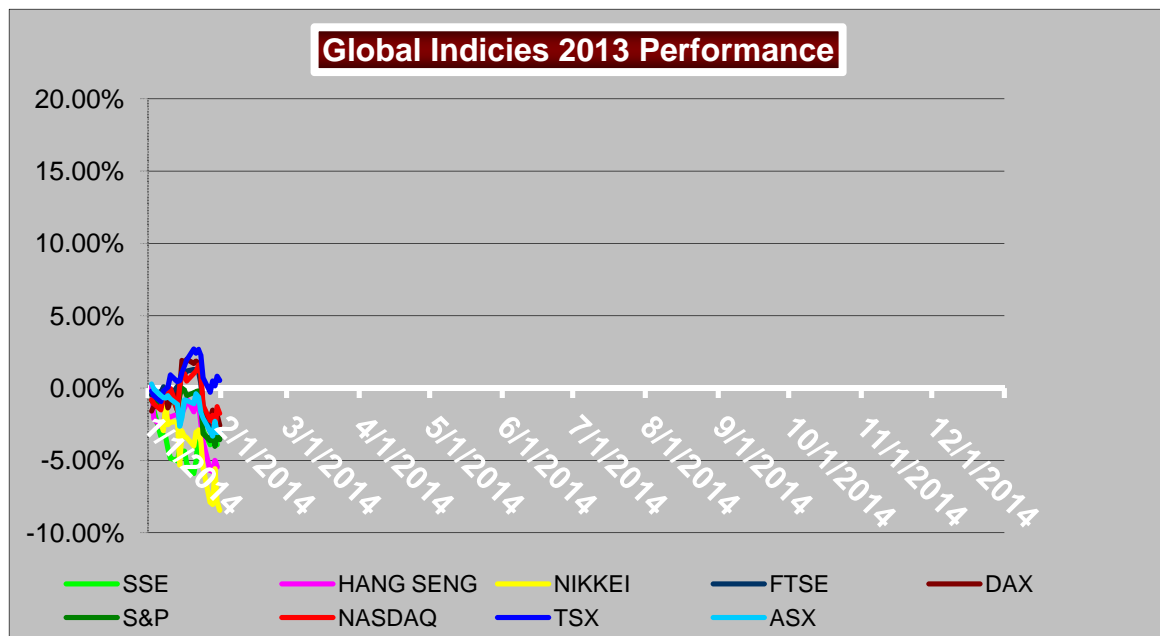


## GDB February 2014 Newsletter

### Monthly Market Summary:

2014 January Market Activity		
SSE COMPOSITE	2,033.08	-82.90 (-3.92%)
HANG SENG	22,035.42	-1,270.97 (-5.45%)
NIKKEI 225	14,914.53	-1,376.78 (-8.45%)
FTSE 100	6,510.40	-238.70 (-3.54%)
DAX	9,306.48	-245.68 (-2.57%)
DOW	15,698.85	-877.81 (-5.30%)
S&P 500	1,782.59	-65.77 (-3.56%)
NASDAQ COMPOSITE	4,103.88	-72.71 (-1.74%)
ASX 200	5,190.00	-162.20 (-3.03%)
TSX COMPOSITE	13,694.90	+73.30 (+0.54%)
TSX VENTURE	951.32	+19.35 (+2.08%)



**Investment Themes:**

January was a rough start for the equity markets. During the months, we witnessed higher than normal volatility in stock markets around the world. The Dow tumbled 5% and had its worst January since 2009; S&P 500 slipped 3%, and the NASDAQ was down by 2%. Across the Pacific, the Asian markets had a more severe reaction with the Nikkei dipping in correction territory, dropping more than 10%, before rebounding in February and the Hang Seng was down 6.9% at its lows from the start of the year.

The media and investment community had several explanations for the stumble in global stocks and many of them stem from concerns in emerging markets (EM):

- 1) Fear of outflow of capital from EM as the US gradually withdraws stimulus and the cost of capital for leveraged EM investment rises.
- 2) Argentina's central bank announced it would stop defending its peso on Jan 22 and the currency fell 12% in one day. This triggered a fall out in other EM currencies with the Turkish Lira, South Africa rand, and Brazilian real all nose diving against the greenback spurring fears of another EM currency crisis.
- 3) Exacerbating tensions in Ukraine, Thailand and Venezuela, further undermining investors confidence in EM.
- 4) China flashing PMI had two consecutive months of readings of below 50. Any reading below 50 signifies a manufacturing contraction.

