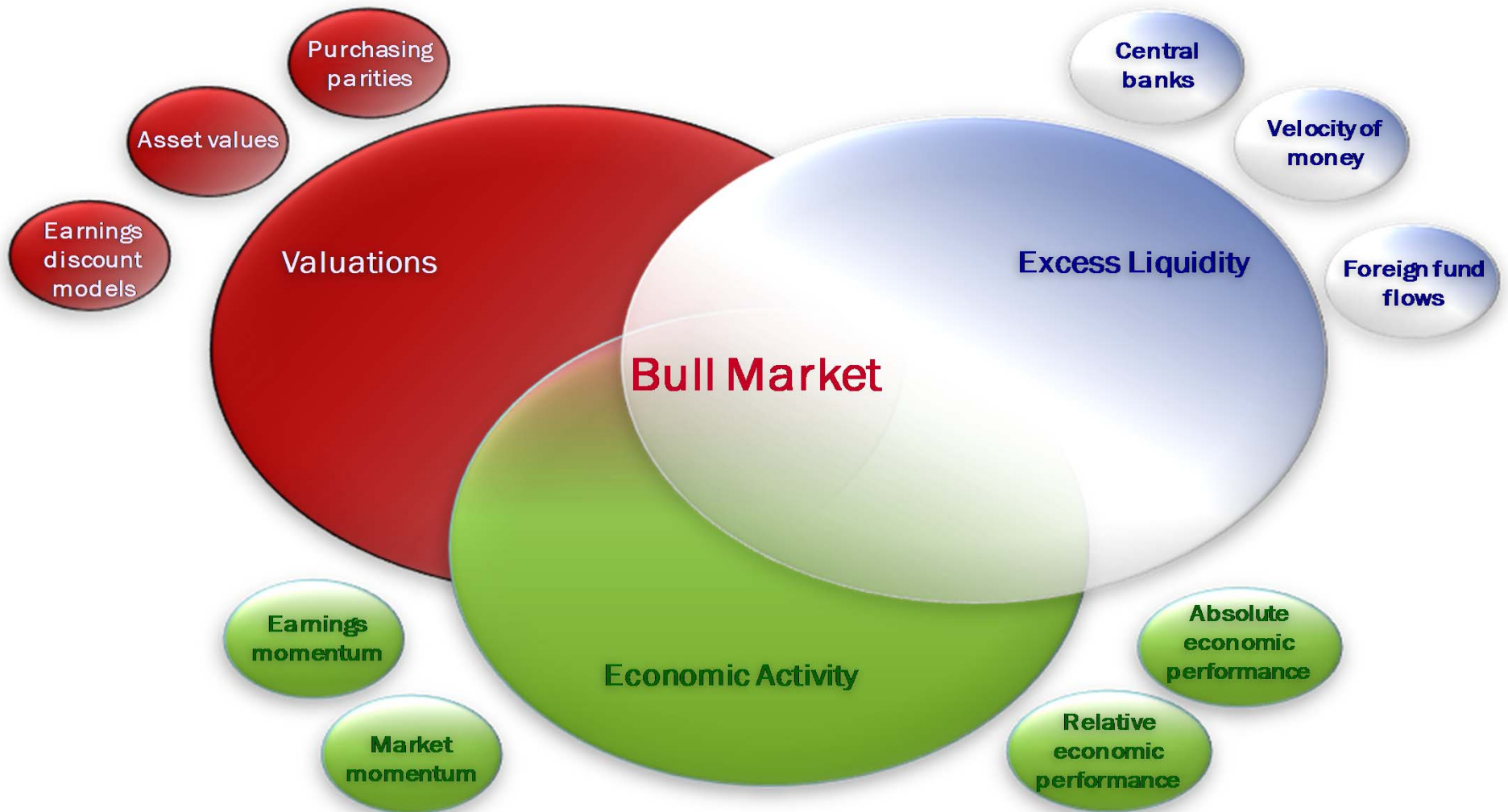


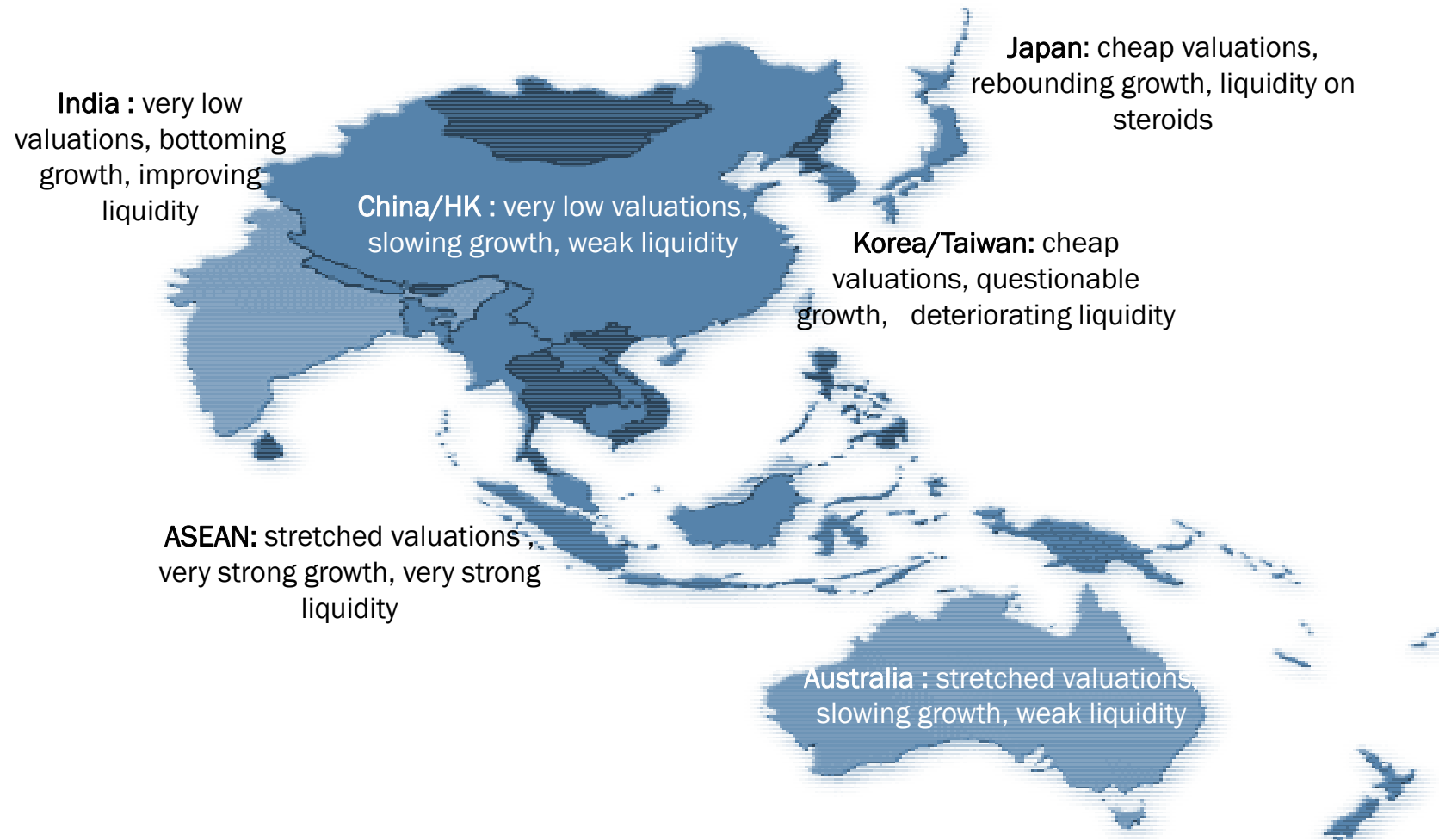


Quarterly Investor Conference Call May 2013
Louis-Vincent Gave and Alfred Ho

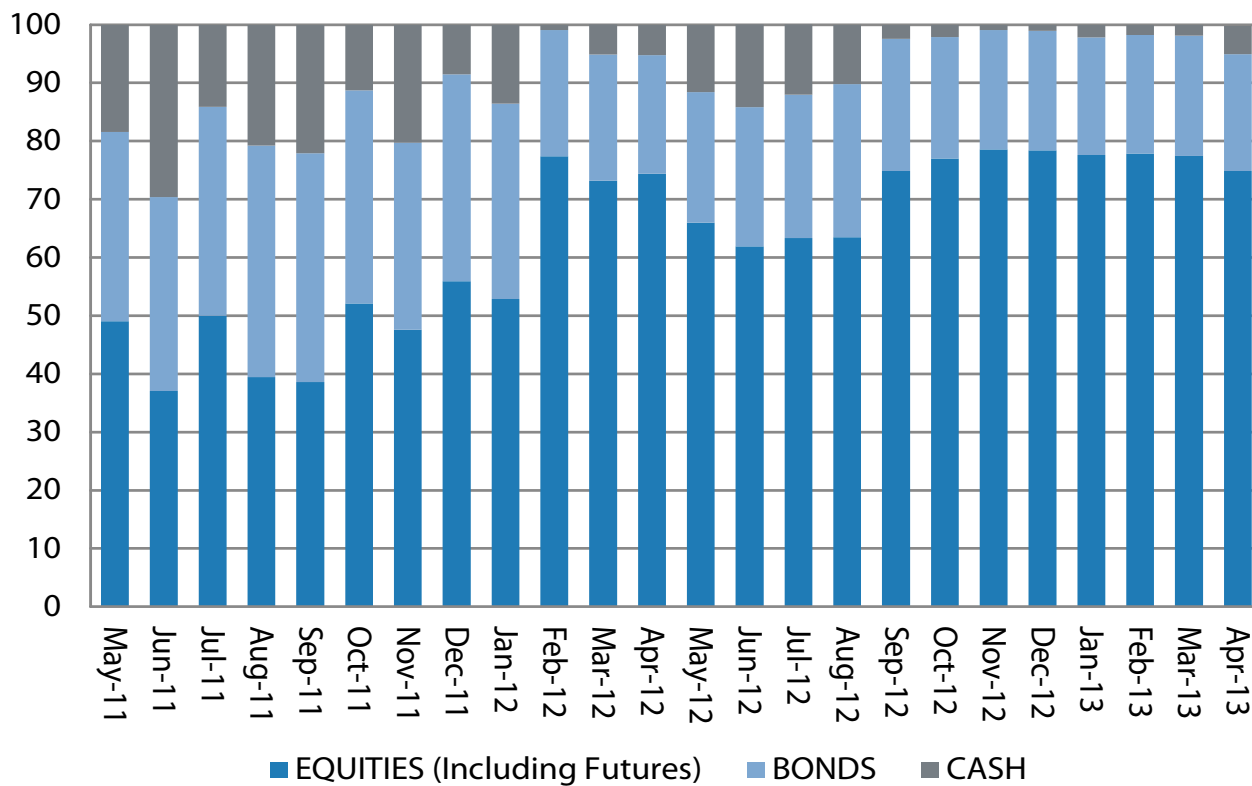
In most of the markets we possibly deploy capital in, the three pillars of a bull markets remain present



