

OCCO Eastern European Fund

Monthly Update

30 September 2010

Investment objective

The objective of the Fund is to maximise absolute returns by investing both long and short in Emerging European and Russian securities.

Return data

	2007	2008	2009	2010
Jan	2.1%	0.1%	3.4%	1.2%
Feb	3.3%	0.8%	2.7%	0.0%
Mar	2.6%	-0.4%	5.3%	3.9%
Apr	3.1%	-0.5%	7.1%	2.2%
May	3.2%	-0.1%	3.4%	-1.2%
Jun	0.0%	1.8%	5.4%	0.6%
Jul	2.5%	-7.8%	3.0%	1.3%
Aug	-1.3%	-3.3%	1.7%	-0.4%
Sep	2.3%	-6.5%	3.3%	0.6%
Oct	2.0%	-4.9%	2.7%	
Nov	2.0%	0.3%	1.5%	
Dec	0.9%	0.6%	1.6%	
Year	25.0%	-18.8%	49.8%	*8.5%

* Year to date
Fund figures are calculated net of fees

Source: Charlemagne Capital

Fund data

NAV	USD 304.84
Total Fund Assets	USD 272.7m
<i>Since launch:</i>	
Annualised return	15.1%
% of rising months	74.3
Max monthly loss	-7.8%
Sharpe ratio	1.40
Standard deviation	8.6%
R-squared	0.02

Total Fund Assets includes net subscriptions being processed. The Sharpe ratio and ex-post standard deviation figures are calculated using monthly returns. The risk free rate assumption is the average 12 month USD LIMEAN since Fund inception. R-squared is against the MSCI EM Europe Index and uses weekly data.

Source: Charlemagne Capital

Fund information

Launched	31 Dec 2001
Min Subscription	USD 100,000
ISIN	KYG669051032
Bloomberg	OCCDEAE KY
Domicile	Cayman Islands
Investment Manager	Charlemagne Capital (IOM) Limited
Prime Brokers	Credit Suisse Goldman Sachs
Management Fee	1.5%
Performance Fee	20.0%

If requested by US investors for tax purposes, PFIC annual information statements can be provided.

Source: Charlemagne Capital

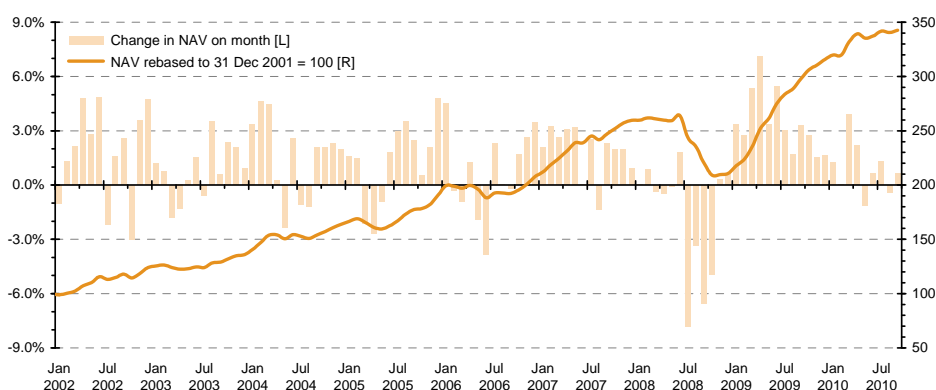
Fund performance

	Launch	3 Years	1 Year	6 Months	3 Months	1 Month	YTD
From:	31 Dec 2001	28 Sep 2007	30 Sep 2009	31 Mar 2010	30 Jun 2010	31 Aug 2010	31 Dec 2009
To:	30 Sep 2010	30 Sep 2010	30 Sep 2010	30 Sep 2010	30 Sep 2010	30 Sep 2010	30 Sep 2010
OCCO E European Fund	242.7%	38.5%	15.0%	3.2%	1.5%	0.6%	8.5%

Fund figures are calculated in USD net of fees
The currency denomination of the fund changed from EUR to USD on 31 Jan 2003; earlier data has been converted from EUR to USD at the appropriate exchange rate

