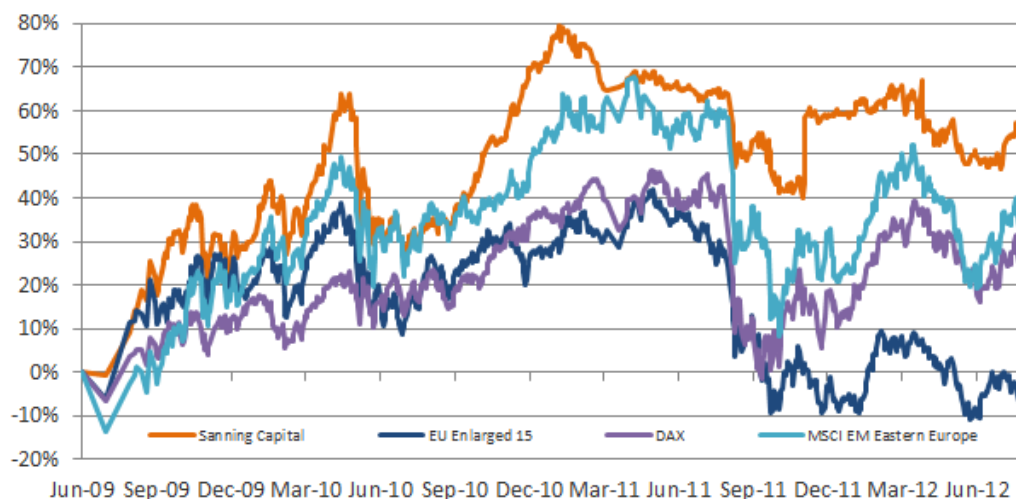


July - Continued Muddle Through where the mud is getting deeper and thicker!

June 26 meeting between Merkel and Hollande set the stage for July. Merkel changed her mind and agreed with pro-growth policy (so far promoted only by France). Same day Moody's downgraded 28 Spanish banks stating that weakening Spain may not support its lenders. High expectations preceded the EU summit on June 28 – 29: fiscal union, Eurobonds, banking union and compact for growth). Even though the summit produced only vague commitment to banking union (one smaller element out of 4) it sparked a rally in the early July which ended on 3rd after market realized that little was achieved and after Greece announced on 8th that it was in depression and needed 3 more years to execute reforms agreed before. The string of negative news continued next day as Spain's borrowing costs rose above 7%, Moody's downgraded Italy on 13th, and Sicily confirmed risk of bankruptcy on 17th resulting in speculation that full bailout for Spain eminent. On 23rd, desperate Spain and Italy banned short selling to stop market decline. On 26th Draghi surprised by candidly stating: "ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough ...". The markets immediately speculated that ECB will be buying Spanish bonds or the ESM/EFSF will get a banking license and do the same and rallied by nearly 5%. On 27 the German officials quickly countered that such steps by ECB are out of question, Spain first time ever conceded "it might need a total of € 300 billion if interest remains high" and that Spanish unemployment reached 24.6%. On 31, markets finally corrected by 1.5%. Not surprisingly, a term "**Muddle Through**" was coined for such a pattern of announcements and euphoria followed by sobering and decline, all without conclusions and direction but preventing a complete breakdown of the EU system. This applies to Europe where other continents such as the US have demonstrated some resistance and progress. We concluded that this pattern is here to stay for many years and have adopted our investment strategy. We stick to high yielding and stable financial instruments in our region and continue to search for opportunities outside the region in sectors which are immune European Muddle Through such as technology, food, infrastructure. **We do not expect much from the ECB.**



Fund Manager	Cumulative Performance				
Pravda Capital	Period	Sanning*	EU Enlarged	DAX	MSCI
Launch Date	1 month	4.7%	-1.6%	5.5%	5.1%
2.6.09	3 months	-1.6%	-7.2%	-2.5%	-2.7%
Location	12 months	-6.4%	-23.6%	-5.4%	-13.1%
Prague	3 years	---	---	---	---
Fund Currency	5 years	---	---	---	---
EUR	Since inception (2.6.2009)	53.6%	-2.3%	31.7%	38.0%
Share Price	* Net off mgt fees				
€ 1 533.2	Further Characteristics				
Performance Fee	Beta relative to:				
20 % HWM	EU Enlarged 15	0.40	Volatility*	37.4%	
Management Fee	DAX	0.38	Alpha**	0.16	
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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