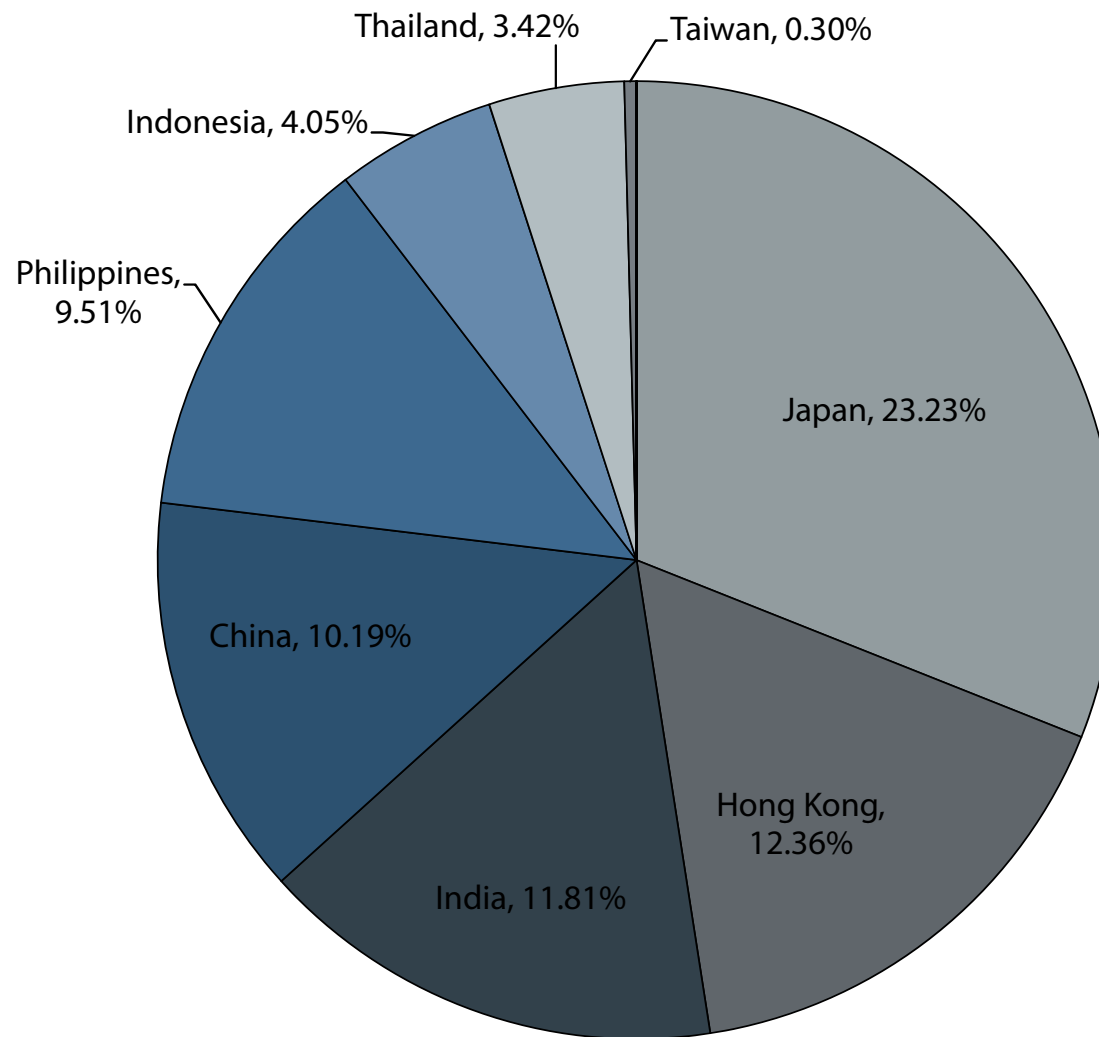
A very diverse investment landscape



The fund has been rather overweight equities for past 18 months

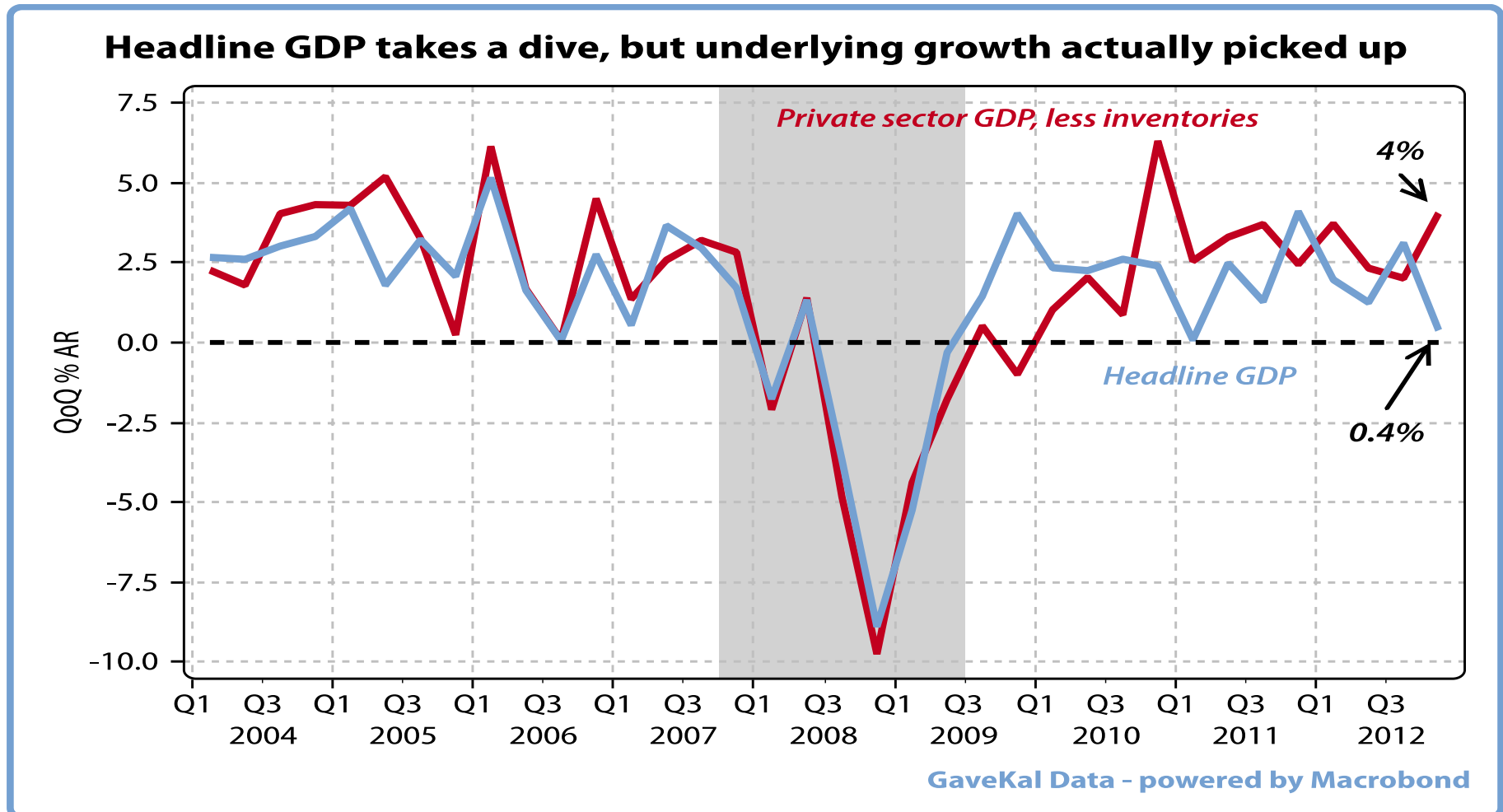


Within equities, a large allocation to Japan, India and ASEAN

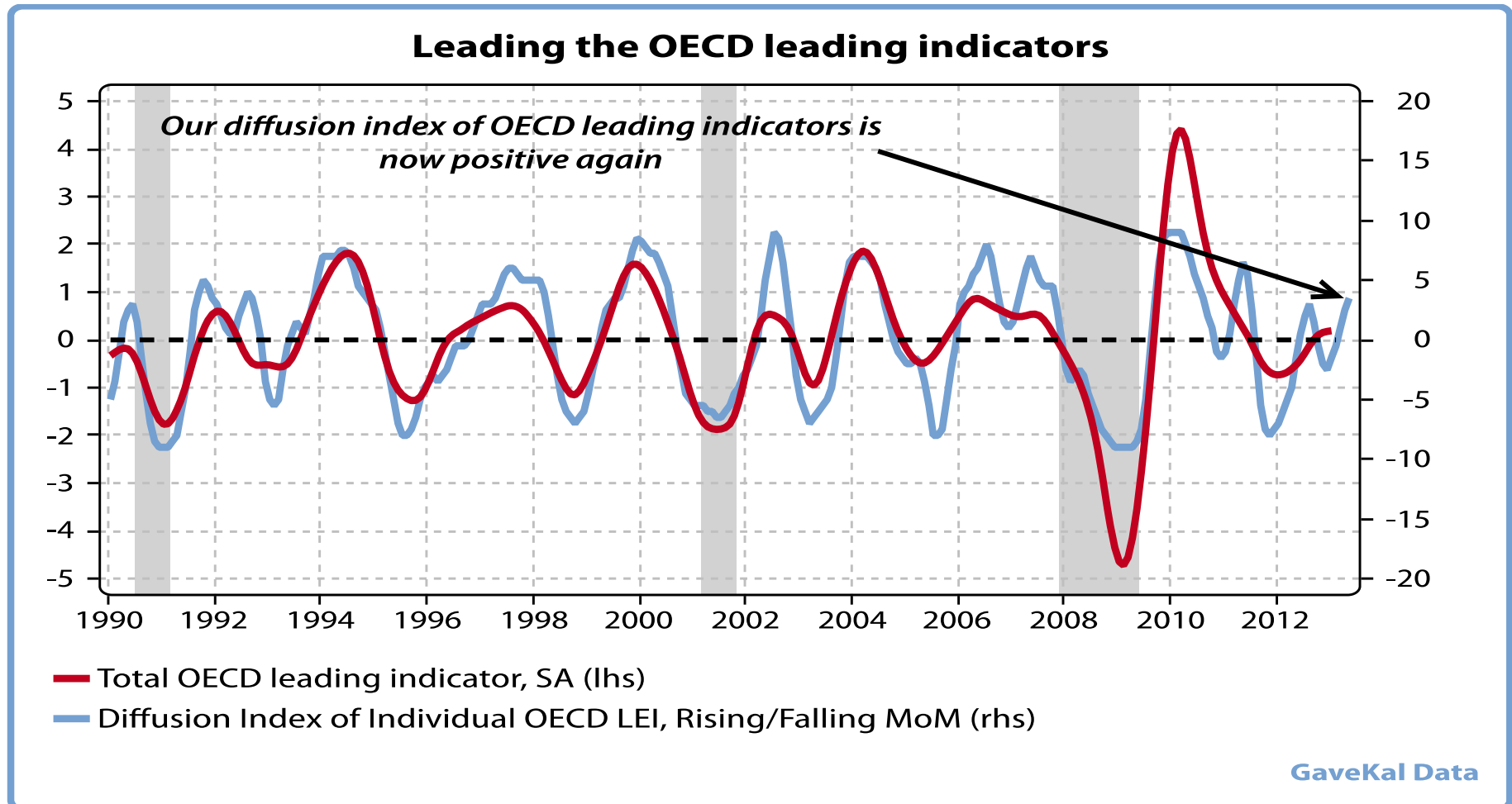


A Rapid Overview of the Global Outlook

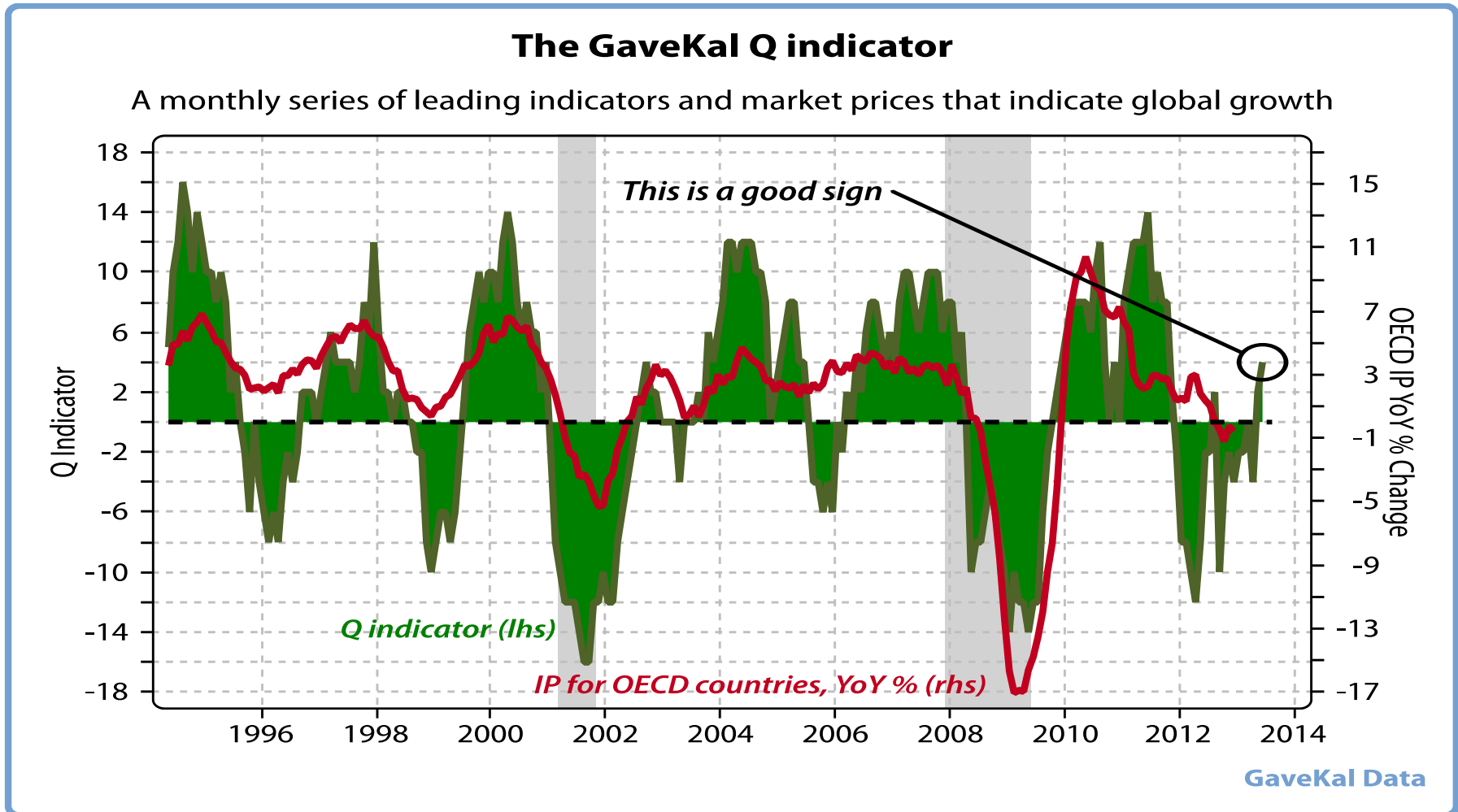
The US, thanks to housing recovery + shale gas revolution and manufacturing renaissance, is actually doing all right



And this should help the rest of the world – Already, OECD leading indicators seem to be pointing the right way

