Consilium Investment Management, LLC

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Notes from the Frontier

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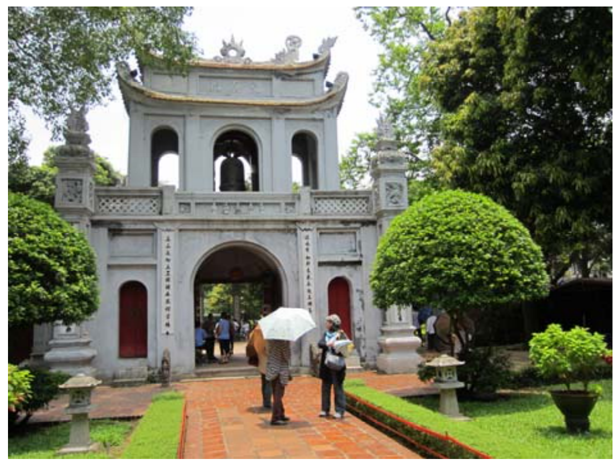
Crossing the Delta: Vietnam Field Trip

A day of traveling will bring a basketful of learning.

-- Vietnamese proverb



Before arriving in Vietnam for the first time, I felt a mixture of uncertainty and excitement. While I was eager to find new investment opportunities and learn as much as possible about the people and culture, I was also worried about how an American would be received, and whether I'd be able to get all the information I needed.

Despite my early fears, I was pleasantly surprised at the warmth and friendship with which Vietnamese people treated me. In both Hanoi and Ho Chi Minh City, I was approached by adults and children, who would smile and ask me questions like "where are you from?" and "what's your name?'"

I later discovered that Vietnamese people are very open and curious, and it's not uncommon for strangers to make direct remarks, such as "you are fat" or "you are so white," which are actually both compliments, since they denote prosperity.

Duong, my local guide, proved an invaluable source of information and insight into the Vietnamese people. He told me that he learned to invest from his grandparents. Under communism, Duong's grandmother bought coffee from the local farmers at a slightly higher price than communist officials were willing to pay, and resold it to third parties for a profit.

She had to be careful because her black market activities were clearly illegal, but now she's quite well-off, having parlayed those early coffee profits into successful real estate and farming ventures.

Duong also talked about how his grandfather gave him a baby pig at the start of each summer, and told him how to care for it. Once the pig grew larger, Duong would sell it and use the money to buy schoolbooks and supplies. He said that this taught him about the importance of working hard to cultivate investments and the need to exercise patience in order to make a profit in the future.

Economic Overview

Since liberalizing its economy in 1986, Vietnam has experienced rapid growth. GDP has increased 6.8% annually the last seven years, and is expected to rise 5.0-6.0% this year, according to various forecasters.

The country benefits from a variety of factors:

1) rich agricultural and mineral resources;

2) a growing industrial base;

3) strategic proximity to China;

Vietnam (cont.)

4) a young, literate population of 87 million (average age of 25) with rising incomes, and;

5) a relatively stable, one-party socio-political environment.

In the near-term, Vietnam has challenges to tackle. A rapid expansion in credit, much of it bound for inefficient state-owned companies, has led to bouts of accelerating inflation.

Recently, the government has also lost some market credibility, as a series of macro policy shifts have reignited inflation and caused some currency devaluations.

In February, the government introduced a series of monetary and fiscal measures to slow the economy and quell inflation.

While these measures are an important step in the right direction, the key challenge now is for policy makers to commit firmly to the tightening policy stance and not reverse course prematurely.

Vietnam recorded a 22.2% YoY inflation rate for the month of July, an increase compared to the 20.8% rate recorded in June. Economists had expected that inflation would peak in the 3rd quarter of this year, so we will be carefully watching pricing trends in the 2H.

On a positive note, shrinking monthly trade deficits, coupled with a slight uptick in FX reserves to US$4.0bn, gave some market watchers comfort that the country is at least headed in a positive direction (although with reserves equal to only 1.5 months of import coverage, Vietnam still remains vulnerable to external shocks).

Longer-term, we believe Vietnam has significant potential. The country exports rubber, oil, coal, rice, and coffee, and continues to attract foreign direct investment from companies eager to enter a new growth market or set-up a low-cost, regional manufacturing base.

Urbanization is proceeding at a rapid pace, and the UN predicts that 50% of the population will migrate to cities by 2040, up from 29% today.

Key reforms should fuel further growth, such as privatization of more state companies and liberalization of the banking sector. A spate of new major infrastructure projects should also ease bottlenecks and improve trade and commerce.

