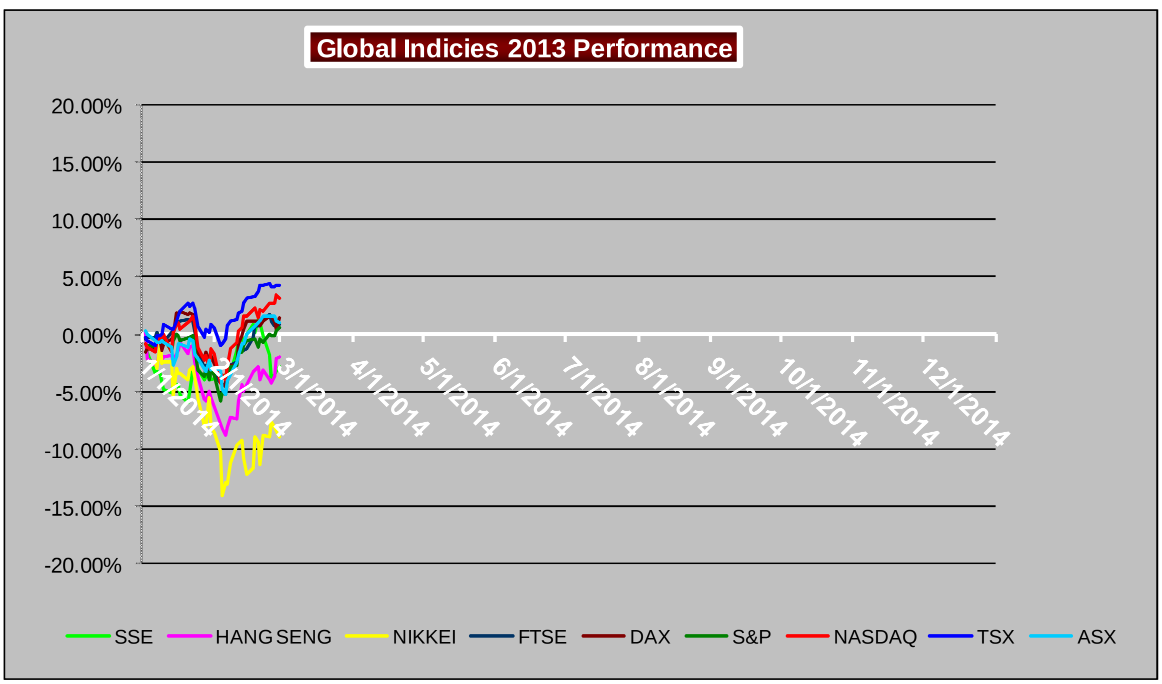
GDB Capital Inc.

GDB March 2014 Newsletter

Monthly Market Summary:

2014 February Market Activity		
SSE COMPOSITE	***2,056.30***	+23.22 (+1.14%)
HANG SENG	***22,836.96***	+801.54 (+3.64%)
NIKKEI 225	***14,841.07***	-73.46 (-0.49%)
FTSE 100	***6,809.70***	+299.30 (+4.60%)
DAX	***9,692.08***	+385.60 (+4.14%)
DOW	***16,321.71***	+622.86 (+3.97%)
S&P 500	***1,859.45***	+76.86 (+4.31%)
NASDAQ COMPOSITE	***4,308.12***	+204.24 (+4.98%)
ASX 200	***5,404.80***	+214.80 (+4.14%)
TSX COMPOSITE	***14,209.60***	+514.70 (+3.76%)
TSX VENTURE	***1025.37***	+74.05 (+7.78%)

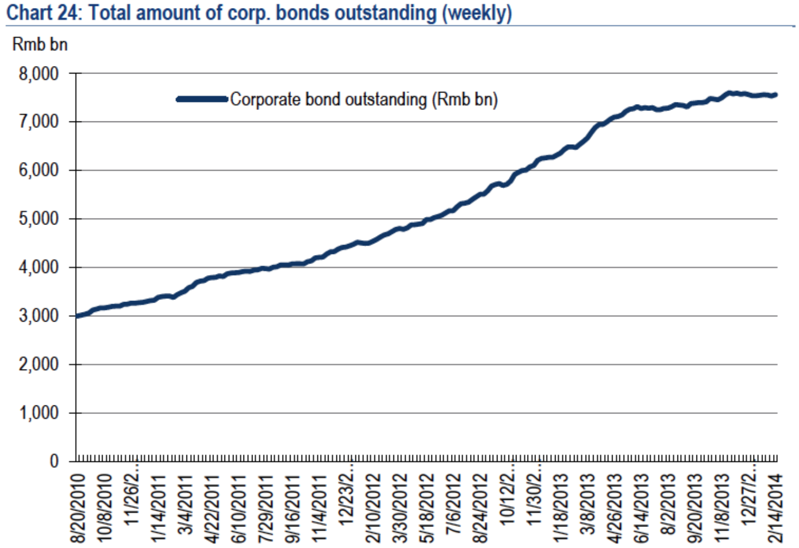


Investment Themes:

