

Emerging Value Capital Management, LLC

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Q3 - 2013 Letter to Investors

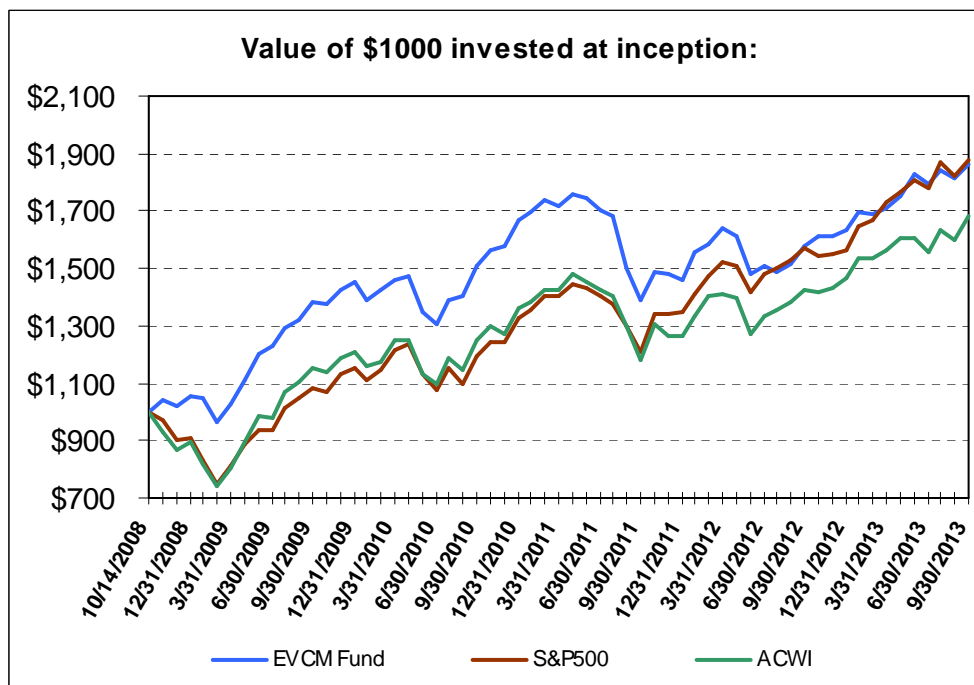
Dear Partners and Shareholders,

For the third quarter of 2013, EVCM fund returned an estimated +3.6% net to investors. Stock markets were up with the S&P500 up 5.2% and the ACWI up 7.9%.

Fund Performance (Net to Investors):				
	Sep 2013	Q3 - 2013	2013 YTD	Since Inception (10/15/2008)
EVCM – Net to Investors	+2.4	+3.6%	+13.8%	+86.1%
S&P500	+3.1%	+5.2%	+19.8%	+87.5%
MSCI All Country World Index Net	+5.2%	+7.9%	+14.4%	+67.9%

* 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 +86.1% (net to investors). During this same time period, the S&P500 returned approximately +87.5%, and the MSCI All Country World Index Net (ACWI) returned approximately +67.9%.



"In a rising market, everyone makes money and a value philosophy is unnecessary. But because there is no certain way to predict what the market will do, one must follow a value philosophy at all times."

-- Seth Klarman, Baupost Group

Overview:

Continuing the trend of recent years, the S&P500 outperformed most other global stock market indexes. Compare, for example, the year-to-date returns of the S&P500 (positive 19.8%) to those of the Emerging Market Index (negative 5% - ouch). Some have even started suggesting that the US is the only viable place to invest and that the S&P500 will continue to outperform the rest of the world indefinitely. We smiled when we heard this argument since it reminded us of 2005 - 2007, when exactly the opposite argument was made. In truth, there is no permanently "best" place to invest or "best" index to invest in. Financial markets are mean-reverting. Today's top performing markets will be tomorrow's laggards.

At Emerging Value Fund we continue to focus on global value investing. We invest conservatively in cheap companies from around the world. Given these parameters, it is not surprising that we underperformed the S&P500 in this market environment although on an absolute basis our return this year is satisfactory. We still expect to significantly outperform the S&P500 over a full market cycle, particularly during future points in the economic cycle when stocks are declining and/or emerging markets are outperforming.

After a sustained multi-year rally, stock markets in aggregate are not cheap and some US stocks seem particularly expensive. To address this concern, we carefully re-examined each holding in our portfolio and asked ourselves: "If we did not already own this investment, would we be willing to buy it right now at today's price and, if so, how big would we make the position in our portfolio"? If our conclusion was that we would not be willing to buy something at today's price then we should not own it at today's price.

