DIAMOND AGE RUSSIA FUND

MONTHLY LETTER TO INVESTORS – APRIL 2011

April's Anglo-Russo-Franco Travel Special

"The first of April is the day we remember what we are the other 364 days of the year." **Mark Twain**

In a continuation of the near straight-line flat return over the first quarter 2011, investors received little surprise during the April period. The Fund advanced +2.42%, slightly underperforming the benchmark MSCI EME +3.68%, while convincingly beating the Russian Stock Market (MICEX), which declined -3.20% for the month. Since calling the market bottom in March of 2009, investors are now up +218.24% in a little more than two years (chart on the next page), significantly higher than all meaningful indices.

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	130.7%	12.2%	142.9%	118.5%
Bonds	0.0%	54.9%	54.9%	-54.9%
Commodities	49.3%	0.0%	49.3%	49.3%
FX *	0.0%	25.4%	25.4%	-25.4%
Total All	**180.0%**	**92.5%**	**272.5%**	**87.5%**
Leverage	**147.1%**			

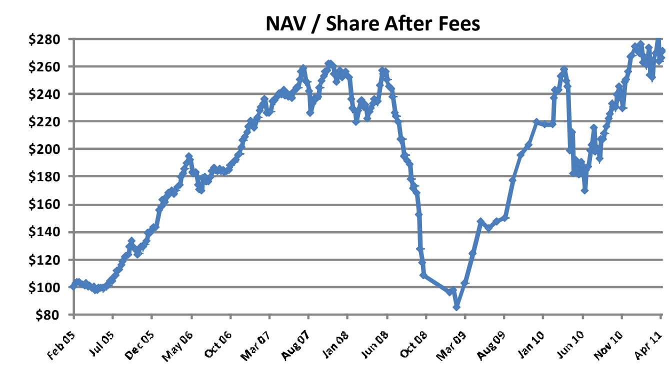
** not included in leverage calculation*

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%	
Jun	1.84%	-1.67%	2.88%	-7.02%	-3.28%	-2.00%	
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%**	**1.04%**

NAV Data

Fund Price (W/Avg), Main Class	Bid $266.34; Offer $270.57
Designated Investment Share Class	$68.75
Total Assets (AUM)	$31,465,191



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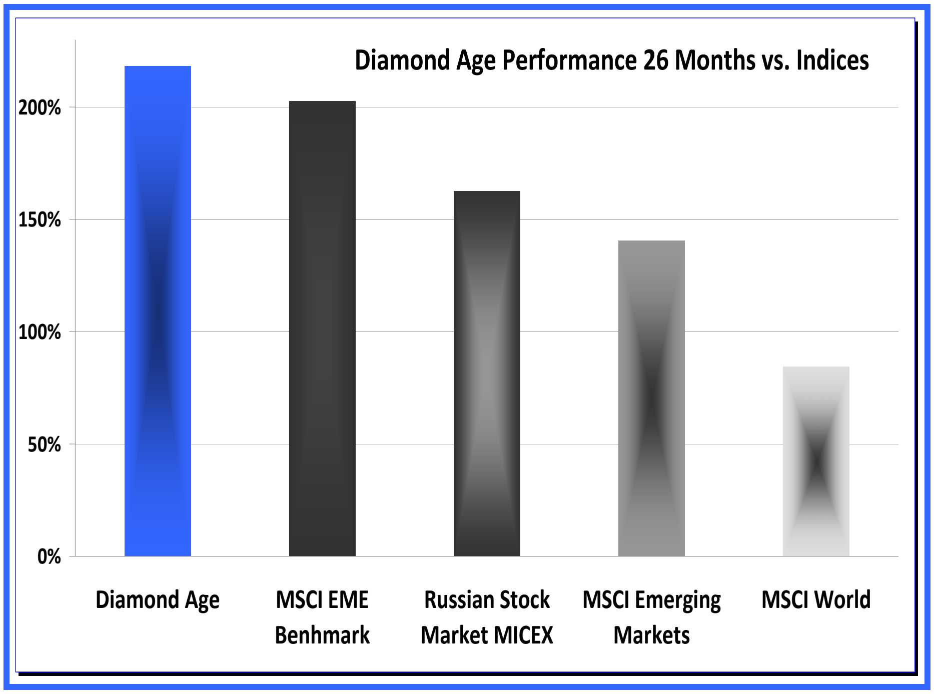


