

FED's surprise and US government spending deadlock

September was significantly influenced by the decision of the American Federal Reserve (FED) to postpone the tapering of its bond purchasing program. The action itself caused already upward trending markets to pop further, which was followed by correction in the next days. Furthermore, the budget deficit problems of the US government escalated in the last days of the month, resulting in significant drops on the global markets. For the month we gained 2.0%, outperforming EU Enlarged (0.1%) and underperforming DAX (6.1%) and MSCI EM (5.6%).

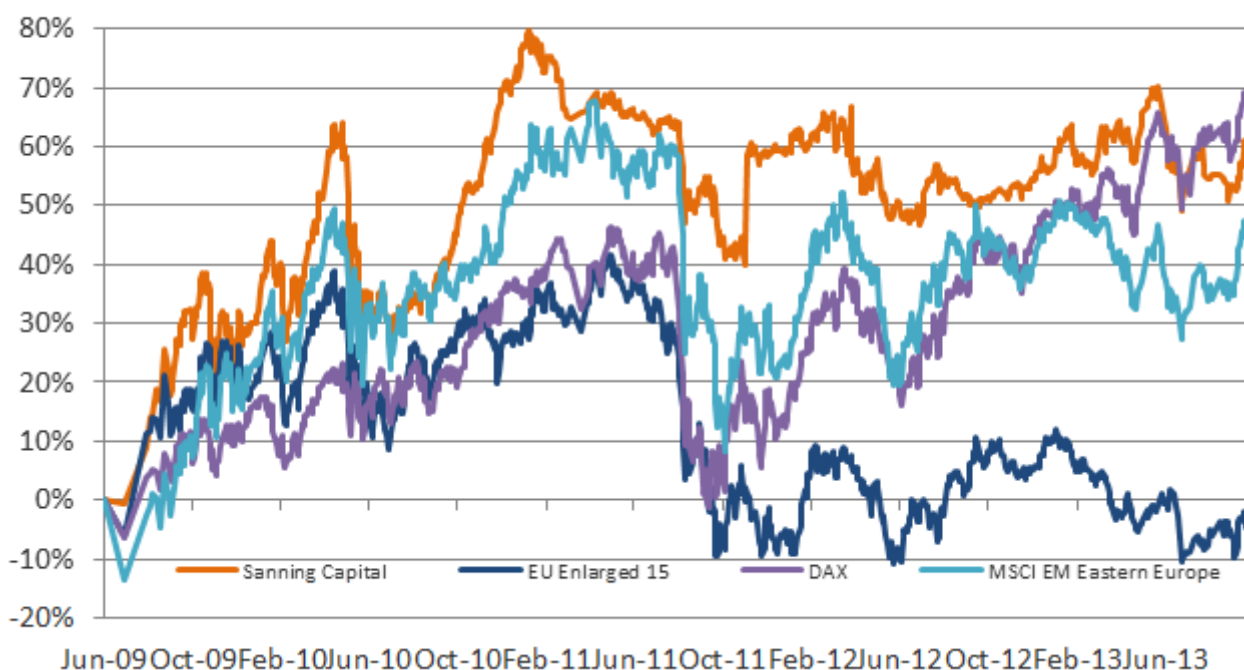
In the first half of the month we used growing market to completely close our exposition to Turkey and also to liquidate our position in Russian Dixy, while we still kept some Magnit because its better prospects on Russian retail market and significant efficiency aspect to it – it is the most efficient retailer in Russia.

We exploited volatility in Novadaq to get a better average price and locked some profits in SolarCity or Gazprom after the prices climbed for several days. This applies especially to Exillon which shot up after M&A announcement.

We suffered on our remaining bonds of Ukrainian agriculture and steel companies because of Moody's downgrade related to the country's foreign reserves issues, but we consider the drop to be an overreaction as the business of the companies is doing fine. We intend to keep those until they recover or until we find better investments in the efficiency space. Our only remaining gold mining share, Lydian, also underperformed as the Armenian government is reviewing its feasibility study. We keep as it remains one of the most efficient gold prospects in the world, but hedged it partially against falling gold price.

On the other side we opened position in another stocks with efficiency factor, namely Redknee, Spark Networks, Arcam or Kapsch (a company on which we made very good profits in 2010 but had a significant correction after we exited) which few days later jumped because of progress of its business in South Africa. Additionally, we realized profit on Eurodollar forward position after the reaction on FED.

Fund vs. Indices



Fund Manager

Jan Pravda

Launch Date

2.6.09

Location

Prague

Fund Currency

EUR

Share Price

€ 1 555.0

Performance Fee

20 % HWM

Management Fee

2% p.a.

Cumulative Performance

Period	Sanning*	EU Enlarged	DAX	MSCI
1 month	2.0%	0.1%	6.1%	5.6%
3 months	1.2%	4.0%	8.0%	8.0%
12 months	2.7%	-10.8%	19.1%	-0.2%
3 years	7.2%	-25.6%	38.4%	5.1%
5 years	---	---	---	---
Since inception (2.6.2009)	55.5%	-4.9%	67.1%	42.6%

* Net off mgt fees

Further Characteristics

Beta relative to:

EU Enlarged 15

0.39

Volatility*

34.4%

Alpha**

0.13

DAX

0.37

* 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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