Diamond Age Russia Fund

Monthly Letter to Investors – February 2011

Bracketville: Manama Madness Edition

"I will fight the protesters till the end and I will die a martyr…" **Colonel Muammar al-Gaddafi**

MSCI emerging market equities (MXEF) fell 2.38% in February and are now down 4.51% YTD. **Diamond Age** employs a global macro EM mandate with holdings in some 23 countries in multiple asset classes across 16 sectors at present. With emerging market equity weight of 130.80% gross AUM at month end; the Fund was not unaffected by falling share prices and declined 3.09% for the period, vs. a solid +2.25% gain for the benchmark index MSCI EME (MXMU). Russia continued to be the top performing major equity market in the world on a YTD basis. The Fund's broad geographic dispersion, long-short multi-asset class portfolio construction, and significant underweight in Russia (25.14% of AUM) was simply not competitive, one-month-performance-wise in February, against a long-only, single-country, stock-only proxy such as the RTS which is 55% oil and gas.

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

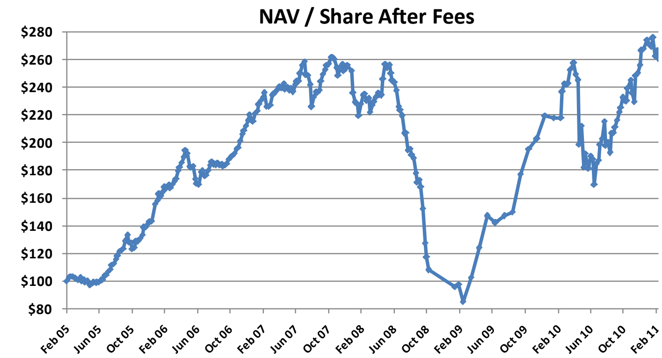
Asset Class	*Long*	*Short*	*Gross*	*Net*
Equities	129.1%	12.1%	141.2%	117.0%
Bond	0.0%	33.5%	33.5%	-33.5%
Commodities	56.1%	0.0%	56.1%	56.1%
FX	0.0%	0.0%	0.0%	0.0%
Total All	185.2%	45.6%	230.8%	139.6%
Leverage	130.8%			

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%	
Apr	-2.54%	8.80%	1.88%	3.03%	20.86%	1.02%	
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%**	**-2.61%**

NAV Data

Fund Price (W/Avg), Main Class	Bid $257.13; Offer $260.81
Designated Investment Share Class	$68.01
Total Assets (AUM)	$31,439,587



Diamond Age
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Declining EM stocks in the portfolio were offset by a large asset allocation in the commodity space (56.14% gross month end AUM). Even after the massive two month rally in crude, there has been no reduction in the Fund's significant 23.38% of gross AUM oil position (April Brent ICE futures). It remains the perception of the Investment Advisor that related to groundswell of populist discontent, civil war, and even revolution in the Middle East, the second shoe has yet to drop.

Sector Allocation	
Commodities	24.34%
Financials	14.88%
Sovereign Debt	14.51%
Metals and Mining	9.05%
Real Estate	6.28%
Agriculture	4.69%
Coal	4.26%
Shipping	4.17%
Oil - Integrated	3.25%
Gas Utilities	3.20%
E & P	2.85%
Information Technology	2.69%
Construction/Infrastructure	2.06%
Conglomerate	1.70%
Industrials	1.34%
Media	0.73%
Total	100%

All eyes on Saudi Arabia with capacity of 12.5MM/bbl/d or 7.5x larger than Libya. Will the monarchy be able to halt a populist unrest or even the potential of sectarian Sunni - Shia conflict from reaching Riyadh and spreading to the Kingdom?

While the North African campaign has largely been priced into the market (Libya capacity 1.7MM/bbl/d, Algeria capacity 1.3MM/bbl/d and Egypt + Tunisia N/M); the "winter's bone" will be found in the Persian Gulf and Arabian Peninsula with a collective capacity of 25.6MM/bbl/d and virtually the whole of the world's so-called "spare capacity." With the advent of sectarian violence in Bahrain, between supporters of (Al-Wefaq) the largest of the disenfranchised majority Shia opposition groups, and minority Sunni gangs of recently nationalised Bahraini workers, gun battles on the streets of Tripoli play second fiddle.