Sector Allocation	
Sovereign Debt	20.16%
Commodities	18.10%
Financials	10.66%
FX	9.32%
Metals and Mining	6.87%
Agriculture	4.52%
Real Estate	4.51%
Shipping	3.98%
Coal	3.61%
Media	3.33%
Gas Utilities	3.06%
Construction/Infrastructure	2.77%
Conglomerate	2.74%
Oil - Integrated	2.68%
E & P	2.39%
Industrials	1.28%
Total	100%

Name		26 Months
Diamond Age	(DIAMRUS KY)	218.24%
MSCI EME Benchmark	(MXMU)	202.64%
Russian Stock Index	(MICEX)	162.69%
MSCI Emerging Markets	(MXEF)	140.48%
MSCI World	(MXWO)	84.45%

In marked contrast to the trailing four months of turbulence coupled with managed volatility, and elevated portfolio rotation (turnover), April came in like a lamb and left… pretty much left like the same lamb.

December could have been characterised as a significant deleveraging of the book in selling down emerging market equities. After posting a +16.7% profit for the month and in anticipation of the 2011 EM inflation threat to portfolio construction, which has indeed become the mainstream consensus, net long exposure was reduced from 140.4% to 87.8%. This represented significant selling; defensible, rational and reasoned; but perhaps in retrospect, somewhat premature.

January was denoted by an abrupt change in the Fund's bold, brave, bullish position, first printed here when the sky was black in May of 2010. From that publication, the Fund outperformed the benchmark MSCI EME by 54%, Russian stocks by 31% and global emerging markets by 88%. But not only is the Investment Advisor paid to generate out-sized investment returns, but also, to the extent possible, somewhat mitigate the risk of doing business in Russian investments, commodities, EM credit markets, and broadly, the "risk trade."

And while the still valid investment thesis of EM co-coordinated central bank tightening took -2.81% from MSCI Emerging Markets (MXEF), the Fund's less aggressive asset allocation underperformed the local Russian stock market which advanced +2.10%. The MICEX surprised to the upside as the low valuation beneficiary of dedicated

BRIC capital and other EM funds moving out of higher valuation and higher inflation China, India, Brazil, and other emerging markets, and into Russia.

February ushered in the ongoing (and in certain flashpoints) accelerating MENA revolt. The conflict which originated in Tunisia, soon spread to Egypt, Algeria, the Persian Gulf, Arabian Peninsula, and most demonstratively impacted oil global markets with the civil war currently being waged in Libya. The so dedicated "Manama Madness" edition (February monthly Letter to Investors) described how the Fund maximised on a then 23.38% gross AUM position in Brent ICE Futures, and took other proactive measures to protect long emerging market exposures as MSCI Emerging Markets (MXEF) fell another -1.01% (even as Russian stocks advanced on rising oil and gas).

Geographic Dispersion	
United States	23.82%
Russia	21.59%
Australia	9.00%
Canada	6.57%
Thailand	6.40%
Singapore	4.57%
Kazakhstan	3.95%
Georgia	2.47%
Japan	2.46%
Norway	2.30%
United Kingdom	2.02%
Guinea	1.92%
Hungary	1.84%
Ukraine	1.80%
Philippines	1.68%
Ireland	1.59%
Sweden	1.36%
South Korea	1.28%
Mongolia	1.07%
Turkey	1.02%
Turkmenistan	0.80%
Finland	0.49%
Total	100%

While the conflict and the spectre of sectarian violence did not cross the bridge from Bahrain to Riyadh, nor did it spread through the all important Kingdom of Saudi Arabia, the situation in both Syria and Yemen continues to deteriorate rapidly.

March delivered the 9.0 Japanese Tōhoku earthquake, ensuing tsunami, and Fukushima Dai-ichi nuclear meltdown, which sent the world's third largest economy into crisis. Fear and the flight to quality trade sent bond shorts skyward, commodities cratered, and the risk traders became eunuchs.

As has been described, the **Diamond Age** response was proactive, deliberate, and decisive. The Fund added to soft commodities, re-initiated credit market shorts, increased thermal coal and natural gas exposure (make up medium-term nuclear energy shortfall), shorted slow-growth, low-rate, GBP, USD, and EUR against long positions in high-growth, rising rate, inflationary, commodity-centric, inflationary currencies AUD, SGD, KRW; bought Komatsu (6301 JP) and Mitsui Ltd (8031 JP) of Japan to 7% gross AUM; held the line, sold nothing, increased leverage, recouped the entire intra-month drop, and recorded a modest gain for the month.

