Diamond Age Russia Fund

Monthly Letter to Investors – April 2013

[Announcement for Diamond Age clients affected by Cyprus: we are advising our clients on their asset recovery from the affected banks in Cyprus, and are accepting enquiries about joining the Diamond Age Cyprus Recovery pool, which will be launched for the international litigation and recovery effort. Prior to the international litigation process, each affected client must first file a claim in Cyprus, with the June 7th, 2013 deadline for filing such claims approaching fast. We urge all those affected to file their claims in Cyprus immediately, either through the Diamond Age filing pool, or independently. Those clients who fail to file their claims in Cyprus before June 7th will not be eligible to participate in the Diamond Age Cyprus Recovery pool, since they would have very limited recourse, if any, via international litigation. Please call us or write to us today for a timely accommodation in the pool and with an indication of your intentions.]

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 – Cayman Islands*
Tax Consultants	*Ernst & Young – Russia and Cyprus*
Legal Counsel	*Campbells – Cayman Islands*
Base Currency	*US Dollar*
Advisory Fee	*2% per annum*
Performance Fee	*20% of profits above hurdle rate*
Hurdle Rate	*US Dollar 3-month LIBOR + 50 bps*
Inception Date	*18 February 2005 at US$100 per share*
Dealing Day	*Friday*
Subscriptions	*Weekly*
Redemptions	*Monthly, 14-day notice*
Min. Subscription	*US$100,000*
ISIN	*KYG2863P1090*
CUSIP	*G2863P 10 9*
Bloomberg Ticker	*DIAMRUS KY <Equity> <Go>*

Historical Performance

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Jan	-	13.67%	1.29%	-10.44%	-11.34%	-0.79%	0.50%	20.43%	12.19%
Feb	2.24%	2.73%	5.70%	2.75%	-11.37%	0.03%	-3.09%	2.83%	-4.34%
Mar	-0.27%	4.05%	-0.29%	-3.48%	20.53%	11.16%	1.30%	-3.75%	-13.84%
Apr	-2.54%	8.80%	1.88%	3.03%	20.86%	1.02%	2.42%	-3.62%	**-3.98%**
May	-0.51%	-3.78%	-0.71%	9.17%	18.71%	-21.49%	-13.14%	-21.98%	
Jun	1.84%	-1.67%	2.88%	-7.02%	-3.28%	-2.00%	-4.88%	0.42%	
Jul	7.77%	0.37%	1.75%	-13.09%	3.37%	7.72%	6.17%	0.38%	
Aug	8.76%	2.33%	-4.69%	-8.69%	1.93%	-4.96%	-26.65%	-2.52%	
Sep	12.64%	0.01%	5.07%	-10.76%	18.41%	12.14%	-30.60%	2.13%	
Oct	-6.56%	3.70%	4.99%	-35.75%	10.24%	6.31%	22.32%	-1.85%	
Nov	7.49%	5.36%	-2.96%	n/a	3.66%	-0.13%	-22.84%	-1.76%	
Dec	7.33%	9.49%	0.80%	n/a	8.34%	16.66%	4.55%	9.38%	
Year	**43.27%**	**53.70%**	**16.26%**	**-57.73%**	**103.00%**	**21.92%**	**-55.48%**	**-5.12%**	**-11.21%**

NAV Data, Current Asset Allocation

Fund Price (W/Avg), Main Class	**Bid $99.36; Offer $100.43**
Designated Investment Share Class	**$64.78**
Total Fund Assets (AUM)	**$11,292,639**
Total Firm AUM	**$219,630,205**

Long	**113.9%**
Short	**0.0%**
Gross	**113.9%**
Net	**113.9%**
Leverage	**13.9%**

DIAMOND AGE
CAPITAL ADVISORS LIMITED

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Sector Allocation	
Metals and Mining	22.67%
Financials	18.86%
Conglomerate	8.09%
Oil - Integrated	6.99%
Gas Utilities	6.42%
Media	5.65%
Agriculture	4.94%
Consumer Durables	4.14%
Telecoms	4.10%
Fisheries	3.98%
Industrials	3.94%
Construction/Infrastructure	3.66%
Chemicals	2.84%
Foods	1.95%
Electrical Utilities	1.77%
Total	**100%**

In April, the Fund continued to be indirectly but significantly affected by the market storm caused by the unlawful expropriation of investor assets in Cyprus. Although the Fund had never had any bank accounts in Cyprus, the entire Russian and CIS equity market, along with the countries in the MSCI EME Index, went into a tailspin during March, spilling over into April and thus bringing losses to the long part of the Fund's portfolio. Having said that, the Fund had already recouped half of April -3.99% losses by mid-May, with a mid-May intra-month gain of +2.08%.