The Investment Advisor does not frequently entertain the role of moral authority or play referee on outside issues. But while concentrating on the realities of the present, the Fund must also make decisions based on the risk assessment and probability analysis of future developments. **Diamond Age** takes the position that to participate as an active manager of Russia-related assets, without having a defensible view on the global macro, crude pricing dynamics and commodity demand, would be of little credible service to the Fund's investors… so back to the Gulf.

The Sunni monarchy has historically supported a practice of granting Bahraini nationality to Sunni foreigners, many of whom work for the security forces of which the Shias are largely excluded. Immigrant Sunni labourers (largely Syrian), are given passports and certain preferential access to employment, housing, education, benefits, and civil rights. The protestors are calling for the end to the monarchy, end of corruption of government, end subjugation of the Shia majority, democratisation in the country, rewriting the constitution, ending economic, political and social violations. The opposition majority has been attacked by allegedly government-backed Sunni myrmidons armed with clubs and swords. On February 18 seven people are believed to have been killed and scores injured after Bahraini security forces rounded up thousands in a peaceful protest in Pearl Square in the early morning.

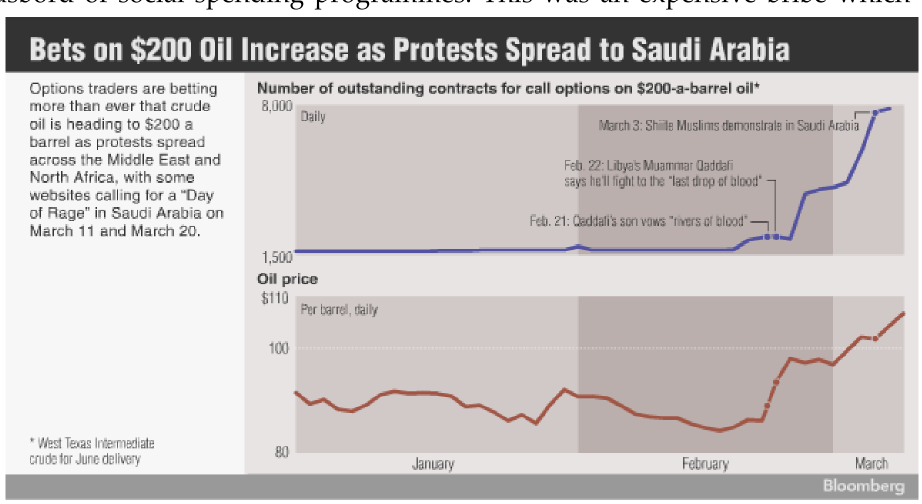
Just as it was in Tunis, then Cairo, then Algiers, now Sana'a and Manama, the situation on the ground is fast and fluid. Arrest, abduction, and torture by the security services are commonplace. The protest movement is growing.

April Brent ICE futures represent 25% of gross AUM in one line item; such a position represents significant unhedged risk. Pre-crisis high of $145.63 is only 30% above market. But the Investment Advisor sees bi-directional risk, both to the downside $80 - $85/bbl on MENA "peace" and to the upside $200/bbl related to fast and fluid developments in the Gulf and Saudi. *"You pays your money (and you takes your chances)"*

Geographic Dispersion	
United States	27.12%
Russia	25.14%
Kazakhstan	4.84%
Canada	4.80%
Australia	4.12%
Georgia	3.50%
Thailand	3.06%
United Kingdom	2.81%
Guinea	2.70%
Norway	2.56%
Hungary	2.49%
Cyprus	2.31%
Ukraine	2.10%
Sweden	1.89%
Ireland	1.87%
Singapore	1.70%
Philippines	1.61%
South Korea	1.34%
Finland	1.04%
Turkey	1.03%
Turkmenistan	0.98%
Mongolia	0.98%
Total	100%

From 661 AD with the martyrdom of Ali and historically throughout much of the Arab world; and as has been witnessed recently in Iraq, these sectarian divisions are deep, dark, and jagged. The important question related to portfolio construction is whether or not neighbouring Saudi Arabia capacity 12.5MM/bbl/d (or 7.5x larger than Libya) will be able to prevent this potential contagion and associated ethnic unrest from spreading to Riyadh.

