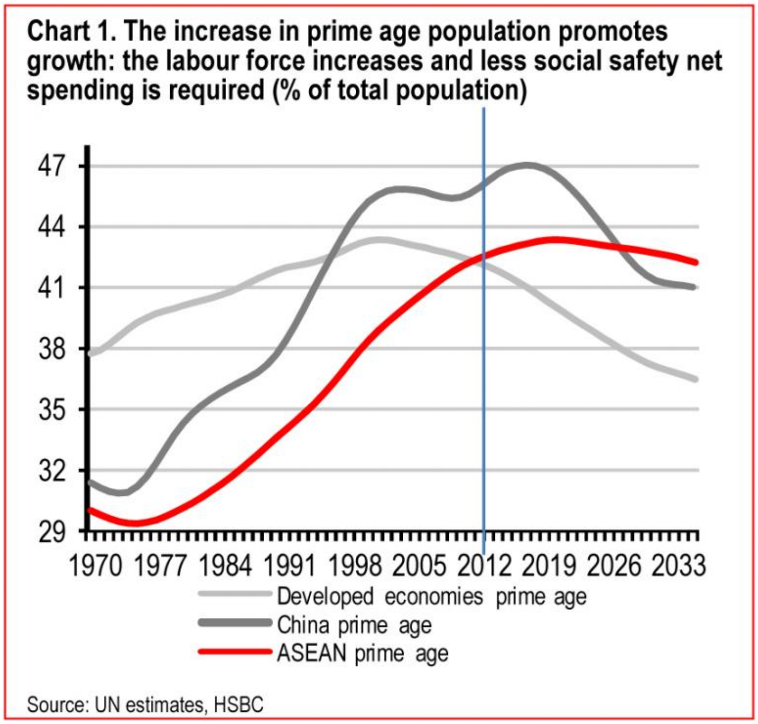
The second part of our journey took us to the capital city of Vietnam – Ho Chi Minh City (Saigon). Compared to Thailand, Vietnam's economy is a bit more than a third the size of Thailand's - about USD 145 billion. Vietnam ranks 70 out of 148 countries in the 2013-2014 Global Competitiveness Index, 33 spots behind Thailand. We can also see that when compared to the other nine ASEAN countries, Vietnam's performances have room to improve in m any areas.

Table 1: Performance of ASEAN members in the 2013–14 GCI and the 12 composing pillars, rank out of 148 economies

		BASIC REQUIREMENTS				EFFICIENCY ENHANCERS						INNOVATION AND SOPHISTICATION FACTORS	
Country/economy	GLOBAL COMPETITIVENESS INDEX	1st pillar: Institutions	2nd pillar: Infrastructure	3rd pillar: Macroeconomic environment	4th pillar: Health and primary education	5th pillar: Higher education and training	6th pillar: Goods market efficiency	7th pillar: Labor market efficiency	8th pillar: Financial market development	9th pillar: Technological readiness	10th pillar: Market size	11th pillar: Business sophistication	12th pillar: Innovation
Singapore	2	3	2	18	2	2	1	1	2	7	34	17	9
Malaysia	24	29	29	38	33	46	10	25	6	51	26	20	25
Brunei Darussalam	26	25	58	1	23	55	42	10	56	71	131	56	59
Thailand	37	78	47	31	81	66	34	62	32	78	22	40	66
Indonesia	38	67	61	26	72	64	50	103	60	75	15	37	33
Philippines	59	79	96	40	96	67	82	100	48	77	33	49	69
Vietnam	70	98	82	87	67	95	74	56	93	102	36	98	76
Lao PDR	81	63	84	93	80	111	54	44	91	113	122	78	68
Cambodia	88	91	101	83	99	116	55	27	65	97	92	86	91
Myanmar	139	141	141	125	111	139	135	98	144	148	79	146	143

