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Semi-Annual Report

2010: BIRTH OF A NEW FUND



LABRUSCA
FAMILY OFFICE



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INTRODUCTION

In this semi-annual report we will try to communicate our view to you the unit-holder of our fund. In the portfolio review section, we will briefly give an overview of the global environment we operate in, as well as provide you with the thoughts behind the investment positions in Labrusca Global. In a separate section, our Advisory board will provide perhaps thought-provoking views and topics for you to ponder. Other sections will provide you with additional information we believe could be of interest, both how we operate your family office, and how we believe one should invest. Our aim is that you will understand how we work and think, and what we invest in. We will make some errors, hopefully the most grave one's will be in our texts & syntax and not in our investment positions.

Surely eminent spin doctors will reveal the report's unmet need to "convey the company's cultural values" and usage of "new-age communication frontiers." Furthermore, we and our clients are bombarded with macroeconomic materia – although at times understanding the macro backdrop helps inform the investment process, it is crucial to focus on what is important and when it is so. Most wall street reports start with an implicit view of a base line scenario and then use selective statistics as a drunken man uses lamp-posts – for support rather than illumination, to prove the point. Our exercise is primarily focused on potential non-base line outcomes as opposed to forecasting base scenarios within a pretty broad range which induce nothing but noise into the security selection operation. We hope our investors believe in substance above form. If you do not enjoy the fund report format or humor, hopefully you will enjoy the topics and the investment returns.

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PORTFOLIO REVIEW

Based on our de facto stable Euro Fund price at the beginning of May and at the end of July, the first reaction could be that not much has happened in the world the last few months. Of course, that conclusion would not have been accurate.

The fund was born into a world of substantial anxiety; European Ideals being questioned, the Euro currency not being granted much future, yet seemingly accelerating growth in the rest of the world, both in so called emerging markets and USA. The fast-acting direct Anglo-Saxon approach was considered the right one (again, after a few years doubt); the US financial system had passed their stress-test. For the sober observant this might sound absurd, as 23 American states have a fiscal imbalance worse than Greece (and we are not commenting on the rigidity of any stress test). In fact, California had technically albeit temporarily “left the union” by issuing fully transferable I.O.U’s – an alternative currency as opposed to paying its dollar obligations. Markets however, are quite forgiving until... they are not, and it was the Mediterranean countries’ turn to discover how already known information can be discounted rapidly. The weaknesses of Greece’s balance sheet are well known – in fact like Mr Felix Zulauf stated “what is the big surprise, Greece has been in technical default on its governmental bonds 120 out of the

last 200 years.” Markets however, are in charge when and how such issues are to be discounted. Speculation in the Euro’s perceived demise was the logical second derivative. In the crudest ways of stating the functioning of modern financial markets; in a world of non-asset backed currencies, relative value is an exercise in relative garbage analysis, where even a seemingly minor change in statistics creates a strong shift in relative financial currency holding preferences.

Three summer months later at the end of July the Euro has recovered, China’s economic statistics are slowing – probably thanks to intentional governmental efforts, we have experienced a very strong earnings season globally, US unemployment is stubbornly high, talk abound about a major new stimulus package being prepared in the States, and the one region with surprisingly strong economic indicators is Europe. A few things to keep in mind going forward; after an extended time of great economic volatility moderation two forces should not be underestimated; cyclical and investor preferences. Economic slow-

down has now exacerbated the state of fiscal imbalances and a recovery will surely do more to balance government budgets than any austerity program. As consumers are already in a balance sheet deleveraging mode, government spending will be a key factor influencing economic growth in the western world going forward. A concentrated group of investor’s preferences are currently a meaningful driver behind a few key asset class prices and these preferences could change as will be highlighted below.

In this first extended report to our clients we wish to only





Grand Isle, Louisiana: *The “Deepwater Horizon”-accident in the Gulf of Mexico resulted in a revaluation of certain oil- and seafood-related companies. Did it result in some buying opportunities?*

highlight two top-down statistics to consider, not only for the next year, but also the next millennium; the 10-year average P/E valuation of the market (today also known as the Schiller P/E) and the 10-year US government bond yield. In the spirit of keeping it simple, we find these two statistics to be the key variables for securities investing going forward. There are other important ones, but many would immediately lead down the slippery slope away from actual fact to speculation as well as ambiguity. By smoothing out the last ten

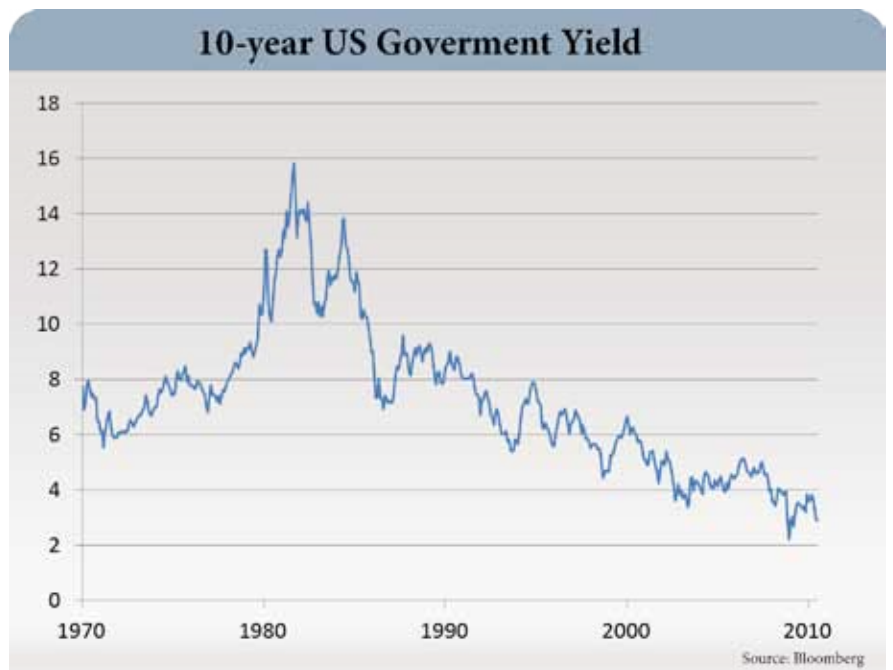
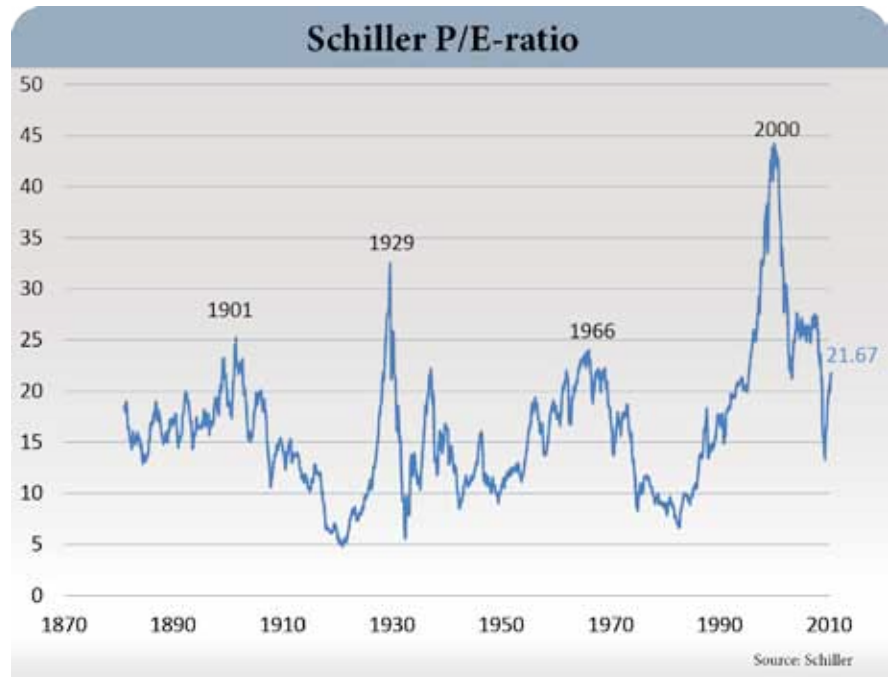
years’ earnings and comparing it to today’s market level, the 10-year average price over earnings attempts to indicate a market pricing level without a cyclical component. Based on this metric, it is clear that equities today are valued roughly around average in relation to their own post-war history. Further conclusion depends on the mind of the beholder. Every decade is unique, and the last one began not far from the peak of a bubble, yet after one of the worst 10-year market returns in history we are still at about average

valuation. The last 20 years we have witnessed a very powerful market earnings multiple expansion. So, depending on how long historical perspective is utilized, the answer of today’s valuation will differ. We chose, perhaps not surprisingly since we are stock pickers, to claim that the general market is not likely to rise meaningfully the next year or ten years for that matter by multiple-expansion, but that selectivity is key to achieving performance going forward.