The concern surrounding EM weakness seemed to be centered on capital outflows and a slowdown in foreign direct investment into these countries as the US tapers. Although we think this is one side of the coin, our team dug a little deeper...

All of these EM countries' economies are largely export dependent. So to understand what will impact these countries as the global dynamic changes, we put together a quick snap shot of these countries' macroeconomic stats with a focus on their capital and trade flows, debt levels and foreign currency reserves to assess their risk profiles.

**Turkey**

*(All figures are in USD unless otherwise stated)*

Turkey GDP amounts to 789.3 billion, representing about 1.27% of the world’s economy. It has a current account deficit of -63.44 billion and foreign direct investment of 12.39 billion.

Top Turkish exports to the world include gems/precious metals, coins (10.7% of total), vehicles (9.9% of total), machines/engines/pumps (7.9% of total), iron and steel (7.4% of total), and electronic equipment (6.1% of total).

Turkey’s top five exporting partners are Germany (9.0% of total), Iraq (7.9% of total), United Kingdom (5.8%), Russia (4.6% of total), and Italy (4.4% of total)

Turkey has a foreign currency reserve of 149.4 billion.

**Turkey**

<http://www.tradingeconomics.com/turkey/indicators>

Nominal GDP	789.3 billion
Annual growth rate	1.9%
GDP per capita	8492.61
Inflation rate	7.8%
Current account	-63.44 billion
Current account to GDP	-8.0%
External debt	372.65 billion
Government Debt to GDP	36.0%
FDI	12.39 billion
Exports	152.06 billion
Imports	251.64 billion
Balance of trade	-99.58 billion
Foreign Currency Reserve	149.4 billion



**Ukraine**

*(All figures are in USD unless otherwise stated)*

Ukraine has GDP of 176.0 billion, representing about 0.28% of the world’s economy. It has a current account deficit of -15.10 billion and foreign direct investment of 58.16 billion.

Top Ukrainian exports to the world include iron and steel (22.3% of total), cereals (10.2% of total), animal/vegetable fats and oils (6.1% of total), railway, tram equipment (6.0% of total), and machines/engines/pumps (5.5% of total).

Ukraine’s top five exporting partners are Russia (24.2% of total), Turkey (6.0% of total), China (4.3%), Poland (4.0% of total), and Italy (3.7% of total)

Ukraine has a foreign currency reserve of 20.4 billion.

**Ukraine**

<http://www.tradingeconomics.com/ukraine/indicators>

Nominal GDP	176.0 billion
Annual growth rate	8.0%
GDP per capita	2094.12
Inflation rate	0.5%
Current account	-15.10 billion
Current account to GDP	-8.6%
External debt	137.72 billion
Government Debt to GDP	35.9%
FDI	58.16 billion
Exports	64.88 billion
Imports	84.47 billion
Balance of trade	-19.58 billion
Foreign Currency Reserve	20.416 billion



## Argentina

(All figures are in USD unless otherwise stated)

Argentina has a GDP of 474.9 billion, representing about 0.77% of the world's economy. It has a current account deficit of -3.78 billion and foreign direct investment of 3.13 billion.

Top Argentinean exports to the world include food waste/animal fodder (14.4% of total), vehicles (11.8% of total), cereals (11.8% of total), animal/vegetable fats and oils (7.3% of total), and oil (6.1% of total).

Argentina's top five exporting partners are Brazil (19.0% of total), China (7.0% of total), USA (5.0%), Chile (5.0% of total), and Venezuela (3.0% of total)

Argentina has a foreign currency reserve of 28.5 billion.