Diamond Age has marked the Saudi "Days of Rage" (so effective in Egypt) on the calendar as March 11th and March 20th (please see the insert below) and a harbinger of the movement's commitment, as well as the resolve of the authorities. In an attempt to avert similar violent protests which are occurring in five of the kingdom's eight immediate neighbours, at month end King Abdullah attempted to placate the population and buy time with a $26B gift spread out across a Smörgåsbord of social spending programmes. This was an expensive bribe which may have been seen as an act of weakness, or even desperation and which has failed to produce the desired effect.



$200/bbl oil? As was written here when crude traded in the $40s in early 2009 – yes, of course, just like Dow 20,000, it is a 100% certainty… the only question is when. According to some option traders on the NYMEX New York Mercantile Exchange, sooner rather than later as call buying for $200 June delivery WTI have spiked 433% since February 20th

Oil rich Kuwait (not unfamiliar to war) with capacity 2.6MM/bbl/d which was compelled to act to defuse Sunni-Shiite tension in September 2010, may also be in motion with about 1/3 of the population as disenfranchised minority Shia.

…and this just in: it isn't all apples anywhere else in the oil patch either. Newsflash: 23 oil workers working for Canada's Talisman Energy Inc. (TLM CN) were kidnapped in rural Colombia.

With Brent trading $111.80 at month end and ¼ of gross AUM in one line item, it must be acknowledged that this large position represents significant unhedged risk. Were tensions in the region to dissipate, a powerful reversal to $80 -$85/bbl is a possibility. The Fund sees bi-directional risk, both to the downside and to the upside. But as the pendulum typically swings too far in each direction and based on what the market seems to be telling it, the Fund will take its chances.

Will an Egyptian-style "people's revolution," morph into sectarian-laced uprising to effectively topple entrenched corrupt monarchies in Bahrain, Kuwait and even Saudi? Doubtful – no – highly unlikely. Democracy in Egypt is a threat to Israel (as were free and fair elections in Gaza), but not such a threat to the United States or to world-wide oil supply. America's oil rich vassals on the Persian Gulf are likely sitting squarely on terra firma for now, but until the other shoe drops or there is quiet on the Arab street, oil will be well supported.

NOTE: at the time of this earthquake delayed distribution: the Fund had already sold half of its long position in April Brent @ $112.65 and rolled the other half to May COK1 thus reducing the position by 50% on Japanese Tsunami and nuclear developments (port terminal and refinery closures). The Saudi military has joined Bahraini security forces in a large-scale assault against hundreds of Iranian backed anti-government protesters in landmark square Manama. Emergency rule has been imposed. Shias are protesting in the East of Saudi and Shias are massing at the gates of the American Embassy in Bahrain. Al-Gaddafi is about to claim victory over the rebels in Libya as the world stood by and did nothing. Conflict in the Persian Gulf has fallen from the headlines but the fat lady is still nowhere to be found.

