Emerging Value Capital Management, LLC

152 West 57th Street
Floor 46
New York, NY, 10019
Tel1: 312-363-8599
Tel2: 212-277-5607
Fax: 212-974-1850

Q2 - 2013 Letter to Investors

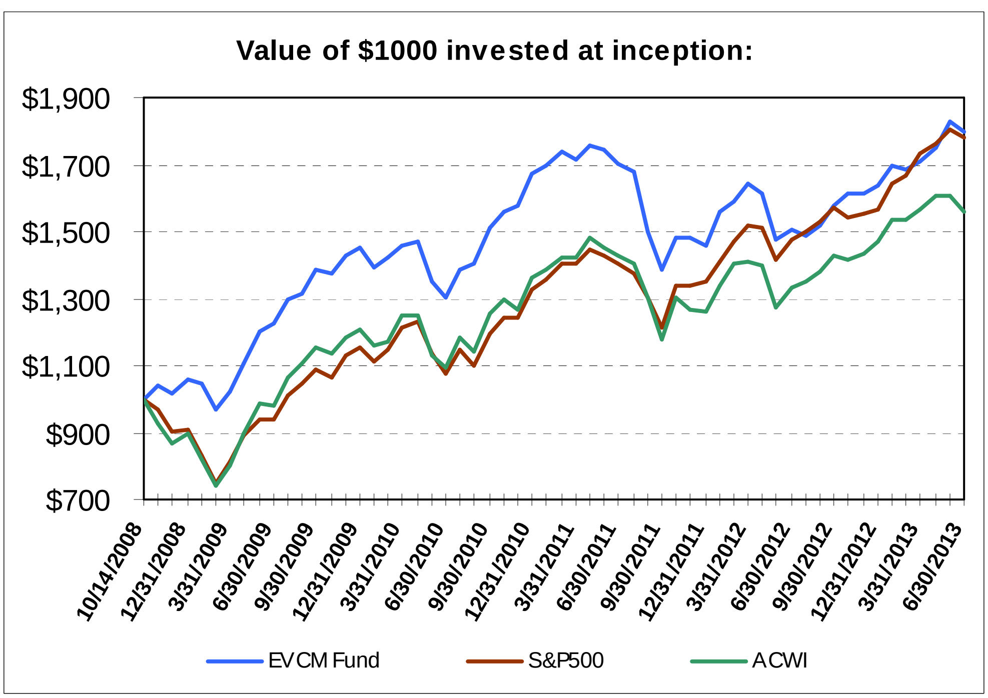
Dear Partners and Shareholders,

For the second quarter of 2013, EVCM fund returned an estimated +5.1% net to investors. Stock markets were mixed with the S&P500 up 3.0% and the ACWI down -0.2%.

Fund Performance (Net to Investors):					
		June 2013	Q2 - 2013	2013 YTD	Since Inception (10/15/2008)
EVCM – Net to Investors		-1.7%	+5.1%	+9.8%	+79.6%
S&P500		-1.3%	+3.0%	+13.3%	+78.3%
MSCI All Country World Index Net		-2.9%	-0.2%	+6.4%	+56.1%

** The results reported are unaudited estimates and may be subject to change.*
** Individual investor net returns will vary due to the timing of one's investment.*

Since inception (10/15/2008), EVCM Fund returned an estimated +79.6% (net to investors). During this same time period, the S&P500 returned approximately +78.3%, and the MSCI All Country World Index Net (ACWI) returned approximately +56.1%.



Overview:
Stock markets in the US continued to advance in Q2, driven mostly by a lack of good investment alternatives. This trend could continue as long as interest rates remain low and bonds offer unfavorable risk adjusted returns.

Central banks continue printing enormous amounts of money. Most of this money is used by the central banks to make large purchases of bonds based purely on policy considerations, with no regard to investment return considerations. A private buyer of bonds is effectively competing with central banks which can print money and have no rate of return requirements. For the unfortunate purchaser of bonds, that is not a fair playing field. Therefore, it is not surprising that return focused investors are being pushed away from bonds and into stocks and real estate.

The world continues to view the US as a relatively more attractive investment destination (the best house in a bad neighborhood). We can see this in the significant outperformance of the S&P500 (up 13.3% YTD) verses the All County World Index (up 6.4% YTD). Sooner or later this trend will reverse and foreign markets will again outperform. We will benefit when this happens since only about 50% of our portfolio's net economic exposure is directly to the US.

At Emerging Value Fund we remain laser focused on bottom up value investing. Every company in our investment portfolio is individually selected after careful research and analysis. We invest only when we see tremendous value in a company and when that value is not reflected in its current stock price. We also make sure that each of our companies can do well (or at least survive) under various future macro-economic scenarios.

Over Q2 we have significantly increased our investment in our basket of TARP Warrants and in our basket of Korean Preferred shares. Both cases involve fairly obscure securities that require a lot of digging to fully understand. In both cases our research shows tremendous value which we think the market does not fully appreciate. We expect both baskets to at least triple in price over the next five years.

While we do not think stock markets in aggregate are cheap, we do think our portfolio contains a collection of excellent businesses trading at cheap prices. We have maintained a high level of net exposure as we continue to find compelling investment opportunities despite the rising stock markets. There should be positive catalyst for many of our investments over the next year and we remain very excited about our portfolio.

EVCM Fund Basket Investments:
While most of our investments are in individual companies, we do occasionally prefer to purchase a basket of related securities. This happens when we are confident that a certain sector or class of securities will, in aggregate, perform very well, but we are less certain about each individual member of the group.

We currently own three baskets of securities:

- Basket of Korean Preferred Shares.
- Basket of large cap US banks.
- Basket of TARP Warrants.

We will devote the rest of this letter to a review of these baskets and the underlying investment thesis behind each of them.