Interesting in and of itself, but also quite often used in the analysis above regarding equity

market valuation, is the strikingly low level of the 10-year bond rate. Despite the evidently weak position of western governmental balance sheets and quite public quantitative monetary stimulus, the price of issuing shorter government debt is next to zero in real terms. This phenomenon can partly be explained by non-traditional tool utilized by the central banks (our Advisory board article in this issue treats the hypothetical scenario of the central bank resorting to traditional methods). In isolation, the interest rate also signals a low-inflation if not deflationary economic scenario. We do believe that investor preferences also are at play here. Both the private investor base, as well as the accumulated foreign exchange reserves of Sovereign Wealth funds, have currently a preference for the perceived safety and liquidity of this asset class.

We do not have similar preferences. We also want to caution against viewing the observable fact of low 10-year bond yields as permanent going forward, and utilizing it in the analysis of other asset classes. To use one variable at its historical low level to justify another's valuation is a common and treacherous use of financial statistics. As a historical anecdote; in 1977 the US government started to systematically issue the 30-year bond to the academic economists' great delight. They could and were now able to project the interest rate and the inflation rate of the world the next 30 years, all based on the market pricing of a market of only a few billion dollars. Obviously these projections turned quite volatile over time. To relate the current stock market valuation or other assets to current interest rates to explain that the market is interest-rate adjusted at an attractive valuation level seems like a very dangerous logical conclusion to us.



Portfolio Review – The General's Report

During this brief period of May through July the fund generated a slightly negative return of 0,59 percent, with NAV currently at 99,41 (EUR Institutional Class). We are absolute return focused, however for a general environment perspective the world markets (MS AC World Index in EUR) returned -3,51 percent during the same period. The last three months the

fluctuating currency markets were a large contributing factor to asset returns globally.

The portion of the portfolio's capital deployed into equities has been growing steadily and is as of end of July above 40 percent, and meaningfully higher today. We have erred on the side of caution as always when entering positions, some new and some quite familiar to us. As we are price-conscious stock pickers we are quite disciplined when it comes

to what we are willing to pay for our investment securities, and we operate with a strict absolute return perspective. We identify investment targets and their worth, and then let the world present the desirable pricing which will situationally vary over time, geography and industry. Currently, we have below one percent positioned in negative return opportunities.

The portfolio is well diversified across traditional industrial sectors – Consumer non-cyclical and energy are the two largest sector positions, but no sector is over 10 percent of the total portfolio. Geographically, we have also a broad diversity of positions – we have identified and entered positions in all major regions – in Asia these are however not in any major markets such as India, China or Japan but better value was identified elsewhere from a bottom-up perspective.

We also monitor the overall portfolio's economic exposure, with a watchful eye on secondary concentration risks. Each position's economic drivers and exposures are identified and our internal risk management system helps us review the data. Currently our largest exposures on a systematic and parallel-counted basis are Cash rich (overcapitalized companies, where the major risk could be acquisition) 14 percent, Oil & Natural gas pricing 6 percent, and Refinancing (the company needs the credit markets open) 5 percent. Clearly in all cases we find the exposures also to be a positive

factor or well compensated for in terms of return potential.

Major dislocations and in our view interesting contrarian opportunities were generated and utilized in Greece as well as southern European markets and some related financials. We also had opportunities present themselves in South Korea, after another bout of North Korean hostility which put a cold blanket of geopolitical risk over the local equity market. In the Gulf of Mexico, the large oil spill accident was an excellent opportunity to acquire both non-related or liable oil service assets, shot by association, at great discounts to our calculation of company value, as well as a company actually benefitting from the environmental dislocation, yet experiencing a major loss of equity value nevertheless.

Select Positions Review – The Detective Case Files

We do believe that our clients both should and would like to be informed what the fund actually invests in. What follows is a review of most of our core positions.

Parmalat

Parmalat is a producer and distributor of milk, dairy products (yoghurts etc) and fruit-based beverages in 16 countries, including

Italy, Canada, South Africa and Australia. The investment case for the company can be thought of in three parts: 1) the core operations of the company is trading at EV/EBITDA of roughly 5x, cheap in both absolute and relative terms, 2) the company is sitting on a excess cash position of roughly EUR 1,4 billion as a result of legal cases won as a legacy from the company's past, and 3) there is still a tremendous theoretic upside from the legal cases, while the downside seem limited and provisioned for.

We believe that the litigation “play” is mostly over with, and do not expect huge upside for the company in the remaining cases. The low hanging fruit have been picked over the last 5 years. However, we also see limited downside as company's balance sheet seem well-provisioned. Therefore, in our view the company case comes down to the value of the underlying business and the use of the excess cash.

The underlying business is healthy, with leading positions in markets where the company is present. One trend is company's desire to change the revenue mix toward more value-added products rather than milk. Milk is a commodity product which is usually used as a loss-leader by retailers and is heavily penetrated by private label (around 27 percent). However, this also means that the incremental private-label penetration should be low, as there seems to be a natural limit to how big private label can be as total size of the market. Also, milk as a category should be able to grow volumes at around 2-3 percent per annum with maintained price, meaning there are growth components in the company especially considering that other products than milk constitute a meaningful part of the company's revenues. In addition, we believe that the company can

Largest Contributors to NAV

Top 5 Positive

Unicredit
Titan Cement
Foullis Holding
Monsanto
Vivendi

Top 5 Negative

Bunge
Parmalat
KazMunaiGas
Bank of New York
Coeur d'Alene Mines

cut costs further by reducing work force and shutting down milk processing facilities with low utilization to perform in line with competitors, so there is an upside to current EBITDA numbers. All in all, despite not being the sexiest of businesses, at around 5x current EBITDA, we see Parmalat's attributes as undervalued in both absolute and relative terms.

In regards to the excess cash of EUR 1,4 billion, the company has so far been very disciplined with capital allocation and we both think and hope that will remain the case going forward. Therefore, we do not see any reason for valuing the excess cash for less than its face value. It has expressed interest in expanding its footprint in emerging markets and away from milk in general. If the company does not find interesting alternatives, we would very much like to see the company paying the cash out to shareholders.

To summarize, we see Parmalat as a very compelling on a risk adjusted reward basis. Obviously, the share price can (and will) fluctuate, but we struggle to see much downside from these levels. Also, we think that the potential upside is attractive enough for the position to be the fund's largest at 6 percent of the fund. Our current price target is EUR 3 per share.

Bunge

Bunge is one of the world's four leading agribusinesses with integrated operations operating in 20 countries around the world. After divesting its Brazilian fertilizer assets to Vale for USD 3,8 billion (a good price in our opinion) earlier this year, the company is roughly debt-free, although some of the cash is needed in the operations as this is a trading business.

Bunge is in a capital intensive business, being more similar to a logistics company than a food company, and global and

local competition prevent them from earning a return on capital more than a few percentages above cost of capital over a cycle. For this reason, growth in assets is not very profitable as the benefits of expanding network is a necessity to remain at competitive parity and any value gained needs to be shared along the value chain.

We estimate that Bunge is trading at a deep discount to the fair value of the current business, even not accounting for growth potential. It seems as the market is concerned about capital allocation at the company as the company went through a failed bid for Corn Products, particularly now that it has some cash on its hands. We believe however that the management will stick to its promise of no large acquisitions and that part of the money will be invested in sugar and bio-energy assets. Also, it is instrumental for the company to keep its BBB-rating, so we expect the company to keep some cash at hand to not worry the rating agencies. Finally, the company recently announced a USD 700 million share-buyback plan, equivalent of about 10 percent of the company's share count, which we applaud as we believe current share price to be substantially lower than intrinsic value. However, expect the profits to be volatile, as we experienced in the last quarter. Our current price target is USD 75 per share.

Tyco International

Tyco International is a conglomerate operating in security products, fire & safety products and flow control. The company has come back strongly after scandals earlier in the decade and has under CEO Ed Breen successfully dismantled the enormous conglomerate built up under previous management by spinning off Tyco Electronics and Covidien in 2007, and intends

to spin the cyclical Electrical & Metal this year.

The company is earning very good economic returns on capital, which makes growth valuable. There are plenty of growth opportunities, both organic and inorganic, and the company is pursuing both. Also, we do not believe that the market is correctly appreciating the underlying business as is, especially the margin turn-around in the European operations. We see good risk-adjusted return up to our conservative price target of USD 60 per share.

Dell Inc

Dell was traditionally a provider of IT hardware but is now striving to change its business mix towards enterprise services. The company has around 13,5 percent market share of the global PC-market.

The company has a market cap of USD 26 billion, with net cash of roughly USD 6 billion. This cash will primarily be used in acquisitions to improve the mix mentioned above. Dell is generating very healthy free cash flows, which is structurally higher than earnings as the company has negative free cash flow-cycle.

The problematic area for the company is the non-direct PC sales (approximately 25 percent of the total PC sales) as competition is very strong due to customers being strong, national retailers. Therefore, the overall margin in the PC business is depressed, and a turn-around in this division would be a major driver for the stock price. Also an upturn in the PC demand will be helpful to the company as it currently has low recurring revenue and therefore higher leverage to sales growth.

In our opinion, the current market price is pricing a continued challenging environment for PC together with overpriced acquisitions, but of which would

ultimately be a sign of weak management execution. We believe that these fears are overrated with the founder Michael Dell returning as CEO, and we have a price target of USD 20 per share.

Monsanto

Monsanto is a provider of agri-seeds and traits consisting of seeds & genomics and agri productivity. The company is global leader with sales on four continents, and is very R&D intensive which is at the core of their competitive advantage.