On March 7, China's onshore bond market has experienced its first ever default with Shanghai Chaori Solar Energy Science & Technology Co. failing to meet 89 million yuan (USD 14.5 million) interest obligations on its 1 billion yuan bonds issued in 2012. Although the defaulted is tiny relative to the overall domestic corporate bond market, estimated at USD 1.5 trillion, this marks an unprecedented event in which the government and the state-owned banks have refrained from step in to provide backstop. Until now, investment products on the brink of default have all been bailed out in the 11th hour, for example, the last minute rescue of Credit Equals Gold #1 Trust by an "unnamed third-party" at the end of January. Just a week after Chaori's default, Zhejiang Xingrun Real Estate Co. announced that it would not be able to repay about 3.5 billion yuan (USD 625 million) of its debt to creditors, including more than 15 banks.

The absence of government backstop to corporate debt default marks a major policy shift and has effectively forced the market to re-examine and re-price risk in China's private debt sector including corporate debt and trust products. The absence of risk has led to a surge in corporate debt and trust product demand in recent years. China's onshore corporate bond market has ballooned from 800 billion yuan in 2007 to more than 9 trillion yuan now according to BofA/Merrill Lynch:

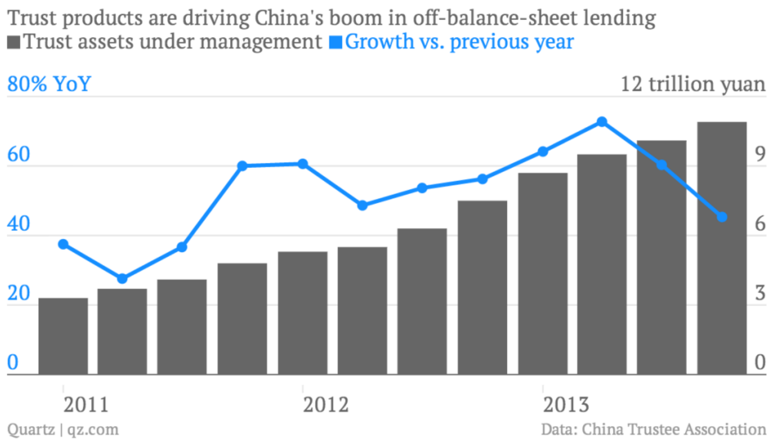
Chart 24: Total amount of corp. bonds outstanding (weekly)



* Our corporate bond statistic includes enterprise bond, corporate bonds, MTN, STFB, and ABS

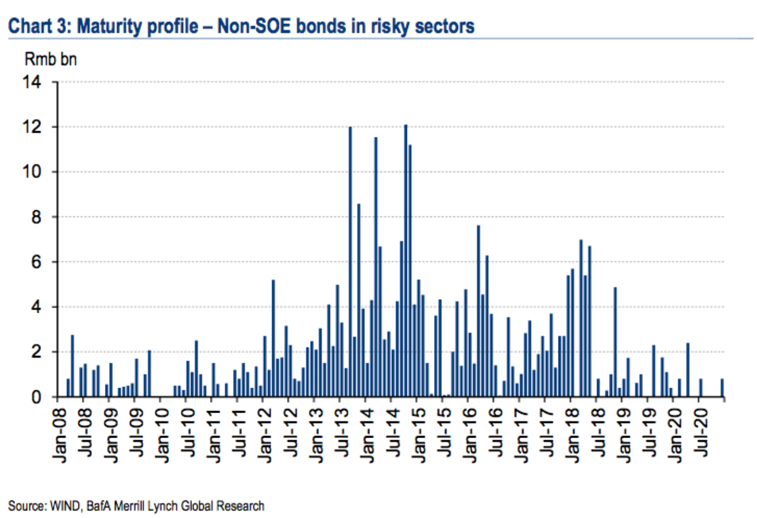
Source: Wind, BofA Merrill Lynch Global Research

The demand for trust products has also grown exponentially over the years due to investor's belief that default risk is non-existent; it's now sitting at 10.9 trillion yuan:



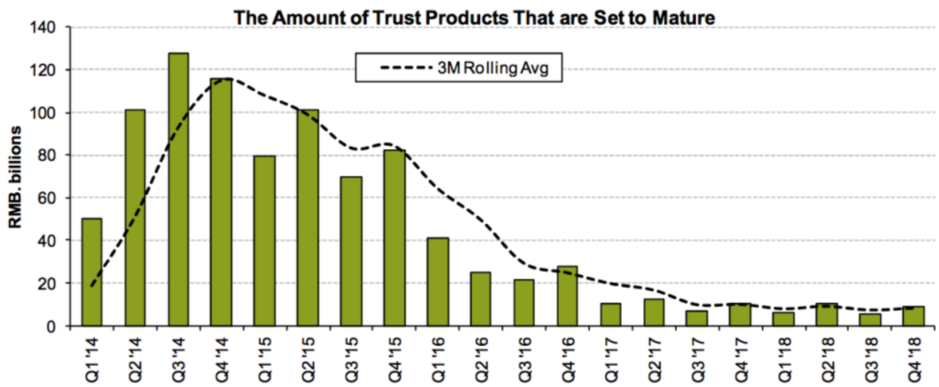
At this point, we think the re-pricing of risk will be segregated in the private sector as a default by SOEs will likely trigger widespread systematic risk that the central government would want to circumvent; having said that, we do have to caution that the state owned banks are the creditors to many of these debts (around 38% according to BofA/Merrill Lynch).

