Diamond Age Russia Fund

Monthly Letter to Investors – June 2011

Note: All performance data are shown in terms of comparing the **last Friday** (dealing day) of the current month to the **last Friday** of the previous month due to weekly valuations of the Fund. The performance data in this Letter to Investors does not include gains achieved after June 24th, the last dealing day of June.

Note: Please scroll down to the Addendum / Letter to an Investor.

The Stock Market, Race Horses and Marriages Edition

"After the battle, one group savours victory; another group lives in the bitterness of defeat. The many hurt seem a small price to pay for having won, and there's no reason at all which is adequate for having lost. To the winner, there is one hundred percent elation, and to the loser, the only thing left for him is one hundred percent resolution, and one hundred percent determination." **Vince Lombardi**

International Business Partners and Terms

Investment Advisor	*Diamond Age Capital Advisors Ltd.*
Administrator	*CIBC Bank and Trust Co. (Cayman) Ltd.*
Russian Custodian	*CitiGroup – ZAO Citibank (Russia)*
Auditors	*Deloitte & Touche – Cayman Islands*
Tax Consultants	*Ernst & Young – Russia and Cyprus*
Legal Counsel	*Campbells – Cayman Islands*
Base Currency	*US Dollar*
Hurdle Rate	*US Dollar 3-month LIBOR + 50 bps*
Inception Date	*18 February 2005 at US$100 per share*
Dealing Day	*Friday*
Min. Subscription	*US$100,000*
Bloomberg Ticker	*DIAMRUS KY <Equity> <Go>*

Current Asset Allocation

Asset Class	*Long*	*Short*	*Gross*	*Net*
Equities	125.6%	19.4%	145.0%	106.2%
Bonds	0.0%	66.1%	66.1%	-66.1%
Commodities	41.8%	0.0%	41.8%	41.8%
FX *	0.0%	29.2%	29.2%	-29.2%
Total All	**167.4%**	**114.7%**	**282.1%**	**52.7%**
Leverage	**152.9%**			

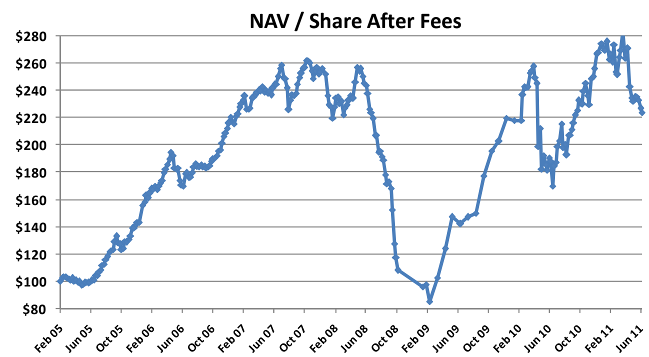
** not included in leverage calculation*

Historical Performance

	2005	2006	2007	2008	2009	2010	2011
Jan	-	13.67%	1.29%	-10.44%	-11.34%	-0.79%	0.50%
Feb	2.24%	2.73%	5.70%	2.75%	-11.37%	0.03%	-3.09%
Mar	-0.27%	4.05%	-0.29%	-3.48%	20.53%	11.16%	1.30%
Apr	-2.54%	8.80%	1.88%	3.03%	20.86%	1.02%	2.42%
May	-0.51%	-3.78%	-0.71%	9.17%	18.71%	-21.49%	-13.14%
Jun	1.84%	-1.67%	2.88%	-7.02%	-3.28%	-2.00%	**-4.88%**
Jul	7.77%	0.37%	1.75%	-13.09%	3.37%	7.72%	
Aug	8.76%	2.33%	-4.69%	-8.69%	1.93%	-4.96%	
Sep	12.64%	0.01%	5.07%	-10.76%	18.41%	12.14%	
Oct	-6.56%	3.70%	4.99%	-35.75%	10.24%	6.31%	
Nov	7.49%	5.36%	-2.96%	n/a	3.66%	-0.13%	
Dec	7.33%	9.49%	0.80%	n/a	8.34%	16.66%	
Year	**43.27%**	**53.70%**	**16.26%**	**-57.73%**	**103.00%**	**21.92%**	**-16.52%**