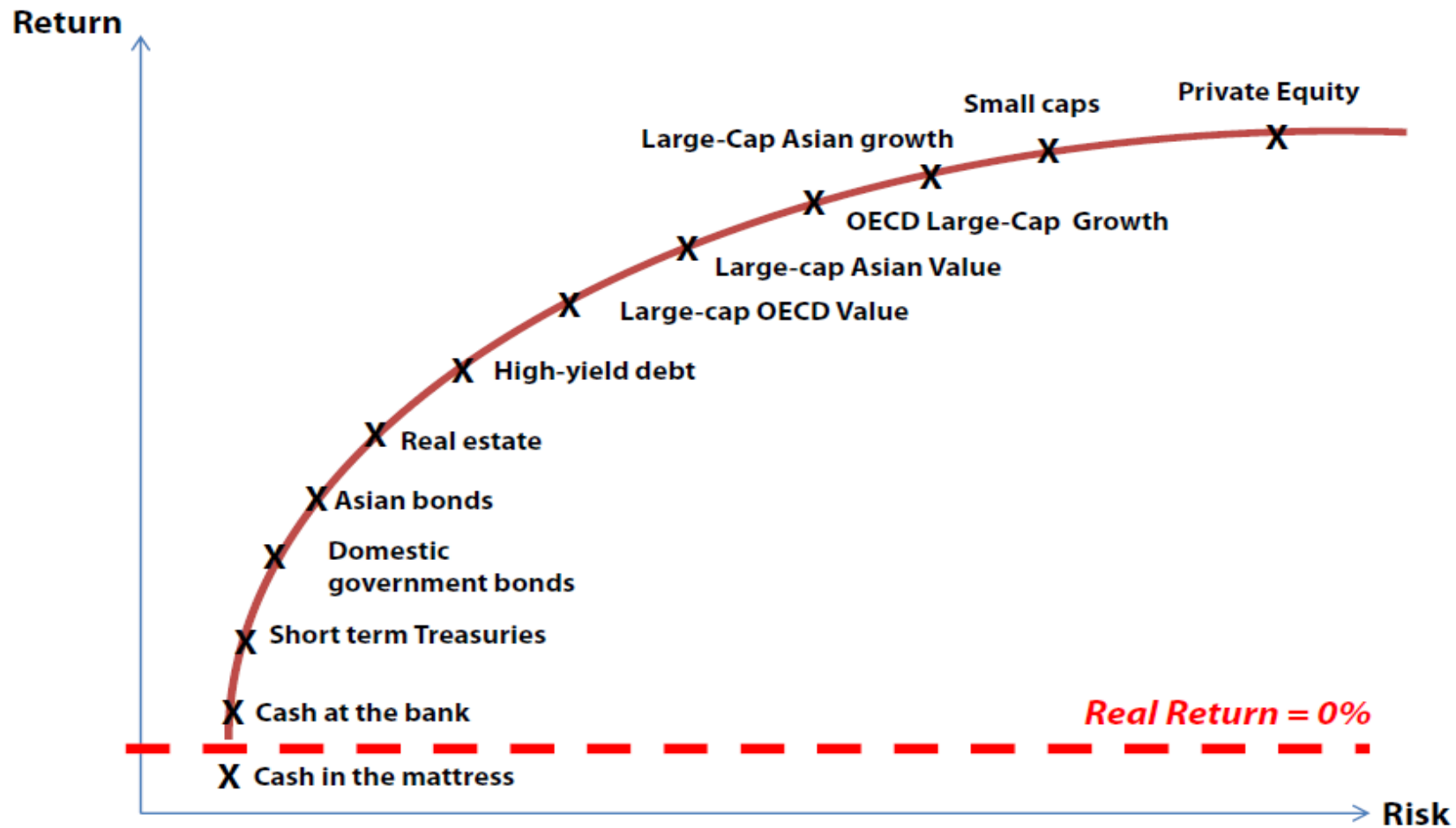


As does our GaveKal global growth indicator

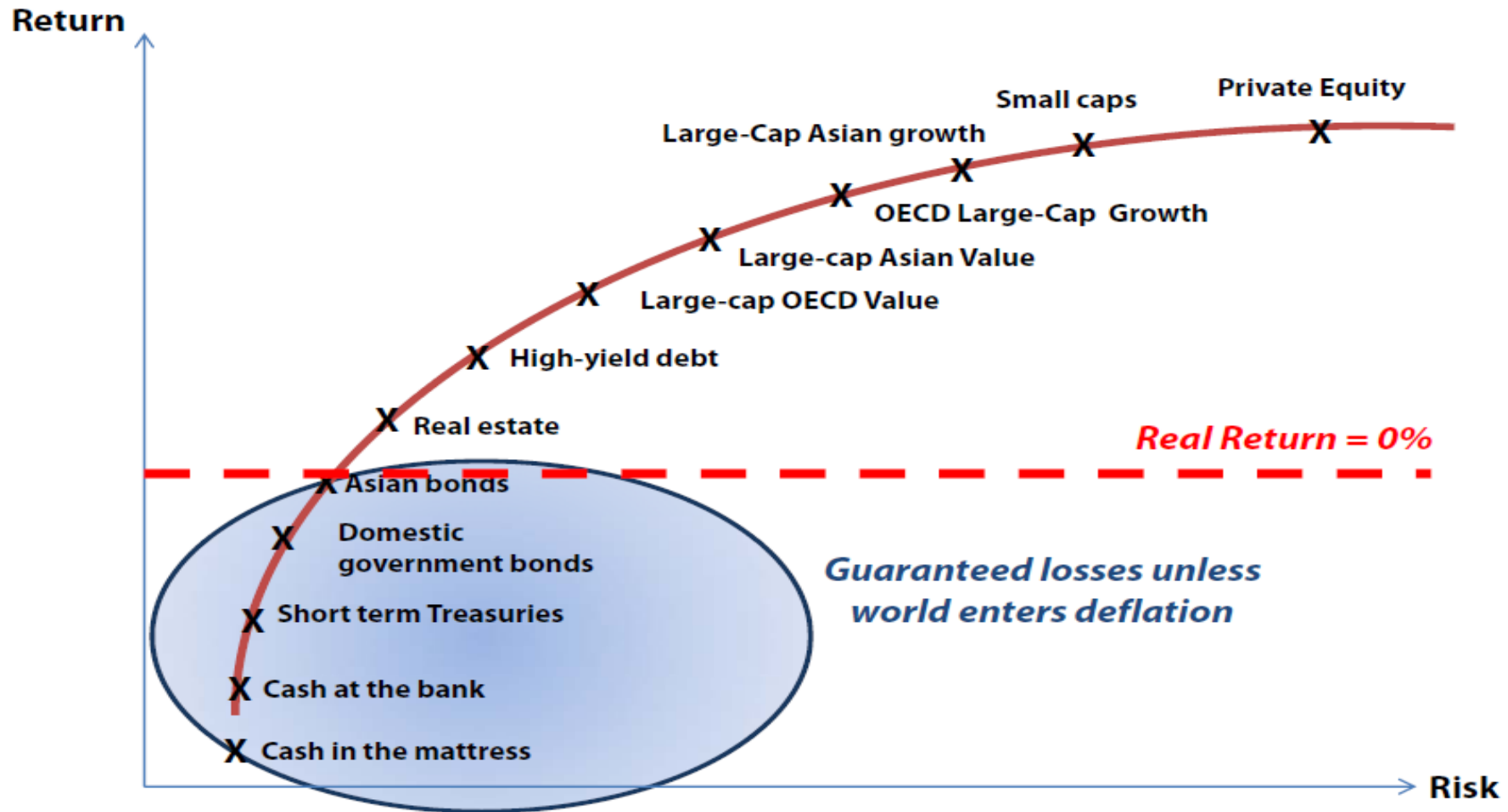


The first structural challenge confronting investors today:
investing in a negative real rate world

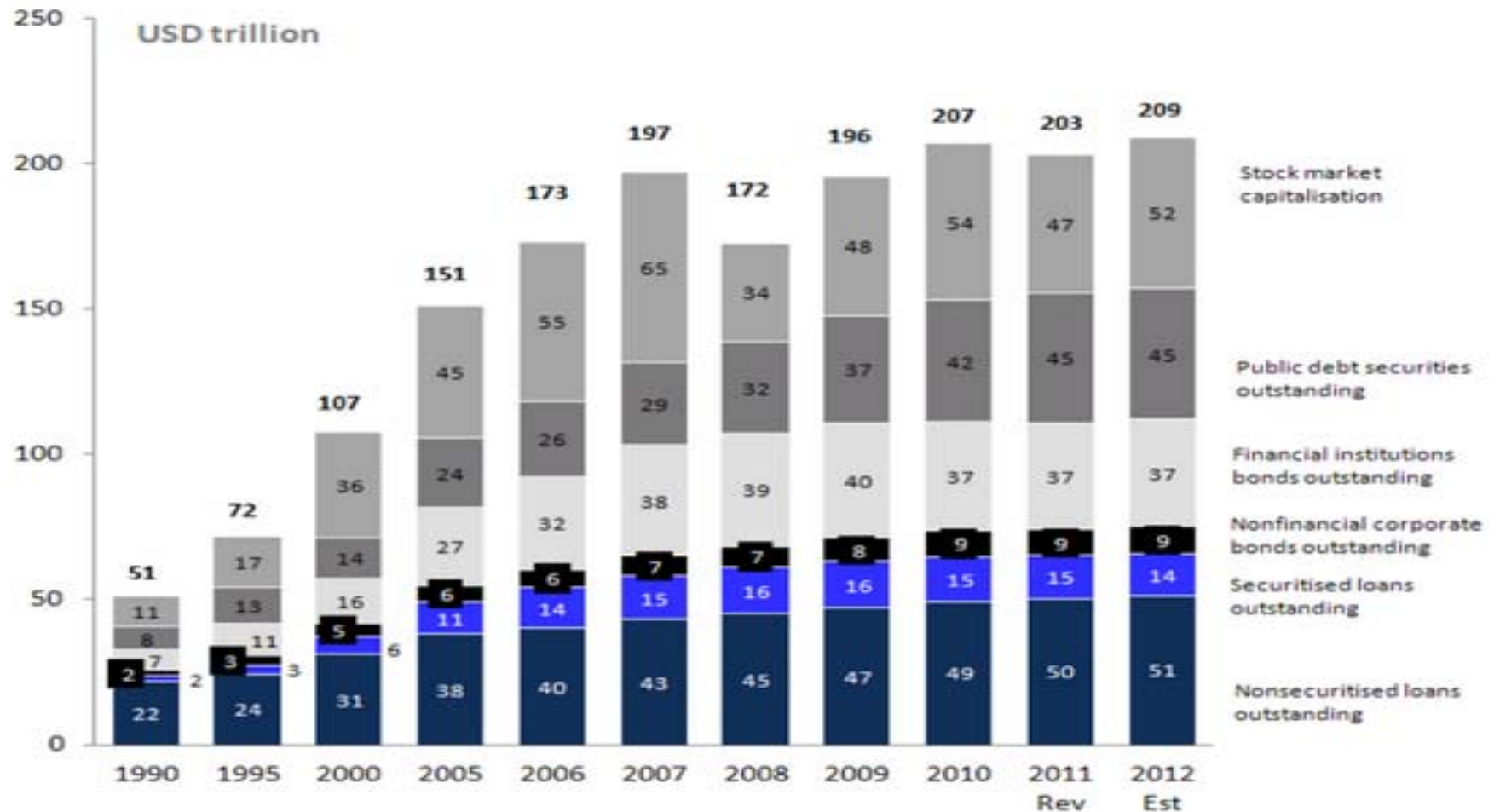
In the world of yesterday, almost all assets provided a real return



The world of today: almost guaranteed real losses below the line



Flows vs stock: can the world withstand a hit on 75% of its capital base?



Source: McKinsey Global Institute, Haver, BIS, DB estimates

Between balance sheet decimating bond losses and decent nominal growth, we have to walk a fine line

