

INVESTMENT OBJECTIVE

The Fund seeks growth of capital through investment in the equity securities of issuers of Real Estate sector in countries in Eastern Europe, including CIS and Russia, believed to offer opportunities for capital appreciation and which meet the Fund's investment criteria. The Fund invests primarily in the listed stocks of real estate companies, but also in companies whose business success is directly related to real estate market, based or operating in CEE. The Fund Manager applies bottom-up fundamental research driven investment process to identify underpriced companies with strong appreciation potential and to construct a high conviction portfolio. The fund has no market cap or style bias.

KEY INFORMATION

Fund Manager
Otto Vaarmann

Benchmark
REX Index calculation has been discontinued by the provider. We are currently setting up a new benchmarking arrangement, which should be available shortly.

Base Currency
EUR

NAV
1 160.31

Fund Size
4 074 505

Number of Holdings
20

Fund Launch Date
15.06.2009

Quotation
Daily

Fees
2.0% Management Fees

Fund Domicile
Luxembourg

Legal Structure
SICAV

Investment Manager
Limestone Investment Management

Administrator
Kredietrust Luxembourg S.A.

Custodian
Kredietbank Luxembourg S.A.

Auditor
Deloitte S.A.

Codes
ISIN LU0373664712
Bloomberg LIMEREC LX
Lipper 68021358

MANAGER COMMENT

Winners & Losers

Due to relatively flat performance over past month it is quite difficult to point out any stellar performers or feeble contributors in July. Best performance was shown by Austrian developers **ImmoFinanz** (1.3 ppts) and **Atrium European Real Estate** (0.5 ppts) as investors still seem to prefer real estate companies with solid income producing investment property portfolios over developers with attractive pipeline projects or with properties still in construction phase. We remain confident regarding our investment in both companies since they have very strong balance sheet and do enjoy solid income stream from investment portfolios, but are not looking forward to increase the current stake in Atrium (about 5% of the fund) due to its higher valuation (P/NAV at 0.67) compared to the peers. The weakest contribution in July came from Russia's **Eastern Property Holdings** (-1.4 ppts) and **Mirland** (-0.5 ppts) together with Ukrainian developer **KDD Group** (-0.2

Portfolio & Strategy

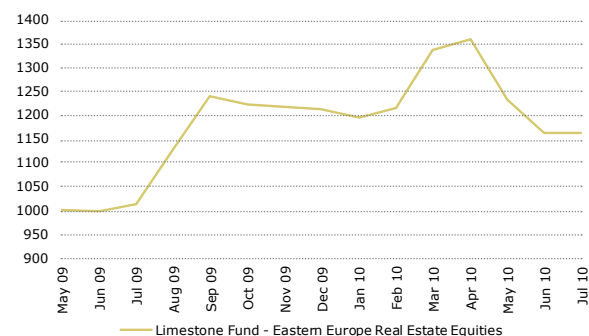
Research carried out by various property consultancy and advisory firms do show further signs of decreasing yields and the fall in rental levels bottoming out across all property segments in CEE/CIS region. Industrial and logistics segment does even show rapid fall in vacancy and rise in rental levels in some markets, especially in Russia. We are also looking for increasing fund's exposure towards that segment and having couple of possible investment targets on our radar screens. There were not many significant announcements on the corporate news side last month as the companies are preparing their semi-annual reports for earnings season that kicks off in August on the property companies side. Strong performance figures should provide much sought-after support for real estate stock quotations across the region that have stumbled heavily over past few months and are in a desperate need to regain investors confidence in the sector. In July we were able to take advantage of temporary weakness of Austria's **ImmoFinanz** and increased the company's share to more than 8% of total funds. After positive solution regarding repayment of the IBAG bond, elimination of several corporate governance issues and positive stance towards re-starting development activities together with strong balance sheet - all that makes ImmoFinanz look like a very attractive investment opportunity at current valuation (P/NAV 0.46). Our second largest position with more than 7% of the fund - **Eastern Property Holdings** is a more value play (P/NAV 0.31) that needs to deliver solid operating numbers in order to re-assure investors about market attractiveness in commercial real estate segment in St.Petersburg. **Sparkassen Immobilien AG**, the third largest holding with about 7% of the fund, has emerged to that position through organic growth since it didn't suffer any major setbacks during the recent sell-off. Due to its relatively rich valuation (P/NAV 0.63) compared to the peers we are not looking forward to increase Sparkassen's stake in the fund. After putting most

ppts), though the main rationale behind the weak performance was not company related but the overall negative stance towards these property markets over recent past. KDD Group itself made a positive announcement about signing an agreement with Swissotel in order the latter to manage a five-star hotel planned for the SkyTowers business center currently being built in Kyiv.