Source: World Economic Forum, The Competitiveness Report 2013-2014

Nevertheless, we believe Vietnam contains the most potential for rapid economic growth amongst all its ASEAN emerging peers. Key contributing factors that will spur Vietnam's growth to surpass its neighbors are the combination of its demographics and its labor market efficiency. As the manufacturer hub of the world, China is gradually losing its competitiveness due to labor cost increase. To feed the insatiable demand of global consumerism, manufacturers must defend against margin compression and will be desperately seeking out more cost effective ways to produce to substitute China. To make this feasible, they must find countries with 1) deep labor pools, 2) low wage but high productivity. In the coming decades, ASEAN countries will reap the dividends from their demographic composition. Home to 600 million people, the region will consist more prime age-adults (age 25-54) than ever before, and their dependency ratio (the proportion of the young and aged to working age adults) will drop significantly, freeing up resources for other investment opportunities and experience increase in discretionary spending.



Vietnam enjoys this demographic advantage. It is also the third most populous country in ASEAN after Indonesia and Philippines; however, in terms of labor efficiency, it supersedes both Indonesia and Philippines by a great margin. In fact, if we narrow in on one sub category of labor efficiency in the Global Competitiveness Index – pay and productivity, Vietnam ranks 15th in the world, significantly higher than Indonesia (29th) and Philippines (44th). So Vietnam seems to offer both a deep labor pool of primed aged adults, and the most productivity for the same wage paid - the solution to the global manufacturers' woes. With wages in Vietnam that is one third of China's right now, Manufacturers from Samsung Electronics Co. to Nokia Oyj are rushing to set up productions in Vietnam. Foreign Direct Investment in Vietnam reached USD 21.6 billion in 2013, an increase of 54.5% YOY. Foreign manufacturers have boosted Vietnam's exports by 15.4% YOY, driving GDP growth to 5.42% in 2013. If Vietnam can replicate Korea's strategy of promoting rapid economic growth through labor-intensive manufacturing exports, its GDP growth may very well out clip China due to its relatively smaller size. South Korea's real gross national product (GNP) expanded by an average of more than 8 percent per year, from US$2.3 billion in 1962 to US$204 billion in 1989.

To wager on the growth of Vietnam, we studied the property markets in Saigon. We directed our research to expat apartments in the city because we believe there will be an influx of foreign managers and executives as multinationals relocate their production capacities to Vietnam. The real estate market in Vietnam has been in a slump in recent years due to a combination of heavy speculation, over supply, and bad loans at domestic banks. Information is not readily available, but from the data we have collected, a 70 square meter high-end condominium is priced at USD 100,000 to USD 150,000 in central Saigon or approximately USD 2200 per square meter. Monthly rental on such a unit can fetch USD 750 to USD 1000 depending on the apartment's facilities and management. The following table is a scenario analysis of the possible IRR generated by altering the variables such as initial property investment, monthly rent, and sales value at the end of the 50 years (currently foreign ownership of properties are limited to 50 years lease in Vietnam, although policy reform are expected in 2014 to extend this). As we can see, the IRR from such a property investment on very conservative assumption that starting rent remains the same throughout the ownership period ranges from 6% to 12%.

	$750/mo, 0% appreciation @ maturity	$750/mo, 50% appreciation @ maturity	$750/mo, 100% appreciation @ maturity	$1,000/mo, 0% appreciation @ maturity	$1,000/mo, 50% appreciation @ maturity	$1,000/mo, 100% appreciation @ maturity
$100,000	9.00%	9.06%	9.12%	12.00%	12.02%	12.04%
$110,000	8.18%	8.26%	8.34%	10.91%	10.94%	10.97%
$120,000	7.50%	7.60%	7.69%	10.00%	10.04%	10.08%
$130,000	6.92%	7.04%	7.16%	9.23%	9.29%	9.34%
$140,000	6.43%	6.57%	6.70%	8.57%	8.64%	8.71%
$150,000	6.00%	6.16%	6.31%	8.00%	8.08%	8.16%