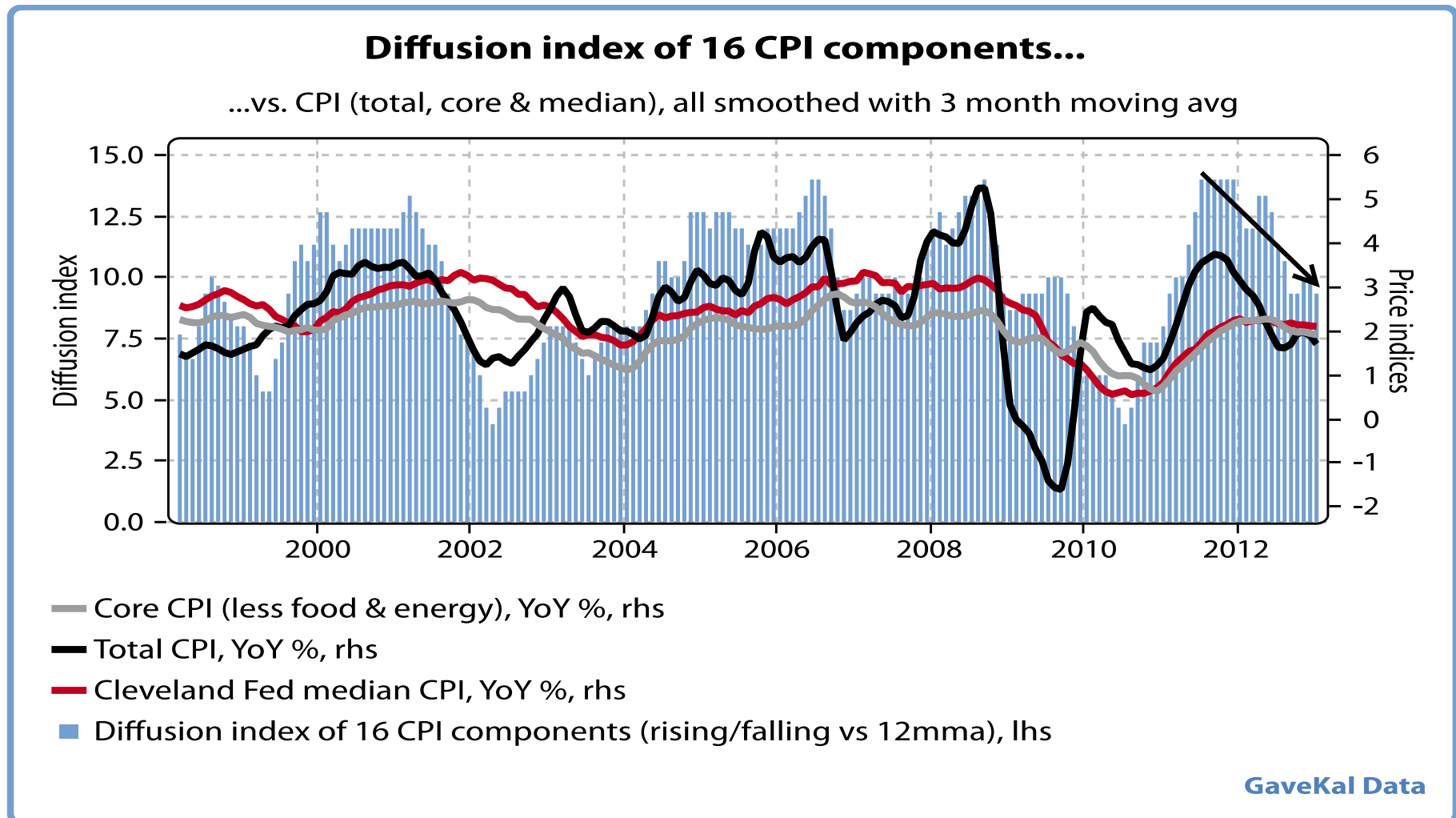


Strong nominal growth leads to bond losses and balance sheet devastation

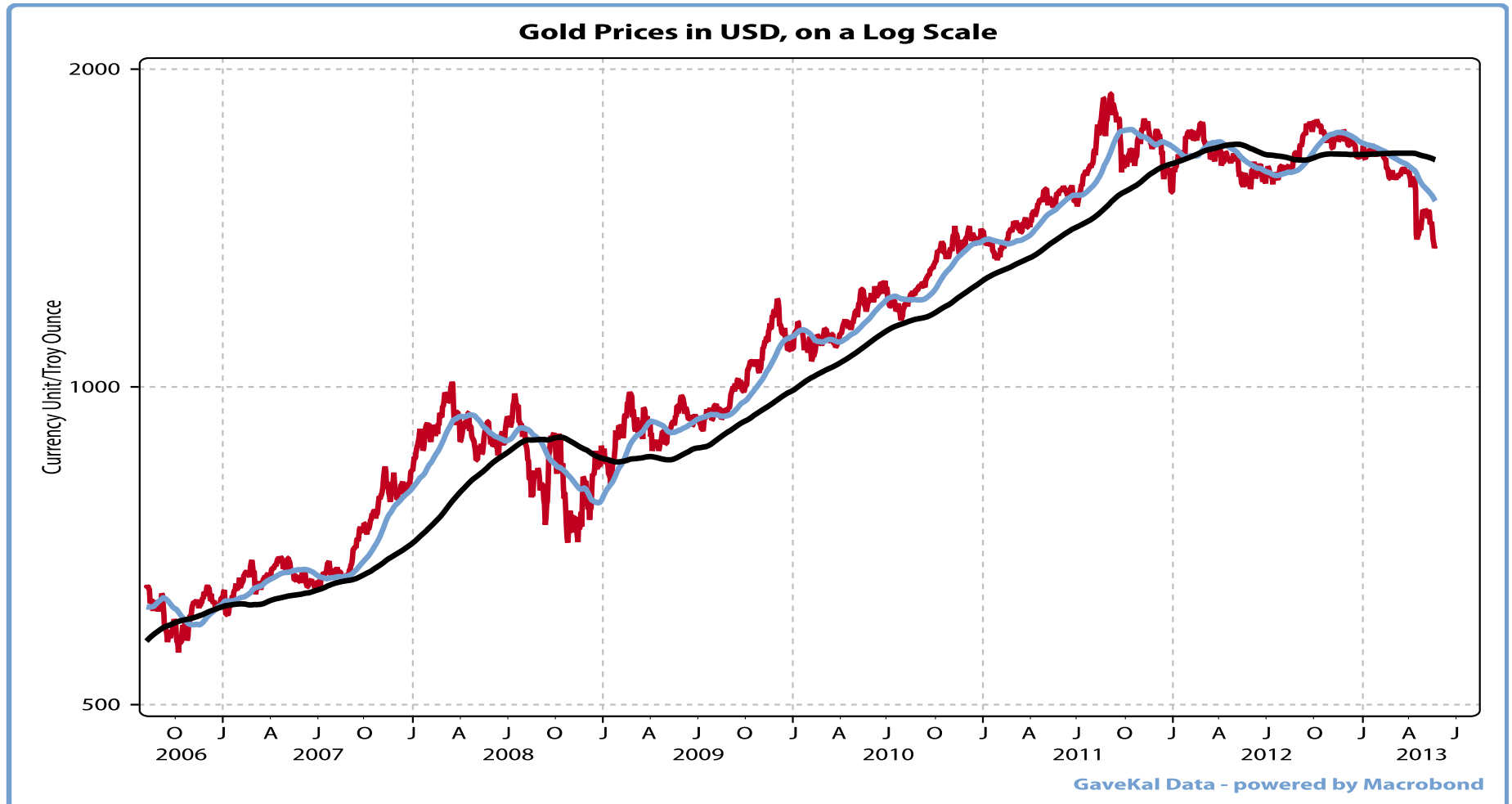
Nominal growth is too weak

Fortunately, inflation does not seem to be a threat

