



## Investor Newsletter

March 2010

**Administrator**

Terry Trench, Director, CRM  
 T + 44 20 7190 6925  
 ttrench@globeop.com  
 GlobeOp Financial Services (Cayman) Ltd  
 45 Market Street, Suite 3205, 2<sup>nd</sup> Floor,  
 Gardenia Court, Camana Bay, Grand Cayman,  
 KY1-9003 Cayman Islands

**Investment Manager**

Genna Lozovsky  
 genna.lozovsky@salutecapital.com  
 Salute Capital Management Limited,  
 Walker House, 87 Mary Street,  
 George Town, Grand Cayman,  
 KY1-9005 Cayman Islands

Dear Investor,

The Salute Opportunity Fund completed the month with a 8.09% gain, bringing the total change in NAV since inception to +8.24%, and the year to date return to +6.39%\*.

The Fund investments continued their strong performance in March, while hedging costs were strictly contained after the adjustments made in February. The Fund additionally benefited from several positions acquired in February at advantageous price levels. Of particular notice was a strong rally in the stocks of Russian electricity distribution companies. The non-performing debt of the largest Kazakh bank, BTA, has also appreciated strongly, as the market continued pricing in the attractiveness of the restructuring package and the likelihood of its completion following the successful restructuring of the smaller Alliance Bank. At the same time, we successfully sourced some less well-known assets in the Kazakh banking sector at very attractive prices.

The general economic backdrop in Russia, Kazakhstan and Ukraine is continuing to improve. The rebound in the real economy is contributing to rapid relaxation of previously tight financial conditions. The backdrop of global stability has contributed to reduced capital outflows, and permitted both Russia and Kazakhstan to boost reserves. The foreign exchange purchases by the Central Banks have raised base money growth, so credit and general liquidity in financial markets is on the rise. Eventually this will lead to inflation concerns in both countries, but so far, inflation continues to trend down with Russia's y-o-y inflation at 6.6% in March, well inside the CBR's forecast of 7.5% inflation this year.

The stable election outcome in Ukraine helped reverse the rapid reserve loss there, with March reserves up \$1.0bn, at \$25.1bn, despite Ukraine's large trade and budget deficits. We expect improvements in net capital inflows should permit Ukraine to build reserves in the second half of this year, once the new government has agreed a program with the IMF.

The FSU markets held up extremely well through the most recent fears over Greece's solvency. The EU package of support for Greece postpones concerns over a disruptive default, but the task ahead for Greece and other heavily indebted European nations remains daunting. We have observed many times in the past how rapid, liquidity driven rallies in emerging markets can be reversed when similar external concerns arise. While we cannot fully protect the Fund against such market turns, we will continue to focus our asset selection on investments that have near-term triggers to release value, and investments with a strong fundamental story, such as companies at attractive valuations who are leveraged to the rebound in the banking and consumer sector.

We thank you in advance for your support.

<b>Performance Data</b>	
Month	+8.09%
Year-to-Date	+6.39%
Inception-to-Date	+8.24%
<b>Geography</b>	
Russia	63%
Kazakhstan	22%
Ukraine	9%
Other	3%
Cash	3%
<b>TOTAL</b>	<b>100%</b>
<b>Asset Class</b>	
Listed Equities	63%
Credit	31%
Hedges	3%
Cash	3%
<b>TOTAL</b>	<b>100%</b>
<b>Sector</b>	
Financial Services	22%
Infrastructure	34%
Consumer/Retail	38%
Hedges	3%
Cash	3%
<b>TOTAL</b>	<b>100%</b>

\*NAV returns are calculated for the initial share series issued at Fund Inception. NAV returns described in this newsletter may differ from returns to investors participating in subsequent share series

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