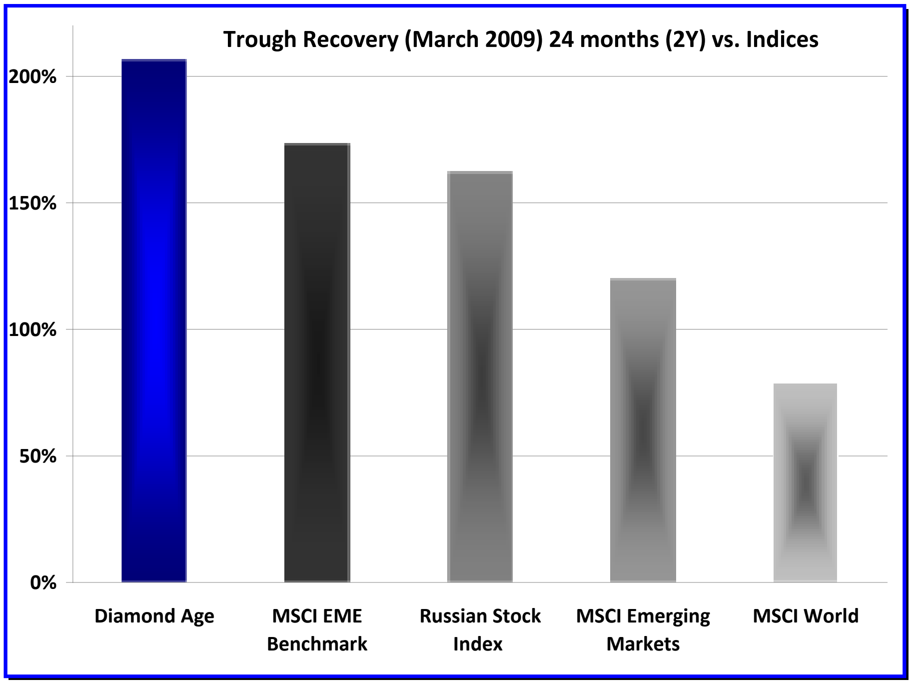
Investment mandate

The benefits of active management and core portfolio diversification are evident in that the Investment Advisor and the Fund are able to participate world-wide in countries, investments and strategies unknown to Moscow-based managers. The Fund's "hedge fund" peers are typically long-only; and buy and sell varying allocations of the same 15-20 RTS type stocks. The craft there is spent trying to analyse the relative valuation attractiveness between Gazpromneft @ 4.35x '10 EV/EBITDA and Rosneft @ 4.31x '10 EV/EBITDA, dissecting the subtle nuances in market penetration between a MTS vs. a Vimplecom, or trying to determine which of the two leading retailers X5 38.46x '11 P/E vs. Magnit 37.80x '11 P/E is "cheaper". This mainstream and historically highly effective strategy, largely mirrors the index (minus management and performance fees), closely tracks the performance of ETFs, and has the highest correlation with associated volatility to the oil price.

Note: while some managers are better than others, this methodology in the main, has generated outsized positive returns in all but three of the last 13 years. Great performance speaks for itself and Diamond Age takes nothing away from anyone.

Why does it matter? More than merely an academic discussion or a marketing angle, the long-term benefits of **Diamond Age** are: a) absolute outperformance in that the Fund can generate superior α alpha (excess return) in a universe of global opportunities wholly alien to the peer group, b) historically lower standard deviation (annualised volatility of weekly returns) because the Fund invests in multiple asset classes, diversified across 15-20 sectors, and into some 20-30 countries dispersed around the globe, c) historically lower β beta returns (lower systematic risk) and d) the combination of higher absolute performance coupled with lower volatility has historically produced of the highest Sharpe Ratios of the Russia funds reported on Bloomberg.

How is the Fund doing?



Name		24 Months (2Y)
Diamond Age	(DIAMRUS KY)	206.74%
MSCI EME Benchmark	(MXMU)	173.51%
Russian Stock Index	(MICEX)	162.40%
MSCI Emerging Markets	(MXEF)	120.20%
MSCI World	(MXWO)	78.64%

Very well. Investors are now up more than 200% in the last two years, 19% higher than the benchmark, 27% higher than the Russian stock market, 72% higher than emerging markets and 163% higher than world equities. Versus all Russia funds reported on Bloomberg (41 names) **Diamond Age** is the third best performing fund for the last two years and more recently even better, the second best performing of all Russia funds for the 2H of 2010 (Q3-Q4) +57.77%.