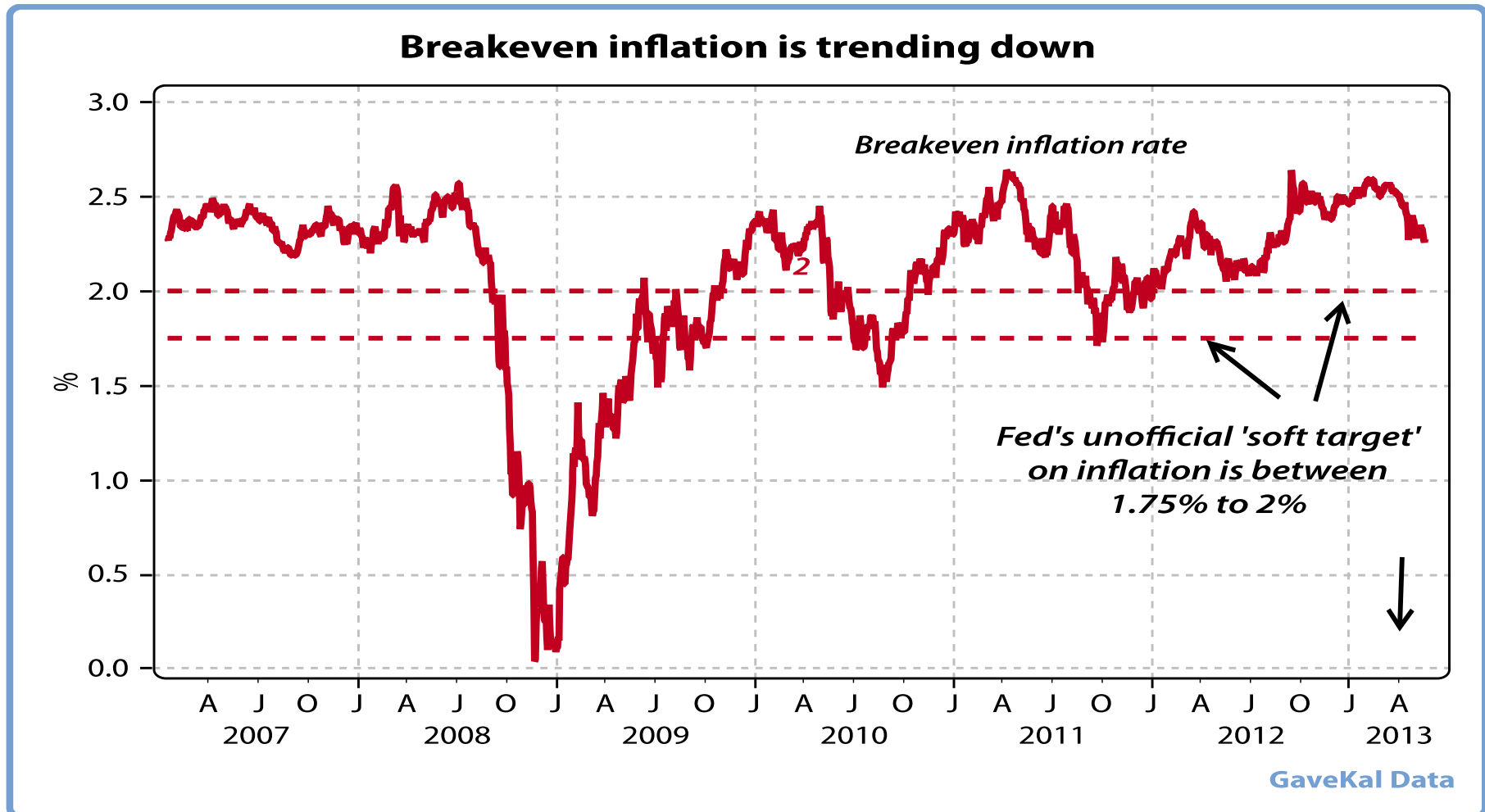
In order to thread the needle, we need inflation to stay muted.
This may well happen...



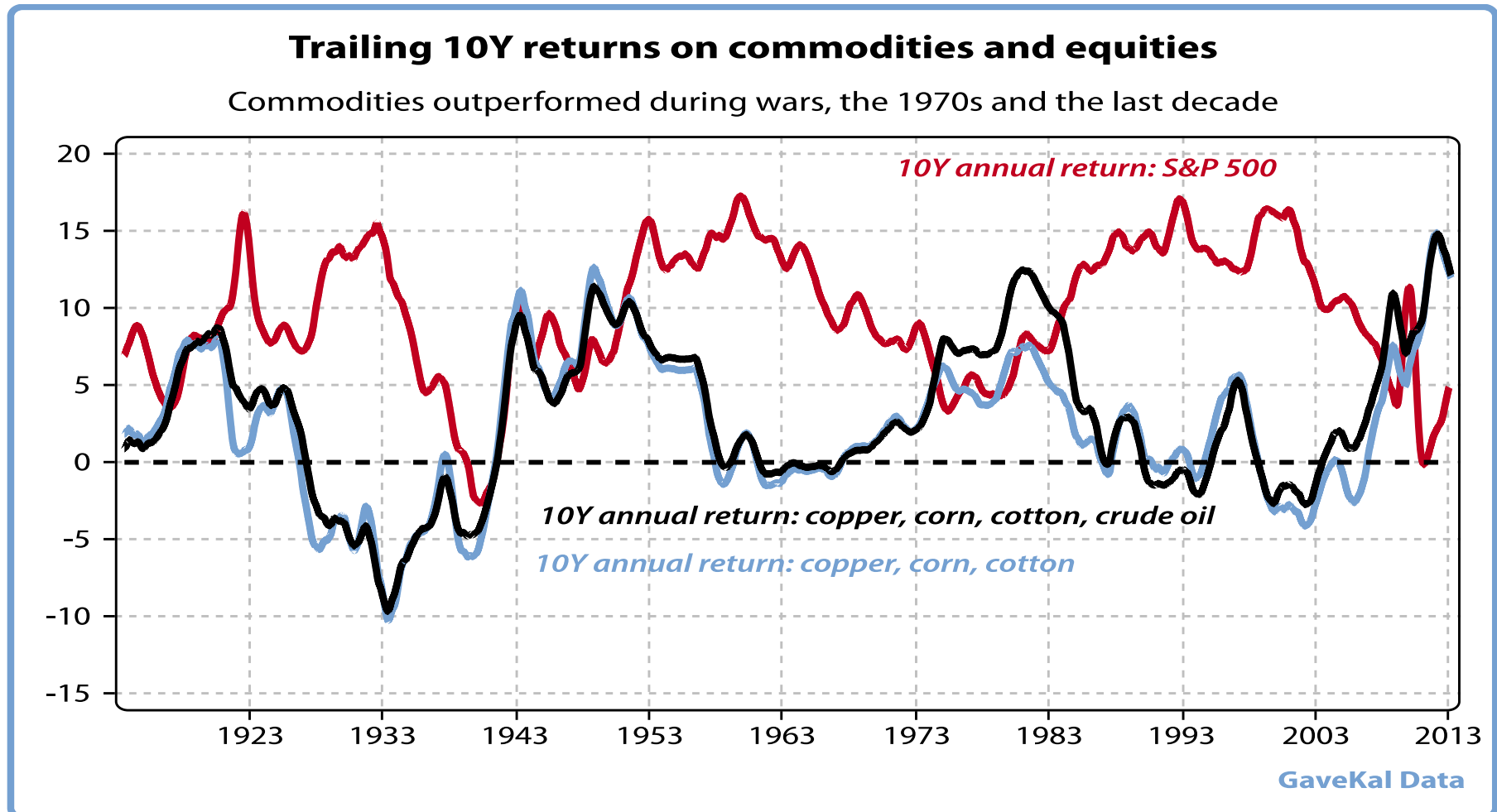
The gold price is not pointing towards inflation