With the right ingredients in place, Vietnam has the opportunity to become a major regional economy during the coming decades.

-- Alex Ryshawy

"Vietnam has an estimated 28 million motorbikes, due to poor public transportation and high tariffs that make cars prohibitively expensive for many."

Resource Rich: Kazakhstan Field Trip

Kazakhstan is officially a presidential republic, but the ruling government displays strong authoritarian characteristics. The first and only president is Nursultan Nazarbayev, and executive power resides almost exclusively with him.

With 96% of the vote, Nazarbayev enjoyed a resounding victory in Kazakhstan's April 3, 2011 presidential election, paving the way for continued political reform and the grooming of his likely successor, son-in-law Timur Kulibayev.

Kulibayev is currently the deputy head of state holding company Samruk-Kazyna and chairman of the board of directors for Kazatomprom and KazMunaiGas. He's also a

Kazakhstan (cont.)

major shareholder of Halyk Bank through his Almex holding company.

Economic Profile

GDP is projected to grow 6.5-7% this year, driven mainly by oil, minerals and related services. The GDP estimate was revised upwards from a prior 5%, based in part on the solid 6.9% growth registered during the first 4 months of 2011.

Kazakhstan continues to employ an industrial development plan designed to diversify the economy away from the energy sector. Despite its efforts, growth across the SME and agricultural sectors remains subdued.

Trade Balance

Kazakhstan is even more dependent on commodity prices than Russia, with minerals and metals accounting for 76% of exports, compared to 56% for Russia. The increase in commodity prices has contributed to Kazakhstan's current account surplus. At the same time, the income account deficit may widen over the next few years as foreign firms that have invested heavily in Kazakhstan repatriate larger amounts of profits.

Kazakhstan enjoys a solid fiscal position, with gross debt at just 17% of GDP and US$73 billion or >45% of GDP in the National Fund and international reserves (as of April 2011).

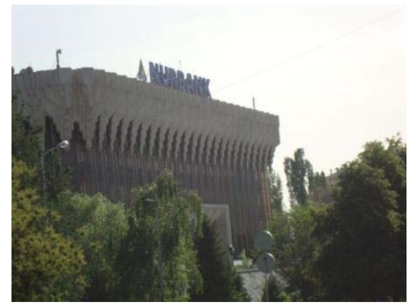
Monetary Policy

With the economic recovery picking up, inflationary pressures have intensified. Domestic inflation has begun to head considerably higher, owing at least in part to the undervalued exchange rate, picking up to 8.8% in Q1 2011 up from 7.8% in Q-4, 2010. With inflationary pressures rising, the Kazakh authorities are likely to tighten monetary policy over the course of 2011. Beyond the interest rate hike implemented by the National Bank of Kazakhs tan on March 9, NBK will likely hike the bank's refinancing rate to 8.50% by year-end (implying a further 100 basis points of hikes). Increase in bank reserve requirements can also be expected.

Currency

The major factor underpinning the extent of appreciatory pressures on the KZT is oil prices. With the 127.5-165 trading corridor abandoned by the central bank on March 1, 2011 a managed float is now in operation. NBK is expected to allow a stronger appreciation of the tenge in order to limit the effects of imported inflation and avoid further eroding domestic purchasing power.

- Sergey Dubin



"Kazakhstan has some of the world's largest reserves of uranium, chromium, lead, zinc, manganese, copper (5th largest globally), and ranks in the top ten for coal, iron ore, and gold.

The country also boasts 40 billion bbls of proven oil reserves, according to BP's global statistics review."

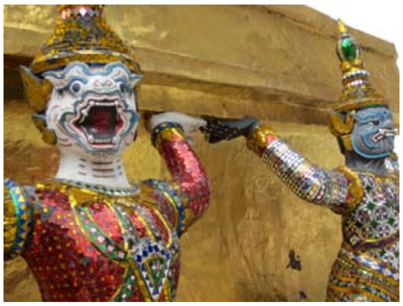
Red vs. Yellow: Thailand Travel Notes

As my Thai Air flight touched down at Bangkok's splashy new Suvarnabhumi Airport, I wondered whether arriving one week before a contentious Presidential election would turn out be a good idea or one I'd soon regret.

Just last year, 91 protestors were killed as the army forcibly cleared demonstrators from the Ratchaprasong District of Bangkok, just blocks from my hotel.

To my (and most Thais') surprise, the election turned out to be remarkably subdued. (In fact, it was sober in every sense of the word: Thailand prohibits bars and restaurants from serving alcohol the night before the ballots open.) The only discomfort I experienced in the country was limited to some sweltering heat and humidity, and a couple of epic rush-hour traffic jams.