February Performance Attribution:

Equities: 141.06% gross AUM top stocks for February: 1. YIT OYJ (YTY1V FH) Finland – Construction +12.48%, 2. Swedbank (SWEDA SS) Sweden – Financials +10.05%, 3. Charoen Pokphand (CPF TB) – Thailand +7.17%, 4. OTP Bank (OTP HB) Hungary – Financials +1.43%, 5. Bank of Georgia (BGEO LI) Georgia – Financials +3.84%, 6. Dragon Oil (DGO LN) Turkmenistan – E&P +1.03%, 7. Sberbank Pref (SBERP03 RX) Russia – Financials +0.15%

Commodities: 56.14% gross AUM: Fund largest line items April ICE Brent Crude COJ1 representing 23.38% of gross AUM. Also May COMEX Copper HGK1 10.40%, April Platinum PLJ1 6.48%, and June Palladium PAM1 9.12%

Soft Commodities sub-set: 6.76% gross AUM: May World Sugar (SB K1), May Corn (C H1), May Soy (SK1), and May Wheat (W K1)

Credit Markets: short (-33.48% of gross AUM): Short Australian 10Y bond futures (XMH1) (9.51%), Canadian 10Y bond futures (CNM1) (11.08%) and US 10Y bond futures (TYM1) (12.89%)

FX derivatives: short (0.00%): the Fund closed out all short Fx cross-rate trades by month end February which constituted short (17.43%) at the close of the prior reporting period. Fund will re-initiate FX derivative shorts in slow growth, low-rate

(EUR, GBP, USD, CHF) against long positions in inflationary, fast growth, high-rate, commodity centric currencies (RUB, SGD, AUD, KRW, THB) in X-rate 90 day NDF's (non-deliverable forwards)

Outlook:

Inflation

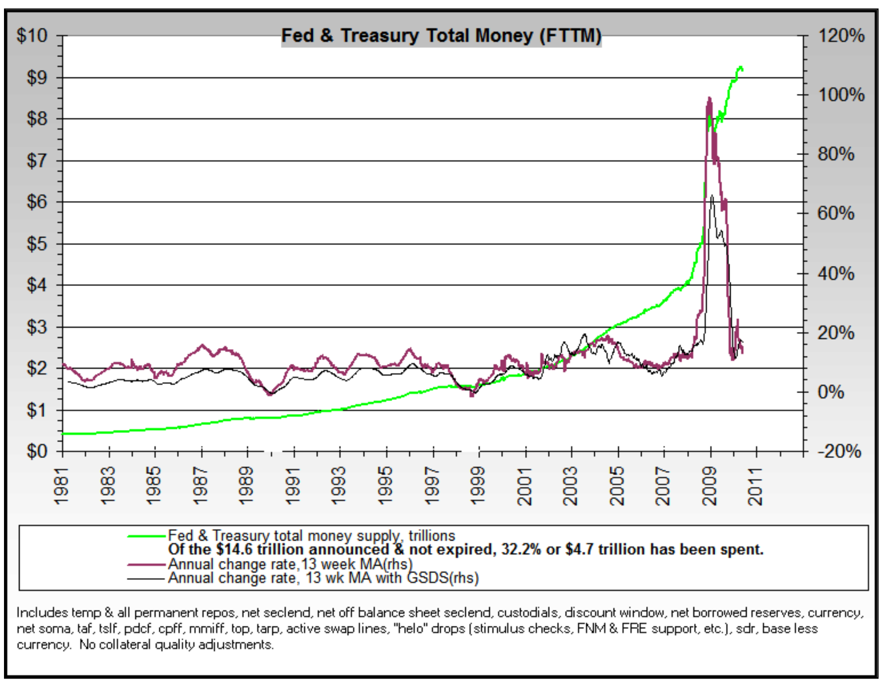
Diamond Age re-iterates its position that the bold, brave bullish position taken here with nary a friend in the world month end May 2010 was downgraded in January 2011 after a memorable 59% (since 2 July to 28 January) advance to month end January (time of downgrade). Rate direction continues to represent the most visible threat to asset allocation. The Investment Advisor remains of the mind that following a post-crisis period of broad-based economic growth coupled with extraordinarily expansive monetary policy in much of the world, capacity constraints, rising resource and raw material inputs, and a persistently weak dollar has lead to a period of higher than anticipated inflation in many emerging markets. EM central banks are, in the main, behind the curve in addressing these material inflation threats.

The combination of co-ordinated EM central bank tightening, quite possibly even the ECB as early as April 2011, and (once unthinkable), a change in Fed policy in 2011; coupled with rising inflation inputs of not only food and energy, but now also real wages and housing, represents a real and present risk to emerging market equities, Russian assets, and broadly the "risk trade." Example: China minimum wages up 24% in 2010, China's average migrant wages up 13% in 2010. EM food, energy, wage and housing inflation inputs are passed through to DM with cost of manufactured goods (import inflation).