Neither is break-even inflation as measured from TIPS

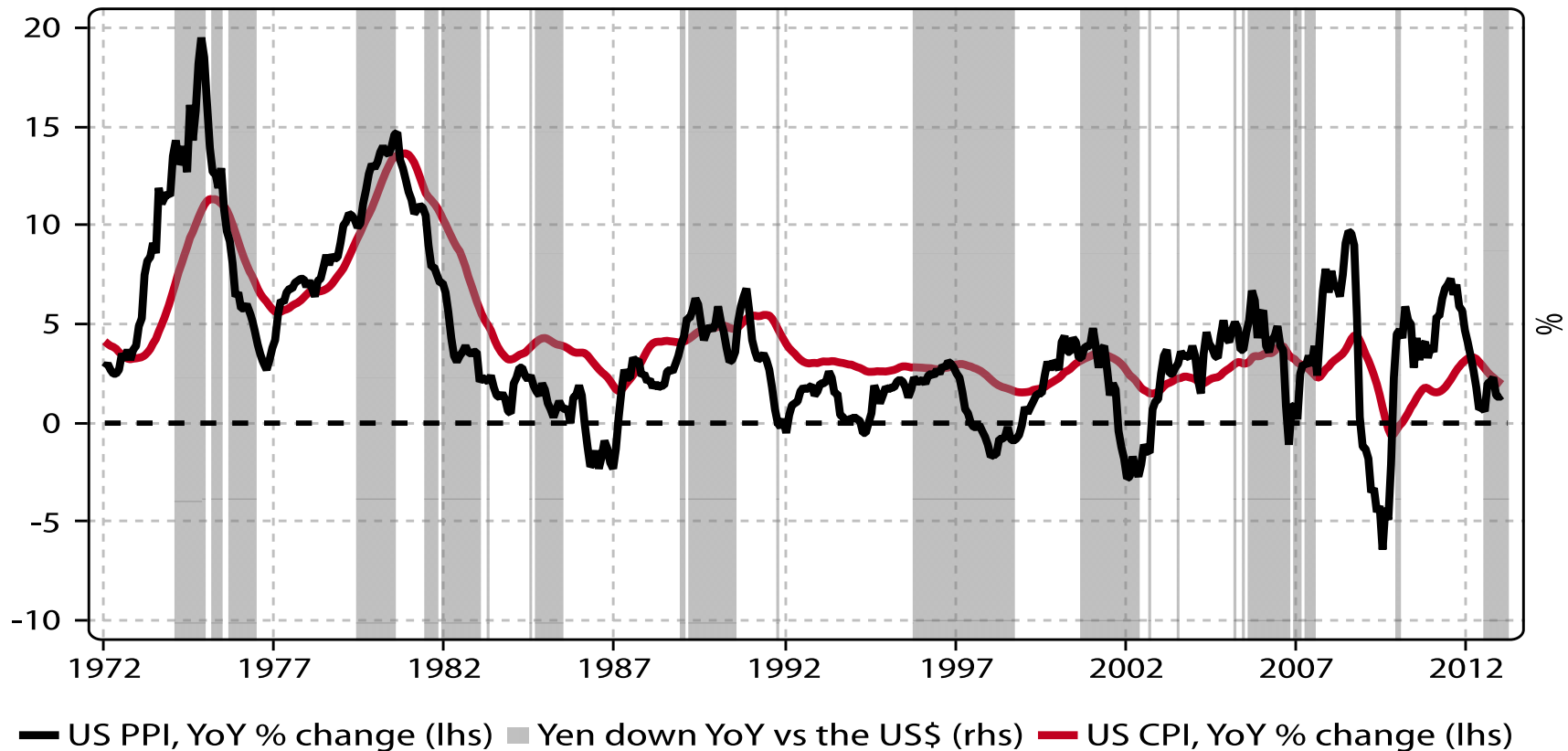


Three reasons behind weak inflation. First, weaker commodity prices



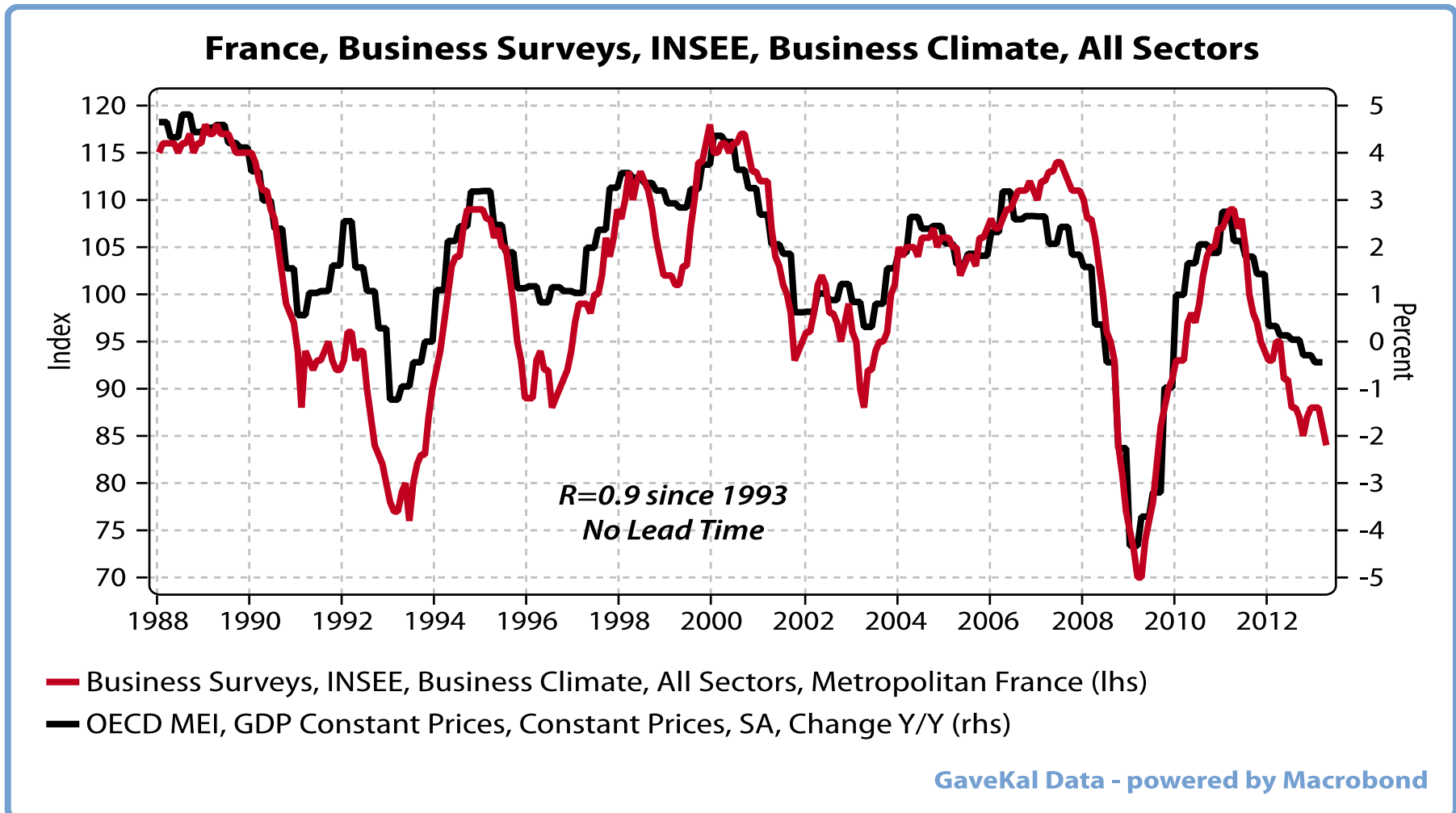
Second, Japan joins the currency war – this is highly deflationary

No acceleration of inflation with the yen falling



GaveKal Data - powered by Macrobond

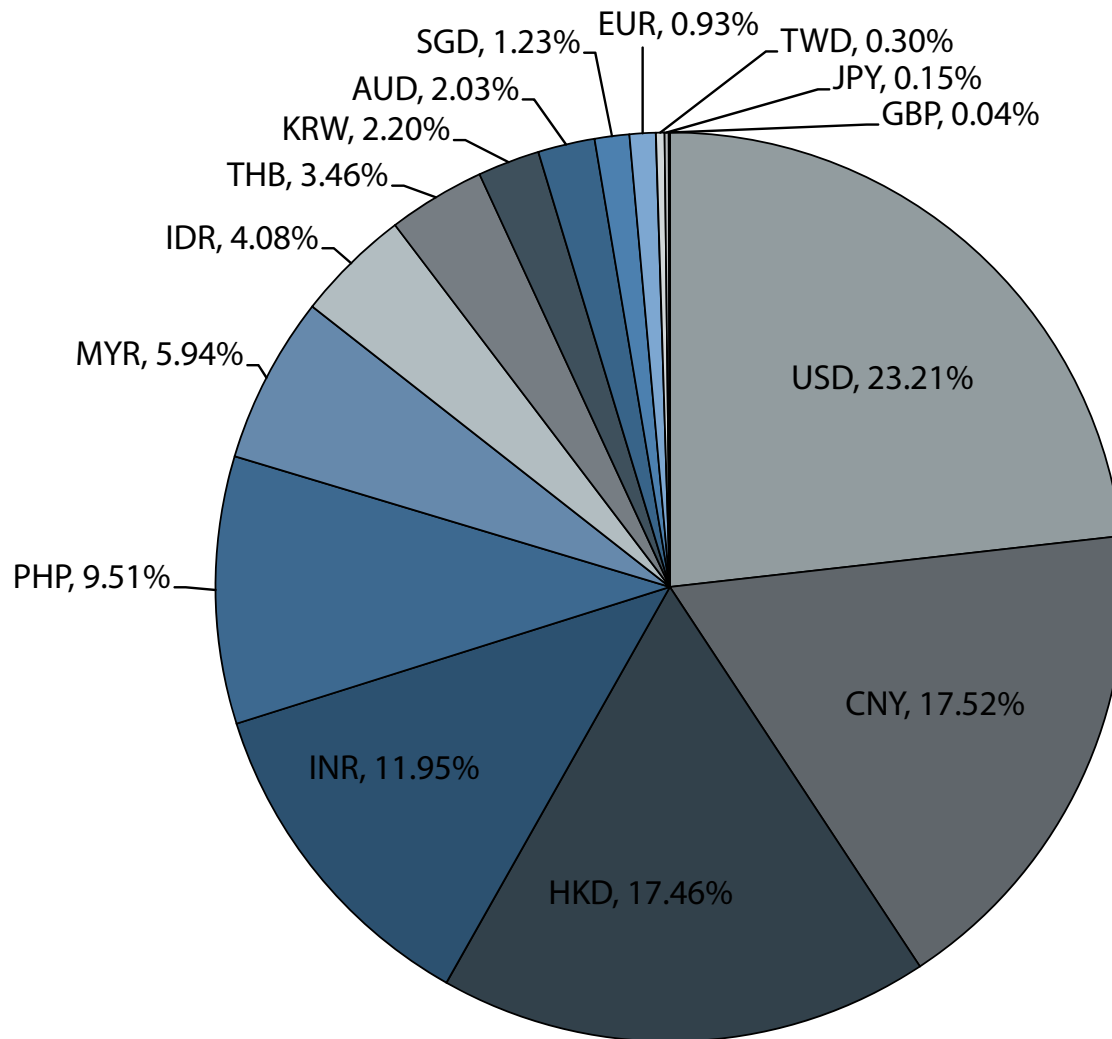
Third is that the European gangrene is spreading to France