This capped four months of significant portfolio velocity (turnover) and active, event driven portfolio management.

April… we just kicked off our spurs, neatsfoot oiled up the saddles (shin bones are best) and cleaned our guns… *mine is a handcrafted Italian Franchi "sovrapposti" over-under 12, and took a seat near the door.*

Les Saissons Russes du XXI Siecle – Programme 3 at the London Coliseum

If for no other reason than to prevent a dreaded case of buyside "mind-dwarfing", once in a while it becomes a professional requirement to take a step away from the Bloomberg (early withdrawals), postpone the company management visits (happily), tune out CNBC's Erin Burnett (that is the tough one), and instead go out and meet real life investors face-to-face to hear what they are saying.

As such the Investment Advisor was fortunate enough to attend the **Diaghilev Festival, Les Saissons Russes du XXI Siecle –** Programme 3 at the London Coliseum. The three act spectacular was followed by a gala dinner and art auction at the Savoy Hotel.

The event was well attended by an international investor base with a strong and prominent Russian contingent, but importantly the investment dialog was dominated by Russian politics and not Russian economics.

The Diamond Age short take from this cursory exchange with significant Russian and Russia-related investors, was that a heavy and sometimes dark government "fatigue" and a general pessimism for the business climate in Russia, trumped the obvious optimism generated by the persistently high oil price and powerful pricing for CIS commodity exports. General interest in the Russian market seemed no longer consistent with the short-lived wave of Russian euphoria that dominated the first two months of 2011.

Then on to the **EuroHedge Summit (Paris) 2011**, at Le Palais de la Bourse which while well attended, was heavy with industry professionals and predictably light on individuals and institutions with money in the market.

That being said there were a few well paid international investment luminaries on hand to keep the fannies in the cushions; and the forums were stacked with both the credible, the qualified, and in some cases, the beautiful... Margot McDonagh if NCB comes to mind.

One of the features atypical for such a conference was the divergence of opinion on the global macro. Notably absent was the standard consensus view which resonates in mono-chorus from such events.

Quoting from the day one actual programme banner: 1) "Is the global economy starting to recover?" *(Was that not in February of 2009?)* 2) "Or is another recession on the way?" *(Double dippers still exist?)* 3) "Is the financial crisis over?" *(Yes a couple years ago, unless you live in Mogadishu?)* and 4) the Investment Advisor's absolute favourite: "Is inflation or deflation a bigger risk?" *(Deflation risk is of similar probability as Robert Frederick Zenon a.k.a. Sir Bob Geldof being anointed the next King of England.)*

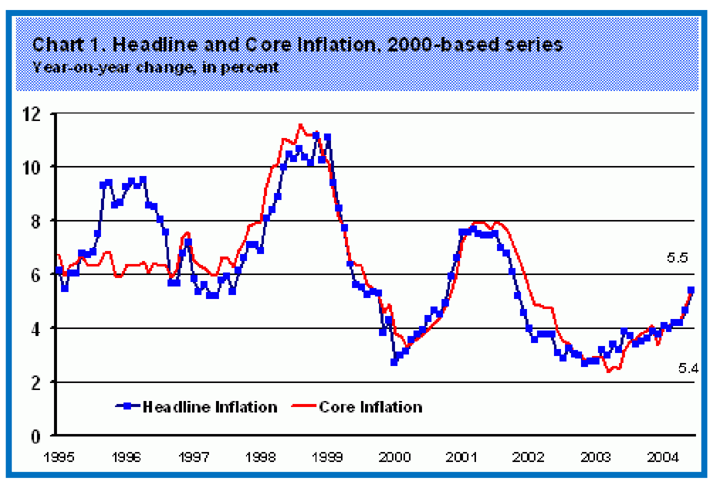
Diamond Age longer take from three days in "La Ville-Lumière" was that the main of the investment community is again playing the part of Christopher Robin when we do not see the rain. Tut-tut Pooh! Why the spectacular correction in natural resource prices? This is not driven by fundamental supply/demand imbalances, death of the commodity super-cycle, end of Chinese materials demand, Euroland disciplinary housekeeping troubles, or even persistently high unemployment numbers in Amerika (seven consecutive months of positive non-farm payroll job creation (NFP) to sum of 1,184,100). No, rather a similar normalisation of Fund positioning, such as the inverse of the one the Fund chronicled in this publication, with the S&P 500 in July of 2010, or to put it another way, too many people on one side of the boat.