### Argentina

<http://www.tradingeconomics.com/argentina/indicato>

Nominal GDP	474.9 billion
Annual growth rate	6.5%
GDP per capita	13737.22
Inflation rate	10.9%
Current account	-3.78 billion
Current account to GDP	-0.8%
External debt	133.67 billion
Government Debt to GDP	43.2%
FDI	3.13 billion
Exports	83.03 billion
Imports	73.99 billion
Balance of trade	9.04 billion
Foreign Currency Reserve	28.5 billion



**Brazil**

(All figures are in USD unless otherwise stated)

Brazil's GDP is about 2,435 billion, representing 3.93% of the world's economy. It has a current account deficit of -81.67 billion and foreign direct investment of 63.97 billion.

Top Brazilian exports to the world include ore/slag/ash (13.7% of total), oil (13.0% of total), oil seed (7.3% of total), machines/engines/pumps (5.7% of total), and meat (5.6% of total).

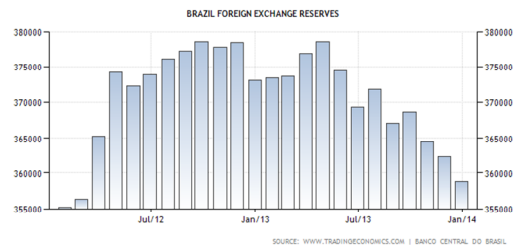
Brazil's top five exporting partners are EU (19.7% of total), China (19.0% of total), USA (10.3%), Argentina (8.1%), and Mercosur: Paraguay/Uruguay/Venezuela (12.2% of total)

Brazil has a foreign currency reserve of 360.9 billion.

**Brazil**

<http://www.tradingeconomics.com/brazil/indicators>

Nominal GDP	2,435 billion
Annual growth rate	-0.4%
GDP per capita	5,721
Inflation rate	5.6%
Current account	-81.67 billion
Current account to GDP	-3.4%
External debt	312.02 billion
Government Debt to GDP	65.1%
FDI	63.97 billion
Exports	242.18 billion
Imports	234.42 billion
Balance of trade	7.76 billion
Foreign Currency Reserve	360.936 billion



**South Africa**

(All figures are in USD unless otherwise stated)

South Africa has a GDP of 384.3 billion, representing 0.62% of the world’s economy. It has a current account deficit of -90.69 billion and foreign direct investment of 10.30 billion.

Top South African exports to the world include gem/precious metals/coins (21.7% of total), ores/slag/ash (14.5% of total), oil (11.3% of total), vehicles (8.7% of total), and iron/steel (7.6% of total).

South Africa’s top five exporting partners are China (12.4% of total), Japan (5.8% of total), Botswana (4.8%), Germany (4.5%), and Namibia (4.4% of total)

South Africa has a foreign currency reserve of 49.6 billion.

**South Africa**

<http://www.tradingeconomics.com/southafrica/indicators>

Nominal GDP	384.3 billion
Annual growth rate	-4.4%
GDP per capita	6003.46
Inflation rate	5.8%
Current account	-90.69 billion
Current account to GDP	-23.6%
External debt	136.62 billion
Government Debt to GDP	39.9%
FDI	10.30 billion
Exports	86.87 billion
Imports	100.61 billion
Balance of trade	-13.74 billion
Foreign Currency Reserve	49.59 billion



Highlights from these EM countries points to an essential link to their economy— that is most of these countries have large share of their exports going to China. Aside from Turkey, China is consistently among the top 5 trading partners to these EM countries. Not the US nor EU. Hence, a slowdown in the Chinese economy will have a notable impact to these EM economies.

China’s nominal GDP is approximately USD 8,230 billion, representing 13.27% of the world economy. A 1% slow down in its GDP growth will be equivalent to almost 2% of the aggregate GDP of all of these EM countries combined.

