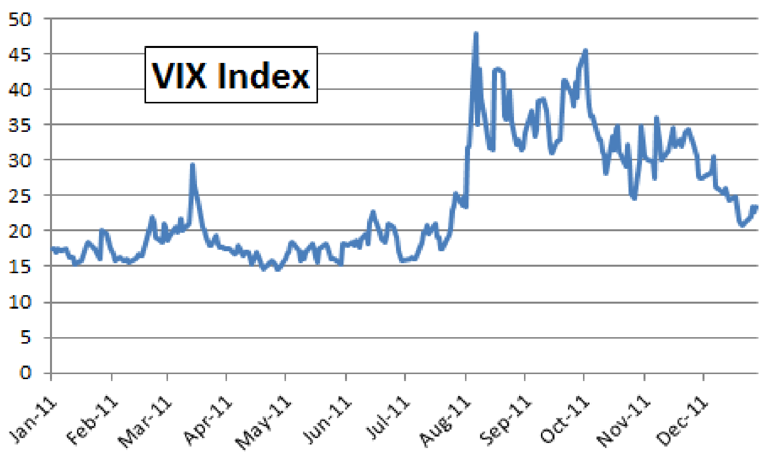
SANNING CAPITAL
EUROPEAN FUND

Market Commentary: Overview of the whole year 2011 followed by January 2012

1. Existence of Eurozone

The year of 2011 can be separated into 2 halves: first 6 (or 7) months were quite calm accompanied by solid macro growth and corresponding market performance – as if the market forgot about the Greek problems that appeared a year earlier. The remaining months were very volatile and world indices lost all gains since the beginning of the year and some lost more. This holds true especially for Europe the epicenter of the crisis. Following volatility and equity index chart demonstrates the distinction between the two halves of the year. The 2nd half of 2011 was deeply affected by the debt problems of Greece, which spread contagion into other EURO peripheral countries including Italy, the biggest problem. Italy has a high leverage of GDP, deficit of 118% of GDP, and it has not grown significantly last years. The only positive about Italy is its primary budget surplus. , Consequently, investors pulled money out of its government bonds and their yield hiked to over 7% and stayed there for over a month. The fear was that if it stayed there for longer time, situation would probably become unsustainable and Italy would be forced to ask for financial help which would be difficult to amass given the size of Italy (Italy is the 3rd biggest Eurozone country with respect to GDP with total debt 6 times higher than Greece). The same holds for Spain, another large economy. European leaders held numerous summits in order to fix the debt problems, but didn`t come with a satisfactory solution opening doors to doubts about the very existence of the EU.



2. USA downgrade

While the eyes of investors were focused on Europe, the biggest slump on the world equity markets followed the S&P downgrade of the USA as a reaction to complicated negotiations between politicians about the US federal debt ceiling. However, since then the US indices significantly outperformed European once because the Eurozone still did not resolve its debt problems.

3. Market indices performance

None of the key world markets gained in 2011, even though S&P was fighting for it till the last minutes of trading. London FTSE index followed with moderate loss about 5%, but most of the indices experienced double digit losses, such as German DAX (-16%), Japanese Nikkei (-19%), French CAC (-20%) or Italian FTSE MIB (-31%). CEE markets were, unfortunately, driven by the European debt crisis as well and ended the year with comparable losses: Russian Micex (-19%), Polish WSE (-21%), Hungarian BUX (-25%) or Czech PX (-27%). This severe overreaction does not seem to be justified as most of the CEE economies, perhaps with the exception of Hungary and Romania are fiscally substantially healthier than their western counterparts. This exemplifies the opportunity of investing into these, assuming one can judge the moment when the Euro crisis subsides.