Monthly Return Contribution

Winners	Return	Contribution
ImmoFinanz	18.5%	1.3%
Gant	13.6%	0.8%
Atrium	11.2%	0.5%
Losers		
Eastern Property Holding	-9.8%	-1.4%
Mirland	-9.8%	-0.5%
KDD Group	-10.3%	-0.4%

of our holding in **Orco Property Group** into market we are looking to dispose the remaining stake as well since current position counts for less than 1% of the fund and the company has lost its potential also valuation wise.



Performance	Fund
1 month	0.0%
3 months	-14.4%
1 year	14.7%
Inception	16.0%
Calendar Year Performance	
YTD 2009	-4.2%
	21.1%

* Since 15.06.2009

ALLOCATION

Country	Fund	1M Change (absolute)
Austria	25.0%	4.5%
Russia	19.3%	-2.9%
Poland	17.0%	0.5%
Bulgaria	11.3%	0.1%
Kazakhstan	6.9%	-0.4%
Ukraine	6.2%	-0.5%
Romania	3.8%	1.0%
Other	3.8%	-0.4%
Czech Republic	1.0%	0.1%
Turkey	0.0%	0.0%
Hungary	0.0%	0.0%
Cash	5.7%	-1.9%

10 Largest Holdings	Weight
ImmoFinanz	8.2%
Eastern Property Holding-Reg	7.6%
Sparkassen Immobilien AG	7.2%
Chagala Group-Spon Gdr Regs	6.9%
Bulgarian Real Estate Fd Inc	6.3%
ATRIUM European RE	5.0%
Advance Terrafund REIT	5.0%
Globe Trade Centre SA	4.8%
Warimpex Finanz- und Beteiligu	4.6%
RGI International Ltd	4.5%

STATISTICS

Absolute Measure	Inception
Best Monthly Return	11.4%
Worst Monthly Return	-9.2%
Sharpe (1M Euribor)	0.65
Standard Deviation	20.1%
Downside Deviation (1M Euribor)	10.3%
Sortino (1M Euribor)	1.27
Maximum Drawdown	-14.4%
Percentage of Positive Months	42.9%

Legal Disclaimer

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




CONTACT INFORMATION




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COUNTRY INFORMATION

Central Eastern Europe

	Population 38.2M GDP per capita 8.2 (35%)* Gross Wage** 0.7 (30%)*
	Population 21.5M GDP per capita 5.4 (23%)* Gross Wage** 0.4 (18%)*
	Population 10.5M GDP per capita 13.1 (55%)* Gross Wage** 0.9 (36%)*
	Population 10.0M GDP per capita 9.3 (39%)* Gross Wage** 0.7 (29%)*
	Population 7.6M GDP per capita 4.5 (19%)* Gross Wage** 0.3 (12%)*
	Population 7.3M GDP per capita 4.6 (19%)* Gross Wage** 0.5 (19%)*
	Population 4.4M GDP per capita 10.2 (43%)* Gross Wage** 1.1 (43%)*
	Population 3.3M GDP per capita 8.0 (34%)* Gross Wage** 0.6 (24%)*
	Population 2.2M GDP per capita 8.3 (35%)* Gross Wage** 0.7 (27%)*
	Population 1.3M GDP per capita 10.2 (43%)* Gross Wage** 0.8 (32%)*

Commonwealth of Independent States

	Population 141.9M GDP per capita 6.3* Gross Wage** 0.4*
	Population 46.0M GDP per capita 1.7* Gross Wage** 0.2*
	Population 15.6M GDP per capita 4.9* Gross Wage** 0.3*

* 2009, EUR thousands, with relative to EU average in brackets
** monthly

MACRO OVERVIEW

Highlights

• **Exports and FDI continue to drive CEE recovery.** Contraction of foreign trade along with contraction of consumption and investments were the main drivers, which brought the economic growth in CEE down in late 2008 and 2009. Since then, exports have started to pick up from the very low base and are currently the main pillar of economic recovery. Exports have been posting double digit y/y growth in many CEE countries in recent months (e.g. Poland reporting 38 per cent export growth in May). While consumption remains subdued in many CEE countries, the investments show strong signs of recovery. Poland has this year attracted EUR 5bn FDI, a 75% jump compared to the same period last year.