NAV Data

Fund Price (W/Avg), Main Class	Bid $220.73; Offer $223.55
Designated Investment Share Class	$67.74
Total Assets (AUM)	$26,616,702



Diamond Age
Capital Advisors Limited

Russian Sub-Advisor: Diamond Age Investment Advisors Ltd.
10 Testovskaya Street, Northern Tower, 19th Floor, Moscow, Russia 123317
Tel.: +7 (495) 662-1786; Fax: +7 (495) 662-1762; funds@diamondage.ru
http://www.diamondage.ru

Having just read A Failed Global Recovery, ***"… a weakened global economy that is approaching its "stall speed" of around 3% annual growth – the relapse could turn into the dreaded double-dip recession. It will remain below its trend-line potential for over eight years in a row, through 2015,"*** by Stephen S. Roach, the highly respected non-Executive Chairman of Morgan Stanley Asia and author of, The Next Asia; the Investment Advisor was not remotely surprised when just three days later, the same Morgan Stanley raised their Asian and emerging market equity allocation.

"Emerging-market investors should raise their stock holdings", Morgan Stanley said, citing "attractive" valuations and the prospects of a "stronger" second-half performance for "Asian and developing-nation shares." Morgan Stanley increased their end-2011 forecast for the MSCI Emerging Markets Index by 1 percent to 1,305 and for the MSCI Asia Pacific excluding Japan Index by 2 percent to 550, according to the report. (Bloomberg)

Sector Allocation	
Sovereign Debt	23.42%
Commodities	14.82%
Financials	11.32%
FX	10.35%
Agriculture	6.41%
Metals and Mining	6.28%
Media	6.27%
Real Estate	4.55%
Coal	3.87%
Shipping	3.69%
Conglomerate	3.37%
Construction/Infrastructure	3.33%
Industrials	1.51%
Fisheries	0.81%
Total	100%

Why no surprise? While there is always a divergence of opinion and market analysis (the very essence of stock markets… race horses and marriages, i.e. a difference of opinion), rarely in the 15 years of managing emerging market hedge fund portfolios, has the Investment Advisor seen such a gorge dividing the extremes of both pessimism and optimism. Of course depending on the asset class, Mr. Roach is in fine company with the equally vaunted Nouriel Roubini, Meredith Whitney, Joseph Stiglitz, Marc Faber, Bill Gross, and many others. *Where is Elaine Garzarelli today?*