The company's business model is sensitive to changes in legislation and different jurisdiction's attitude towards GMOs. This can obviously cut both ways, but usually the countries which have accepted GMO do not reverse their decisions. The downside from legal point of view is rather the ability to protect and enforce patent rights around the world in order to keep competition from generic manufacturers at bay.

At current levels, we believe that the market is fully valuing the company's current prospects but is hesitant to pay anything for growth, which we believe should be meaningful going forward. Our price target in this case is very dependent on growth rates, but under conservative growth assumptions our price target is USD 80 per share.

eBay

eBay is a worldwide leader in shopping and payments on the web and has the world's largest online market place with over 90 million active users globally. PayPal, the global leading online payment service has over 81 million active users. The company also owns other assets, including 30 percent of Skype.

The company has a first mover advantage in market place and online payments, which makes



Cash-rich eBay is the worldwide leader in shopping and payments on the web.

it difficult for competitors to displace, as these businesses have attributes of "winners-takes-it-all". In fact, the "eBay model" is so powerful that not even eBay itself can successfully compete with competitors in geographies where it is not the first entrant. The company has a stellar balance sheet with net cash of approximately USD 5,7 billion, which it intends to use both for organic and inorganic growth. If the company can generate incremental returns even close to current levels, we are happy to see it reinvest in the business, and we think it can and will. Our price target on eBay is currently USD 30 per share.

Vestel Elektronik

Vestel is involved in OEM/ODM of consumer electronics, digital products and white goods (through its majority ownership in Vestel Beyaz, a listed subsidiary). The company has 6 percent market share of the worldwide TV market. 60 percent of the consolidated revenues are TV related and 35 percent is related to white goods. With production base in Turkey and Russia, it exports 75 percent of its production to 127 countries. The company is controlled by

Zorlu group with 74,7 percent ownership.

At the current price, we think that the market is pricing in improbable low returns for the business going forward. Obviously, competing in sectors where competitors are both bigger and much better capitalized, it might be reasonable to expect that the current high economic return might be driven lower, but we believe that the market assumptions are very low. Our price target is TRY 3,4 per share.

Eniro

Swedish based Eniro publishes catalogs and telephone directories, and offers search related services on the Internet. The company was a subsidiary of Telia, but was spun off in 2000. The traditional catalog revenues (offline revenues) at the company are declining. In 2007 these revenues were about 54 percent of the total (SEK 3,5 billion), declining to 43 percent in 2009 (SEK 2,87 billion). During the same period the total revenue was unchanged, which implies a growing online segment. The company is heavily indebted, and the debt is over 80 percent of the Enterprise Value of the company. The current annual run rate of

EBITDA of about SEK 1,3 billion and market cap of about SEK 1,8 billion implies that the market is not currently valuing the company as going concern.

Amdocs

Amdocs is the world-leader in software and services for Telecommunications companies, providing core billing, support and operational solutions in more than 60 countries globally. With data services growth in mature markets and increasing subscriber base in emerging markets, more and more carriers need to rely on complex back end systems, which would be fertile ground for Amdocs. Also, as Amdocs provide highly critical services once it gets its foot in the door, the switching costs for the TelCos are extremely high.

The company is unique in bundling software and service, and therefore has rather good visibility on parts of its revenues. We believe that the market is not giving the company credit for its high and sustainable economic returns and potential growth prospects favored by clear trends towards outsourcing in the TelCo space. Our price target is USD 40.

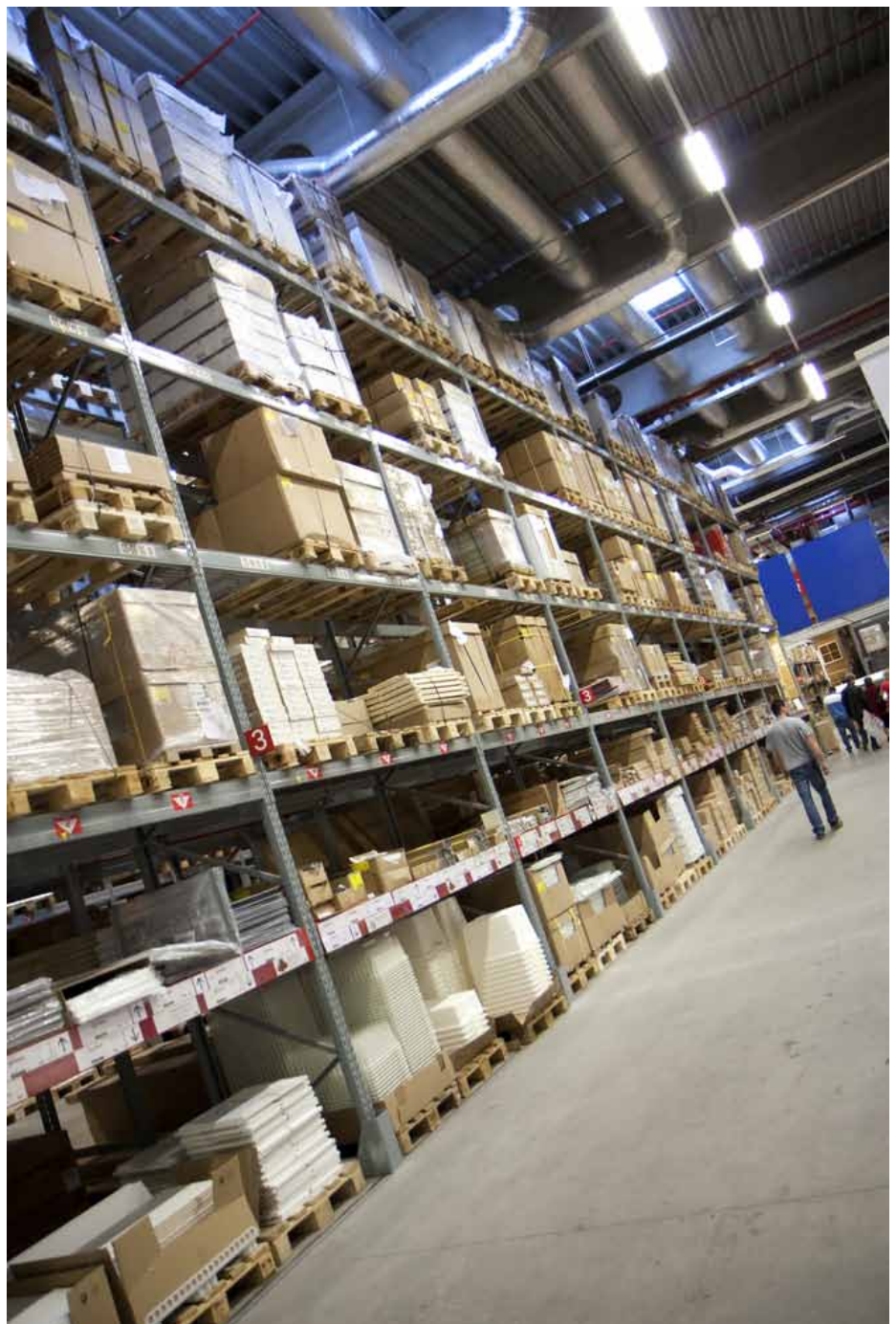
Titan Cement

Titan is a Greek cement company with vertically integrated operations covering cement, concrete, aggregates, mortars and other building materials, in 12 countries. The stock price has come down significantly over the last 9 months because of the sovereign debt problems in Greece. In a perfect storm, the company was also excluded from a major index during the same time, so sales orders equivalent of two weeks of trading volume put pressure on the shares. In fact, it became one of the cheapest cement companies in the world despite a diversified geographical footprint.

The company is leveraged, but we do not expect them to have any problems rolling over their short term debt – in fact, the company has refinanced successfully since the beginning of the crisis. Titan generates a healthy economic return on capital, even in current environment. With today's higher share price, we have however sold half of our profitable position as we found more attractive cement investments elsewhere.