• **EU recovery supports CEE exporters.** EU economy was undergoing real life stress testing with euro strengthening from four-year lows, and Greece, Spain and Portugal selling 50 billion euros worth of sovereign debt since creation of EU rescue fund in May this year. The reflections on real economy resulted in booming German IFO numbers, which reached the highest level since unification in 1990. This confirms the strength of European manufacturing sector and the subsequent push it gives to export oriented CEE manufacturers. This points us to expect continued positive export growth figures in CEE also for upcoming 3Q2010.

• **Hungary's fiscal standoff with IMF creates mixed feelings.** Talks between the IMF/EU and the Hungarian government broke down in July. Despite increased volatility BUX index ended the month up 5.8 percent. Real risks seem to be contained as Hungary recently auctioned successfully HUF 57.5bln of government debt, and saw yields decline from previous auctions.

• **Romania implements fiscal consolidation measures, IMF ready to release next bailout tranche.** After Romania met the IMF imposed half-year budget deficit target, the Fund is expected to releasing the next tranche of the nation's 20 billion-euro bailout package. Real macro numbers continue to come in quite bleak, which makes us carefully double-check our assumptions at local company valuations. Romanian economy is expected to contract 1.9 percent this year and return to growth of 2 percent next year. Meanwhile Bulgaria was praised by EC report for finally achieving results in judicial reform and fight with corruption.

• **Eastern Europe and Austrian banks pass the stress tests.** Tests confirmed that as long as sovereign defaults will be avoided, banks are fine. The good news is that all Eastern European and Austrian banks passed the stress test with a safety margin. In fact Hungarian OTP was found to be Europe's second most sound bank in stress tests.

• **Ukraine IMF deal.** Ukraine reached an agreement with IMF on a 15.2 USDbn stand-by loan and received a 2 USDbn facility from Russia's VTB Bank, allowing the country's budget financing to return to normal and leading to sovereign credit rating appraisal.

• **Privatization plans in Russia.** Russia announced its plan to sell minority stakes held by state in 10 companies in order to raise 29 USDbn to help cover its budget deficit - a move that many see as premature especially when taking into account Russia's potential to use alternative financing methods

• **Fund flows.** EMEA returned to inflows after recent small outflows, but dedicated GEM and Asia funds enjoyed the accelerating pace of new inflows with EMEA staying flat. Poland and Czech underweight position in GEM funds slightly increased while Hungary surprisingly managed to further extend its overweight.

Stock Markets

Country	1 month*	YTD*	1 year*
Ukraine	10.7%	43.3%	95.9%
Russia	10.5%	2.4%	45.4%
Poland	9.0%	3.6%	15.8%
Romania	7.0%	8.2%	29.4%
Czech	6.4%	5.1%	10.2%
Hungary	5.8%	4.9%	28.9%
Latvia	4.7%	31.4%	41.7%
Kazakhstan	4.3%	-17.0%	23.2%
Estonia	4.2%	34.0%	82.0%
Lithuania	2.5%	19.6%	61.6%
Croatia	0.1%	-7.4%	-1.2%
Serbia	-0.6%	-5.0%	10.6%
Bulgaria	-0.8%	-13.4%	3.9%

* Return of the local Stock Exchange Index (in local currency, Russia in USD)

Currency Markets

Country	1 month	YTD	1 year
Czech	3.7%	6.3%	3.2%
Poland	3.2%	2.5%	3.5%
Romania	2.7%	-0.4%	-0.8%
Hungary	0.4%	-4.9%	-6.1%
Croatia	-0.6%	0.9%	1.7%
Serbia	-1.6%	-9.7%	-12.4%
Russia	-2.9%	9.2%	13.7%
Ukraine	-5.9%	12.0%	8.9%
Kazakhstan	-6.3%	10.4%	11.5%

Limestone Investment Management is a signatory to the UN Principles for Responsible Investment



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