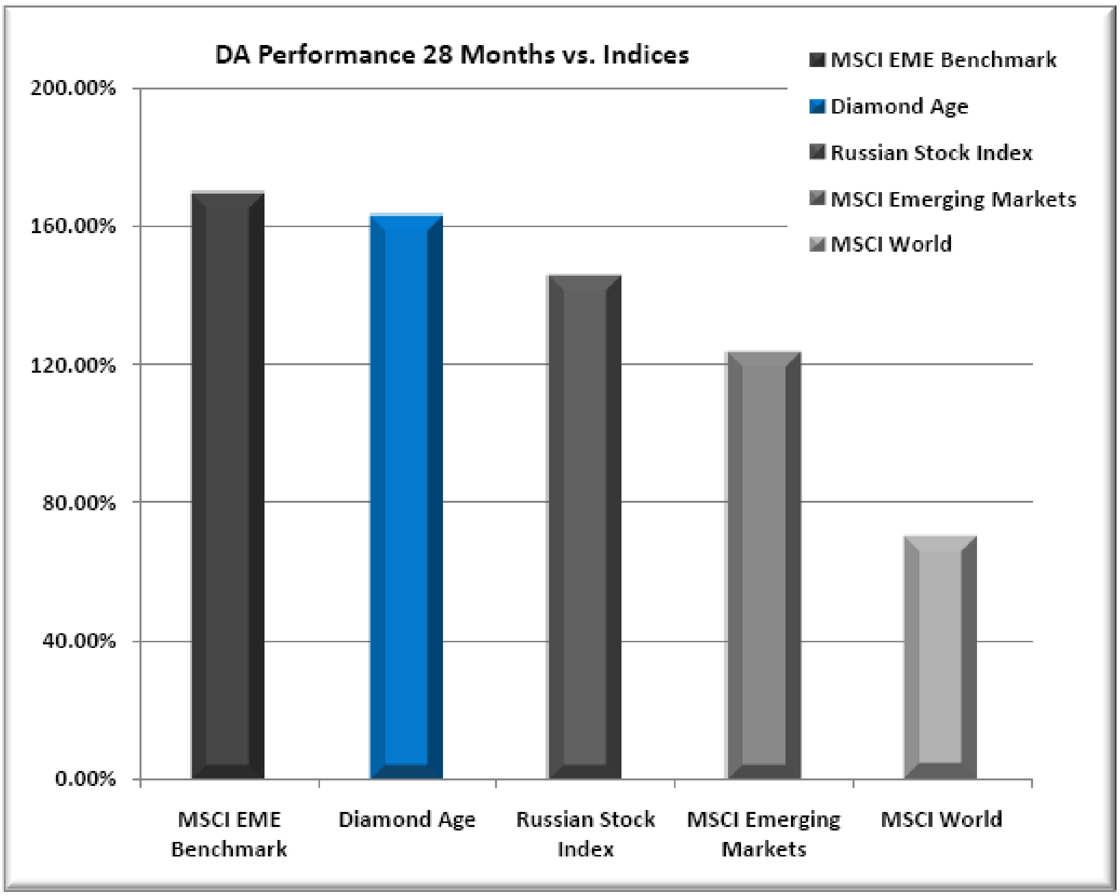
On the other side of the trade (and again depending on the asset class) "Oscar – level" bulls abound in the likes of John Paulson, Jim O'Neil, Mark Mobius, Jim Rogers, Jeffrey Gundlach and Kenneth Fisher.

What does all of this mean to **Diamond Age** portfolio construction? Not much. The Investment Advisor's research and analysis on both the global macro as well as the enterprise specific line items remains internal, original and organically generated. This simply serves to highlight that paper millions, if not billions of dollars will be lost (and gained) as investors align their capital with the most talented, well intentioned, and brilliant professionals within the industry; as by definition, both sides of any trade can never be correct at the same moment.

Thus even after a harrowing May and a tough June of 2011 in which the benchmark MSCI EME finally caught the Fund after 28 months of the Fund's stellar outperformance, there is neither a change in the Fund's forward perceptions nor in the Fund's investment methodology. Following a June performance of -4.88% (largely the same as global markets MSCI World -4.71%) but 3pp worse than the benchmark MXMU -1.88%, **Diamond Age** is not switching horses in midstride.

	Diamond Age	MSCI EM	MSCI EME	MSCI WORLD	MICEX
24-Jun-11	223.55	1115.67	545.05	1275.45	1633.99
1-Jul-11	227.54	1156.74	569.84	1343.81	1698.1
27-Feb-09	85.02	499.3	202.25	750.86	666.05
25-Jun-10	188.33	947.56	420.1	1079.52	1347.58
2-Jul-10	169.74	913.55	411.71	1036.62	1288.05
31-Dec-10	267.8	1151.38	529.41	1280.07	1687.99
27-May-11	235.02	1147.82	555.47	1338.47	1638.06
18-Feb-05	100	528.23	317	1146.44	535.94
28 Month	162.94%	123.45%	169.49%	69.87%	145.33%
TTM	34.05%	26.62%	38.41%	29.63%	31.83%

The Fund's +34% one year performance (TTM 12M) is 4pp behind the benchmark but significantly ahead of MSCI emerging markets, global stocks and the Russian stock market (MICEX). Diamond Age is +163% in 28 months since calling the market bottom in March of 2009 and +124% since 2005 launch (which included the greatest market meltdown in the past 100 years) and remains of the top performing of all Russia and Russia related funds, which survived the crisis of 2008 and are tracked by Bloomberg.



