

INVESTMENT OBJECTIVE

The Fund seeks growth of capital through investment in the equity securities of issuers in countries within Central and Eastern Europe believed to offer good opportunities for capital appreciation and which meet the Fund's investment and social criteria. The Fund invests primarily in the listed stocks of companies based or operating in CEE. The Fund Manager applies bottom-up fundamental research driven investment process to construct an actively managed high conviction portfolio of favourably priced companies that comply with international norms on Environmental, Social and Governance issues in accordance with the UN Principles for Responsible Investment.

KEY INFORMATION

Fund Manager
Alvar Roosimaa

Benchmark
Stoxx EU Enlarged TMI

Base Currency
EUR

NAV
103.17

Fund Size
21 472 900

Number of Holdings
24

Fund Launch Date
31.07.2008

Quotation
Daily

Fees
2.5% Retail
1.25% Institutional

Fund Domicile
Luxembourg

Legal Structure
SICAV

Investment Manager
Limestone Investment Management

Investment Advisor
GES Investment Services

Administrator
Kredietrust Luxembourg S.A.

Custodian
Kredietbank Luxembourg S.A.

Auditor
Deloitte S.A.

Codes
ISIN LU0373664472
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Limestone Investment Management is a signatory to the UN Principles for Responsible Investment



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MANAGER COMMENT

Winners & Losers

Best performing investment (contribution 1.5 percentage points) in July was Romanian **SIF1** that had been severely hit during the Spring correction. In anticipation of a rebound we increased the share of SIF1 at below 1 RON levels to the largest holding in the Fund before it closed the month at 1.14 RON. At more than 9% of the portfolio we are soon forced to cut our holding but we consider this diversified holding company as one of the key long term asset value investments of the Fund and are convinced it has potential to double in value. The weakest link in July (-0.48 ppts) was Croatian engineering group **IGH** that is still seeing its business conditions worsen. In anticipation of the market cycle bottoming being close we increased our small position at the month lows. 2Q numbers, released soon after, confirmed that engineering and construction market is still very weak and unlike other countries around

Portfolio & Strategy

We continue to believe that economic recovery is here to stay. Having rebounded from 2009 on the back of financials and early industrial ideas, we feel ever stronger about cyclical industrial companies where business has not yet rebounded but should be close or through the bottom by now. Fund's portfolio is currently valued at **7.8x 2010 P/E** and **0.9x P/B**, and has on average **+65% upside potential** to our in-house fair value targets.

At the peak of the market fascination with the bank stress test results we exited **Erste Bank**. There was little relative upside left for us at these levels, especially when risk aversion is expected to revisit these markets for some time to come. The 2Q results reported few days after our sale were slightly below market expectations. July's new addition was Romanian seismic prospecting company **Prospectiuni**. This move further underlines our strategy to gain from economic rebound and business cycle turnaround, no matter how slow or fast it will be. PRSN lifeline is energy companies' need to find new deposits and secure supply. Trading at 5x 2010 earnings in the environment of rising commodity and energy prices we believe PRSN has exceptional upside potential.

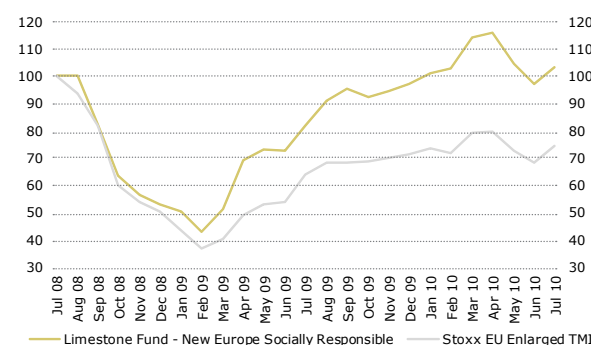
There was no better way to spend sizzling hot July than to scrutinize 2Q results started to arrive. Croatian **Koncar Distributivni i Specijalni Transformatori** sales slipped somewhat but remained in green for the year; decline in contract backlog is starting to weigh on results. Margins improved slightly, which helped EBITDA to remain flat. Koncar is one of the long term cornerstones of our cyclical strategy. Sopharma sales increased by 21% on the back of developments that we looked forward to when investing: jump in sales to Russia (up 39%) and Ukraine (up 73%). **Sopharma** is a perfect match for our second strategic goal: to have exposure to more "defensive" industries through companies with strong growth characteristics. For us, the star of the reporting season

Croatia, has not yet seen rebound. We like the company for its potential to gain tremendously from business cycle turn and upcoming Croatian EU accession, and see the current market weakness as an exceptional buying opportunity.