Fourlis S.A

The Greek company Fourlis S.A. retails home furnishings through the exclusive franchise right to the Swedish brand IKEA. The company also wholesales electric and electronic appliances. The company retails sporting goods through the franchise of Intersport stores as well. The IKEA network is based throughout Greece, Cyprus and Bulgaria and represents roughly 45 percent of revenues. The Intersport division is about 10 percent of revenues and includes

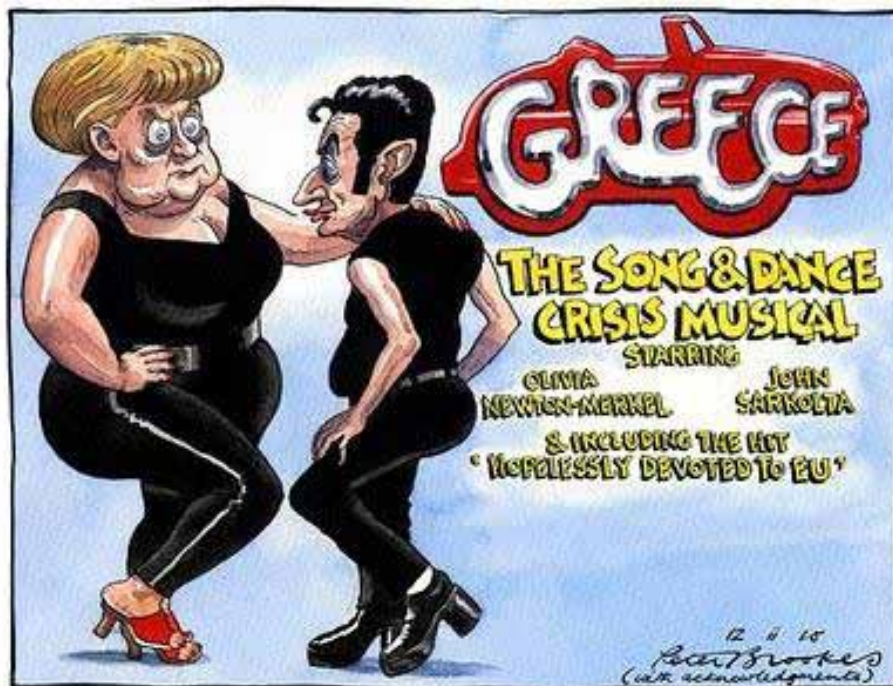


Greek retailer Fourlis has franchise rights to the lucrative IKEA brand.

over 70 stores in Greece, Cyprus, Bulgaria and Romania. The Greek macro crisis has brought concerns that retail sales in the country will contract and affect Fourlis negatively. The stock has gone from EUR 27 in 2007 to just below EUR 5 in 2010. According to our work, taking into account the declining earnings picture, the company can still earn a more than decent return over cost of capital. The founding family seems to agree with our analysis, and the company has introduced a share buyback program.

Bank of New York

Bank of New York Mellon Corporation is a global financial services company. The revenues of the company are mainly (over 75 percent) fee based. The rest is traditional banking revenues, such as net interest income. The company has a different risk profile than other banks, due to a lower credit risk, but a greater reliance on the developments on the financial markets. The fee based revenue stream is coming from asset- and wealth management, asset servicing, issuer services, clearing services and treasury services. Adjusting for intangibles on the balance sheet, the company earns a high return on assets (about 30 percent). What we believe is underestimated in the valuation of the company is further cost-savings potential from the merger with Mellon Bank, as well as a future change in asset mix which should increase the companies fee-generating income. On the latter, the last 6 years, the company's client asset mix has turned from approximately 25 percent fixed income and 75 percent equity related custody servicing to 75 percent fixed income and 25 percent equity. Fixed income products such as money market funds are much lower fee generators than equity related services. Both a



We found several buying opportunities in Greece in the aftermath of the debt crisis.

change in investor preferences as well as the company's international client growth could change this mix meaningfully going forward. At current levels, the market is not willing to price in the return potential of the company, partly because of the low rate picture, which is a headwind for the company.

Unicredito

The Italian bank Unicredit SpA is a traditional bank and attracts deposits and offer commercial banking services. The company operates on a global basis. Revenues from the Italian business are about 50 percent of the total, while the rest is mainly coming from other parts of Europe. Retail banking is about 41 percent of revenues, while corporate banking is about 25 percent. Unicredito is a leading bank in Eastern Europe. Especially during the second quarter, the market focused negatively on the holdings of government bonds in the balance sheets of the European banks. The stock was valued around 0,7x tangible book value at the lowest point in Q2. In

fact, the entire Unicredito group was trading below their take-over price of Bank Austria a few years back (some might recall that episode, as major shareholders of Bank Austria in the past). To fully analyze a Pan-European bank such as Unicredito is extremely difficult considering the lack of access to all balance sheet data and loan book, however we found the pricing based on what we know as well as the discount to be attractive enough even if we get a few nasty surprises going forward.

Hellenic Exchanges

Hellenic Exchanges S.A runs Greece's primary national stock exchange and equity derivatives market. They operate markets for equities, derivatives and fixed income securities, and also raise capital for unlisted companies. They earn a fee based on value in stock trading and clearing services. Stock trading equals about 20 percent of revenues, clearing/settlement 30 percent. The revenue stream of the company is dependent on trading volumes on the Greek market and the activity on the financial market in general.

The company has no debt, about EUR 117 million in cash, with a market cap of about EUR 363 million. At current prices, the market is not even willing to price in the current depressed earnings picture of the company. Increased rights issue activity in Greece will be a positive for revenues.

Forest Oil

We have owned the shares of this U.S. gas (70 percent) and oil (30 percent) producer from time to time in the past when the company is about to enter a period of rapidly expanding reserve and production growth. As is common with small to midsized non-integrated producers their shares are priced on the net asset value (NAV) of their estimated reserves less the debt on their balance sheet. In recent years, Forest Oil has sold at deep discounts to its NAV because of a long period of substandard

reserve replacement following a serious misallocation of cash flow to uneconomical developments - primarily in Alaska.

The stock market is forever short of patience when it comes to forgiving a company for such interruptions. Shareholders will unceremoniously dump the shares of any E&P company that suffers any interruption in the growth of its NAV and the attendant growth of free cash flow. The price decline is usually followed by a long period when the market continues to penalize the Company by appraising the shares with deep discounts to projections of reserve and cash flow growth. Forest Oil is suffering through one of these periods currently.

Although the stock has recovered considerable from its lows set during the 2008 market crash, the shares are still well below

their pre-crash highs of USD 70 and represent a significant value at the USD 30 level. Based on current price of natural gas, the principal driver of cash flow from its properties, Forest Oil has a proven and probable reserve base of USD 44 of reserves per common share. We believe it is reasonable to add another USD 25 of potential reserves from two fields that still have not reached their full reserve and cash flow producing potential. If you combine the proven, probable and potential reserves, and subtract USD 13 of net debt per share, you have a discounted value of Forest Oil's reserves of USD 56 a share. With the stock currently selling a roughly USD 30 a share, the market is discounting the company's future prospects by 45 percent.

We believe with little or no change to the market's perception for improved natural gas pricing and without the market giving any recognition to possible governmental change to its present restrictions to onshore drilling in the U.S., the shares of Forest Oil appear capable of selling at USD 40 over the near term. That would still leave the shares at a 30 percent discount to NAV: This for a Company with a reserve replacement ratio of 3 to 1 and an EBITDA of over USD 4,50 per share.

Forest Oil has a great land position for future exploration and development as represented by step outs from three key assets in Texas Panhandle, East Texas/North Louisiana and Canada. The add-on to the 33 percent nearer term upside in the company's stock will come from this solid strategic land position and could well see the stock returning to its old high of USD 70 a share.

Coeur d'Alene

Coeur d'Alene Corp is an American mid-size miner, with North and South American properties



Forest Oil is engaged in the exploration, acquisition, development, production and marketing of natural gas and crude oil in North America and in selected international locations.



The gold/silver-ratio is now at 64,7 to 1, up from 16 to 1 in 1970s.

dominated by silver. Silver interested us in that almost all of the annual mine output of silver is consumed in non-monetary uses and the demand is growing. Cars, solar panels and cell phones are some growing users of the metal. This is in contrast to the demand for gold which is dominated by private sector hoarding and central buying. Moreover, by another risk measurement we apply to all commodity type investment, a USD 1200 an ounce price for gold is well above the world average production cost of USD 240 an ounce. Whereas, silver at USD 19 an ounce needs only to decline to an average cash production cost of USD 12 to USD 14 an ounce to shutdown marginal mine production to bring supply and demand back into balance; and, most importantly, the industrial demand for silver is increasing. From the dawn of commerce until it was demonetized in the early 1970s, people seeking to hold precious metals as an alternative to paper money used an ounce ratio of 16 to 1 to value gold to silver. That ratio now stands at about 64.7 to 1. Were silver once again become a monetary alternative to gold one

could see this ratio decline either through a lower gold price or more likely via a higher silver price.

Our interest in Coeur d'Alene stems from low valuation and two interesting developments. The first one being the company's cost curve is improving with production cash cost of under USD 10 an ounce and a major increase in its South American silver production coming on stream will lower this further. The second development, after years of environmental harassment, the company's Kensington gold mine in Alaska was finally coming into production that would dramatically expand total cash flow and create a 50/50 gold/silver revenue ratio at existing prices for the two metals. Moreover, with half of the gold sold and paid for when the concentrate is shipped is under contract to be sold to China cash flow will be immediately impacted in a positive way.

While the company's income statement and balance sheet are still in transitioning to solid and rapidly growing free cash flow, based on proven and probable reserves and prospect for further delineation the stock

is very reasonably priced and should serve us well over time based on fundamentals alone. This could well be turbo charged by developments on the monetary front as well.