As the Investment Advisor argued in his March Letter to Investors, each crisis, including the mini-crisis in Cyprus, presents an opportunity. There is now a chance to pick up some very cheap good quality stocks for the longer term. Additionally, in the Fund's opinion, the current EM valuation in general, and the Russia valuation in particular, present an excellent entry point for a long-biased value play with a 3 to 5 year investment horizon… probably the best one in a generation. EM and Russian stocks have never been cheaper vs. DM stocks in the last 5 to 10 years (depending on the valuation metric), and Russian stocks have also never been cheaper even vs. EM stocks themselves in the last 10 years. If one calls 10 years "a generation" in Russia, then this is once in a generation opportunity! Let us explain why.

In February 2012, the Investment Advisor issued his monthly Letter to Investors, "The Elections and our 15 minutes of fame in Forbes", where Diamond Age quoted its own article in the Russian edition of the Forbes magazine, which was also reprinted in the Diamond Age monthly report in both languages. The English translation is available at the following link:

http://www.diamondage.ru/newsletter/Eng_DA_Feb_12.pdf

…and the Russian original is available both in the Russian version of the monthly report, as well as on the Forbes web-site:

http://www.forbes.ru/investitsii-column/tsennye-bumagi/79658-kontrakt-s-oppozitsiei-ili-kak-putin-mog-zastavit-rasti-fond

This article was called ***"A contract with the opposition – or how to drive up the stock market. The Chief Executive Officer of Diamond Age Capital Advisors gives advice to Russia's presidential candidate"***. Has "HE" followed our advice, or even heard it? So far, the answer is "NO", in capital letters. Is HE likely to re-consider? Yes. What would happen with stock prices, if HE does so at least partially? As predicted back then, a rally of +50% within 12 months, in addition to all the other gains over the longer term, the rationale for which the Investment Advisor will detail below.

1. Global growth uplift in 2H13, on top of the longer-term growth trend driven by US liquidity on the back of huge QE, which the Investment Advisor has been predicting ever since Diamond Age publicly called the market bottom in February 2009. Diamond Age reiterated this forecast in December 2011 in its monthly Letter to Investors, with the following story on pages 5 and 6: "Today, global financial markets operate around the clock and trading in them is possible from anywhere in the world at the click of a button on a computer. News and information are instant. Massive amounts of capital move around the world electronically, without delay. Companies are multinational and global. People travel by air, circumnavigating the globe at speeds close to 1,000 km/hour. What are the practical implications for… say, New York City retailers, when Brazilians are getting richer?" Please read the full argument at the following link:

Geographic Dispersion	
Russia	63.81%
Ukraine	11.49%
South Korea	6.98%
Thailand	3.98%
Turkey	3.66%
Kazakhstan	3.32%
Europe	2.72%
Singapore	2.34%
China	1.12%
Guinea	0.58%
Total	**100%**

http://www.diamondage.ru/newsletter/Eng_DA_Dec_11.pdf

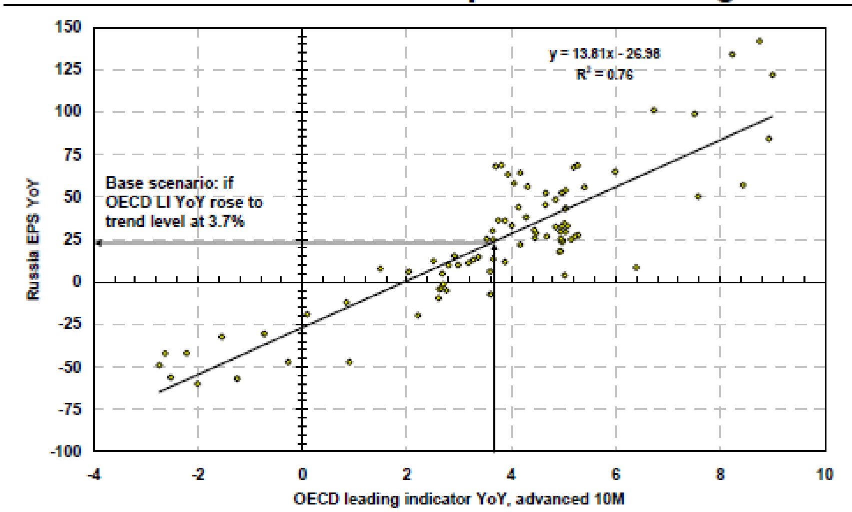
Sure enough, it is nice to see our forecast confirmed by the Financial Times, which… in May 2013, published an article "Brazil's Big Spending Tourists Take New York By Storm" – nearly 18 months after our story! (Have they finally read Letter to Investors from December 2011?):

http://blogs.ft.com/beyond-brics/2013/05/21/brazils-big-spending-tourists-take-new-york-by-storm/#axzz2U8BXJt25

In case some of our readers don't have the FT on-line subscriptions, you can find a copy/paste text of the article at the end of this Letter.