Thailand (cont.)



"Thailand's debt-to-GDP ratio is lower than that of many developed countries, due to high GDP growth and low public and private debt levels."

I sensed that the atmosphere was one of resignation. It became increasingly evident during my stay that the 'Red Shirt' Puea Thai (PT) candidate – Yingluck Shinawatra – was on track to win. As she's the sister of the exiled, ex-prime minister Thaksin Shinawatra, the vote for Yingluck was seen as a vote for Thaksin, who was ousted in a 2006 coup and is now living in Dubai amid allegations of corruption.

More surprising was the majority of seats the Red Shirts won in the lower house (265 out of 500). That ensures a majority for the party and should convince the opposition Yellow Shirt Royalists party to accept the result.

The PT party draws mainly on rural supporters from the poorer North, while the Royal Party tends to be supported by the wealthier residents of Bangkok and the surrounding South.

From my conversations with locals, I gathered that the climate should remain calm in Thailand as long as Yingluck refrains from allowing her brother to return – something that could re-ignite old tensions and raise the ire of the military leaders that ousted him.

Economic Overview

Despite winning the election under a platform of massive spending promises, the PT party now appears likely to enact stimulative policies that are more tempered than originally feared.

PT's proposed policy measures will total an estimated Bt2.0tn, or 20% of GDP. Half the spending will target large infrastructure projects for the agriculture and transport sectors.

Other proposed measures include a 40% minimum wage increase, higher rice price subsidies, increased civil servant salaries and a cut in the corporate tax rate to 23% from 30%.

To be sure, the scale and pace of these reforms could end up being watered down over time. Nevertheless, Thailand is likely to face rising interest rates in the near term, as the Bank of Thailand responds to mitigate the expansionary policies.

The economic forecasting firm BMI expects the Thai budget deficit to grow to 3% of GDP next year from a current 1%. The government shouldn't face any difficulties in financing this deficit, given its conservative balance sheet. GDP is on track to grow 3.5-4% this year and 4.5% next year.

Aside from inflation, we'll also be on the watch for political risks, as old animosities between the Red and Yellow Shirts could flare up at any time. In the longer term, Thailand should benefit from continued FDI, an improving infrastructure and rising spending power for lower income groups.

- Alex Ryshawy

On the Dnieper: Ukraine Travel Notes

Parliamentary Elections

On February 1, 2011 lawmakers in Ukraine's Rada passed an amendment to the country's constitution according to which the next round of parliamentary elections was delayed from March of 2011 until October of 2012. This move removes a significant obstacle to President Viktor Yanukovich's steps towards consolidating political power in the country in 2011.

GDP Growth

Ukraine's GDP for 2010 came in at 4.2%, signaling a recovery from an almost 15% drop in 2009. However, Ukraine's public sector accounts for close to 50% of GDP and spending restraint in this area hangs over the outlook for the wider economy. Tailwinds for domestic consumption created by large real

Ukraine (cont.)

increases in public sector wages and pensions in 2010 will be replaced by fiscal tightening going forward.

Trade Balance

Ukraine's current account deficit is expected to widen to 3.7% of GDP in 2011 from 2.1% in 2010 as higher oil and natural gas prices boost imports. Rising oil price hurts Ukrainian trade balance, as Ukrainian gas imports are linked to oil price: the existing formula, which revises the gas price for Ukraine on a quarterly basis, is based on the average price of a basket of gasoil and diesel products for the nine months preceding the given quarter. The recent surge in world oil prices implies the gas price for Ukraine will exceed $400/tcm in 4Q11 (+35% from current level), which would entail a respective increase in domestic prices. Ukraine only won a $100/tcm discount from Russia in 2010 at the cost of extending the lease for Russia's naval base in Sevastopol until 2042.

Also, Ukrainian firms will increase their investment in capital goods in order to meet greater external demand for their products. Much of these capital goods and machinery will have to be imported from abroad.

Fiscal Balance /IMF

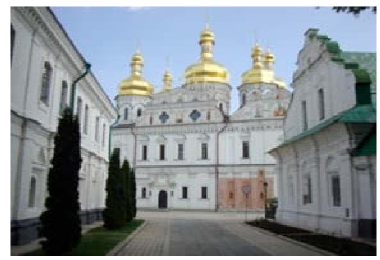
Government budget deficit is projected to come in at 3% of GDP in 2011, down from 4.4% in 2010 (excluding ~1.5% attributable to Naftogaz and costs asscoaited with banking sector recapitalization). Naftogaz informed the Ministry for Energy at the end of May that it would require US$2.6bn in budget support in 2011. The failure of the government to increase domestic end-user tariffs for the consumption of natural gas, against the backdrop of rising import prices from Russia (which are indirectly linked to the price of crude oil), has led to a deterioration in the company's financial position.