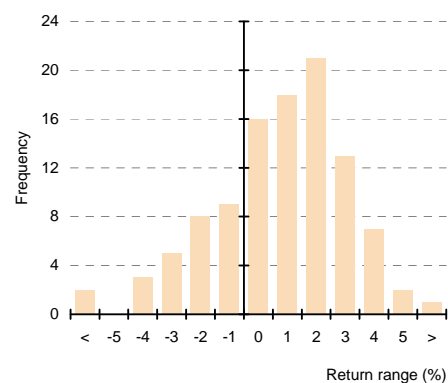
Source: Charlemagne Capital

Return chart



Source: Charlemagne Capital

Distribution of monthly returns



Source: Charlemagne Capital

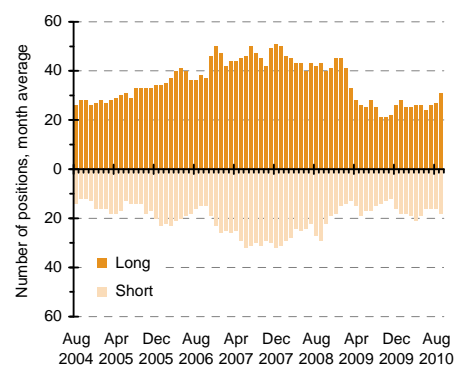
Current portfolio structure

Country	Long	Short	Gross	Net
Czech Republic	2.1%	0.0%	2.1%	2.1%
Kazakhstan	5.8%	0.0%	5.8%	5.8%
Poland	10.6%	-15.3%	25.9%	-4.8%
Romania	2.6%	0.0%	2.6%	2.6%
Russia	34.5%	-31.4%	65.9%	3.2%
Turkey	7.9%	-6.7%	14.5%	1.2%
Turkmenistan	0.0%	-2.1%	2.1%	-2.1%
Others	0.0%	0.0%	0.0%	0.0%
Total	63.4%	-55.5%	118.8%	7.9%

Exposure given as a percentage of NAV

Source: Charlemagne Capital

Position history



Source: Charlemagne Capital

Gross monthly profit generation

Country	Long	Short	Adj	Net
Czech Republic	21	0		21
Kazakhstan	60	0		60
Poland	164	-248		-85
Romania	37	0		37
Russia	294	-234		60
Turkey	64	-47		17
Turkmenistan	0	-14		-14
Others	1	0		1
Total	641	-544	-19	77

Gross profit over latest month, given in basis points
The adjustment factor reconciles attribution analysis to published performance

Source: Charlemagne Capital

The Fund generated a net asset value increase of 60 basis points for September against a backdrop of strong regional equity markets. Strong liquidity flows into emerging markets left their footprint in the form of the MSCI EM Europe index rallying by some 9.6% over the month, led by Turkey and Poland which rose by 15.3% and 17.3% respectively. Of the five MSCI constituents Russia was the main laggard, rising by 5.9% over the month. After September's gain, the region is once again in positive territory for the year. The strong rally in the early part of the month left some of our long positions behind, thereby leaving the Fund with a net 90bp negative intra month low point. Historically we have seen that in strong beta driven markets our style can be less effective. Interestingly, all of our positive return for the month came in the last week, when markets were consolidating.

Gross exposure increased by nearly 50% over the month whereas headline net (non beta-adjusted) increased from 4% to 8%. The increase in gross exposure can be attributed to new ideas (the number of positions increased from 44 to 51) as well as higher average positions sizes. The latter can be attributed to an increase in conviction at a stock-specific level.

75% of the gross exposure increase came in Russia and Poland, with the balance mostly in Turkey and Kazakhstan. Net country exposures remain limited, with Kazakhstan the stand out at 6% on the long side. Half of this can be attributed to Zhaikmunai, a high conviction position outlined in some detail in last month's update. The Zhaikmunai share price rallied by some 14% over the month and has very visible corporate specific catalysts in the near term which should result in the share price being largely insulated from country or sector factors.