Building on the Investment Advisor's August 2010 "two-rate world" thesis, November 2010 emerging market inflation threat publication, and in the face of falling emerging market stocks, the Fund remains long hard assets, long soft commodities and short bonds.

Credit market shorts

Specific to the US 10Y bond short representing (18.01%) of gross AUM, the market is focused on the US $13.6 trillion national debt or about 1.1x GDP. But including $6.3 trillion in Fannie/Freddie debt and $61.3 trillion in unfunded obligations for social programmes including Social Security, Medicare and Medicaid; the American taxpayer has outstanding obligations of over $81.2 trillion or >5.5x the nation's GDP of $14.6 trillion or about $270,000 in debt per capita. While the US does not report these unfunded obligations as debt, it would have to, were it a public company. Nevertheless it is worth noting if for no other reason than comprehend the sheer magnitude of the problem.



The Federal Reserve and Treasury total money supply has exploded by hyperinflationary levels since 2008 (chart above)

Economists in the fringe of certain investment circles (and the Investment Advisor does not count itself among them) are of the opinion that the United States is bankrupt, that the U.S. national debt is now virtually impossible to pay off, that foreign central banks will stop lending America money via bond purchases, and that the Fed will simply continue printing money to fund the deficit until this robbing-peter-to-pay-paul scenario ends with "musical chairs."

PIMCO Total Return Fund (largest bond fund in the world) just cut allocation to US treasuries to zero. Both Warren Buffett and Bill Gross have come out against the US bonds in the last two weeks (not credit quality but yield return i.e. value). The aforementioned musical chairs result is neither the Fund's bull, base or bear case scenario but the Investment Advisor continues to see a growing risk on the long end of the yield curve and therefore the Fund intends to grow credit market shorts to approximately 40% of net AUM by the end of Q2 (currently 41.74% gross or 17.71% net). The short focus will be on high growth, inflationary, commodity centric sovereigns such as Australia, Norway, Brazil and Canada, in addition to the UST.

Soft commodities

In an EM inflationary scenario, investment priorities may be given to 1) things which can be eaten (agri-bulks), 2) things which can be used (oil, rubber, coal), 3) things which are permanent (industrial metals), with 4) a cautious outlook on equities and 5) avoidance or short positions in paper assets, Fx and bonds.

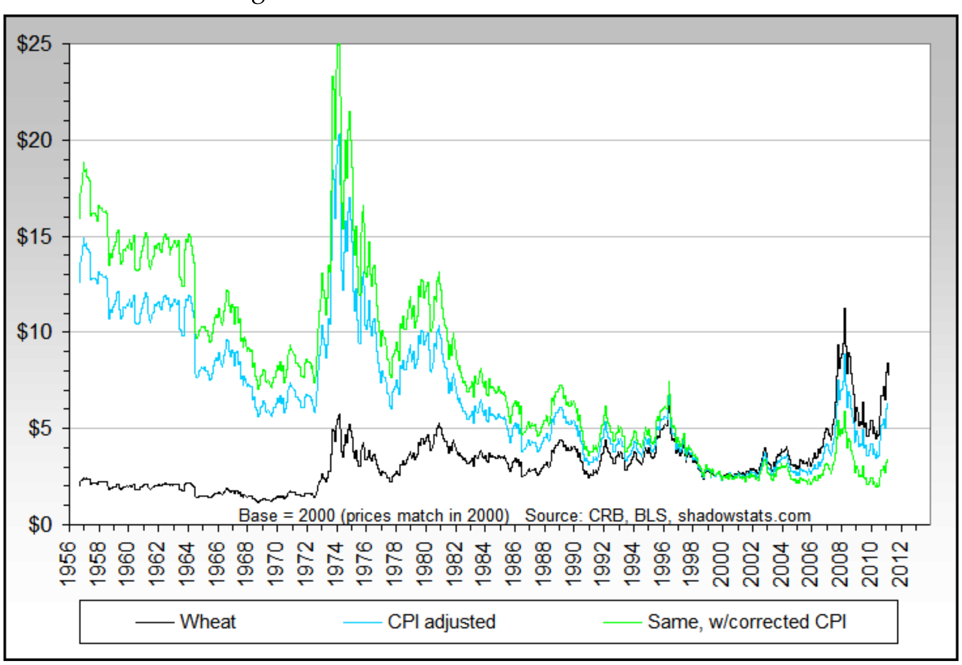
To point number 1) food output will have to climb by 70% in the next 39 years as the global population balloons to 9B by 2050, and rising incomes boost meat and dairy consumption. Central to its longstanding investment theme, the Fund is of the view that the growing EM middle class trades up the food chain to consume a significantly higher-co-efficient of caloric intake from proteins. See China beef consumption 2000 to 2010 (10y) explosion of >240% per capital increase in ten years. Pork requires 4x the grain resource per kilo to produce as corresponding grain input; poultry 3x and beef 7x.