Morgan Stanley forecasts global GDP to accelerate to 4% in 2H13. Leading indicators such as the Global PMI and the OECD's leading indicator already suggest Russian EPS growth should be bottoming. Relative earnings revisions have rebounded already as well.

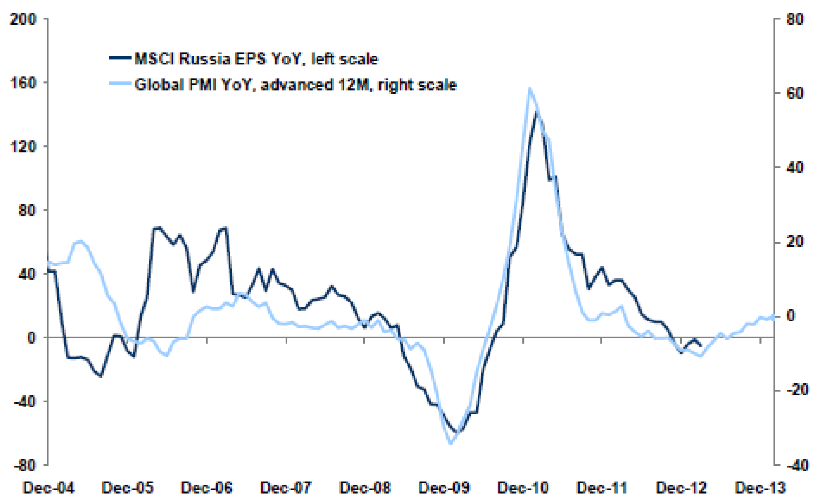
Modelling EPS growth based on the OECD leading indicator: return to trend implies 25% EPS growth



Source: MSCI data, Morgan Stanley Research

2. Domestic growth, inflation, and rates are becoming more supportive. Inflation is close to peaking and growth should rebound from 2Q13, boosted by resilient consumption and investment.

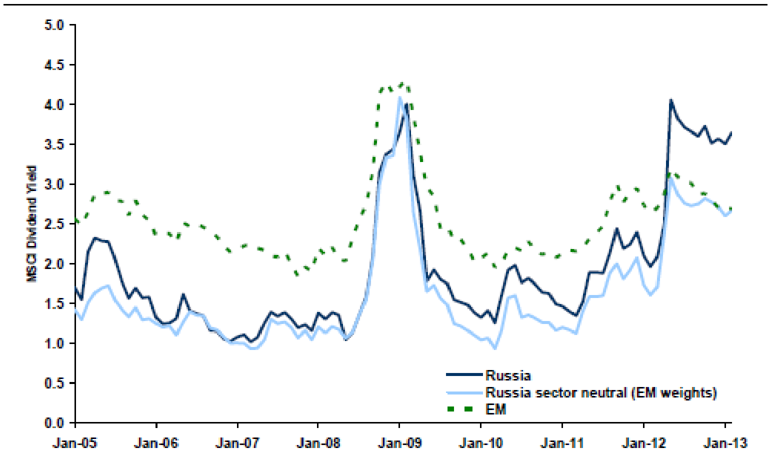
Global PMI suggests EPS growth for Russia is bottoming



Source: MSCI, IBES, Haver, Morgan Stanley Research

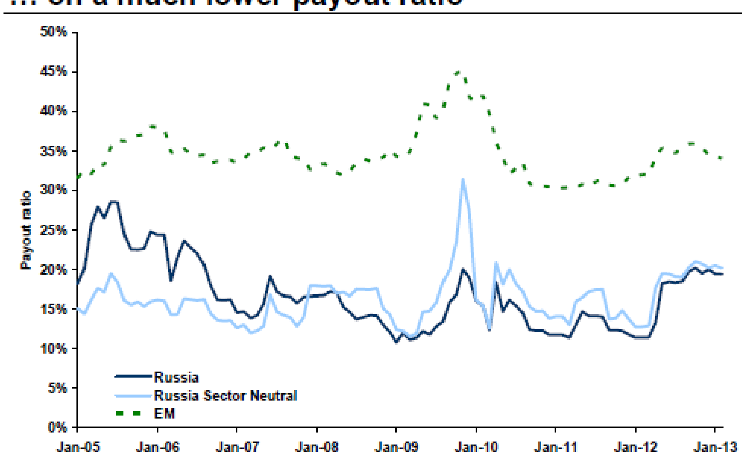
3. Attractive dividend yield play: Russia offers a 3.7% trailing DY and a very low payout ratio at 19%.