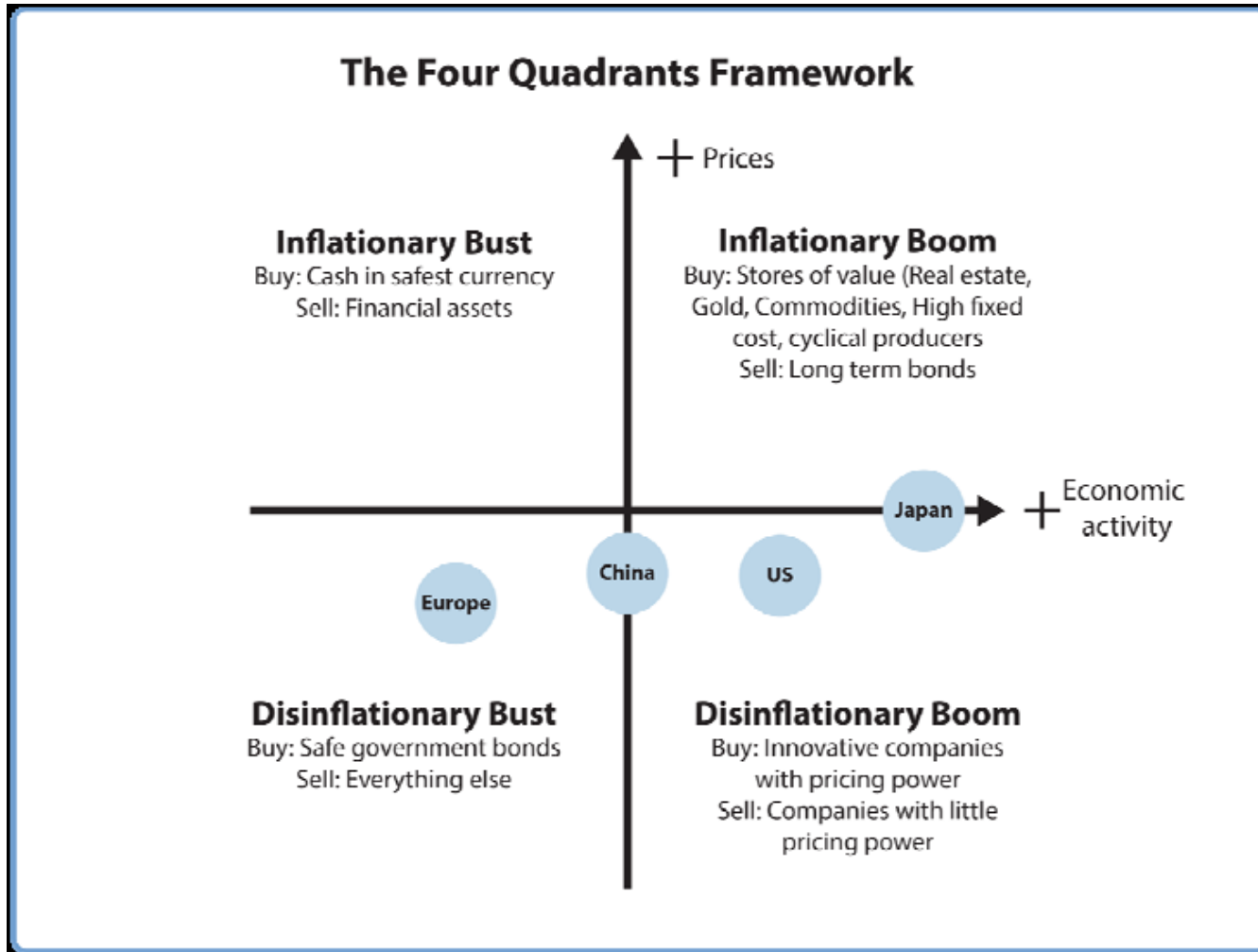
So we can eliminate two of the three risks that usually threaten Asian equity markets



This is why currency exposure remains biased to USD and USD proxies



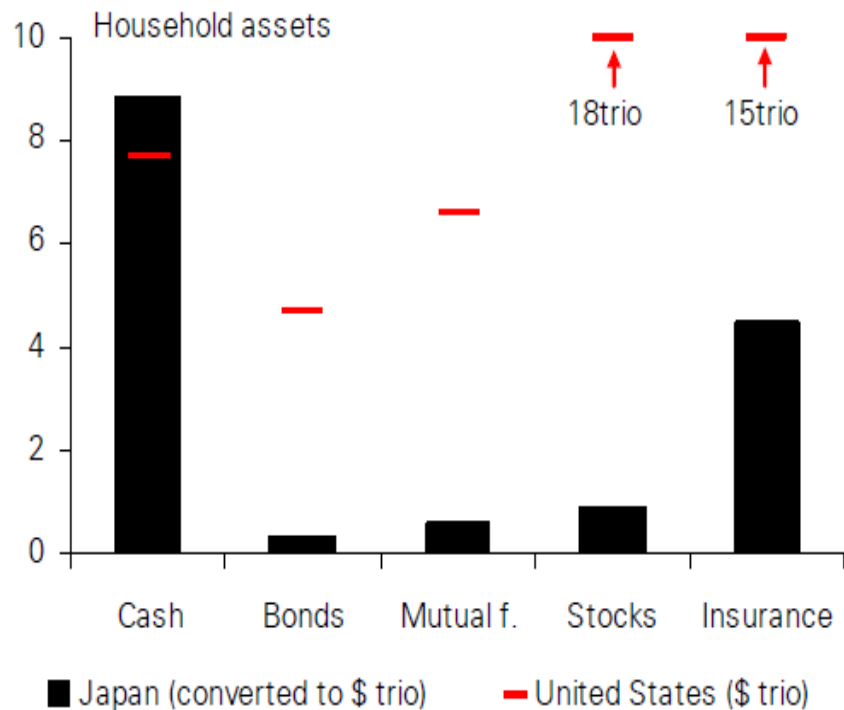
One important point: deflation does not mean disaster



The real change in Asia: the powerful force of Japanese savings?

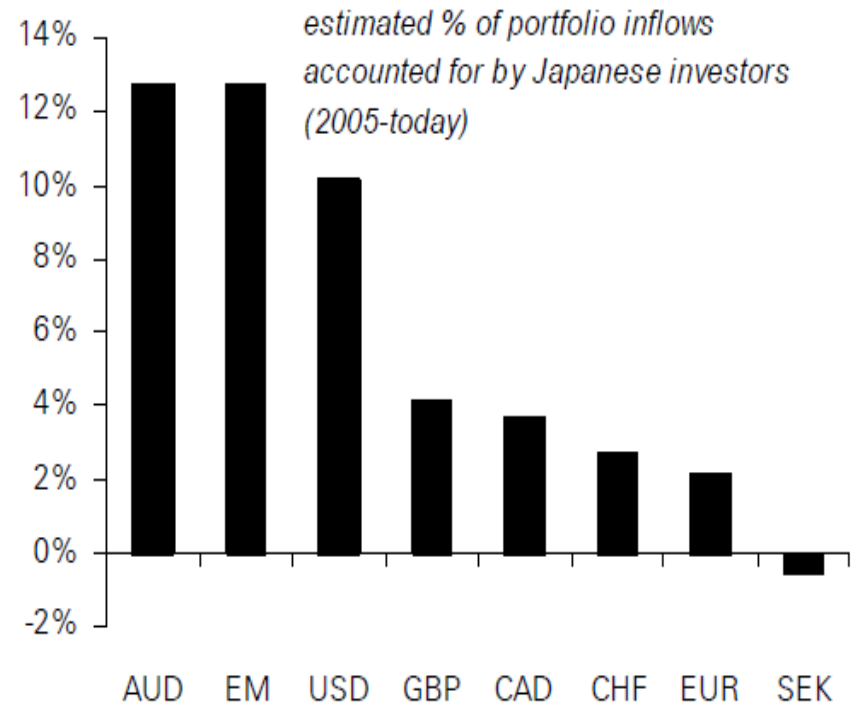
The second question is now that the Yen is weakening, will the Japanese keep their savings at the bank?