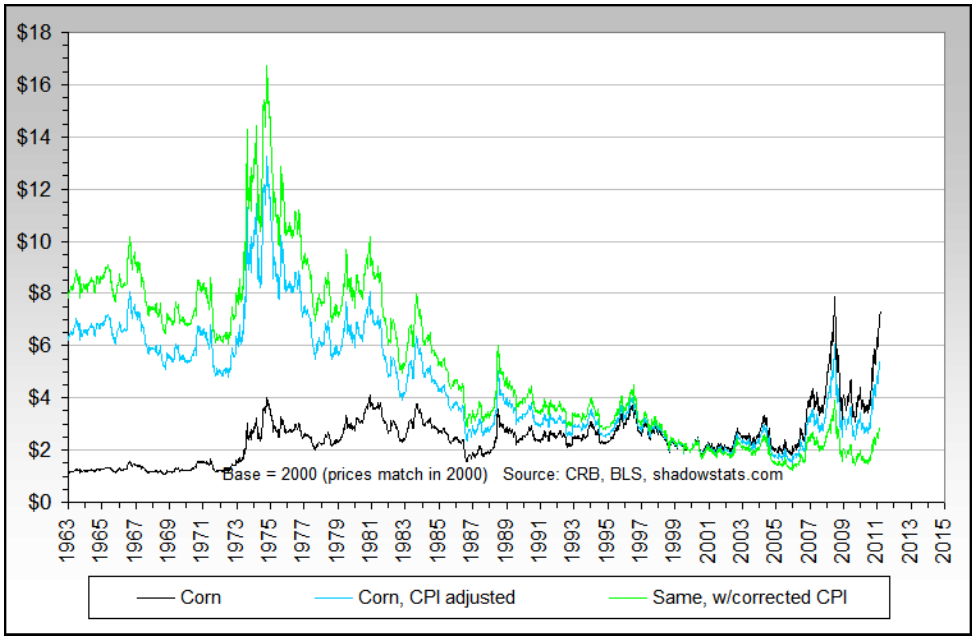
Food inflation is a world-wide phenomenon, food riots create political instability (see Algeria, Tunisia, Egypt 2011) and natural disasters are cutting harvests around the world and governments impose export restrictions, losing revenues to protect domestic supplies. Cyclones were extreme worldwide, flooding damaged crops in Australia this year as did fire and heat in Russia; and drought is threatening wheat in northern China this year.

In the former Soviet Union theatre of operations both Russia and Ukraine imposed grain export quotas in 2010. India has banned target shipments of food staples and oils. China and Japan are selling from state food stockpiles. Egypt, Iraq, Bangladesh and Saudi Arabia tendered for grains.

Prices have soared but is it a bubble? Fundamentals would suggest otherwise. Declining and degrading plant-able acreage, increasing population coupled with higher incomes and therefore exponentially hotter consumption burn-rates – these factors are strongly bullish.