Name		28 Months
MSCI EME Benchmark	(MXMU)	169.49%
Diamond Age	(DIAMRUS KY)	162.94%
Russian Stock Index	(MICEX)	145.33%
MSCI Emerging Markets	(MXEF)	123.45%
MSCI World	(MXWO)	69.87%

As always one can never afford to be "wrong for long" but the Investment Advisor believes, that over any meaningful time period, fundamental research and analysis will prevail over "market timing" and fear. The very same horsemen of the false apocalypse in 2010 May/June market are again the headline 12 months later: demise of the Euro, PIIGS contagion, persistently high unemployment in the US *(some still look for deflation)*, "currency wars," and the end of Chinese commodity demand.

None of these important elements have derailed the broad-based global recovery nor changed the ultimate reality: confluence of urbanisation, industrialisation, EM population growth, resurgent demand, rising extraction costs and scarcity of resources indicate that commodities have entered into a period of a "super-cycle" – a decades-long period of higher prices driven by the emerging middle classes, rising living standards, and eventually American-style individual consumption levels in a one directional shift in power, wealth and prestige, while demand moves from West to East.

With the exception of the Fund's early and published anticipation of EM inflation (now going worldwide both real and present), the predicted reversal of the rate cycle, and the wholly unforeseen short-term effects of the 9.0 Tōhoku earthquake, the Investment Advisor does not see a markedly different investment climate.

Geographic Dispersion	
United States	21.86%
Russia	19.82%
Australia	10.13%
Thailand	7.72%
Canada	7.57%
Singapore	5.02%
Kazakhstan	3.86%
Japan	3.46%
Philippines	2.75%
Georgia	2.45%
United Kingdom	2.13%
Ukraine	1.96%
Hungary	1.77%
Norway	1.77%
Guinea	1.45%
Sweden	1.31%
Mongolia	1.27%
Turkey	1.27%
South Korea	1.25%
China	0.78%
Finland	0.42%
Total	100%

Following last year's May/June 2010 selloff, the reward for **Diamond Age** investors in 2H 2010 was a near +60% return, the second best of all Russia and Russia related funds tracked by Bloomberg. While past performance has no predictive value, this may well constitute an extraordinary investment opportunity, and based on the portfolio movements of the beginning of July, it appears that global sentiment may indeed be moving in the Fund's direction.

	Diamond Age	MSCI EM	MSCI EME	MSCI WORLD	MICEX
8-Jul-11	235.25	1163.93	567.76	1343.13	1724.57
1-Jul-11	227.54	1156.74	569.84	1343.81	1698.1
31-Dec-10	267.8	1151.38	529.41	1280.07	1687.99
11-Jan-11	274.09	1159	556.6	1316.17	1765.3
7-Jun-11	232.98	1134.4	571.45	1305.84	1681.66
18-Feb-05	100	528.23	317	1146.44	535.94
The first week of July	3.39%	0.62%	-0.37%	-0.05%	1.56%

An old friend once said that there are only "two types of people in the world; risk takers and slaves." This portfolio construction represents significant unhedged risk but has also provided powerful returns, on a risk-adjusted basis, vs. the indices and the competitors since 2005. This portfolio construction is also capable of experiencing drawdowns not suitable for all investors.

It is through hard work, long hours, research, fundamental analysis, calculated conviction, years of experience, required intellect and the stones to match, **Diamond Age** invests to maximise its return for investors. That is the field of battle in which **Diamond Age** chooses to play on. This is the very arena where yesterday's viceroys and tomorrow's legless cripples can lie side by side depending on the day.

So in the gladiator's coliseum of the "risk trade", EM equities, commodity futures, Fx derivatives, credit market shorts and leveraged Russian related assets, this is just part of the natural landscape. This is a contact sport. That's why the Investment Advisor wears shoulder pads, a mouth piece, face mask and cleats. If the Investment Advisor did not like it, it could work in an ice cream shoppe. Rather it would like to put itself back in the middle of the pitch and be in a position to fight for another powerful return in 2H 2011.