The timing of the government's new stance on credit market may not be the most ideal as many of these debts mature and may need to be rolled over in the latter half of this year:



On top of that, 43% of the 10.9 trillion yuan worth of outstanding trust products also comes due in 2014:

Exhibit 8
43% of Trust Products (in Value) will Come Due in 2014; 80% of Trust Products (in Value) will Mature in the Next Two Years



Source: WIND, Bernstein Analysis

As rates rise and credit market tightens, many companies will find it more challenging to raise funds in the bond market. In fact, the defaults so far has already caused repercussion in the Chinese bond markets. In the first half of March, at least 22 companies postponed or cancelled their scheduled short-and-medium-term bond issuances.

Another unintended side-effects of private sector default is the impact on the collaterals many these private company post for loans. It is a common practice in China to use copper and iron ore as collateral to secure unconventional low-interest rate loans from lenders. Analysts estimate that around 60% of the copper in Chinese warehouses is held in storage as a form of collateral against debt. As creditor default increases, lenders will unwind these collaterals to recoup losses. Iron ore prices have slid to 18 months lows while copper prices receded to 4 year lows in March.

For the months to come, we expect volatility to pick up as China credit story unfolds. Unlike the credit and commodities market, the equity market has yet to pick up this cue outside of China. There is a saying on Wall Street., credit always leads equities. With S&P at its all time highs, and 16% of its earnings coming from the emerging markets, large portion of that from China, we see headwind ahead if China's credit condition deteriorates. At the same time, we believe the 4-year low copper price presents a good entry opportunity as much of the declining prices may be attributed to speculation of margin selling from Chinese creditors. If China is able to overcome its debt woes, and its economy continues to steer ahead, the price for copper should not be at where it is today. If credit situation worsens and leads to government intervention to stimulate economy, much of the stimulus is likely be infrastructure driven, and again the price for copper will be supported by demand. Lastly, non-Chinese buyers will use the current opportunity to re-stock their own copper inventory at current's multi-year low price.

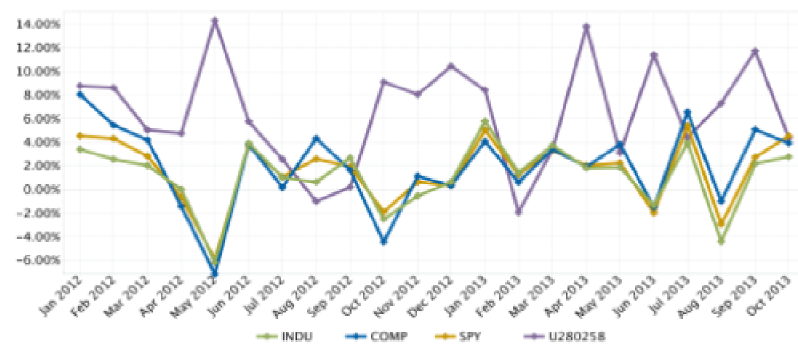
We believe the Chinese credit market is a major macro risk in the coming months and we will continue to monitor the situation to advise the best course of action for our clients.

Investment Opportunities:

1. Sino-GDB Fund

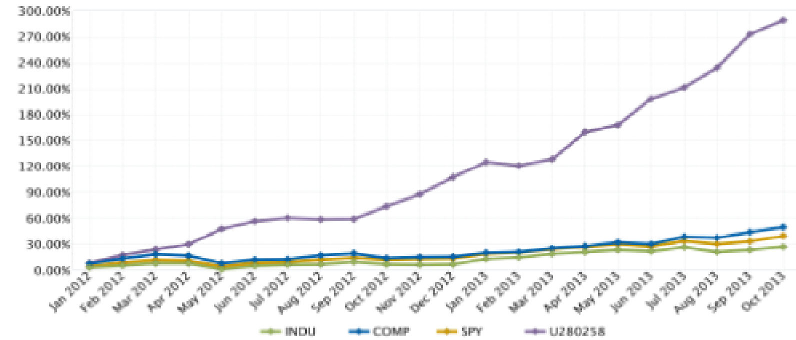
Fund managed by GDB Capital. Event-driven investments using hedging strategies and combinations of long/short positions in equities, futures, and commodities and their derivatives. Fund targets gross pre-tax IRR of 20% per annum, and returned 108% in 2012 and 194% in 2013. Minimum investment USD 100,000. 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%