The Vietnamese equity market is another entry point for investors who are looking to bet on the future Vietnam. There are currently limited channels for this sort of investment for foreign investors, especially retail investors. There are series of close ended funds managed by VinaCapital Investment Management Ltd. trading on the London AIM and OTC (VOF, VCVOF, VNL, VNI) and also an ETFs administered by Van Eck Global (VNM) that is traded on the NYSE. Vietnam equities have outperformed their emerging market peers by a wide margin in 2013 and this trend is expected to continue into 2014. The benchmark VN Index has risen 23% in 2013 compared with a 6% decline in the MSCI Emerging Market Index. In terms of valuation, one third of the over 700 listed Vietnamese stocks have a P/E ratio of between 6x and 7x and many of them have dividend yields of more than 9%. Out of the funds mentioned above, we favor VCVOF because of its more diversified portfolio with a large focus on consumer goods companies, plus it has a 16% exposure to real estate; however since it is traded on the OTC market, liquidity is a main concern. The Van Eck Vietnam ETF in comparison is much more liquid, but focuses mainly on Financials and Energy sectors.

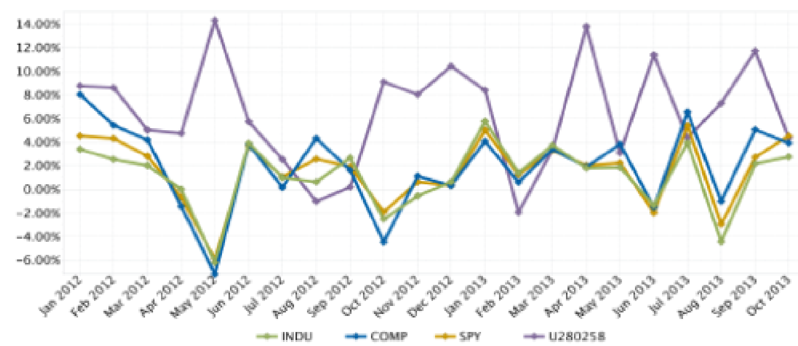
We firmly believe ASEAN countries will be a main contributor to the global economic engine in the decades to come. Its favorable demographic composition will serve is a tailwind while the most of the developed economies and even China will have to contend with an increasing aging population and a declining work force. Thailand for the most part will benefit from increased tourism while Vietnam will carve out a larger market share in the global manufacturing.

Investment Opportunities:

1. Sino-GDB Fund

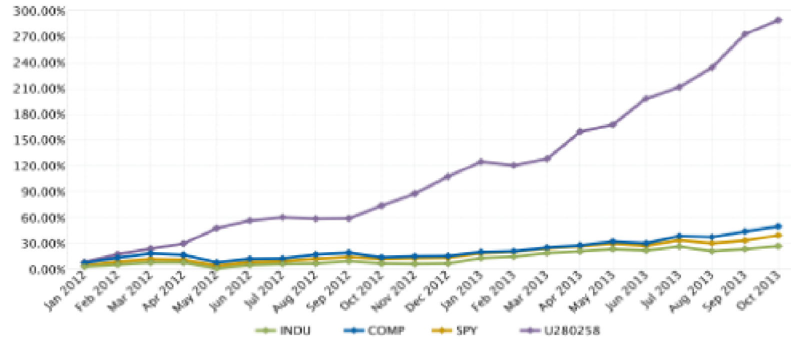
Fund managed by GDB Capital. Event-driven investments using hedging strategies and combinations of long/short positions in equities, futures, and commodities and their derivatives. Fund targets gross pre-tax IRR of 20% per annum, and returned 108% in 2012 and 194% in 2013. Minimum investment USD 100,000. GDB will insure against investment losses up to 5% of original investment. 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%
Jan 2012 to Oct 2013	27.24%	50.46%	40.02%	289.44%

Date	INDU	COMP	SPX	U4280258
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%