4. Sanning Capital Performance

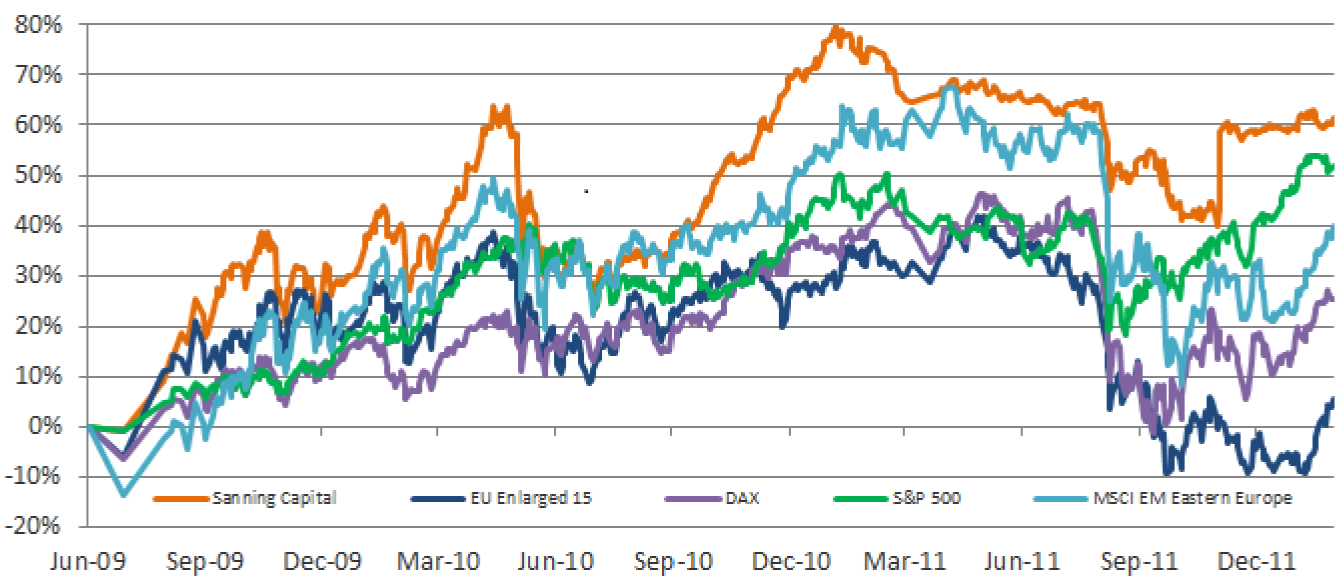
Sanning Capital did not avoid annual loss either, our shares dropped by 10%. However, it is better than most of our benchmarks and significantly better than all our regional benchmarks (MSCI EM Eastern Europe Index lost almost 20% in 2011). We mainly lost in our CEE equities and gained in Turkish equities. The reason of our regional outperformance was our cautious approach. We held a significant volume of gold which was a good hedge against market falls and we made reasonable profit. Another example of careful stance is our holding of put options on European indices, which protected especially in August after S&P downgrade of USA.

5. 2012 Outlook

For the following year it will definitely be important to keep an eye on the Euro crisis solution. It is clear that the current model is unsustainable and that either Euro countries will undertake tighter integration so Eurozone will finally have just one Ministry of Finance and one budget or numerous countries leave the Euro project and get back to their national currencies in more. Both options have theirs sets of challenges, but the second one is a nightmare scenario, we think. We believe that Eurozone politicians will adamantly keep working on closer integration, but we don't think they will come with final and satisfactory solution in 2012 and therefore the recovery will not be as dynamic as the one in the US seems to be.

6**. January 2012 Report**

World equity indices experienced the best January since 1998. The rally was mainly caused by € 489 billion liquidity injected by ECB (unlimited 3 year loan to banks in Eurozone), which was probably used for purchasing governmental bonds by banks. As a result, yield of peripheral government bonds significantly decreased (Italian 10yr yield fell to 5.95% from 7.11% during January 2012) and this positive trend seems to continue. However, there were no other breaking news about the Eurozone crisis solution till the end of month, therefore the investor`s attention shifted towards the 4Q results of companies, mostly beating consensus estimates like Apple. Macro indicators, such as unemployment in the US and PMI or IFO in Germany surprised positively as well, indicating that the probability of world economy going into recession decreased. Sanning Capital maintained growth but underperformed the pure equity benchmarks due to sticking to its conservative strategy of significant fixed income holdings in light of Greece floundering back and forth. The likelihood is that, if we get closer to the resolution of the Greek problem, we will return back into more equities since the global macro outlook seems improving.



Fund Manager	Jan Pravda
Launch Date	2.6.09
Location	Prague
Fund Currency	EUR
Share Price	€ 1 614
Performance Fee	20 % HWM
Management Fee	2% p.a.

Cumulative Performance

Period	Sanning*	EU Enlarged	DAX	S&P 500**	MSCI
1 month	1.3%	13.6%	9.5%	3.5%	13.9%
3 months	13.9%	3.1%	5.2%	11.7%	7.3%
12 months	-6.5%	-20.2%	-8.7%	5.2%	-10.3%
3 years	---	---	---	---	---
5 years	---	---	---	---	---
Since inception (2.6.2009)	**61.3%**	5.4%	25.6%	51.9%	39.7%

* Net off mgt fees, **S&P 500 Euro denominated

Further Characteristics

Beta relative to:			
EU Enlarged 15	**0.43**	Volatility*	**38.9%**
		Alpha**	**0.22**
DAX	**0.40**		

* 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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