

Diamond Age Russia Fund

Monthly Letter to Investors – March 2009



"The only reason a great many American families don't own an elephant is that they have never been offered an elephant for a dollar down and easy weekly payments". ~ Mad Magazine

"People are living longer than ever before, a phenomenon undoubtedly made necessary by the 30-year mortgage." ~ Doug Larson

"Budget: a mathematical confirmation of your suspicions." ~ A.A. Latimer

In the month of March the **Diamond Age Russia Fund** appreciated **20.53%** – the best monthly performance since inception – while the MSCI EME Index rose 17.52% and the MSCI EM Index appreciated 14.15%. After an extremely challenging 2008 and the first two months of 2009, the Fund is now down 5.29% year-to-date, while the MSCI EME Index is down 6.91%, S&P 500 is down 11.67% and MSCI World Index is down 12.50%.

US private debt levels are approaching 300% of GDP. Similar ratios in the United States are nearing levels not seen since the Great Depression, and are twice the size of the long-term average. The resulting deleveraging will likely create a deeper, longer-lasting recession than most analysts anticipate. On the other side of the Atlantic, the credit crisis is possibly even worse. The US spill-over has raised the European credit crisis to the brink of global deleveraging. Even greater write-downs are expected by European banks as gearing significantly exceeds their US peers, by 38 times reserves vs. 20 times for the US.

The Investment Advisor expects that while deflation is the headline risk at present, it is inflation which represents a larger long-term challenge as predictably the Euro and USD began to deflate.

Continued overleaf...

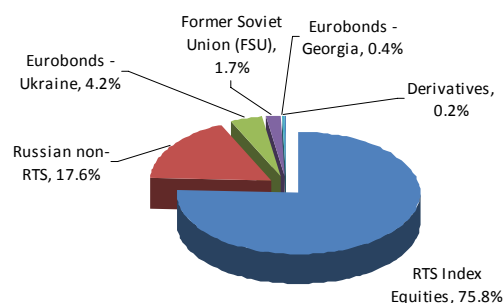
International Business Partners and Terms

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

Historical Performance

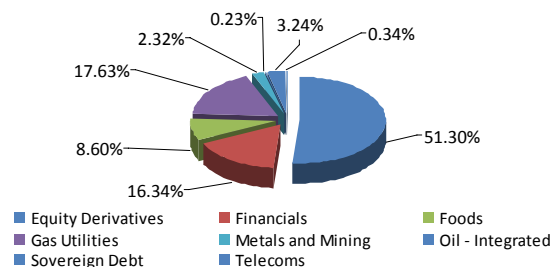
	2005	2006	2007	2008	2009
Jan	-	13.67%	1.29%	-10.44%	-11.34%
Feb	2.24%	2.73%	5.70%	2.75%	-11.37%
Mar	-0.27%	4.05%	-0.29%	-3.48%	20.53%
Apr	-2.54%	8.80%	1.88%	3.03%	
May	-0.51%	-3.78%	-0.71%	9.17%	
Jun	1.84%	-1.67%	2.88%	-7.02%	
Jul	7.77%	0.37%	1.75%	-13.09%	
Aug	8.76%	2.33%	-4.69%	-8.69%	
Sep	12.64%	0.01%	5.07%	-10.76%	
Oct	-6.56%	3.70%	4.99%	-35.75%	
Nov	7.49%	5.36%	-2.96%	n/a	
Dec	7.33%	9.49%	0.80%	n/a	
Year	43.27%	53.70%	16.26%	-57.73%	-5.29%

Asset Allocation



NAV Data

Fund Price (W/Avg), Main Class	Bid \$100.21; Offer \$102.48
Designated Investment Share Class	Bid \$86.90; Offer \$86.90
Total Assets (AUM)	\$17,857,651



...Continued from previous page

For many Emerging Market countries, GDP recovery will disappoint until the European and US financial sectors have wound down from historically high debt levels. Emerging Market central banks such those in the Baltic's, Hungary, Bulgaria and Romania have little ability to defend their currencies by raising rates. Turkey may see even more devaluation in 2009. Mexico and largely the whole of Latin America is a leveraged play on the US, while slightly better Brazil may trade sideways.

It is worth noting that many Emerging Market sovereigns remain more creditworthy than ever and expect sovereign defaults ex perhaps Argentina and Venezuela to be limited. More importantly, the broad Emerging Markets have 300% to 400% greater upside from the lows than the world's largest developed economies. Here lie both the potential opportunities and attractive markets in the regions in which **Diamond Age** investors participate.

