



Monthly Letter to Investors – November 2012

In November, the Fund had a slightly negative performance of 1.76%, although it did outperform, by a notch, the “pure Russia” indices, such as MICEX, which dropped 1.92%. Nevertheless, the Fund’s constructive portfolio stance led to very significant positive gains in the first weeks of December, beyond the scope of this November reporting period (to be reported and described in detail in the December Letter to Investors).

Apart from the constructive portfolio stance (strong “long bias”), the Fund continues to maintain small but very targeted short positions (5% of the portfolio). In addition to a significant gain on a tactical Rosneft trade, which was explained in greater detail in the September and October 2012 Letters to Investors (http://www.diamondage.ru/newsletter/Eng_DA_Sep_12.pdf and http://www.diamondage.ru/newsletter/Eng_DA_Oct_12.pdf), the Fund generated a solid +26% return on its Samsung position since its acquisition in June/July through the end of November (+35% through mid-December).

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%	-1.85%
<i>Dealing Day</i>	<i>Friday</i>	Nov	7.49%	5.36%	-2.96%	n/a	3.66%	-0.13%	-22.84%	-1.76%
<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%	-13.25%
<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 \$102.83; Offer \$103.42						
<i>CUSIP</i>	<i>G2863P 10 9</i>	Designated Investment Share Class		\$64.2						
<i>Bloomberg Ticker</i>	<i>DIAMRUS KY <Equity> <Go></i>	Total Fund Assets (AUM)		\$11,972,078						
		Total Firm AUM		\$196,283,473						
		Long		132.9%						
		Short		5.0%						
		Gross		137.9%						
		Net		127.9%						
		Leverage		37.9%						



The rationale for this strategic investment (as opposed to the tactical stance on Rosneft) was described in the June 2012 Letter to Investors (http://www.diamondage.ru/newsletter/Eng_DA_June_12.pdf): “One example of the quest for alpha is the Fund’s relatively recent acquisition of shares in the world largest technology company (by revenue) – Samsung Electronics Co. [005930:KS]. Sales of its products in Russia and CIS countries are enormous, and the only competitor of this size is Apple. Samsung just announced that its net profit swelled to 5.2 trillion won (\$4.5 billion) in the April – June quarter, a 48% jump from a year earlier. Although the earnings were somewhat lower than the median forecast, Samsung shares jumped +5.2% on this announcement to close at a one-month high in Seoul as investors expect its earnings to continue growing strongly. Customers, including those in Russia and the CIS, flocked to Galaxy smartphones...”

Many things have happened to Samsung since then. Apple and Samsung are engaged in court battles worldwide to dominate a smartphone market estimated last year to be \$219 billion. Apple co-founder Steve Jobs vowed before his death last year to wage “thermonuclear war” to prove that phones running on Google Inc.’s Android operating system copy the iPhone. Samsung devices use Android. The courts ruled that Samsung must pay \$1.05 billion in damages to Apple, after the Fund’s acquisition of Samsung shares and some of the run-up, but since then the share price has continued its climb:

Sector Allocation	
Financials	23.37%
Metals and Mining	17.88%
Telecoms	7.57%
Conglomerate	7.15%
Gas Utilities	6.26%
Oil - Integrated	5.72%
Agriculture	5.02%
Coal	3.50%
Media	3.49%
Fisheries	3.21%
Consumer Durables	2.74%
Airlines	2.60%
Industrials	2.59%
Chemicals	2.43%
Construction/Infrastructure	2.21%
Electrical Utilities	1.62%
Foods	1.48%
Real Estate	1.16%
Total	100%



Currently, Samsung is claiming at a hearing that the damages should be reduced by more than \$600 million. Moreover, Apple’s request for a U.S. sales ban on 26 Samsung devices was rejected by a federal judge following a jury verdict in August that six of the iPhone maker’s patents had been infringed. In return, Samsung promised to drop its cases

Geographic Dispersion	
Russia	62.87%
Ukraine	9.90%
Kazakhstan	7.17%
Georgia	6.01%
South Korea	5.18%
Thailand	3.21%
Turkey	2.21%
Singapore	1.51%
Guinea	1.16%
China	0.80%
Total	100%

against Apple in Europe. The settlement of these patent wars will be a further share price catalyst, and the Fund maintains its position in this stock.

The Fund also initiated a long position in Norilsk Nickel, where shareholder wars seem to be coming to an end with Roman Abramovich’s Millhouse investment and seats on the Board.

From a current global fundamental point of view, the medium- to long-term market direction should be bullish for equities, with the forward 12 month earnings yield for the SPX versus the 10 year Treasury yield standing at 7.89% versus 1.76%.

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