While Naftogaz of Ukraine has been nominally removed from official government budget accounting procedures as per an agreement with the IMF, the government still effectively guarantees Naftogaz's financial viability. The agreement to move Naftogaz off of the government's books was done in the expectation that the company's extraneous funding requirements would fall to 0.4% of GDP in 2011 (from 1.4% in 2010). It appears that 2011 target will not be achieved.

On May 19, Verkhovna Rada passed a bill proposing the country's current export quotas on agricultural products be lifted from June 1 and replaced with an export tariff system that would remain in place until January 1, 2012. The proposed export tariffs (9% for wheat, 12% on corn and 14% on barley) would potentially net a large windfall for state coffers and improving Ukraine's government fiscal position.

After suffering from massive capital flight and collapsing economic activity in 2009, Ukraine's emergency financing needs have receded significantly over the past year due to cyclical economic recovery and strong budget revenue growth. At the same time, low approval ratings of the ruling Regions party ahead of parliamentary elections in October 2012 have all undermined the Ukrainian authorities' willingness to comply with two key conditions among others set by the IMF: pension reform and hikes in gas and heating tariffs for households.

Ukraine currently spends close to 18% of its GDP on pensions, one of the highest rates in the world. Total amount of IMF Stand-By-Facility is $15.2 billion, of which Ukraine received $3.39 billion since 2009. IMF representative announced on February 14 that while Kiev's reform program remains broadly on track, further negotiations were needed to secure the next tranche of loans. March loan disbursement of $1.5



"Ukraine's GDP for 2010 came in at 4.2%. However, Ukraine's public sector accounts for close to 50% of GDP, and future spending restraints will hang over the outlook for the wider economy in the near-term."

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Consilium Investment Management was launched in May 2004 by Managing Directors Jonathan Binder and Charles Cassel. Prior to launching Consilium, Mr. Binder and Mr. Cassel were responsible for managing $2.2 billion in AUM for Standard Asset Management, a division of Standard Bank S.A. The members of the Consilium investment team possess decades of experience managing both debt and equity strategies in the Emerging, Frontier, and Developed Markets.

Consilium is committed to achieving attractive risk adjusted returns for our investor base. An adherence to high ethical and professional standards underpins everything we do. The firm has been built to institutional standards and provides full transparency to all investors

Our diverse client base includes both sophisticated institutional investors and accredited individual investors. Our product offerings are available to US and offshore investors both as managed accounts and fund vehicles.

Ukraine (cont.)

billion was missed. There still remains an opportunity for the Ukranian authorities to receive one ($1.5bn) or two($3.0bn in one installment) loan tranches by mid-summer, but this scenario appears increasingly unlikely as Rada, which needs to approve both pension reform and gas tariff hikes, goes onto recess in June. Prospects for further IMF disbursements will hardly improve until 4Q12 as the parliamentary election campaign will gather pace soon and government economic policies will grow populist. Ukraine will need to turn to the IMF again in 2013, after the Rada elections, when the window of opportunity for unpopular reforms will reopen and external debt repayments will peak at $7.0bn (3.3% of GDP), including $5.4bn due to the IMF.

Inflation

In the first four months of the year consumer prices rose 4.7% yoy. Year end-2011 consumer inflation is estimated at 10.5% driven by increasing food and gasoline prices.

Central Bank Policy

The NBU is committed to supporting domestic credit growth, which remains very weak registering just a 1.0% rise in 2010. Going forward, credit growth is likely to pick up only very slowly as elevated levels of non-performing loans weigh heavily on lending by the country's highly fragmented banking sector. However, the prospect of rising inflation could force the central bank's hand to choose between letting the hryvnia strengthen or raising interest rates to meet inflationary pressures.

Currency

The Ukrainian hryvnia has traded inside the National Bank of Ukraine official target range around the UAH7.95—8.00/US$ level. There is no major risk to the currency, as the NBU has enough reserves to support the hryvnia and top officials regularly emphasize the benefits of a stable exchange rate. Hryvnia will likely fluctuate within +/-2% of the base rate of UAH 7.95/USD in 2011. Replenished by earlier IMF disbursements and inflows of foreign capital, central bank reserves hit a new historical high of $38bn in April 2011. Hryvnia stability supports investor confidence in Ukrainian stock market; at the same time lower Hryvnia benefits exporters which account for ~40% of GDP.

- Sergey Dubin