Portfolio specifics which have been harmful to 1H 2011 performance:

- If the Fund no longer believes that global rates have turned and no longer believes that inflation is moving higher: Chinese June CPI was 6.4% YoY vs. 4.0% target (May 5.5% YoY) and the sharpest increase since June 2008. Food prices rose by 14.4% YoY – pork, an important part of the Chinese diet, rose by a staggering 57% YoY... Russian CPI at 9.5%, Bernanke no more plans to make additional bond purchases, Moody's threatens to remove US Aaa bond rating, from the 2nd of August; if the debt ceiling is not extended the US Treasury must stop processing payments, some of which will be coupons or redemptions of bonds – i.e. a technical default event – then the Fund must cover the bond shorts – the Fund does not intend to do so at this time.

- If the Fund no longer believes in its global agro and soft commodity theme and if the Fund does not believe agricultural assets are a reasonable hedge against inflation – then the Fund must sell them – the Fund does not intend to do so at this time.
- If the Fund no longer believes that Mail.ru (MAIL LI) represents an exceptional short and that the stock will trade higher on reasons unrelated to company specific fundamentals – then the Fund must cover the short – the Fund does not intend to do so at this time.
- If the Fund no longer favours high rate, high growth, commodity-centric, inflationary EM currencies vs. slow growth, low rate, "safe haven" currencies... Brazil has just implemented further measures to curb the rising Real. The Central Bank will require banks to make non interest bearing deposits equivalent to 60% of short US$ positions that exceed US$1B, or their capital base. Whether these measures will work is debatable – then the Fund must cover these shorts – the Fund does not intend to do so at this time.
- If the Fund no longer believes in the race for African mineral supplies (Brazil's Vale and China's Jinchuan Group in bidding war for Metorex, Rio Tinto buys Riversdale, China's CIC raises Equinox bid 18%), then the Fund must sell Bellzone – the Fund does not intend to do so at this time.
- If the Fund no longer believes in rising global coal demand (particularly in the wake of the Japanese nuclear disaster – *demand will certainly increase*) – then the Fund must sell Mechel, Mongolian Mining, and the likes – the Fund does not intend to do so at this time.
- If the Fund no longer believes in Bank of Georgia (Georgia) or MHP Group (Ukraine) or Kazakhmys (Kazakhstan) and other regional CIS stock opportunities – then the Fund must sell them – the Fund does not intend to do so at this time.

June performance attribution:

- **Equities: 125.6% gross AUM top stocks for June: 1. short Frontline (FRO NO) Norway – Shipping (-16.2%), 2. Sberbank Prefs (SBERP03 RX) Russia – Financials +11.6%, 3. short Mail.ru Group (MAIL LI) Russia – Media (-9.9%), 4. Mirland Development (MLD LN) Russia – Real Estate +7.1%, 5. Mongolian Mining Corporation (975 HK) Mongolia – Coal +5.9%, 6. Komatsu (6301 JP) Japan – Construction +3.0%, 7. Thai Union Frozen (TUF TB) Thailand – Fisheries +1.6%**
- **Commodities: 41.8% gross AUM: October Comex Platinum (PLV1) -6.8%, September Palladium (PAU1) -4.0%, September Copper (HGU1) -2.1%**
- **Soft commodities sub set: 18.81% gross AUM: September Corn (C U1) -9.78%, September Wheat (W U1) -23.9%, August Soybean (S Q1) -4.4%**
- **Credit Markets: short (66.1%) gross AUM: short Australian 10Y bond futures (XMU1) +1.2%, Canadian 10Y bond futures (CNU1) +1.9%, US 10Y bond futures (TYU1) +1.9%**
- **FX derivatives: short (29.2%) AUM slow growth, low rates currencies – the USD, Euro and GBP – and long inflationary, fast growth, high-rate, commodity centric currencies – Australian Dollar, Korean Won and Singapore Dollar currency derivatives (90 days NDF's) X-rate trades**
- **The Fund still maintains Oil and Gas weight at 00.00%**

Unwavering in its position since March 2009, the Investment Advisor maintains that we are in the midst of a post-crisis global recovery which is largely consistent with historical post-crisis recoveries. This will never be a one-directional "constant", with some months slower and others quicker – no surprise.