KCC

KCC is one of the leading Korean industrial manufacturers of construction compounds, and have large market shares of the country's Building Material, Glass and Paint markets. The company is also a large Silicon and PVC producer. Being associated with the Hyundai group, historically the paint division has been the earnings driver through large and long-term volume contracts with Hyundai Heavy (shipbuilder) and Hyundai Motors (autos). The company's earnings are growing nicely with the volume growth of these "cousins." Going forward, we also believe a recovery in the Korean housing market as well as new regulations regarding energy-efficient glass will affect the company earnings positively. The adoption of e-glass, priced up to five times higher than conventional glass, will benefit the company as there are only two local producers and Chinese competition is not present (in fact, China might have a shortage). Despite its dominant position, the company trades at a steep discount to similar companies. In addition, the market is pricing minimal value to an investment portfolio and land bank on the company's balance sheet of a conservative value of KRW 2,3 trillion (roughly USD 2,0 billion), assuming a reasonable multiple for the underlying business. This is despite the fact that, somewhat unusual for Korean companies, KCC has a history of actually disposing of so called legacy equity positions, and some of the holdings currently are pledged through convertible bonds issued



Russian mobile phone provider Vimpelcom operates in the Former Soviet Union countries in addition to Vietnam and Cambodia, covering territory with a population of about 345 million people

by the company. The worry in the market yielding such discount relates to future structural changes in the Hyundai group cross-ownership. KCC has officially denied being part of a rumored syndicate to either buy Hyundai E & C or a share block in Hyundai Merchant Marine. Such stand could change over time, and the market is discounting the worst which yields an interesting risk adjusted opportunity in our view. Reviewing the value of the KCC investment portfolio, the operating value of the company is priced around three times this year's EBITDA of KRW 500 billion.

Vimpelcom

Vimpelcom is one Russia's largest mobile phone providers. We have had a few lucrative positions in the company for more than a decade and now it is time again. The

company, which also has a growing fixed-line broadband network, has recently been relisted (NYSE). Although telecommunications as a newer industry in Russia has had relatively little Kremlin-involvement versus previously state-owned privatized sectors, some oligarch-activity is to be expected. After a multi-year power struggle looks settled between the main holders of the company and a merger with the Ukrainian Kyivstar virtually done, it seems the company will be able to focus fully on the business of profitably growing its over 100 million subscriber base. It is quite amazing that the company has kept its market share the last few years without de facto having an acting CEO! A new CFO was recently announced as well. The Russian market is maturing, but large growth opportunities are at hand in Uzbekistan, Turkmenistan and

Armenia. However, the Russian market has so far been lagging in the upgrade cycle to so called smart-phones and herein lays an opportunity for additional high margin service revenues. Considering the company's capex requirement of USD 2,5 billion per year going forward we expect both margins, free cash flow and potential return on and of capital to be very attractive. At around 4,5 times 2010 EBITDA the company trades at a substantial discount to already depressed similar Telco providers. Main reasons for the discount are risk of acquisitions and the surprise decision by MSCI Global Standard index to exclude the company from its indexes due to domicile and listing grounds. We expect the company to remedy the situation by relisting through Russian depository receipts in Moscow soon.

Omega Protein

We were attracted to the shares of Omega Protein based on our always looking to find undervalued situations produced by a major market uncertainty – in this case, from the now infamous British Petroleum oil spill in the Gulf of Mexico.

Omega produces and markets fish meal and fish oils from menhaden, an oily, virtually inedible fish found in the Gulf of Mexico and in the Atlantic Ocean. The Company fishes for its own source of raw material and without their own catch, sales and earnings would be drastically reduced or eliminated entirely – no fish no earnings. The BP oil spill represented potential harm to the menhaden in the region where 75 percent of Omega Protein's catch is located.

This risk caused an immediate sell off in the shares from USD 7 a share down to USD 4, to 54 percent of what appeared to be a relatively analyzable book value of USD 7,38; and, if achievable post-oil spill, a P/E of 5,7 times estimated 2010 earnings. We found we liked the company's business and took the fishing risk once we realized that the Atlantic harvest represented a different specie of the menhaden. Therefore, the Atlantic catch would likely be spared any overzealous catch restrictions that might be placed on the Gulf catch.

As of July 9 and the spillage containment effort largely accomplished, and taking fully into account the prior disruptions in Gulf, the Company announced that as of the twelfth week of the fishing season that its overall catch was at 89 percent of plan (made prior to the spill and the basis of its earnings estimate), despite the Gulf of Mexico being at 68 percent of plan. Moreover, management also announced that earnings were on track to meet the USD 0,70 a



Omega Protein reached its fish-catch targets despite the oil spill in the Gulf of Mexico.

share estimate for the full year.

Although a small company with a market capitalization of only USD 130 million, Omega Protein is the largest U.S. producer of Omega-3 fish oil and specialty fish meal products. These heart-healthy fish oils have experienced rapid growth as a dietary supplement and the fish meal is finding increasing usage nutritional food additives. These are all add-on to traditional but substitute competitive markets such as fertilizer, essence oils and livestock feed. Also, due to several supply-related factors (our Norwegian readers might recall that buying fish oil from Africa is not necessarily an ethically correct activity) as well as good demand, fishmeal prices and fish oil prices are rising.

While the company's growth may not be straight-line because of the vagaries of the fish catch from year-to-year, Omega Protein appears to be capable of producing a double digit average growth rate in sales and earnings going forward. This niche industry appears to be growing despite the economic uncertainties we face; and management has demonstrated its ability to run its operations in an extremely business-like manner. In addition, the very reason for the negative sentiment on the stock we find quite positive

– the company has filed monetary claim on BP for their oil-spill related potential economic loss, this will compensate the company at 100 percent margin and without fishing risk. Also, although we are not marine biologists, it is our understanding that the crude oil spilled by Exxon Valdez in the much colder waters of Alaska caused the fish flora to decrease for the first few years, only to return to record levels only three years later. Conservatively and only based on today's economic profitability, we believe the company to be worth at least twice the market price.

FROM THE WAR ROOM:

SHORTCOMINGS OF FREE CASH FLOW

“In theory, there’s no difference between theory and practice. In practice there is.”

-Yogi Berra, former America Major League Baseball manager



By: Omid Gholamifar, Portfolio Manager

It is commonly accepted that in theory, the intrinsic value of an asset is its free cash flows (FCF) received over the life of that asset, discounted to present value by an appropriate discount rate. The formula behind this calculation is easy to learn and apply, and is in fact taught at every single finance course around the globe.

Usually when the discussion about FCF comes up, it is about its usefulness versus net profit and advocates of the former complain about various shortcomings of the latter, such as management discretion to compute earnings. The aim here is not to defend net profit as a performance measure, because it does have severe limitations, but to shed light on the fragility of FCF as a valuation concept. The purpose is to illustrate that FCF suffers from comparable, if not worse, limitations

as net profit, and is certainly not the panacea commonly believed!

One of the criticisms often stated regarding net profit is that it mixes up operating and financing decisions and is therefore useless for valuation. However, FCF does something similar: It confuses operating and capital allocation decisions of the company. As such, it blends the payoffs from prior investments (operations of the company) with new investments (capital allocation decisions). Thus FCF does not just measure value added from operations within a certain period, but is also an investment or liquidation number. In other words, FCF could be management’s way, albeit implicit, of admitting that there is no more value creating opportunities to deploy the cash back into operations... In fact, when assets

are sold, part or all of FCF comes from liquidation of the company. Obviously, if management is right about the future prospects, their decision should be applauded as they are doing the right thing for the shareholders, but this nonetheless is not what most investors usually associate with the concept of FCF.

Another criticism of net profit is that “FCF is a fact, net profit is an opinion.” This is an important statement as cash-backing is the only evidence of earnings quality, and it gets some investors to boast “I only like businesses which throw off loads of cash!” However, even more important than earnings quality is the concept of earnings power. Earnings power is a wealth creation concept which tracks the persistence or sustainability of the earnings, and this is something of which FCF says nothing. In fact, assuming a business whose operations can earn an incremental return above its cost of capital, all of the cash flow generated, and more, should logically be reinvested to

The War Room (*def. a room where strategic decisions are made*) is what we call the portfolio managers’ room at the Labrusca Family Office. Here we search for, discuss, analyze and scrutinize investments.

take advantage of the high returns. In these cases, the company is creating wealth (earnings) for its shareholders *while* consuming cash, and shareholders should be very happy despite the negative FCF – after all, they are becoming wealthy! Obviously, the cash needs to come at some point in the future - and it probably will if the customers are not sub-prime - but this does not change the fact that the company is not “throwing off loads of cash” today. If entrepreneurs and venture capitalists shared the views of the investors above, not many new companies would be created.

One reason the beloved FCF suffer from the stated shortcomings is that it was probably originally developed as a tool for project finance. Projects have limited life and must during a reasonable time-frame generate FCF for its owners. Successful companies, however, are per definition perpetual¹ and thus consist of a never ending stream of profitable projects. Thus at a company level, corporate finance (rather than project finance), is important and prosperous companies can remain FCF-negative as long as they remain creditworthy.

This brings us to the next shortcoming of FCF. If the investor is worried about the debt servicing capabilities of the company, still other factors than merely FCF need to be considered. To state the obvious, if the company is sitting on a pile of cash or has liquid assets such as prime real-estate to divest, then why should the investor *in addition* require that it creates FCF? In today’s environment, as opposed to the consumer and governments, corporate balance sheets are generally well-capitalized, and the challenge at corporate level is profitable incremental growth,



No free lunch. *It does not make sense to think of FCF without thinking of the assets invested in the business, the return earned by those assets and the incremental rate of asset growth and return, writes Omid Gholamifar.*

which leads to negative FCF, not solvency/liquidity issues.