Monthly Return Contribution

Winners	Return	Contribution
SIF 1 Banat-Crisana	15.2%	1.5%
A&D Pharma	8.9%	0.6%
Erste Bank	13.6%	0.5%
Losers		
Institut Gradevinarstva	-14.1%	-0.5%
Teraplast	-5.8%	-0.2%
Bulgarian Real Estate	-2.0%	-0.1%

is Romanian market leading pharma wholesaler and retailer **A&D Pharma**, our second largest holding in the Fund. ADPH reported record 1H10 sales, up 30% yoy, and net profit of € 17.5m for the period, representing 80% of consensus full year 2010 estimates. The results warrant strong market upgrades in the coming weeks.



Performance	Fund	Benchmark
1 month	6.3%	9.6%
3 months	-11.0%	-6.3%
1 year	26.0%	16.6%
Inception	3.2%	-25.5%
Calendar Year Performance		
YTD	6.3%	4.7%
2009	83.1%	41.3%
2008*	-47.0%	-49.6%

* Since 31.07.2008

ALLOCATION

Country	Fund	1M Change (absolute)
Romania	27.5%	3.0%
Poland	18.8%	-3.7%
Austria	16.1%	-5.2%
Croatia	10.4%	-0.7%
Bulgaria	10.0%	-0.7%
Serbia	5.1%	-0.2%
Hungary	2.8%	0.1%
Slovakia	0.0%	0.0%
Slovenia	0.0%	0.0%
Other	0.0%	0.0%
Czech Republic	0.0%	0.0%
Cash	9.3%	7.4%

Sector	Fund	1M Change (absolute)
Financials	24.4%	-4.6%
Industrials	15.4%	-0.7%
Staples	13.3%	0.2%
IT	12.5%	0.1%
Real Estate	8.8%	-0.1%
Energy	6.3%	2.0%
Telco	3.7%	-0.3%
Health	3.2%	-0.2%
Materials	3.1%	-3.9%
Discretionary	0.0%	0.0%
Utilities	0.0%	0.0%
Cash	9.3%	7.4%

10 Largest Holdings

10 Largest Holdings	Weight
SIF 1 Banat-Crisana	9.1%
A&D Pharma Holding Nv-Gdr	7.4%
Aik Banka Ad	5.1%
AB SA	4.8%
Raiffeisen Intl Bank Holding	4.4%

10 Largest Holdings	Weight
Bulgarian Real Estate Fd Inc	4.3%
OMV AG	4.3%
Action SA	4.2%
Hrvatski Telekom dd	3.7%
Asseco Poland SA	3.5%

STATISTICS

Absolute Measure	Inception	Relative Measure (Stoxx EU Enlarged TMI)	Inception
Best Monthly Return	35.4%	Best Monthly Alpha	13.5%
Worst Monthly Return	-22.9%	Worst Monthly Alpha	-6.2%
Sharpe (1M Euribor)	0.00	Information Ratio	0.87
Standard Deviation	43.2%	Tracking Error	17.5%
Downside Deviation (1M Euribor)	26.8%	Beta	1.03
Sortino (1M Euribor)	0.00	Jensen Alpha	19.2%
Maximum Drawdown	-57.4%		
Percentage of Positive Months	58.3%		

COUNTRY INFORMATION

	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%)*

* 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.

• **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*
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%
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)

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%

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European SRI Transparency logo

The European SRI Transparency logo signifies that Limestone Investment Management commits to provide accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the Socially Responsible Investment (SRI) policies and practices relating to the fund. Detailed information about the European SRI Transparency Guidelines can be found on www.eurosif.org, and information of the SRI policies and practices of the Limestone New Europe SRI fund can be found at: www.limestonefunds.eu. The Transparency Guidelines are managed by Eurosif, an independent organisation. The European SRI Transparency Logo reflects the fund manager's commitment as detailed above and should not be taken as an endorsement of any particular company, organisation or individual.



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