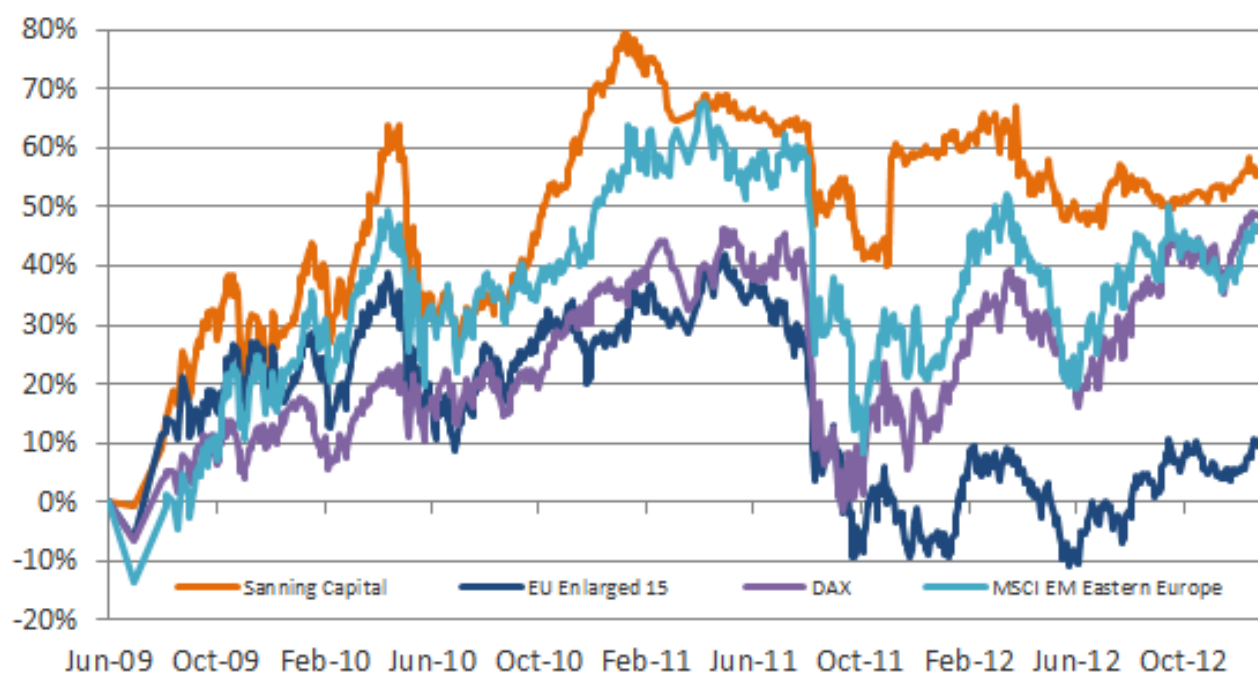


## December, the quiet month of Fiscal Cliff

December was a quiet month on the European markets. Globally the debate about \$800 billion of the US budget cuts and tax increases (dubbed The Fiscal Cliff) dominated the mood. On December 31st a minor agreement was signed removing a small part of the Cliff and left the real solution of the issue till mid-February. Further aftershocks in form of downgrades of the US may therefore come, but those should not be comparable with the 2008 tremors. We see no other crucial political risks to come the EU in the upcoming months and have therefore decided to increase risk of our portfolio by increasing our long position and switch from Fixed Income to Equity.

Locally, the party led by opportunist Victor Ponta won the Romanian elections with a positive impact on the privatization process of Fondul Proprietatea's portfolio and the capacity to speed up the environment permitting at Rosia Montana gold mine. We took significant position on both.

We also increased our positions in Samsung and Russian retailers Dixy and Magnit. We also increased our position in Tesla Motors where we are carefully watching the next Q results to prove their massive ramp-up in production of the new Tesla Model S car. This month we gained only 1.4% behind most of the benchmarks. The reason for that was the change of the strategy and opening of the long positions. When we look back at the entire year 2012, we can summarize, that it was a year of political and systemic risk of Eurozone, year of numerous Finance ministers meetings, endless discussions and press releases. Our portfolio was rather conservative consisting mainly of Fixed Income investments. While exposing the portfolio would probably have caused a better performance, we stand by our decision not to take a risk of a huge loss which could have been caused by fractures in the € system. The year of 2013 and 2014 we see as year of mild recovery in the EU and the US disrupted by Fiscal Cliff debate and elections in Germany which could lead to return of the ripples in the € system. We intend to be much more aggressive with equity of at least 2/3 of the portfolio but will not limit ourselves only to Central Europe. We will seek more dynamic companies suited to outperform in times of anemic growth.



Fund Manager		Cumulative Performance			
Jan Pravda	Period	Sanning*	EU Enlarged	DAX	MSCI
Launch Date	1 month	1.4%	4.3%	2.8%	5.2%
2.6.09	3 months	3.5%	3.0%	5.5%	2.6%
Location	12 months	-1.6%	18.4%	29.1%	19.6%
Prague	3 years	18.7%	-8.7%	27.8%	19.1%
Fund Currency	5 years	---	---	---	---
EUR	Since inception (2.6.2009)	<b>56.6%</b>	9.8%	48.0%	46.7%
Share Price	* Net off mgt fees				
€ 1566.1	Further Characteristics				
Performance Fee	Beta relative to:				
20 % HWM	EU Enlarged 15	<b>0.39</b>	Volatility*	<b>35.3%</b>	
Management Fee	DAX	<b>0.36</b>	Alpha**	<b>0.13</b>	
2% p.a.			* 3 years' annualized standard deviation		
			** annualized vs. EU Enlarged 15 Index		

**SANNING CAPITAL** is a bottom up fund based on fundamental research exploiting market inefficiencies in Central Eastern Europe. Sanning is unique in term of its geographic focus. It is funded by the managers' own capital and private investors.

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