The following table shows the top exports to China from these EM nations:

<b>Top 10 exports to China</b>				
<b>Turkey</b>	<b>Ukraine</b>	<b>Argentina</b>	<b>Brazil</b>	<b>South Africa</b>
Ores, slag, ash	Ore, slag, ash	Oil	Oil	Ores, slag, ash
Salt, sulphur, stone, cement	Animal/vegetable fats and oils	Alcoholic beverages	Iron and steel	Oil
Inorganic chemicals	Machines, engines, pumps	Iron or steel products	Machines, engines, pumps	Iron and steel
Machines, engines, pumps	Organic chemicals	Vegetable/fruit preparations	Alcoholic beverages	Gems, precious metals, coins
Manmade staple figures	Wood	Aircraft, spacecraft	Aircraft, spacecraft	Copper
Organic chemicals	Iron and steel	Aluminum	Coffee, tea and spices	Wool
Electronic equipment	Electronic equipment	Machines, engines, pumps	electronic equipment	Wood pulp
Cotton	Other chemical goods	Dairy, eggs, honey	Organic chemicals	Vehicles
Textile floor coverings	Books, newspapers, pictures	Fruits, nuts	Wood pulp	Aluminum
Oil	Inorganic chemicals	Cereals	Stone, plaster, cement	Plastics

It is widely accepted that China’s GDP growth will slow going forward as the central government adopts a sustainable growth policy to mitigate environmental problems and attempts to transform its economy from an export driven to consumer based economy. This is the best case scenario. Other factors such as overcapacity, excessive local government debt, shadow banking may cause further drag to the base scenario. In either case, the demand for raw materials for industrial production will be most impacted.

Brazil and South Africa has 19.7% and 12.4% of their export exposure to China respectively. The exports are largely focused in iron ore and steel related products. We believe that these two EM countries are most at risk to a slowdown in China.

As demand for a country’s export decreases, so will the demand for the country’s currency, causing it to depreciate. Between the Brazil and South Africa, Brazil has a much larger foreign currency reserve,



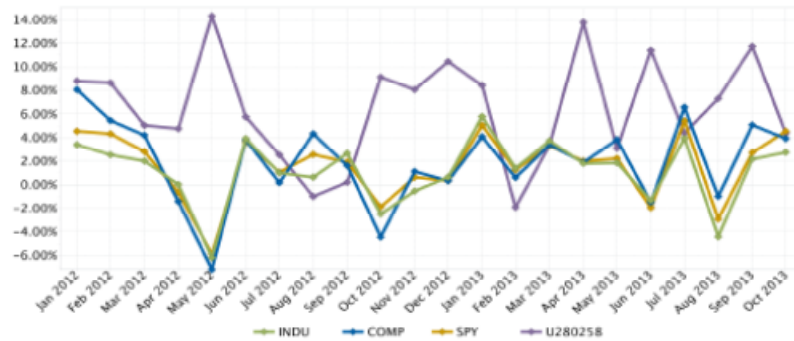
therefore, it is in a much stronger position to defend the real versus the South Africa rand. Compounded with the timing of the US tapering, we believe the South Africa rand will be facing a perfect storm if demand for its export slows from China. We will be keeping a close eye on the trade statics in the coming months from South Africa; if the softness from Chinese export does materialize, shorting the South Africa rand will be a trade one can put on to capitalize on the situation.

## Investment Opportunities:

### 1. Sino-GDB Fund

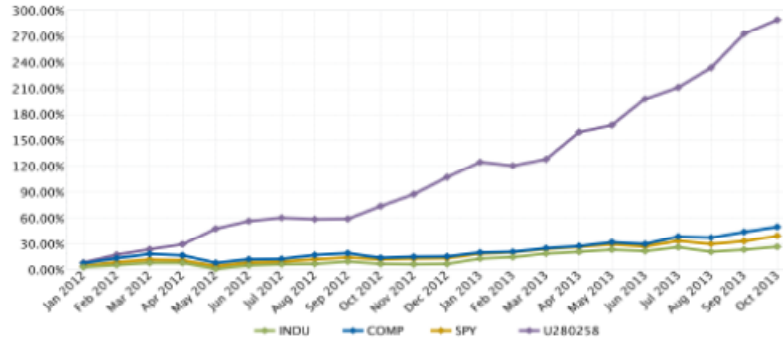
Fund managed by GDB Capital. Event-driven investments using hedging strategies and combinations of long/short positions in equities, futures, and commodities and their derivatives. Fund targets gross pre-tax IRR of 20% per annum, and returned 108% in 2012 and 194% in 2013. Minimum investment USD 100,000.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