And no grand Parisian event would be complete without appearances by Pierre Richard, Gael Monfils, Gerard Depardieu, and a keynote finale' address by none other than the late Marcel Marceau... tears of a clown followed by a Buddha Bar bungle

April performance attribution:

- **Equities: 142.9% gross AUM top stocks for April: 1. Charoen Pokphand Food (CPF TB) Thailand – Agriculture +20.00%, 2. International Container (ICT PM) Philippines – Ports +19.61%, 3. Petroneft Resources (PTR LN) Russia – E&P +17.59%, 4. short Frontline (FRO NO) Norway – Shipping (-15.56%), 5. OTP Bank (OTP HB) Hungary – Financials +13.48%, 6. Enka Insaat (ENKAI TI) Turkey – Construction +10.42%, 7. Raven Russia (RUS LN) Russia – Real Estate +7.28%, 8. Hyundai Mipo Dockyard (010620 KS) South Korea – Industrials +6.74%, 9. Swedbank (SWEDA SS) Sweden – Financials +2.43%, 10. Noble Group (NOBL SP) Singapore – Conglomerate +1.38%**
- **Commodities: 49.3% gross AUM: June Brent Crude (COM1) 12.69% AUM, July Comex Platinum (PLN1) 5.22% AUM, June Palladium (PAM1) 7.12% AUM, July Copper (HGN1) 8.73% AUM**
- **Soft commodities sub set: 15.67% gross AUM: July Corn (C N1) 4.92% AUM, July Wheat (W N1) 4.02% AUM, July Soybeans (S N1) 3.41% AUM, July Sugar #11 (SBN1) 3.32% AUM**
- **Credit Markets: short (54.9%) gross AUM: short Australian 10Y bond futures (XMM1) (15.92%) AUM, Canadian 10Y bond futures (CNM1) (17.90%) AUM and US 10Y bond futures (TYM1) 21.08% AUM**
- **FX derivatives: short (25.4%) AUM slow growth, low rate 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**

Inflation and credit market shorts



To clarify: the difference between headline and core inflation over any meaningful time series is virtually non-existent. Don't believe what you read. Food and energy inputs, EM real wages (selective), higher mortgages, and rising manufacturing costs will not be quarantined by imaginary DM borders, high unemployment, low capacity utilisation, or even high output gaps. Inflation is a risk to portfolio construction which Diamond Age views in a correct global context.

In the beginning of May 2011 the People's Bank of China and the Central Bank of Norway both raised rates again, joining India, Korea, and a raft of powerful EM and DM central banks, who have all tightened credit in just the past month. This is long lived and will persist (even accelerate) for the duration of the economic cycle.

Executive Summary

Diamond Age maintains that the confluence of 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, prestige, and demand moves from West to East.

Unwavering in its perception since March 2009, the Fund maintains that we are in the midst of a post-crisis global recovery which is largely consistent with historical post-crisis recoveries. Investment climate for "Russia" maybe fairly characterised by world-wide growth, inventory restocking, urbanisation, 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 bonds were devastated and commodity prices and hard assets made new highs; and 40 years later to this day still all time high prices in real terms.

Diamond Age remains long and leveraged to Russia-related assets, the risk trade, basic materials, and agriculture. The Fund plans to continue reducing its exposure to emerging market equities. The Fund is short long dated bond futures; short G7 and safe haven Fx. Largest holdings include short June Aussie -15.92%, UST -21.08%, and Canadian -17.90% 10Y Bond futures, June Brent ICE crude futures 12.69%, July Comex Copper futures 8.73%, short Mail.ru (MAIL LI) Russia -5.84%, long Charoen Pokphand (CPF TB) Thailand 8.85%, and Sberbank Preferreds (SBERP03 RX) Russia 9.90%.

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

Why Invest?

Diamond Age is up 218% since calling the market bottom March 2009, and initiated the bullish prepositioning of client assets.

Diamond Age is one of only three funds tracked on Bloomberg to have retaken the pre-2008 financial crisis high water mark (accomplished December 2010), as was the second best performing of all Russia funds for the last six months of 2010 +58.44% 2H '10. Net return to investors is 7.69% higher than the benchmark, 34.13% higher than the Russian stock market, 55.35% higher than emerging markets and 158.42% higher that world equities.

Diamond Age is 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, the risk-trade, commodities, and emerging market equities.

This investment mandate involves significant unhedged risk.

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.