On the other hand, investors who obsess with FCF sometimes fail to realize the simple fact that the only way they can get their hands on those cash flows is through dividends.² Otherwise, today’s applauded FCF is simply a delayed investment decision. Just look at the enormous FCF generated by technology companies (Apple, Dell and HP, just to mention a few). These are unlikely to ever be paid out to shareholders as dividends, but rather used in probably overpriced acquisitions.³ Alternatively, due to the short product life-cycle of these businesses, it can be argued that the FCF generated by these

companies is needed as cushion against negative surprises in the competitive environment. This is just another way of saying that they are overstating their current profitability. So much for the “free”-part of FCF.

One issue that is regularly heard from fellow investors is that “the company is trading at a FCF-yield of 10 percent, it is cheap!” This is another way of stating that “the company is trading at a P/E-ratio of 10x, it is cheap!” Is it really? Can successful investing really be as simple as buying stocks trading at 10x “pick your favorite metric”? The answer is of course, it depends. It depends on the current and future return assumptions for the



business. If the current 10 percent FCF yield is based on a return on capital of, say, 25 percent, the market is in my view correctly being skeptical of the sustainability of those returns. Remember that equities are perpetual instruments and it is safe to assume that there is not any business who can earn a return of 25 percent in perpetuity. Competition (remember GM?), technology (remember EMI?), regulation (remember Microsoft?) and a host of other factors will make sure that is impossible, or at least not be counted on. If the 25 percent return, say, halves to 12,5 percent, still a very respectable return, then the FCF-yield drops to 5 percent vs the previous 10 percent. Is it still cheap now? Again, it depends...

Yet another misconception among investors is captured by the belief that a growing FCF is good, typically expressed as “the company is trading at a FCF-yield of 6 percent and FCF is growing 5 percent per year, it is cheap!” Again, not so fast. The “high” FCF-yield has been dealt with above and will not be rehashed here.

That leaves the FCF growth part. Is FCF growth good? It obviously depends on the incremental rate of return the company is delivering. If the cost of capital for the business is 10 percent and the company’s incremental return is 5 percent, the growth boasted above is value destructive even though FCF is growing. To put it another way, as long as there is access to capital, and there is plenty of it today on company’s balance sheet as mentioned above, management can grow FCF as much as they want without creating wealth for the owners. The scarce resource is not capital but the availability of profitable growth opportunities. Most investors seem to understand this line of reasoning regarding net profit-growth but, just like Pavlov’s dog, become gullible when the term “FCF” is used.

Almost as an aside, another reason investors should not take FCF at face value is the fact that certain businesses, primarily engineering and construction companies, receive customer advances. These advances, although they increase FCF, does not come for free. A company can grow its order backlog to increase FCF while not being able to deliver its end of the deal, thus having to pay a penalty to the customer at a later stage. Again, so much for the “free” in FCF.

Lastly, the focus on FCF for valuation purposes has never been entirely clear. FCF might be important for liquidity analysis but not necessarily for valuation. The reason is that in valuation, the investor wants to come up with a conservative estimate of intrinsic value and that number should be as solid and stable as possible, taking into account various future scenarios. FCF is anything but stable, nor should it be. Some of best companies are very erratic in

their investment behavior as they await good opportunities to put cash to work, whether organically or through acquisitions. This makes all the sense in the world from a shareholder perspective, but leads inevitably to an extremely volatile FCF number from one period to another. To put it bluntly, FCF is only worth its salt if it is sustainable, and the only renewable source of FCF is... profits from the income statement.

After reading this article, you might caution any investor who says “company X is trading at a FCF-yield of 6 percent when government bonds are at 1 percent, company X is cheap!” However, the goal is not to say that FCF is, or is not, useless; rather it is to warn against the narrow focus on one metric, whatever it may be. Much of the criticism mentioned has not been against discounted FCF valuation *per se*, but rather the overreliance on *current* FCF. However, now that we are at it, let us take a stab at the FCF model: It is meaningless to think of FCF, both present and future, without thinking of the assets invested in the business, the return earned by those assets and the incremental rate of growth and return, all of which are a function of current and future competitive dynamics. So why not rather focus on these actual drivers of wealth instead of FCF?

1 Perpetuity is not to claim that companies actually do live forever, but merely to claim that common stock doesn’t have a maturity date. Therefore, one can assume that the market is always pricing in what it thinks is the structural prospects of the company.

2 Share-buybacks are disregarded here because to include it one not only has to assume that it is actually completed versus just announced but also that it is executed at below intrinsic value, something in which companies on average have shown to be utterly incompetent!

3 Investors who buy for cash income should buy fixed income securities rather than equities, just look at BP.

FROM THE ADVISORY BOARD:

WHAT IF ...



By: John Johnson, Advisory Board Chairman

The Advisory Board plans to devote its slot in the Labrusca Semi-Annual Reports initially to acquainting the clients as to how the Board interfaces with the operating portfolio managers. It is our job to expose our operating managers to alternative situational conditions that they might have to face going forward: And to propose investments that might benefit from those changes. Owing to the varied backgrounds of Advisory Board Members, these observations may range from top down considerations (macroeconomic, money market or political) to the esoteric “bottom up” tutorials on specific industries or technologies – things that the operating people rarely have the time to explore. Our portfolio managers are the line officers who must face today’s conditions on the battlefield. Our job is to be their staff advisors to explore alternative strategies to deal with potential change.

At least initially, the Board will not be giving specific stock recommendations in these client commentaries. However, hopefully, these think-pieces will be thought-provoking to our clients and help them better understand how Labrusca deals with scaling the ever-present “wall of worry” of the financial markets. We now present our first effort to address a subject that is the reverse of the old adage “easier said than done”.

The top-down job of the contrarian is to examine alternative capital asset pricing scenario to the prevailing conditions driving the valuation process for all financial instruments: What happens if... this, that or the other thing were to happen?

What if the ever-expanding needs for capital from sovereign borrowers were forced to have to pay buyers an added four-hundred basis points (4 percent) of risk premium to compensate for possible default? This happened in the 1980s in the U.S. - when the

decision was made not to monetize government borrowings. Instead the Federal Reserve allowed the free market to price in an additional inflation premium of 4 percent across the yield curve. And, like in the 1980s, this time around the Fed permits this to happen over a very short span of time once again. This spike up in interest rates would coincide with a drastic reduction in non-commercially related derivatives activities by the banks and other quasi-banking institutions.

This time the fundamental backdrop

is dramatically different. Back then, it was less a case of overleveraging of the consumer and the financial system; and more the case of the need to stem the threat of hyper commodity-induced inflation. Also, bank capital in the 80s was far less encumbered by the current levels of off-balance sheet liabilities – the largest being derivative obligations.

Today we face the threat of price *deflation* as a consequence of the Western world’s sovereign and financial sector borrowings crowding out the private sector’s ability to borrow. When you couple this with a

debt-ossified consumer in the West, the world would be faced with a slow growth environment that could even challenge the rapid growth potential of Asia and other emerging economies.

Without debating the pros and cons of our “what if” assumptions, let us examine how these conditions could impact the financial markets - and how we contrarians fashion purses out of sows’ ears.

First let us set the scene: 1) The western economies stabilize at the current low level of activity; resulting in the halving of current growth rates of the now rapidly growing exporting countries: 2) The central banks abandoning of their “non-traditional” experiment in low interest rate policies, thereby eliminating the highly profitable spread between borrowing costs (almost zero from the Federal Reserve in the U.S.) and parking of that money in sovereign debt; thereby, forcing the banks to seek commercial lending opportunities to legitimately earn their net interest rate spreads. The end product would be that the private sector would no longer be shut out from commercial borrowing. While the level of economic activity may well continue to be below capacity, eventually, the demand for standard products (i.e. autos, home appliances, etc.) that are already beyond their standard replacement cycles should revive and working capital will then be available.

What if this hypothetical became reality? How would this impact industry and commerce: And how would their prospects be priced into the stock and bond markets?

The first market reaction would be negative. The bond market



What if... the risk premium on sovereign debt explode?

would re-price yields with lower bond prices. The stock market, at the very least, would punish all companies where the cost of money is the driver of profits; and/or ownership of fixed income debt is a large component of its earning assets and off-balance sheet items are the biggest potential impairment to its capital. Initially, this would spell lower prices for *all* financial stocks – and therein lay the opportunity for us.

Mind you, the opportunities in such an environment would not be limited to financials that we will be using as an illustration of our analytical approach to dealing with situational change. Under such conditions, any industrial companies may be mispriced to provide similar risk-adjusted return profiles as the financials. The key element to future market leadership will be the individual company’s ability to adjust to this new form of reality. We used the financials for our illustration because generic comparison can be easily drawn owing to the

homogeneous nature of their product – the collection and disbursement of money.

Initially, if 2008 can be used as our guide, the market will not discriminate between those financial companies whose liabilities are *actuarial indemnities* (policy payments) as opposed to those whose liabilities that are largely *deposit refunding, interest rate bets* (derivatives) or *market bets* (minimum payment annuities). For example, selective P&C (Property & Casualty) companies represent such a contrast to the current high-ROE (Return on Equity) earning investment banking/commercial banking holding companies that have been among the market leadership in the recovery from the market’s 2008 lows.