The investment climate for "Russia" maybe fairly characterised by world-wide growth, inventory restocking, urbanisation, industrialisation, and associated demand for raw materials.

Important to note that while inflation is an important driver of paper asset price depreciation, it does not mean the end of natural resource and materials consumption, or indeed pricing of the underlying commodities which may well serve as an inflation hedge. Understanding that during the inflationary "Great Bear" Market in the 1970's, stocks and paper assets were devastated and commodity prices and hard assets made new highs, one can make an observation that 40 years later to this day these prices still remain significantly below (inflation adjusted) all time high prices.

The Fund remains long and leveraged to Russia-related assets, the risk trade, basic materials, and agriculture. The Fund plans to continue maintain its exposure to agricultural shares and soft commodities while reducing its exposure (in general) to emerging market equities. The Fund is short long dated bond futures; short G7 and safe heaven Fx. Largest holdings include short September Aussi (-18.8%), UST (-25.9%) and Canadian (-21.4%) 10Y Bond futures, short Mail.ru Group (MAIL LI) Russia (-14.4%), long Sberbank Prefs (SBERP03 RX) Russia 12.4%, September Comex Copper (HGU1) 9.9%, Charoen Pokphand Foods (CPF TB) Thailand 9.8%.

Favoured stock sectors remain agriculture, metals, industrials, coal, construction and real-estate. As such the Fund has zero exposure to defensive sectors of healthcare, consumer staples, telecommunications, food retail or electrical utilities.

The Fund's portfolio composition is of course specifically constructed not to replicate a stock index or mirror a Russian ETF. It is being managed to generate meaningful wealth creation for investors; with global, diversified, performance returns commiserate with the risk of investing in Russia-related assets, EM Fx, "the risk-trade," commodities, and emerging market equities. Following the May/June selloff of 2010, that dip proved to be an optimal buying scenario (+60% 2H 2010).

While the world is in constant flux, the opportunity to generate powerful returns, in this unique EM "Greater Russia" strategy investment mandate, has not dissipated.

Diamond Age Capital Advisors Ltd. receives sub-advisory counsel from Eighth Continent Capital Pte. Ltd.; a partnership which represents a continuity of investment advice dating back to initial Diamond Age Russia Fund inception February 2005. Content of this Letter to Investors provided by Eighth Continent Capital Pte. Ltd. in cooperation with Diamond Age Investment Advisors Ltd.

Addendum

[Date of the correspondence: the lowest point of market sentiment in June]

Dear Mr. Investor,

Thank you for your e-mail, and I am happy to discuss our year-to-date performance.

There is no single best benchmark to "describe" our portfolio, but if you were looking for the "least imperfect" one, it would be MSCI EME:

http://www.bloomberg.com/apps/quote?ticker=MXMU:IND

Even going by the RTS Index, which peaked out at 2,500 in May 2008 – now that it is at 1,972 – it is still more than 20% lower than its pre-crisis peak (and would require another 27% advance, just to get back to that level).

We have already exceeded our pre-crisis high watermark at the end of 2010, although – as we both know – we have been doing rather poorly YTD in 2011. But again, the year is not over yet.

Coming back to MSCI EME and our relative performance. Since launch our fund is up 127.54% as of the first of July, and MSCI EME is up 79.76% for the exact same period. Since we called it a market bottom in March 2009 and re-positioned our portfolio, in order – as we thought then – to capture benefits of a huge recovery, our fund is up 167.63% for the past 28 months, which is on par with MSCI EME and far ahead of the Russian index called MICEX (Bloomberg: INDEXCF:IND). For the same 28 months, MICEX is up 154.95%, which is much less than our fund (by the way, MSCI World Index is up "only" 78.97% for the same time period).

Our fund is also doing reasonably well on a trailing 12 months basis ("TTM") – the fund is up 34.05%, MSCI EME is up 38.41%, MSCI EM is up 26.62% and MICEX is up 31.83%.

Our post-crisis recovery of 2009 was spectacular: the fund was up 103.00% in 2009. Let's even take 2010, when at some point we were down -14.26% YTD as of the end of June 2010… And yet, the full 2010 was actually a great year, since we outperformed our benchmark MSCI EME by +51% and were up 21.92% for the full year.

