



Monthly Letter to Investors – August 2012

In August, the Fund had a slightly negative performance of 2.5%, after positioning itself for a QE3 announcement of then unknown timing. The Fund's overall constructive positioning, however, was of modest proportions, with only a 62% net long exposure, i.e. quite a low "long bias" by the Fund's historical standards. But after a modest set-back in August, this constructive positioning paid off handsomely in September, beyond the timeframe of this reporting period, with the ECB and Federal Reserve effectively announcing an unlimited global QE and sparking a "risk on" trade world-wide.

The Investment Advisor very well understands the long-term implications of unlimited global money-printing, and with no desire to "fight the Fed", Diamond Age is positioning the Fund to profit from these long-term processes. Diamond Age will maintain a "long-biased" portfolio of securities in multiple asset classes, including equities, bonds, currencies and commodities, which stand to benefit world-wide from Russian and CIS-related activities in an increasingly globalized world. When China wants to eat and drink – give it food and water, to give just one of many examples. China, for instance, overcomes its chronic water shortages by bringing in water in the form of massive grain imports – benefitting agro stocks in Russia, Ukraine and Kazakhstan. And when the value of money falls, buy long whatever benefits as a result, and sell short whatever will be destroyed.

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%																																				
<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%	-11.92%																																			
<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 \$104.70; Offer \$105.01																																									
<i>CUSIP</i>	<i>G2863P 10 9</i>	Designated Investment Share Class		\$63.89																																									
<i>Bloomberg Ticker</i>	<i>DIAMRUS KY <Equity> <Go></i>	Total Fund Assets (AUM)		\$ 13,373,348																																									
		Total Firm AUM		\$187,353,526																																									
		<table border="1"> <thead> <tr> <th>Asset Class</th> <th>Long</th> <th>Short</th> <th>Gross</th> <th>Net</th> </tr> </thead> <tbody> <tr> <td>Equities</td> <td>83.3%</td> <td>5.0%</td> <td>88.3%</td> <td>78.3%</td> </tr> <tr> <td>Derivatives</td> <td>0.0%</td> <td>0.0%</td> <td>0.0%</td> <td>0.0%</td> </tr> <tr> <td>Commodities</td> <td>0.0%</td> <td>16.0%</td> <td>16.0%</td> <td>-16.0%</td> </tr> <tr> <td>FX</td> <td>0.0%</td> <td>0.0%</td> <td>0.0%</td> <td>0.0%</td> </tr> <tr> <td>Total All</td> <td>83.3%</td> <td>21.0%</td> <td>104.3%</td> <td>62.3%</td> </tr> <tr> <td>Leverage</td> <td>4.3%</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>									Asset Class	Long	Short	Gross	Net	Equities	83.3%	5.0%	88.3%	78.3%	Derivatives	0.0%	0.0%	0.0%	0.0%	Commodities	0.0%	16.0%	16.0%	-16.0%	FX	0.0%	0.0%	0.0%	0.0%	Total All	83.3%	21.0%	104.3%	62.3%	Leverage	4.3%			
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Structural problems in many developed countries will take up to 20 years to resolve – provided sufficient political will and capital are invested over that period. The unlimited expansion of balance sheets on the part of major central banks in order to buy these 20 years will certainly see the fulfilment of Warren Buffet’s forecast back in February this year in his letter to Berkshire Hathaway shareholders, which Diamond Age quoted in the Fund’s Letter to Investors:

http://www.diamondage.ru/newsletter/Eng_DA_Jan_12.pdf

It is worth repeating that forecast here, as this is exactly what will happen in the coming two decades:

“...Even in the U.S., where the wish for a stable currency is strong, the dollar has fallen a staggering 86% in value since 1965, when I took over management of Berkshire. It takes no less than \$7 today to buy what \$1 did at that time. Consequently, a tax-free institution would have needed 4.3% interest annually from bond investments over that period to simply maintain its purchasing power. Its managers would have been kidding themselves if they thought of any portion of that interest as "income."

For taxpaying investors like you and me, the picture has been far worse. During the same 47-year period, continuous rolling of U.S. Treasury bills produced 5.7% annually. That sounds satisfactory. But if an individual investor paid personal income taxes at a rate averaging 25%, this 5.7% return would have yielded nothing in the way of real income. This investor's visible income tax would have stripped him of 1.4 points of the stated yield, and the invisible inflation tax would have devoured the remaining 4.3 points. It's noteworthy that the implicit inflation "tax" was more than triple the explicit income tax that our investor probably thought of as his main burden. "In God We Trust" may be imprinted on our currency, but the hand that activates our government's printing press has been all too human.”

With this in mind, the Fund’s portfolio and its security selection are positioned accordingly.

Sector Allocation	
Financials	16.81%
Commodities	15.35%
Metals and Mining	11.60%
Telecoms	9.98%
Agriculture	6.42%
Conglomerate	6.14%
Gas Utilities	4.34%
Fisheries	4.29%
Coal	4.19%
Airlines	3.17%
Industrials	3.15%
Consumer Durables	2.94%
Chemicals	2.87%
Construction/Infrastructure	2.85%
Electrical Utilities	2.50%
Media	1.92%
Real Estate	1.49%
Total	100%

Geographic Dispersion	
Russia	40.01%
United States	15.35%
Ukraine	11.05%
Georgia	8.08%
Kazakhstan	7.99%
South Korea	5.81%
Thailand	4.29%
Turkey	2.85%
Singapore	2.10%
Guinea	1.47%
China	1.01%
Total	100%

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