Russia offers an attractive DY versus EM …



Source: MSCI, RIMES, Morgan Stanley Research

… on a much lower payout ratio



Source: MSCI, RIMES, Morgan Stanley Research

4. Russia has de-rated 27% relative to crude oil prices over the last 3 years. The local energy sector trades close to record low valuations versus global peers.

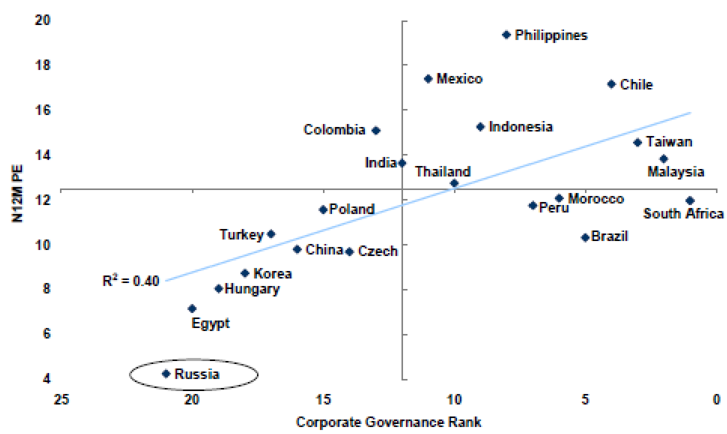
Russia sector PE vs. EM sectors: Relative PEs of all sectors trade below 5-year average

12M Fwd PE	PE Latest	Premium / discount vs EM % Latest	5Yr Avg	Percentile
MSCI Russia	5.1	-49.3	-39.9	20%
Energy	4.1	-37.1	-18.3	14%
Materials	10.6	-8.9	-7.2	41%
Consumer Staples	21.2	5.6	16.4	29%
Financials	5.9	-39.2	-11.2	12%
Telecom Svc	9.5	-25.6	-17.6	19%
Utilities	7.6	-41.6	-2.8	13%

Source: MSCI, RIMES, Datastream, IBES, Morgan Stanley Research

5. Structural reforms – there has been modest progress on reforms, with meaningful measures taken in financial services and trade, and promising initiatives for improving the investment climate. **Corporate governance and political risk** are more than fairly discounted and may be improving at the margin.

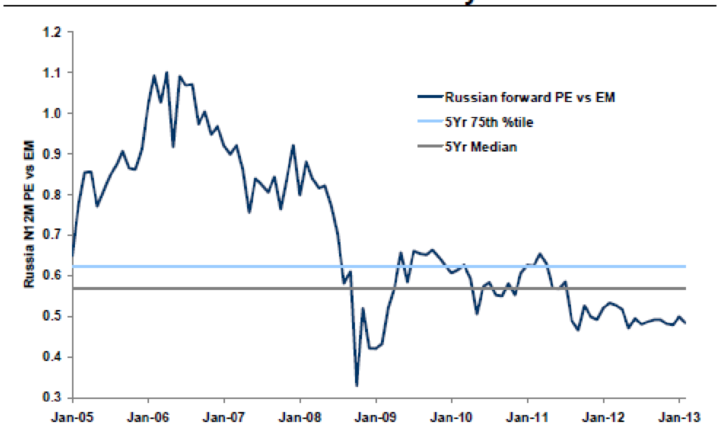
Russia's corporate governance discount may be overdone, in our view



