



Monthly Letter to Investors – September 2012

In September, the Fund recorded a positive performance of +2.13%, after positioning its investment portfolio in August for an anticipated QE3 announcement the following month, although it gave up some of its mid-month gains in the second half of the reporting period. The Fund once again reconfigured allocations slightly, having (1) eliminated short commodity hedges, (2) increased long exposure and (3) increased Russia-specific weighting. With the ECB and Federal Reserve effectively announcing an unlimited global QE and sparking a “risk on” trade world-wide, the Investment Advisor considered it prudent to participate fully in high-beta assets such as Russian stocks, in addition to a more positive Diamond Age view about Russia in general – a view of “not so bad” when dissecting the current government policies in relation to another planned round of privatization, a continuation of the current prudent macroeconomic management and the realization that the status quo in Mr. Putin’s “fourth” term of office cannot be sustainable. This realization, after so many months of public discontent, pushed the Russian political elite into self-preservation mode, not along the lines of the “Arab Spring”, for example, but along a much more positive scenario, albeit still extremely far from the ideal one. But even a non-ideal scenario in the shape of a significant improvement on the stagnating “status-quo” can drive company valuations much higher. And it will.

International Business Partners and Terms		Historical Performance								
<i>Investment Advisor</i>	<i>Diamond Age Capital Advisors Ltd.</i>		2005	2006	2007	2008	2009	2010	2011	2012
<i>Administrator</i>	<i>CIBC Bank and Trust Co. (Cayman) Ltd.</i>	Jan	-	13.67%	1.29%	-10.44%	-11.34%	-0.79%	0.50%	20.43%
<i>Russian Custodian</i>	<i>Citigroup – ZAO Citibank (Russia)</i>	Feb	2.24%	2.73%	5.70%	2.75%	-11.37%	0.03%	-3.09%	2.83%
<i>Auditors</i>	<i>Deloitte – Cayman Islands</i>	Mar	-0.27%	4.05%	-0.29%	-3.48%	20.53%	11.16%	1.30%	-3.75%
<i>Tax Consultants</i>	<i>Ernst & Young – Russia and Cyprus</i>	Apr	-2.54%	8.80%	1.88%	3.03%	20.86%	1.02%	2.42%	-3.62%
<i>Legal Counsel</i>	<i>Campbells – Cayman Islands</i>	May	-0.51%	-3.78%	-0.71%	9.17%	18.71%	-21.49%	-13.14%	-21.98%
<i>Base Currency</i>	<i>US Dollar</i>	Jun	1.84%	-1.67%	2.88%	-7.02%	-3.28%	-2.00%	-4.88%	0.42%
<i>Advisory Fee</i>	<i>2% per annum</i>	Jul	7.77%	0.37%	1.75%	-13.09%	3.37%	7.72%	6.17%	0.38%
<i>Performance Fee</i>	<i>20% of profits above hurdle rate</i>	Aug	8.76%	2.33%	-4.69%	-8.69%	1.93%	-4.96%	-26.65%	-2.52%
<i>Hurdle Rate</i>	<i>US Dollar 3-month LIBOR + 50 bps</i>	Sep	12.64%	0.01%	5.07%	-10.76%	18.41%	12.14%	-30.60%	2.13%
<i>Inception Date</i>	<i>18 February 2005 at US\$100 per share</i>	Oct	-6.56%	3.70%	4.99%	-35.75%	10.24%	6.31%	22.32%	
<i>Dealing Day</i>	<i>Friday</i>	Nov	7.49%	5.36%	-2.96%	n/a	3.66%	-0.13%	-22.84%	
<i>Subscriptions#</i>	<i>Weekly</i>	Dec	7.33%	9.49%	0.80%	n/a	8.34%	16.66%	4.55%	
<i>Redemptions</i>	<i>Monthly, 14-day notice</i>	Year	43.27%	53.70%	16.26%	-57.73%	103.00%	21.92%	-55.48%	-10.04%
<i>Min. Subscription</i>	<i>US\$100,000</i>	NAV Data, Current Asset Allocation								
<i>ISIN</i>	<i>KYG2863P1090</i>	Fund Price (W/Avg), Main Class		Bid \$106.76; Offer \$107.25						
<i>CUSIP</i>	<i>G2863P 10 9</i>	Designated Investment Share Class		\$63.43						
<i>Bloomberg Ticker</i>	<i>DIAMRUS KY <Equity> <Go></i>	Total Fund Assets (AUM)		\$ 13,580,562						
		Total Firm AUM		\$207,740,377						
		Asset Class		<i>Long</i>	<i>Short</i>	<i>Gross</i>	<i>Net</i>			
		Equities		108.8%	4.8%	113.6%	104.0%			
		Derivatives		0.0%	0.0%	0.0%	0.0%			
		Commodities		0.0%	0.0%	0.0%	0.0%			
		FX		0.0%	0.0%	0.0%	0.0%			
		Total All		108.8%	4.8%	113.6%	104.0%			
		Leverage		13.6%						



Historically the Fund has rarely invested in Russian vertically-integrated oil companies, due to their very high and progressive (with the price of oil) rate of taxation, but whenever it did, such trades were of tactical nature. Similarly, in September the Fund initiated a tactical trade in Rosneft (ROSN LI), after the company announced very disappointing 2Q12 financial results at the beginning of August, having missed that quarter's EBITDA by 20%. Unfazed by this weak financial performance of the company, the Investment Advisor has dug deeper into possible M&A activity and likely scenarios, and figured that TNK-BP, which seemed to be in play, could become a very attractive acquisition target, which, in turn, could've been value accretive to Rosneft. The Fund initiated a Rosneft position in the middle of September, and this position appreciated by +15% in the month following its purchase. A buyout of British Petroleum from TNK-BP in exchange for cash and shares in Rosneft, as well as a buyout of the Russian AAR consortium from the remaining 50% of TNK-BP, will spell the end of the shareholder conflict at this private oil company, and will make Rosneft the largest publicly traded oil company in the world. With the diminishing power of Gazprom on the global gas market, there is a risk that Mr. Putin might want to turn Rosneft into a "side pocket" for bankrolling some of his election promises. It remains to be seen whether this scenario is feasible, so the Fund stands ready to unload this position should the Investment Advisor feel that the run-up in the stock is done and the medium-term upside is thus very limited.

The Investment Advisor continues to be constructive on the global markets and the Fund maintains its long bias.



Sector Allocation	
Financials	24.26%
Metals and Mining	17.66%
Telecoms	8.71%
Conglomerate	5.92%
Agriculture	5.79%
Coal	4.48%
Gas Utilities	4.05%
Fisheries	3.84%
Industrials	3.59%
Oil - Integrated	3.25%
Airlines	2.98%
Consumer Durables	2.94%
Chemicals	2.89%
Construction/Infrastructure	2.40%
Electrical Utilities	2.30%
Media	1.88%
Foods	1.54%
Real Estate	1.50%
Total	100%

Geographic Dispersion	
Russia	54.95%
Ukraine	12.15%
Georgia	8.31%
Kazakhstan	7.98%
South Korea	5.83%
Thailand	3.84%
Turkey	2.40%
Singapore	2.10%
Guinea	1.37%
China	1.07%
Total	100%

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