Russia generated 60bp of positive performance with Bashneft once again a key contributor on the long side with the ords and prefs rallying by 15% and 17% respectively. This can be attributed to the news that the company was one of only two companies (the other one being Surgutneftegas) to successfully pre qualify as bidders for the State auction of the Trebs and Titov oil fields in the first week of December. These two licences contain an estimated 1 billion barrels in reserves, supporting peak oil production of 50 million barrels per year or 140,000 barrels per day. Lukoil and TNK-BP were disqualified on technical criteria whereas Rosneft, the so called national oil champion announced that it was not participating due to its focus on other assets.

We view these developments in the following way. Sistema, Bashneft's controlling shareholder has clearly secured high level political support for its ongoing push into the energy sector. This is very beneficial for Bashneft shareholders. At the same time, viewed from a slightly different perspective, the process illustrates how little progress Russia has made in terms of selling state owned assets via competitive processes and does nothing to reduce the elevated risk premiums attributed to many (but not all) Russian assets.

On a similar theme, the Novatek share price rallied by close to 20% over the month after the company announced that it was close to securing an agreement with Gazprom to acquire via a joint venture with Gazprom Neft, (Gazprom's liquids business) a 51% stake in SeverEnergia, a company that controls a number of large gas condensate fields in the Yamal-Nenets region. The resulting increase in Novatek's market capitalisation is equivalent to USD 4 billion and can crudely be interpreted as the market's assessment of the value transfer from the Russian State, via Gazprom to the private sector, which is much to the benefit of Novatek's shareholders, led by the rather secretive Mr Timchenko. The short position in Novatek, which was at 2% at end of last month was covered immediately upon this news, limiting our losses to only 2%. Our mistake was not to build a long position to take advantage of the subsequent double-digit return over the remainder of the month.

On balance the Russian oil and gas short book lost money over the month but generated positive alpha versus country returns. In addition to the marginal Novatek losses, Tatneft (3% short) moved up by just under 5% over the month underperforming Bashneft materially.

The worse performing stock in the portfolio was Protek, a Russian pharmaceutical distributor. This was a position on the long side that we acquired via an IPO in the second quarter of this year. The position had performed relatively well with the share price peaking 25% above its IPO offering price of USD 3. We had been actively reducing our exposure over the last two months taking our position down from a peak of 3% to 1% at August month end. Management announced an effective profits warning early in the month, sending the shares down by a third in more or less a straight line. We aggressively unwound our position as our visibility and therefore our conviction, evaporated. This position generated 24 basis points of absolute losses over the month and serves as a useful reminder of the embedded risks within IPOs. With hindsight, it seems possible that management, as well as perhaps the deal banks, could have been aware of a deterioration in the outlook of the business, when they launched the IPO in April.

This is all the more relevant in the context of the large issuance pipeline that has just hit the market. There are half a dozen Russian transactions across a multitude of sectors. Some look very interesting whereas some are more questionable. Our view is that they all create opportunity on both the long and short side.

For example, over the past few weeks, Petropavlovsk, the UK-listed Russian gold miner has struggled to spin off its non-gold assets via the Hong Kong listing of IRC, its iron ore subsidiary. On reviewing the IRC stand alone investment case we came to the conclusion that the valuation expectations built into the Petropavlovsk share price were misplaced. We acquired a short position in the latter, hedging the gold exposure via Polyus on the long side. This pair trade returned 10% within days as the market readjusted its expectations with regards to the value attributable to the non-gold assets. This has continued into October.

As an aside, we remain sceptical of this cost of capital tourism. To date, RUSAL and now Petropavlovsk (via IRC) have tried to tap into Asian investor demand via Hong Kong listings. The former has ended up with the grand total of 13% of its free float being owned by Asian investors whereas it seems clear for the latter that European investors will end up pricing the deal and owning most of the equity with trading in Hong Kong, a time zone which creates obvious trading problems. It seems logical to conclude therefore that they would have achieved the same, if not better valuation in London.

NB. Except where noted, Bloomberg is the source for all stock performance figures. All figures are based on USD prices.

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