

Annually: Year of departure from Central Eastern Europe to the global efficiency space paid off in outperformance of our home market (EU Enlarged) by 18%.

Looking back to the year 2013, the best performers could be found among developed markets. American shares rose throughout the whole year on improving economic conditions, while disagreements on new federal budget caused temporary financing shutdown and market correction. Good data on American economy were also gradually increasing concerns about reduction of FED economic stimulus and its timing, which negatively influenced specially emerging markets

Europe was led by Germany, as good performance of German companies pushed DAX to record high. On the other hand, political turmoil in Italy or economic weakness of countries like Portugal renewed concerns about European debt situation. Ukraine suffered from protests against economic inclination to Russia and downgrades of its credit rating because of worsening currency situation – this affected some of our bonds that we held since our CEE focused days. Turkey was hit by summer political turmoil questioning the very existence of democracy, weakening lira, corruption scandals among highest politicians and civil war in neighboring Syria. The emerging markets in general underperformed because the expected cyclical upswing did not materialize, growth outlook stayed uncertain and investor were concerned about monetary policy tightening.

The Central European markets, on which we used to focus, underperformed by some 18% as their prosperity was based on convergence to Western Europe and that is no longer an appealing proposition.

In 2013, we added modest 3.0%, outperforming EU Enlarged (-14.7%) and MSCI EM (-3.0%), but underperforming DAX (+25.5%). Our decision to shift from Central Europe and Emerging markets proved to be successful and we intend to continue in focusing on global companies with significant efficiency factor. Our sharp ratio (which measures performance relative to volatility) is 0.50 since our foundation in 2009 and we strongly believe it will continue to improve.

Monthly: FED tapering decision

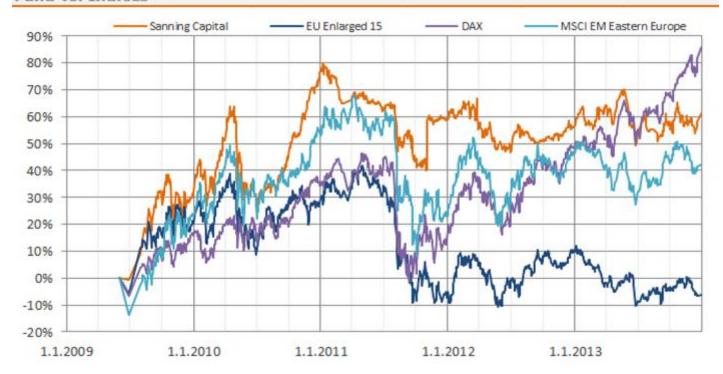
The most dominant theme of December was mid-month FED tapering decision. Limiting the stimulus from \$85 billion per month to \$75 billion came as a surprise to markets (most expected \$85 billion to continue), but was outweighed by improving shape of the American economy. This lifted most global indices, reversing the correction of the previous days. This positive trend continued on lower volume towards the end of the year.

In the month, we gained 0.9%, but outperforming EU Enlarged (-5.3%) and MSCI EM (-0.9%), underperforming DAX (1.6%).

We used correction on DAX in the first half to add to our position in Osram and Volkswagen. Furthermore we locked-in some profits on Novadaq, Magnit, Redknee or Fondul and significantly reduced AVG. We also sold longer one of our two MHP bonds because political instability was calmed down by only a short term solution - the Russian credit line - and we see that the problems must resurface one way or the other.

Among new additions to our portfolio this month are eBay and Amazon, because of their high efficiency factor.

Fund vs. Indices



Sanning*

0.9%

3.7%

3.0%

-9.0%

61.3%

Fund Manager

Jan Pravda

Launch Date

2.6.09

Location

€ 1 612.5

Performance Fee

20 % HWM

Management Fee

Prague
Fund Currency
EUR
Share Price

Further	Charac	teris	ti
Beta rela	tive to:		

Since inception (2.6.2009)

Cumulative Performance

Period

1 month

3 months

12 months

* Net off mgt fees

3 years

5 years

beta relative to.	
EU Enlarged 15	
DAX	

-6.3%	82.9%	43.7%
Volatility*	19.5%	

DAX

1.6%

11.1%

25.5%

38.2%

0.12

0.50

MSCI

-0.9%

-0.2%

-3.0%

-6.9%

EU Enlarged

-5.3%

-1.5%

-14.7%

-27.9%

Alpha**

Sharpe ratio***

2% p.a.

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.

0.29

0.20

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 ³ years annualized standard deviation

[&]quot; annualized vs. EU Enlarged 15 Index

^{*** (}Performance - Risk Free Rate) / Standard Deviation