If you are reading our monthly letters to investors (and you are), you could be asking, how is it possible that we made so many right calls and yet thus far underperformed in 2011? The Fund was actually up 5% at the end of April but the month of May was expensive for the fund investors (ourselves included). And your question is the source of our angst and darkness – this time we don't completely understand why we have not been able to better executive on our own correct calls.

Perhaps timing?

We sold down our net long exposure from 155% to 85% in December, in anticipation of the 2011 emerging markets inflation problem and thus an end to a 2010 year-end-rally… and we were correct in the non-Russia call since EM equities sold off… but Russia (dominated by oil and gas stocks) rallied in double-digits in January on unanticipated MENA crisis. Our benchmark MSCI EME is about 55% Russia, so we not only underperformed the RTS, but we also underperformed our own benchmark then, because of such a high Russian weight in it. We then bought back in a little later and Russia sells off in March and April…

Our fixed income short exposure, albeit totally correct in a longer term, was totally screwed short-term, by unanticipated Japanese natural disaster.

Another problem – commodities not reacting, short-term, to inflation in any conventional economic sense.

Yet another problem – stronger USD, and our short USD exposure plus commodity prices are totally screwed, also short-term, by further Greek and Greek-related idiocy.

By the way, these are the same 6 or so factors that hammered global markets in May and June of last year, with the exception of inflation (real and present) and Japan.

Of course, we don't know about the market, in the end, but it is the ultimate judge. We know that we have been "correct"… but who cares. Only the performance matters in the end, right?

But I would argue that, based on a more careful consideration of hard numbers, the only real negative conclusion that can be drawn is that we had an absolutely horrific May -13.14% but our benchmark was not so pretty either at -9.25% (which we wrote about exhaustively in the monthly letter to investors)… and that we have generally underperformed thus far in 2011 for reasons of which we are all aware (as above).

This year is only half over. We have six months to turn it around and we will.

Let me further expand on all of this.

We are of course paid for doing our research and acting on it, and so we'd better be right in our analysis! And so sometimes, more than average, we would think, we are right, and sometimes, we are wrong. One can never be 100% right in 100% of all the time, in investing – otherwise one would've been the richest person in the world all the time. However, once again, what is the most frustrating for us at the moment – is that we were actually correct in many observations and analyses over the course of last months since the beginning of the year, and yet were behind the curve in some of our material positions, selling longs or covering shorts not fast enough, after we saw an opportunity or a threat.

For example, this is what we wrote in the January Letter to Investors: "In the final hours of a six month +57.77% advance, in which the Fund was the #2 performing of all Russia funds and Russian hedge funds tracked on Bloomberg, the Fund deleveraged the book. Over the course of the last three trading days of the year, the Investment Advisor sold down the Christmas rally." That, of course, was our comment after a +16.66% December and a +0.50% January. On the one hand, not fast enough, looking back in hindsight from the lows of June 2011. On the other hand, too much was left on the table, when the Russia assets rallied in the beginning of the year.

Remember – those who were "short" dot-coms in 1998 and 1999 – they were fundamentally right, but wrong with getting the timing right: some of them were out of business by the time the market proved them right, at last, with the dot-com bust… some of the "short" dot-com funds simply blew up before the dot-com crash, because of their leveraged "short" position, although they were fundamentally correct!

Here is our internet short: Mail.ru. We did our homework, our analysis… the level of our conviction for the trade was very high… and yet this trade produced heavy losses, and we decided to cover this short at a loss, which we did in May: the market is always right, and if it is not right, then there might be an issue with timing. With the Mail.ru "short" we lost $686,678 YTD the first time around – a staggering amount of money, given the size of our fund of $30 million… but fundamentally we were right, and we thought… that we will short it again at some point. The rationale for shorting it was described in previous letters to investors… but the Yandex IPO and the international social network frenzy started driving this stock higher, squeezing us out of our short position… so closed out – then – at a loss.