Wheat is currently trading about 68% lower than the inflation-adjusted high set in 1975. Wheat is currently being stockpiled by governments in North Africa, the Middle East and Asia



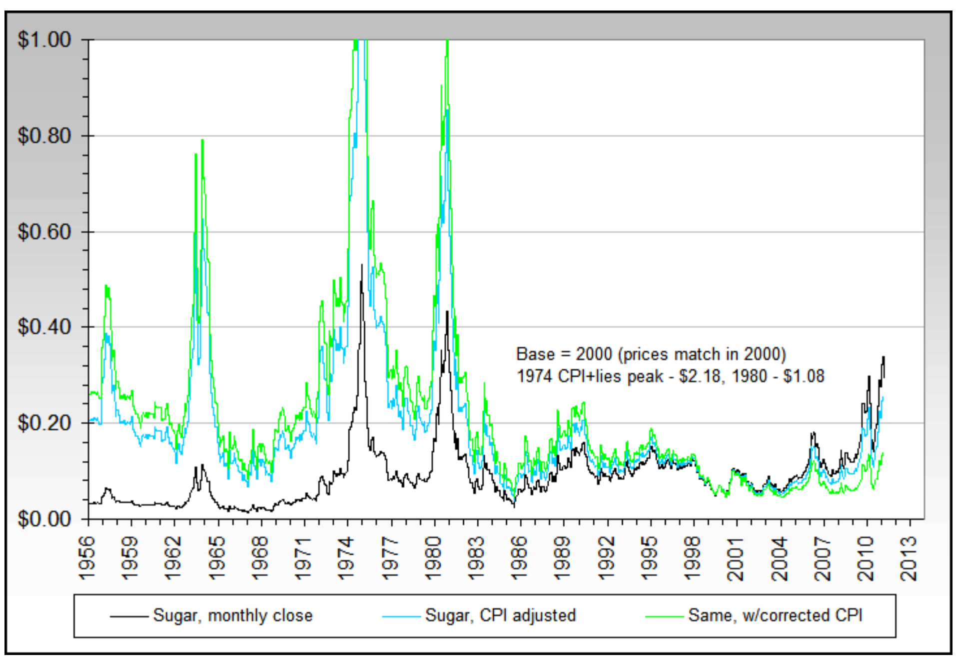


Russia's ban on grain exports means the country's farmers will plant the fewest wheat fields in four years, another sign that global prices will keep rising. Wheat plantings in the country, once the second-biggest exporter, will drop 2.3 percent to 64.2 million acres for this year's crop. Farmers can't plant more because the ban imposed after last summer's drought is limiting farm income. High input costs such as diesel and nitrogen fertilizer make farming less viable.

Corn is currently trading about 59% lower than its all time inflation-adjusted high set in 1975. The US with annual 333,010,910 bushels produces 41% of the global total and 33% more than the whole of Asia. Much of this corn is taken out of the food supply and used in bio fuel

Government subsidies and tax schemes take an estimated 30% of the corn (25% of all grains) out of the food supply for use as a bio fuel feedstock for the production of ethanol for automobiles. This in turn diverts other productive farmland away from less subsidised food acreage which then reduces the food supply and increases prices.

Sugar is currently trading about 70% lower than its all time inflation adjusted high set in 1975 and again in 1981



Currency shorts

G7 and safe haven derivative Fx were covered on the view that geo-political unrest created an unacceptably heightened risk environment where flight to quality (or cash) could hammer short positions. The Investment Advisor anticipated that these shorts will be re-initiated following better clarity in the Gulf and is frankly surprised that the USD dollar has not rallied on these events. FX derivative shorts in slow growth, low-rate (EUR, GBP, USD, CHF) against long positions in inflationary, fast growth, high-rate, commodity centric currencies (RUB, SGD, AUD, KRW, THB) in X-rate 90 day NDF's (non-deliverable forwards) will likely be re-initiated.

Stocks

The scaling back of equity exposure, initiated month end December 2010 is expected to continue.

Executive Summary

Diamond Age maintains that the confluence of industrialisation, urbanisation, 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, 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; and 40 years later to this day still all time high prices.

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; negative on G7 and safe haven Fx. Largest long holdings include April Brent ICE futures, May COMEX Copper, April Platinum, and May Palladium futures. 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.

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.