Japanese Households Have More Cash Than All of US



Source: Deutsche Bank, Bloomberg Finance LP,

Where Japanese Outflows Go Matters



Source: Deutsche Bank, Bloomberg Finance LP; *We calculate cumulative portfolio outflows from Japan to these countries divided by cumulative total portfolio inflows from respective statistical authorities

Bond yields are reaching new lows

Debt-Weighted Average 10-Year Gvt Bond Yield In The Advanced Economies

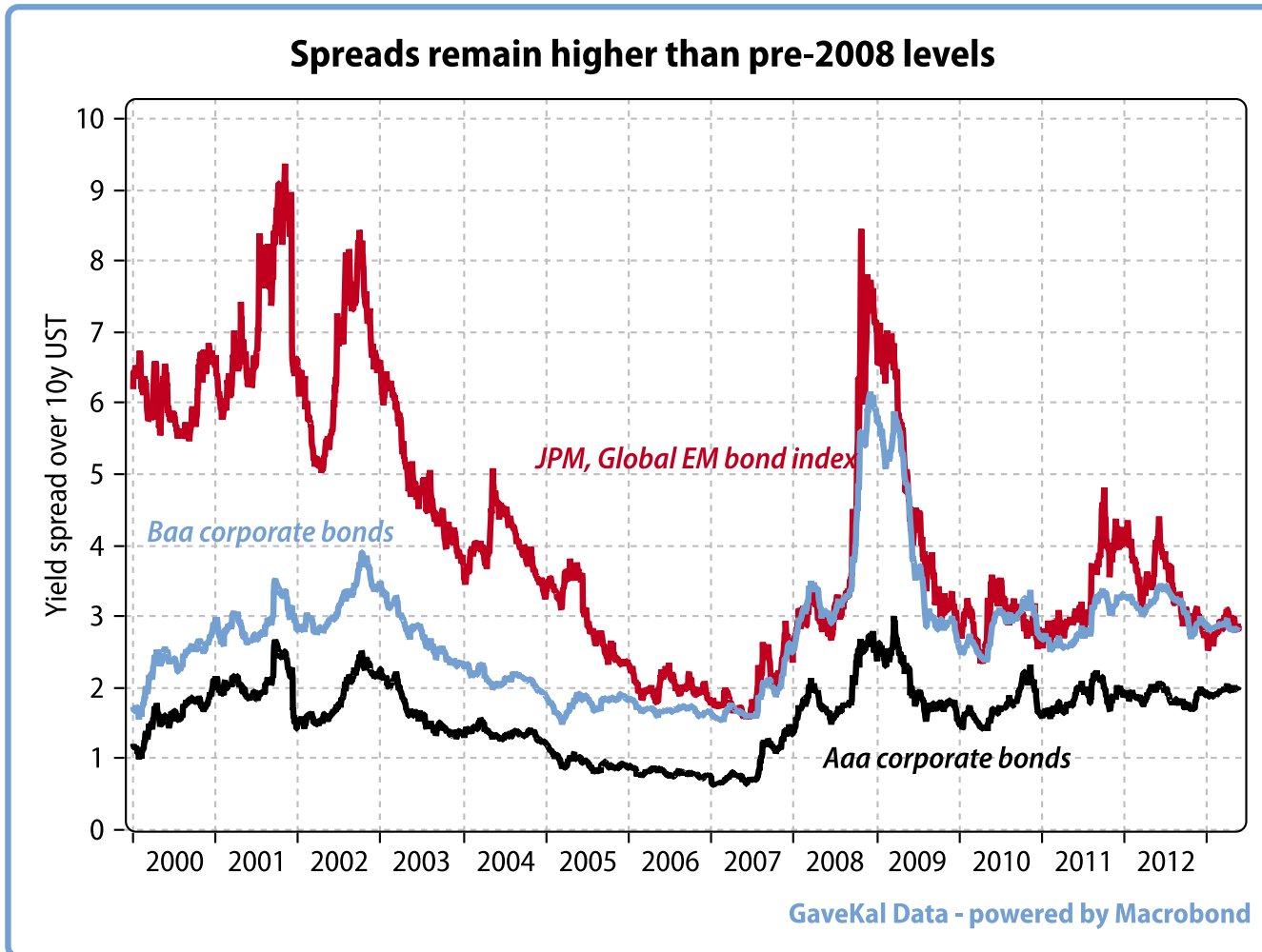


GaveKal Data

Bond yields are reaching new lows everywhere. The question at hand is what is driving this: **Growth outlook or Flows?**

1. **Growth:** we have had a recent spate of weak US economic data (ISM, US payrolls); terrible EMU data and possible signs of weakness in China (steel, Macao...).
2. **Flows:** Japanese households yield seeking around the world? European deposits moving from banks to bonds?

The reason? The “Growth vs Flows” debate matters



If the recent collapse in yields is linked to a slowdown in growth, then it probably makes sense for spreads to today be somewhat higher where they stood in 2006-07.

But if the recent collapse in yields is linked to flows, then we can probably expect more spread compression (as Japan continues to export capital and the European bank jog away from deposits continues).

Three ways to look at any trade

At the end of the day, there are three ways to make money on any financial instrument. And when getting in a trade, you have to know why you are there – like this, when things change, you can get out. The three ways to make money are:

1. **Momentum:** you find a trend that makes fundamental sense and you ride it hard
2. **Return to the mean:** at some point, some trends get overplayed and whether things get over-extended on a price-action basis (technical analysis) or a valuation basis, it sometimes makes sense to bet on a reversal. If/when valuations are cheap enough (value investing), the downside can be limited.
3. **Carry-trade:** often referred to as ‘picking up pennies in front of a steam-roller’, carry trades have a bad name after taking out so many people in 2008. However, if we are to see more spread compression back to the levels of 2006-07 (and why shouldn’t we given a) the promise of central banks to keep printing, b) renewed European crisis and c) weak global economic data but not collapsing...), then shouldn’t we just keep loading up on carry-trades?

Another reason to look for carry trades is that the global fixed income markets have now been seriously altered by the interventions of central banks. But not all central banks intervene in the same way. Hence some possible mispricings across countries? In the next few pages, I go through some examples of possible interesting trades; trades that I believe should do well if the current yields are a sign of massive flows instead of a coming deflationary growth shock...

Our favourite fixed income recommendation: Long China-Short US

Government Benchmarks, "China, ChinaBond, Exchange Fixed-Rate Treasury Bond"- "United States, Macrobond", 10 Year, Yield



GaveKal Data - powered by Macrobond

Momentum: not much momentum on the spread.

RTM: Spread is close to all time highs

Positive -Carry: 1.6% + a likely currency gain as China unlikely to devalue the RMB.

Risk: the single major risk is that China implodes – Asian Crisis style. Whether because of accumulated bad debts (Chanos, Walker...), political crisis (WSJ), environmental/health disaster...

Four different Asias

The Asian equity markets are very diverse. We would argue that there are four separate ‘Asian markets’ to look at, and invest in, right now, each with its own set of opportunities:

1. **“Global growth dependent Asia”**: this encompasses Japan, Korea and Taiwan. In this market, who ever devalues the fastest gets rewarded. It used to be Korea, now it is Japan. In this part, buy the more efficient exporters (machine tools, autos...) as well as the more beaten-up domestic reflation trades.
2. **“China-growth dependent Asia”**: this includes China, Hong Kong, Singapore, large parts of Australia and the deep cyclicals (shipping, commodities, energy, steel...) all around the region. This is the part of the market that is currently struggling to find a bid as uncertainty surrounding Chinese growth perdures.
3. **ASEAN**: most ASEAN countries are experiencing a text-book emerging market bull market. After a decade or more of high real rates and little investment, real rates have come down aggressively in recent years allowing for an expansion in bank, corporate and individual balance sheets. Such bull markets typically end either with an acceleration in inflation (as bottle-necks build up across the economy) or a large increase in current account deficits.
4. **Countries with high real rates** : India and Vietnam still have high real rates though those could fall abruptly if oil prices were to retreat. In such a scenario, an “Indonesia/Philippines” type bull market could easily unfold in either of these countries.

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Investment Risks

Investments are not guaranteed by any entity and investment losses may occur. Investment in the Funds carries substantial risk. There can be no assurance that the investment objectives of the Funds will be achieved and investment results may vary substantially over time. Investment in the Funds are not intended to be a complete investment programme for any investor. Investment in the Funds are intended for experienced investors who are able to understand and accept the risks involved.

The value of all investments and the income derived there from can decrease as well as increase. This may be due, in part, to exchange rate fluctuations in investments that have an exposure to currencies other than the base currency of the Funds. Past performance is no guide to or guarantee of future performance. The value of commodity and derivative investments such as options and futures can be extremely volatile. The Funds may invest in securities of distressed companies, illiquid securities and non-publicly traded securities. Persons considering investing in the Funds should read the risk disclosure in the Prospectus.

Gavekal Capital Limited has in place internal policies and controls designed to prevent market abuse.

Risk Framework

The Investment Manager has prepared a Risk Framework Document summarising the framework it employs to manage risk. Furthermore, the Investment Manager has provided the Directors with a Risk Policy Document which sets out, inter alia: (i) guidelines for the setting and changing of risk limits; (ii) routines for risk monitoring, reporting, exceptions reporting and escalation procedures; (iii) routines for reviewing and testing the risk measurement framework; (iv) guidelines for risk monitoring and risk measurement during normal and stressed periods; and (v) routines for communicating the above information to all relevant persons within the Investment Manager.

Portfolio Risk

The Investment Manager has apportioned risk management responsibilities among its partners and senior managers. Moreover, the governance arrangements of the Investment Manager functionally separate risk management from portfolio management.

In this context, and in addition to the specific investment restrictions applicable to the Fund, the Investment Manager applies internal risk limits which are reviewed on at least a quarterly basis. Currently, one risk engine is used to generate raw data output from a model covering multi-asset classes; The model is a hybrid of observable-factor model and the residuals are passed to a principal components factor model to allow automatic adaptation to changes in risk factors. The output generated is adapted and analysed by proprietary models to produce information that is used both in portfolio construction and risk monitoring. The Investment Manager assesses market risk through an analysis of volatility measures and portfolio concentration measures. Furthermore, a series of stresses are applied to its base analysis to estimate their impact on the portfolios. These stresses, which are applied on a weekly basis, include large equity market, commodity, currency, macroeconomic and technical factor shocks. Internal exposure levels are set for each type of risk and if a level is reached, the system generates an automated alert that is sent to the portfolio fund manager and the risk manager, who will assess the level or exposure and take such corrective action as may be required. Nonetheless, the Chief Risk Officer has authority to override decisions made by portfolio managers, if he deems this appropriate.

The Investment Manager monitors the Funds' liquidity profile to ensure it is aligned with the Funds' redemption obligations to Shareholders.

Operational and Outsourcing Risk

Operational and outsourcing risks identified by the Investment Manager are managed separately from investment risk management. For operational matters, it is noteworthy that an Operations Control function has been created which is separated not only from the Investment Manager's portfolio management activities but also from the Investment Manager's Operations activities and which reports directly to the firm's Chief Operating Officer.

The Investment Manager's operational risk framework includes risks faced in relation to people and governance (including key-man risk), trading and execution procedures (to limit trading and execution failures), fraud and anti-financial crime risk, disaster recovery (so that the Investment Manager can continue to function in the event of an unforeseen interruption), IT security (to protect integrity of data and systems), legal and regulatory risk and third party service providers.

Responsibility for matters related to valuation lies with the Administrator, which is wholly independent of the Investment Manager. However, the Fund has established a Valuation Committee and one of its three members is a representative of the Investment Manager (its Chief Operating Officer, who has no portfolio management responsibilities) along with a representative from the Administrator and a Director.

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United States: The shares of the Fund (the "Shares") have not been and will not be registered under the Securities Act 1933 of the United States (as amended) (the "1933 Act"), or the securities laws of any of the States of the United States. The Shares may not be offered, sold or delivered directly or indirectly in the United States or to or for the account or benefit of any "US Person" as defined in Regulation S under the 1933 Act except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the 1933 Act and any applicable State laws. The Fund has not been and will not be registered under the United States Investment Company Act of 1940 (as amended) (the "1940 Act") since Shares will only be sold to United States persons who are "qualified purchasers", as defined in the 1940 Act. There has not been and will not be any public offering of the Shares in the United States.