Having said that, we reviewed the Yandex IPO prospectus in detail, and thought that Yandex makes much more sense as a "long" but not a high-conviction long-term investment… so we decided to buy into the IPO, as a "hedge" against our Mail.ru short exposure… and we put in orders. While many investors were filled for only 2% of their orders, our good friends at various banks were quite efficient and loyal to our 15-year-long personal relationships… and so our fund got some decent allocation at this IPO… to only be flipped by us, at a nice profit (pre-IPO price at which we got the shares of $25 was almost "free money" for the fund when the stock hit $35, at which we sold). This massive profit on a relatively small position helped to offset some losses in Mail.ru short, which proved to be an efficient hedge. The only problem is that it was still a net negative!

We re-opened Mail.ru short a bit later at higher levels and for now it is inconclusive whether we are right and whether the timing is right, but it is all based on fundamentals and our homework, so at least we know we did not cut any corners here. We are paid to take reasonable and well-founded and informed risks – that's exactly what we are doing with Mail.ru, and the rest of our portfolio, for that matter.

We do have a “short” in the portfolio which we could be proud of: Frontline, Norway – cargo and shipping. We still have it as a short. We made more than half a million dollars on it, on its way down, YTD.

Remember, we stuck to our guns last year, our conviction was high, we knew that it was the darkest before dawn, and we then made +58% in the following 6 months. Has anything changed since then? I think not too much: a soft patch in the global economy, made it worse by an unpredictable event in Japan, which could shave off one percentage point from the otherwise positive global growth, to be made up in Q4, due to a large-scale re-building effort in Japan. The general “flight to safety”, especially after the Japan earthquake, was unexpected and it damaged our “shorts” in developed markets bonds.

Soft patch plus emerging markets inflation filtering through into the developed markets made us cautious on all stocks, and on emerging markets stocks in particular – it turned out we needed to be still even less net long… but that’s the issue of timing. We believe that now we need to be more net long, after this huge… correction (shall we call it that way?).

It must be re-iterated here that the preceding +220% return in a little more than two years since calling the market bottom in March of 2009 and subsequent bullish repositioning of investor capital was not without significant unhedged risk – so this unhedged risk materialized in May – July of last year and once again just now in 2011… but we have re-taken all the losses back in 2010 and more, and we are determined to do the same in 2011. QE2 will be over but Bernanke and Washington don’t know how to make it different – although there won’t be a QE3 under such a name, there will be something else, where Bernanke and Washington will continue printing money… they just can’t do anything else at this point, and so more liquidity, lower USD, higher commodity prices, “new normal” in employment, and high profits for corporates… when we talk about the developed world… and then the same, never-seen-before, growth in population and urbanization in emerging markets, driving commodity and food demand further and higher.

But in the meantime: we sold our entire long oil exposure, both the underlying commodity and oil stocks, and thus reduced our leverage (temporarily). We initiated some long agriculture/food positions which are new to the portfolio, and expect these positions to contribute to alpha within the next 12 months in a most positive way.

We don’t believe in a “double-dip” recession, because there is none and won’t be any, barring any 8-sigma unforeseen events of monumental proportions; the current soft patch is our cautious but still a buying opportunity, in my opinion.

After a careful daily analysis, we stand firm by this portfolio construction.

Best Regards,

The Investment Advisor

Disclaimer: This material is for information purposes only and does not constitute an offer to sell, nor a solicitation of an offer to buy shares in the Diamond Age Russia Fund (the “Fund”) in any jurisdiction to any person to whom it is unlawful to make such an offer or sale. Subscriptions will only be received and shares issued on the basis of the current Offering Memorandum for the Fund, and prospective investors should carefully consider the extensive risk warnings and disclosures for the Fund set out therein. Investors should also consider any other factors that may be relevant to their circumstances, including tax considerations, before making an investment. An investment in the Fund is speculative and is not intended as a complete investment program.

© 2011 Diamond Age Capital Advisors Limited. All rights reserved. No part of this material may be reproduced or transmitted in any form or by any means – electronic, mechanical, electro-optical or otherwise – without the prior written permission of the copyright holder for which written application should be made.