The *negatives* faced by these money-center monsters would be: Higher funding cost for its purchased deposits; mark-to-market write downs of long duration fixed income assets and possibly derivative contracts as well. Also, with the possible lower issuance of non-commercially related derivatives, the generators

of these contracts would have to face significantly lower ROEs than those currently supporting their present share prices. These victims would include investment and commercial banks, quasi-financials such as GE, stock brokers and life insurance companies offering guaranteed annuities.

However, the stocks of ALL companies whose activities relate directly to dealing in money are likely to be, once again trampled by selling – the P&C companies being no exception. As measure by market price to Book Value for the S&P P/C Insurance Index, the Index declined from selling at 1,5 times Book Value to a low of 0,8 in early 2009; and has shown only a modest recovery to 0.9 currently.

The majority of P&C companies do not live off borrowed money, nor do they indulge in exposing their capital to risk by trafficking in derivatives (the glaring exception being the easily identified holding companies such the infamous AIG). Their job is to manage their premium-derived assets to actuarially match up the return on the assets to their potential property and casualty liabilities. Their principal risks surround acts of the gods beyond the limits of actuarial assumptions; and the underestimation of the future rate of inflation impact on settlement payments. Interest rate risks present in their bond portfolios usually is minimized by its relatively short duration (the measurement of how many years it takes to get back your original investment). So basically what you see is what you get: A 10 to 12 percent return on equity with similar rates of annual earnings. This profile is leveraged by stocks selling below book value; clean and understandable balance sheets; and the prospects of

lower inflation of claims going forward producing added ROE: *An analyzable investment in a sea of investments being impacted by situational change.*

On the industrial side, the western world is about to enter its *fifth year* (2007-2011) of adjusting operations to be at break-even or better in a world where the reduction in the demand for standard products has been so low for so long that new records are being set in term of deferred necessary replacement (useful product life being overextended).

Industry has done a good job adjusting to the rotten conditions in which they are being forced to operate. The litmus test that our managers are constantly applying to your individual holdings is to be sure that they continue to be “A” students in cost management, inventory control and competitive innovation. We are pleased to see just how many companies that we do not currently own have met our standards in that regard. When and if the “what if” we have outlined becomes the new reality, the stocks of many of these companies will meet our final risk/reward standard of price. Then, as good contrarians, we will be there as buyers when others are sellers.

PORTFOLIO

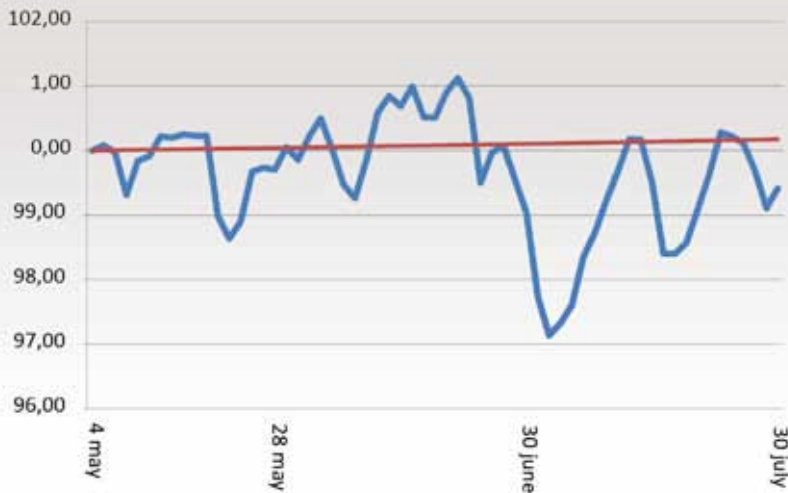
As of 30.07.2010

Security	Sector	Country	Currency	Market Value EUR	Portfolio weight
Parmalat	Consumer, Non-cyclical	Italy	EUR	8 641 803,26	5,61%
Tyco Intl	Industrial	USA	USD	6 377 550,86	4,14%
Bunge	Consumer, Non-cyclical	USA	USD	4 383 685,22	2,85%
Forest Oil	Energy	USA	USD	3 621 765,83	2,35%
KCC	Basic Materials	South Korea	KRW	3 129 499,86	2,03%
Coeur d'Alene Mines	Basic Materials	USA	USD	3 040 153,55	1,97%
Kaz Munai Gas GDR	Energy	Kazakhstan	USD	3 034 810,96	1,97%
VimpelCom ADR	Communications	Russia	USD	2 976 647,00	1,93%
Bank of New York Mellon	Financial	USA	USD	2 867 892,51	1,86%
Vivendi	Communications	France	EUR	2 259 512,50	1,47%
Noble	Energy	USA	USD	2 245 681,38	1,46%
Titan Cement	Industrial	Greece	EUR	2 223 450,00	1,44%
Gruppo Bancario Unicredito	Financial	Italy	EUR	2 214 500,00	1,44%
Dell	Technology	USA	USD	2 083 838,77	1,35%
Haci Omer Sabanci Holding	Diversified	Turkey	TRY	1 960 440,48	1,27%
Monsanto	Industrial	USA	USD	1 776 276,39	1,15%
Amdocs	Communications	USA	USD	1 721 653,61	1,12%
Vestel Elektronik Sanayi	Consumer, Cyclical	Turkey	TRY	1 701 192,42	1,10%
eBay	Consumer, Cyclical	USA	USD	1 396 675,62	0,91%
Eniro	Communications	Sweden	SEK	1 198 249,98	0,78%
LG Corp Preferred Shares	Consumer, Cyclical	South Korea	KRW	1 043 279,03	0,68%
Wilh Wilhelmsen Holding A	Industrial	Norway	NOK	873 720,74	0,57%
Hellenic Exchange	Financial	Greece	EUR	666 000,00	0,43%
Fourlis Holding	Consumer, Cyclical	Greece	EUR	615 441,54	0,40%
Omega Protein	Consumer, Non-cyclical	USA	USD	580 375,89	0,38%
Brazil Fast Food	Consumer, Cyclical	Brazil	USD	307 400,96	0,20%
Intl Maritime Exchange	Financial	Norway	NOK	221 105,56	0,14%
Other Positions (0)				0,00	0,00%
Total Long Equities				63 162 603,92	41,00%
Total Short Equities				0,00	0,00%
Total Cash				90 798 824,94	59,00%
TOTAL PORTFOLIO				153 961 428,86	100,00%

FUND PRICING

As of 30.07.2010

Performance Labrusca Global (EUR IC) vs 3M EURIBOR



Fund Pricing 30.07.2010

Institutional Class (IC):

EUR: 99.41
 SEK: 97.42
 NOK: 100.33
 USD: 107.18
 GBP: 98.65

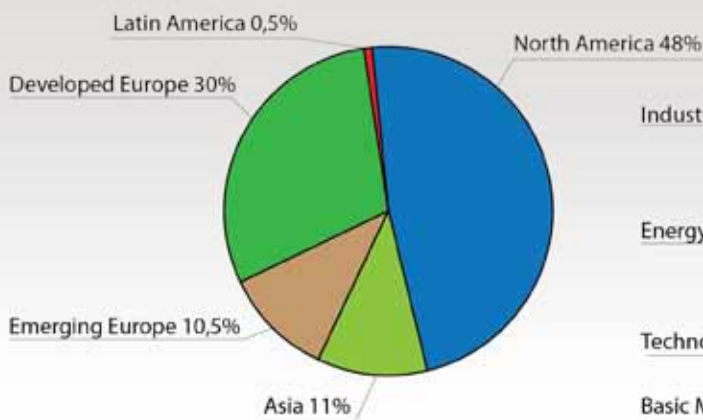
Retail Class (RC):

EUR: 99.13
 SEK: 97.34
 NOK: 100.16

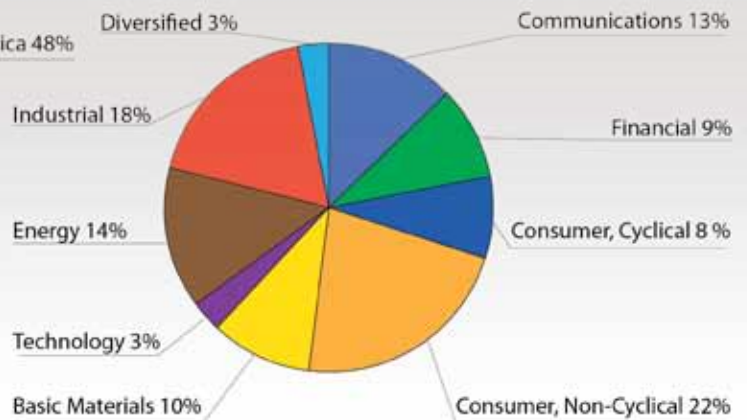
PORTFOLIO STRUCTURE

Invested Portfolio as of 30.07.2010

Geographical Distribution



Sector Distribution



HOW TO INVEST IN LABRUSCA GLOBAL

Institutional Class (IC)

Minimum subscription amount in Institutional Class is EUR 1 million (or SEK 10 million, NOK 8,5 million, USD 1,5 million or GBP 900.000). If you would like to subscribe in Institutional Class, you may contact Labrusca Family Office, and we will assist you in finding the easiest way to subscribe in the fund in your area. If you would like to do it yourself, you have to follow the procedure described below:

Legal Entities:

1. If you are not a current client of Labrusca Global, you have to fill out the form “Fund Account Application – Legal Entities” to be registered as a new client. This form and a guide on how to fill it out may be downloaded from our website www.labrusca.se/downloads. If you are a currently a client of Labrusca Global, you do not have to fill out this form.
2. Fill out the form “Fund Transaction Form” to register your transaction. This form and a guide on how to fill it out may be downloaded from our website www.labrusca.se/downloads.