Following the lead of China, India, and Russia, the seminal transfer of economic power and political clout away from the West to the East is only just beginning. BRIC powers ex-Brazil will continue to expand, albeit at sub-historic levels of 3%-5%, until full global recovery is underway at which point one may again expect world leading growth rates.

Russia and the former Soviet Union are specifically best positioned to profit from Euro / Dollar depreciation as this dynamic elevates asset pricing of oil, gas, commodities, raw materials, and other hard assets. The regional economies in this theater of operations will likely be of the first to recover as global inflation returns with zeal. The investment case is especially compelling for CIS countries (exporters) vs. China and India (importers).

The Investment Advisor would like to share some long-term observations, based on multi-year data. Between 2000 and 2008 Emerging Markets had a relatively high 78% correlation with the S&P 500 (and 86% for Developed Markets). At the same time, the Frontier Market Index (in which such countries, as Ukraine and Kazakhstan, among others, are included) had a low 32% correlation with the S&P 500. The **Diamond Age Russia Fund**, with a predominant mix of Emerging Markets and Frontier Markets portfolio, had a low 42% correlation with the S&P 500 since its launch in February 2005 through August 2008 (please note, however, that the **Diamond Age Russia Fund** is a long/short fund).

In September 2008 Lehman Brothers went bankrupt, which dramatically worsened a huge global banking crisis, contributed to a global recession and sparked a massive deleveraging in all long-term secular investment positions, including low-correlated Frontier Markets. Correlations with the S&P 500 shot up from 32% to 90%; in addition to that, Frontier Markets became illiquid. Some of these markets are sensitive to both commodity prices and capital flows, and so they have been crushed (such as Kazakhstan). However, Frontier Market valuations are extremely compelling for a long-term investor, as they trade at 29% and 42% discount to Emerging Markets and Developed Markets earnings on a trailing basis, respectively, and have approximately twice as high dividend yields.

What other observations would be interesting for long-term investors? It is worth noting a 20-year-long observation in regards to Emerging Markets. According to a Bank of America Merrill Lynch research, Emerging Markets had 13 bear markets in the past 20 years, and yet this asset class still grew from 1% to 10% of global market cap (which, of course, also grew; the marginal difference in growth rates between the two is actually remarkable). Thus, over the last 20 years, an EM investor would have enjoyed a vastly greater wealth creation, compared with a Developed Markets investor.

So, what about a long-term Developed Markets investor? The statistical evidence is stunning. Over the last 25 years the total return for US equities has actually been lower than those of US 10-year government bonds. Over the last 10 years, US stocks have delivered -47% in real returns, but bonds have produced a 71% gain in real terms, according to BCA Research Inc. These are remarkably unusual results: for a quarter of a century, investors who have taken on more risk by investing in stocks have not been rewarded with any higher returns than if they had invested in government bonds!

BCA Research admits that this result is definitely abnormal. The only explanation possible is that when equity bubbles have been punctured, other kinds of distortions may have been created in financial markets. Simply put, stocks might have been driven down to a level where they are grossly undervalued relative to bonds. If this is true about the Developed Markets, it is certainly true for the Emerging and Frontier Markets, since they tend to overshoot either way.

It is impossible that stocks will continue to deliver lower returns than bonds, especially on a sustained basis. Otherwise, no one would ever invest in risky ventures, and capitalism, capital markets and economic progress would have to stop and even reverse course, which is impossible because it is counter to human nature (save such anomalies as 1917-1991 in Russia or similar regimes elsewhere). Apparently, this view is taken now, by some shrewdest of the shrewd.

On 26 March the Russian business newspaper Kommersant reported that billionaire investor Richard Chandler has bought a 3% stake in Sberbank, Russia's largest bank. The paper reported that Chandler spent about \$430 million building a 3% stake over a week or so, a period over which Sberbank stock jumped about 50%.

According to a short informational note prepared by Renaissance Capital, Richard Chandler is a New Zealander who, together with brother, Christopher, ran Sovereign Global Investment in 1986-2007. The firm generally invested in Emerging Markets during times of distress, looking to maximize returns in the years following crises – undertaking classic deep-value investing with an EM focus. The firm was a large player in many Russian household stock names during the 1990's, and is comfortable with holding sizeable stakes.

This represents another classic deep-value investment for Mr. Chandler (if confirmed it is him), and one from which he is seeking a sizeable return. It is a positive signal for Sberbank, and Russia in general, that investors of this nature are returning to the market to seek value in what the Investment Advisor hopes is bottom-fishing territory. Although the Fund has sold its entire Sberbank position after the 50% jump in share price, it is looking to re-initiate the position once a correction has taken place (and which indeed has been occurring for the last few trading days in March).

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.

© 2009 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.