Source: MSCI, IBES, WEF Global Competitiveness Report, Morgan Stanley Research

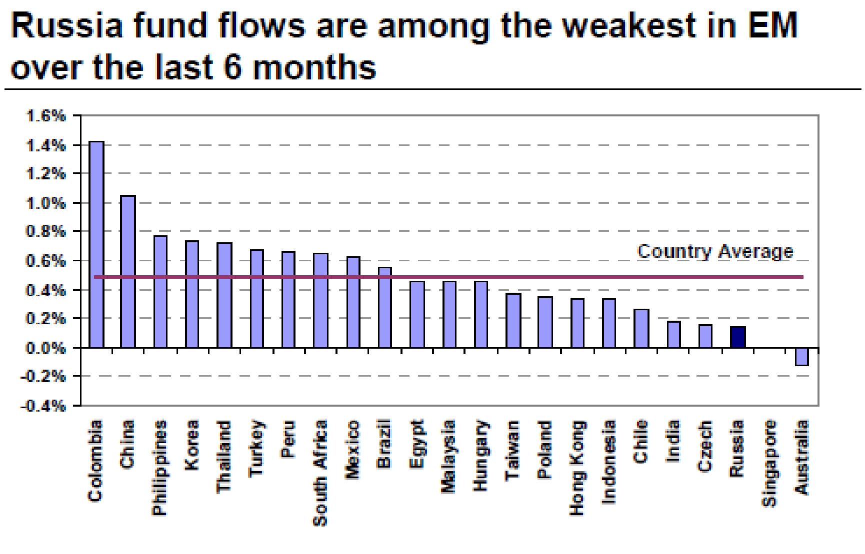
6. Cheapest in years – not only vs. DM, but also vs. EM.

Russia's PE relative to EM was only lower in late 08



Source: MSCI, IBES, Morgan Stanley Research

7. Russia fund flows – the EM outsider, unloved and forgotten. Opportunity!



Source: EPFR, Morgan Stanley Research

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Brazil's big-spending tourists take New York by storm

May 21, 2013 8:19pm by Pan Kwan Yuk

If there is a slowdown in Brazil, George Fertitta is not seeing it.

As the head of NYC & Company, New York City's official tourism board, Fertitta has witnessed the meteoric rise of Brazilian visitors to the Big Apple. Last year, Brazil became the second most important overseas market for the city after the UK: 826,000 Brazilians came to visit, compared with 112,000 in 2006.

"We have never seen anything like it," said Fertitta. "We have had big surges in visitors from Ireland but the surge from Brazil is unique in scale."

For all the talk about Brazil losing economic might, Brazilians continue to flock to NYC in ever greater numbers. And their numbers are helping to offset the decline in tourists from more obviously stricken countries such as Italy and Spain. They are also outspending the Europeans during their stay. With an average spent of $2,262 per trip, Brazil is right up there with Australia and the UK as the biggest total spending tourist groups in New York.

"Brazilians have become in essence our most important visitors," said Fertitta. "They have the potential to become our largest overseas market in three to four years' time."

In many ways, the continued influx of free-spending Brazilian tourists into cities like New York and Miami underscores the particular two-speed nature of Brazil's economy. While growth might be stalling – with

GDP up less than 1 per cent last year – and inflation creeping up, unemployment remains at record low while wages continue to climb.

"It's almost like a rite of passage," says Andrew Gajary, general manager of the InterContinental Hotel in Times Square, New York. "A trip to *Nova Iorque* seems to have become the ultimate status symbol for Brazil's new middle class."

Gajary should know. His hotel has in recent years seen a sharp rise in Brazilian visitors – particularly in January and February, when it's summer school holiday in Brazil. So noticeable has the increase been that Gajary has taken on extra Portuguese-speaking staff to make its new Brazilian clientele feel more at home.

Some of the reasons behind the Brazilian tourist boom in NY are well known. A relatively strong real and easier access to credit have helped, as have the high taxes and rising inflation that make Brazil an expensive place buy consumer goods. Indeed, a common refrain among Brazilian visitors is that they save so much money buying in the US that the savings often cover their US airfare and hotel bills.

But the success of New York in attracting Brazilian tourists also offers a lesson in how to successfully tap an emerging market.

As Brazil's economy grew and middle-class Brazilians abandoned traditional vacation spots like Argentina for Miami, NYC & Company began making frequent trips to Brazil to step up its marketing efforts. It partnered up with São Paulo Turismo, the city's tourism board, and quickly persuaded American Airlines to create discount fares between the two cities. After noticing that Brazilian visitors were disproportionately taken with Broadway theatre, NYC & Company brought six musical productions to São Paulo to woo tour operators and travel agents.

Fertitta thinks there is still plenty of room to grow. For starters, more direct flights between the Big Apple and second tier Brazilian cities should give NY's tourism trade a further boost.

Similarly, any move by the US to streamline the onerous process that Brazilians must currently go through to obtain a tourist visa is also expected to open the door for more visitors to the US (At the moment there are only four visa-processing consulates in Brazil – a country of 200m people covering an area as large as the US.)

If Fertitta's optimism bears out, then restaurant owners in New York would do well to start cutting back a bit on Coca-Cola and stock up on some Guaraná – the soft drink of choice in Brazil.