*European Fund Administration S.A.
P.O. Box 1725
L-1017 Luxembourg*

Remember to attach an original or a certified copy of the following documents:

- Your authorized signatory list
 - ID's of the persons included in your authorized signatory list with the power to transact the account
 - ID's of shareholders holding more than 25% of the company share capital
 - Certificate of Registration
 - Latest version of the statutes, memorandum and articles of association, trust instrument or equivalent constitutive documents
 - Latest audited financial accounts and report
 - A proof of the ownership structure of the company
3. Send the “Fund Account Application – Legal Entities” after completing it by mail to:
 4. European Fund Administration S.A. allows the following parties to certify copies of documents: Financial institutions (including banks) who are regulated by supervisory authorities, Notary Public, Embassies and Certified Public Accountants. Please note that they do not accept lawyers.
 5. Send both forms by fax to European Fund Management S.A on fax number:
 6. +352 48 6561 8002
 7. Transfer the amount you would like to subscribe for to Skandinaviska Enskilda Banken S.A. in Luxembourg. You may find the account number and IBAN code in the “Fund Transaction Form”.
 8. You will receive a confirmation fax from European Fund Management S.A. the next working day in the afternoon.

Individuals:

1. If you are not a current client of Labrusca Global, you have to fill out the form “Fund Account Application – Individuals” to be registered as a new client. This form and a guide on how to fill it out may be downloaded from our website www.labrusca.se/downloads. If you are a currently a client of Labrusca Global, you do not have to fill out this form.
2. Fill out the form “Fund Transaction Form” to register your transaction. This form and a guide on how to fill it out may be downloaded from our website www.labrusca.se/downloads.
3. Send the “Fund Account Application – Individuals” after completing it by mail to:

*European Fund Administration S.A.
P.O. Box 1725
L-1017 Luxembourg*

Remember to attach an original or a certified copy of your ID.

European Fund Administration S.A. allows the following parties to certify copies of documents: Financial institutions (including banks) who are regulated by supervisory authorities, Notary Public, Embassies and Certified Public Accountants. Please note that they do not accept lawyers.

4. Send both forms by fax to European Fund Management S.A on fax number: +352 48 6561 8002
5. Transfer the amount you would like to subscribe for to Skandinaviska Enskilda Banken S.A. in Luxembourg. You may find the account number and IBAN code in the “Fund Transaction Form”.
6. You will receive a confirmation fax from European Fund Management S.A. the next working day in the afternoon.

Retail Class (RC)

Minimum subscription amount in Institutional Class is EUR 10.000 (or SEK 100.000, NOK 85.000). There are 3 ways to subscribe in Retail Class:

1. Through Skandinaviska Enskilda Banken Private Banking (SEB). Please contact Hans Christian Henriksen at SEB Private Banking Norway (hans.christian.henriksen@seb.no or phone +47 2411 6868 or Hans Brevik at SEB Private Banking Sweden (clients5206@seb.se or phone +46 8 639 4364)
2. Through other distribution partners. Labrusca Family Office have currently the following distribution partners (please check our website for updates):
 - Sweden: SEB, HQ, Avanza Nordnet and Skandia
 - Norway: SEB
 - Germany: Sauren Fonds Service AG
3. Through another bank. We do not have contact persons in other banks like we have in SEB. But if you would like to sign through another bank, you may ask your bank to contact SEB Fund Services by e-mail clientservices@sebgrouplu. They will instruct your bank on what they need for you to make the subscription.

TENET 1

EXPLAINED

The Labrusca Family's foundation is based on 8 tenets, or rules if you will. These rules are what we believe in, how we operate, as well as both philosophical and practical investment applications. Most of the thoughts behind our company structure, investment philosophy as well as actual fund positions can be traced back to these 8 declarations. Some of them are self-explanatory but could be expanded upon, and some are not – you will find them in the back of this and many other Labrusca publications, as well as on our website.

The first two tenets concern our relationship with our clients – what kind of commitment we are offering to you. The following five tenets treat both our investment philosophy and investment process and application, while the last tenet should always be thought of as a way of life in our organization and investment activities - as well as in life itself. We will expand upon them in our publications, and we found it most natural this being our first semi-annual report to start with the first one.

We believe we must align the interest of our client and ourselves as much as practically possible, as this is crucial for long-term results. We also want to avoid



The Client's assets are the only important assets

potential distractions or conflicts, perceived or real. Therefore, for all those becoming Labrusca associates it is prohibited to make future private investments in listed securities.

If an attractive investment is found, it is invested in the Labrusca fund. As associates of Labrusca we only invest as partners along with our clients, and as Labrusca investors we have the same opportunity, same downside and focus on only one objective – achieving superior increase in real purchasing power. Labrusca was actually created to invest all our liquid net worth into the fund which the founders have done: And to invest the capital in what we consider to be the most appropriate, common sense, way from a long-term perspective.

For the record, we also pay the same fees as clients on our fund investments. We have set a 20 year investment perspective, so we anticipate a long-term association as clients and investors. Therefore, we are neither in a hurry to grow large or quickly as this could compromise our investment strategy – in fact the maximum size of our fund has already been established. In addition, to create

long-term investment incentives for our portfolio managers as opposed to mostly short-term risk taking temptations, all portfolio managers are equity partners in the firm.

THE GREAT 8: OUR TENETS

The foundation of our Family Office is based on the following Tenets:

1 The Client's assets are the only important assets

We only invest as partners along with our clients, and as Labrusca investors we have the same opportunity, same downside, and focus on only one objective – achieving superior increase in real purchasing power. We have over 20 year investment perspective, so we anticipate a long-term association as clients and investors.

2 Clients trust us to be long-term investors and mistrust all information

Our own judgement based on our own long-term analysis is the only thing we trust. We are responsible and can blame nobody except ourselves. Being long term in your investment perspective will naturally filter out most of the informational noise encountered over the short term.

3 Do not strive to know too much yet be convinced with too little

The future is not known, and therefore conclusions have to be made under a varying degree of uncertainty. More information is better than less information. However, some facts are more important than others. It is crucial to be convinced of the key drivers of the investment being considered. If you can not verify the premise, it is highly likely that the conclusion will be on shaky ground: It is not the amount of data known that counts, it is its quality that matters. Pick your battles; if unconvinced, find alternatives.

4 Contrarianism; more rewarding when you are right, less costly if you are wrong

It is not instinctive in humans to go against the majority. Yet, when fundamental examination indicates that the majority is likely to be wrong about a company and its securities, this creates a great investment opportunity. The most common cause of low prices is pessimism - sometimes pervasive, sometimes specific to a company or industry; and optimism drives the opposite. We like unjustified pessimism because we like the prices it produces. It is optimism that is the enemy of the rational buyer, and the friend of the rational seller. Again, the fact that other people agree or disagree with you makes you neither right nor wrong. You will eventually prosper if your facts and reasoning are correct.

5 Have a substantial margin of safety

Invest in understood value opportunities but use caution in the predicted return to counter act probability of being wrong and unpredictable risks. Low expectations regarding the future prospects of an investment can lower the probability of disappointment as well. We are striving for absolute returns, so

focus on risk of capital loss is more important than potential return – a substantial margin of safety is required between underlying value and market price. We try to price, rather than time, purchases and sales.

6 Change is Nature's Delight, and the Catalyst the Investor'

Buy the contrarian undervalued enough cases where subjectivity is not as important as facts. Stay away from everything else. However, there also has to be a combination of catalyst and value. A trigger is still required because it can be value releasing or a story, which is usually more appealing to market participants than facts. Merits of value do not reflect themselves in the market price automatic response. So, Cheapness and Change or Expensive and Exposed are required.

7 Be dogmatic about owning value opportunities, be pragmatic about what the market offers you

The "sweet spot" of mispricing varies over time, geographical markets as well as industries. The interrelation of stock prices and business conditions would not be complete without emphasizing that in the clash of speculative forces on the exchange, the emotions play a part which is not paralleled in the normal processes of commerce and industry. The speculative mechanism does all things to excess.

Those who seek to relate stock market movements only to the currents statistics of business will fail, because their judgement is based upon the humdrum dimensions of fact and figures in a game which is actually played in a third dimension of the emotions and the fourth dimensions of dreams. The market can therefore offer outstanding investment value for the more "pragmatic dogmatic" global investor.

8 Make things as simple as possible but not simpler

We strive to de-complicate our investment conclusions, our portfolio strategy and our company structure, but we are not over-simplifying. We are focused on economic principles, and not trying to exploit the market fashions of the day. Derivatives and other financial innovations may find a place in our world, but only as bit players in our investment strategies and tactics. All possible focus and energy should be spent on the underlying research and execution because the economic truth is always the strongest argument for an investment.



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