Basket of Korean Preferred Shares

Many public companies in South Korea have listed both common and preferred shares. The Preferred shares in Korea are very different than preferred shares in the US and in most other countries. While their claim on company assets is somewhat ambiguous and is not clearly defined in Korean law, in practice they are not materially inferior to common shares. The Korean preferred shares are required to pay a higher dividend than the common shares and they receive equal treatment with common shares whenever corporate events take place.

During our research, we found that owners of Korean preferred shares are almost always treated fairly and equally with owners of common shares. Further supporting this viewpoint is the fact that many preferred shares in the past (and a few today) traded with little or no price discount to their respective common shares. Clearly Korean investors did not think that preferred shares in Korea were inferior to their respective common shares.

Most preferred shares in Korea trade at a 50% - 70% price discount to their respective common shares. Since they must pay a higher absolute dividend amount, dividend yields for the preferred shares are much higher and usually range between 3% to 7%.

In the past, the preferred shares traded at only small price discounts to common shares. Over the years, this price discount has widened dramatically due to a negative feedback loop. As the price discount increased and preferred shares underperformed, Korean investors fled from them, thus further reducing their price and their liquidity. Reduced prices and reduced liquidity led even more Korean investors to shun preferred shares and so on and so on.

We think this negative feedback loop has now started to reverse as bargain hunting foreign investors (like us) have started buying Korean preferred shares, thus increasing their price and liquidity and reducing the price discount verses the common shares. In addition, Korean authorities have been taking increased action to protect the rights of minority shareholders and to improve corporate governance in Korea. These actions are also favorable for holders of Korean preferred shares.

One example in our basket is our ownership of the preferred shares of LG Household & Healthcare (LG H&H). LG H&H manufactures and distributes cosmetics, household & personal goods and Coca-Cola beverages in South Korea. It has a leading market share in all 3 business segments. The company was spun off from LG Chemical (now LG Corp) in 2001 and has since been focused on western style brand management and shareholder value creation. LG H&H management is well regarded and shareholder friendly. Over the years, the company has allocated capital wisely by investing in its core businesses, repurchasing shares and completing multiple value creating acquisitions.

We invested in LG H&H through their preferred shares. When we invested, the preferred shares traded for only 20% of the price of the common shares. Since we invested the preferred shares of LG H&H have doubled in price, yet they still trade at a 61% discount to the price of the LG H&H common shares. Over the next 5 years, if LG H&H common shares increased 10% per year, and if the preferred shares price discount narrowed to a more reasonable 30%, then the preferred share price will triple.

We have carefully selected out basket of Korean preferred shares to include only companies that meet strict investment criteria. While not every company in our basket will be a winner, we expect that, on average, our basket should at least triple in price over time. We enjoy a large dividend yield while we wait.

Basket of large cap US Banks

The specific details for each bank that we own are different, yet the underlying thesis is mostly the same. The large cap banks in the US were all severely hurt in the financial crisis of 2008. Since then they have been working to repair their businesses, reduce risks, simplify operations, and restructure bad loans. The banks have undergone intense regulatory scrutiny and are on a trajectory towards recovery. We think that the probability of another banking meltdown at this point in the cycle is low.

Furthermore, the banks are direct beneficiaries of the ongoing economic recovery in general and the recovery in the real estate markets in particular. The US banks are still under earning relative to their normalized earnings power and still trade below where they should once they have fully recovered.

Basket of TARP Warrants:

During the financial crisis of 2008, several large US companies experienced severe financial distress and came close to collapsing. Deemed “too big to fail” by the U.S. Department of the Treasury, they received a financial bail-out. The Troubled Asset Relief Program (TARP) was created for this purpose. In return for their bailouts, the rescued companies were required to issue a combination of common shares, preferred shares, and long-dated warrants to the Department of the Treasury. These warrants are known as “TARP warrants” and many of them now trade on the public markets.

The large US banks, AIG, PNC Financial, and GM all have outstanding one or more series of publicly traded TARP warrants. In addition to low cost, non-recourse leverage, these TARP warrants provide downside protection when compared to buying the underlying stocks directly. Counter to popular belief, most warrants are not a good way to express extra strong bullishness on an underlying stock. Rather, they are a way to express cautious bullishness. When buying a warrant, we are essentially buying both the stock and also an embedded put option in case our bullish thesis does not work out as planned. The key question when purchasing a long dated warrant is: “How much extra (vs. directly buying the stock) are we paying for this embedded Put option?”

Most of the TARP Warrants have an additional advantage that is still unknown to most investors. Above a certain threshold level, dividends paid by the corporations cause the strike price of their TARP Warrants to decrease. In addition, they also increase the number of shares that the TARP Warrants convert into. While each TARP Warrant is different, on average, we expect most TARP Warrants to convert into 1.1 shares each close to their expiration dates.

We carefully analyzed each of the outstanding TARP Warrants and have chosen to invest in several of those that trade cheaply. We expect our basket of TARP Warrants to at least triple in price over the next few years.

Conclusions:

We try to leave no stone unturned in our global search for compelling value investments. Our broad investment mandate affords us a significant competitive advantage and allows us to invest, when it makes sense, in obscure securities such as Korean Preferred Shares and TARP Warrants. We carefully select these securities after detailed research and analysis. We own an exceptionally attractive portfolio of investments from around the world and I am highly confident these will provide strong returns in the future.

Thank you, our investors and shareholders, for your continued trust and support of EVCM fund. I have the majority of my net worth invested along side you in EVCM fund and I continue to work tirelessly to protect and grow our capital. Please don't hesitate to call with any questions, thoughts or comments. I am always happy to speak with partners and potential new partners.

Sincerely Yours,
Ori Eyal
Managing Partner