We continue to select individual investments based on deep fundamental research and analysis where we are convinced that we are purchasing a good business with a good management team at a cheap price. We have maintained a high level of net exposure since we are still finding compelling investment opportunities despite the rising stock markets.

EVCM Fund Investments:

We will devote the rest of this letter to a review of some of our investment positions:

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.

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%.

We have carefully selected our 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 nice dividend yield while we wait. Following is an example of one of the preferred shares that we own.

Sebang Co Preferred Shares

Sebang is a South Korean port operating company specializing in logistics and transportation. They offer stevedoring, transport, and storage services. They operate in major ports in Korea, including Busan, Gwangyang, Masan and Pohang. In addition, they own 38% of Sebang Global Battery – South Korea's leading manufacturer of vehicle and industrial batteries.

The common shares of Sebang trade for about 50% of NAV and about 6.5X Normalized earnings of 50B KRW. While the common shares are cheap, the preferred shares of Sebang are extraordinarily cheap. They trade for 30% of the price of the common shares. Effectively, the preferred shares trade at 15% of NAV and 2X normalized earnings (those are not typos!). They also provide a 3% dividend yield.

If Sebang common stock appreciated 10% per year for the next five years and the discount between the common and preferred shares narrows to a more reasonable 30%, we would earn almost 4X our investment over those five years.

Nitsba Real Estate

Nitsba Real Estate is a well managed REIT that owns top quality real-estate assets in Israel. In addition to commercial, residential, and office properties, Nitsba owns many of the main bus terminal centers in Israel. Central bus terminals are exceptionally high quality real estate assets. With the Israeli bus companies as their main tenants, non payment of rents is highly unlikely. Furthermore, retail shops operating in the bus terminals benefit from the large foot traffic of the many bus passengers. These dynamics enable Nitsba to charge retailers high rents.

Nitsba share price has increased significantly since we invested, yet it still trades well below its net asset value. We also like that the company is under levered and is able to redeploy its net rental income into high return development and expansion projects. We believe that in a few years Nitsba will complete its large development projects and will start paying dividends. When that happens, Nitsba is likely to trade at a premium to its NAV, thus generating a return of well over 200% from our purchase price.

Hilan Tech

Hilan Tech, which we describe as “the ADP of Israel”, continued to perform very well in 2013. The company grew its business, reported strong earnings, and continued paying large dividends. The stock price increased accordingly and we have been gradually selling our position at a profit of about 80%. We have been investing in Hilan Tech since 2001 and expect to re-enter this investment when the price is more attractive.

Otzar Hityashvut

Otzar Hityashvut is an Israeli holding company. Their main asset is a 5% stake in Bank Leumi which is Israel's second largest bank. When we invested, Otzar, with no debt, traded for about 60% of its net asset value. Bank Leumi itself was also very cheap, trading for about 70% of book value. So roughly speaking, by buying Otzar, we are able to indirectly invest in Bank Leumi at about 42% of book value.

Since our initial investment both Bank Leumi and Otzar's stocks prices are up. We have begun trimming our investment in Otzar. Ultimately we ended up with a profit of about 25%. We could

have done equally well by investing directly in Bank Leumi. Our original investment thesis proved only partially correct. While Bank Leumi did in fact increase in price, the discount at which Otzar trades relative to Bank Leumi did not narrow. We hope all our future mistakes also earn a 25% positive return. The key issue which led to our mistake was that we failed to recognize that Otzar's large positive cash balance works like "negative leverage", effectively dampening the potential upside in Otzar when Bank Leumi's stock goes up. Lesson learned.

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.

Pulse Seismic

Pulse Seismic owns and licenses a database of 2D and 3D seismic data for the energy sector in western Canada. Seismic data is used by oil and natural gas exploration and development companies to identify portions of geological formations that have the potential to hold hydrocarbons. Seismic data never expires so it can be sold and resold for decades.

In the current environment of cheap natural gas we expect Pulse to generate about \$25M of free cash flow per year although quarterly performance is extremely volatile. There are strong indications that Pulse could generate 50M – 80M of annual free cash flow at more favorable points of the business cycle.

With a current market cap of \$235M, Pulse Seismic is still cheap although we have reduced our position somewhat when the stock price briefly spiked above 4.28 CAD / share.

Berkshire Hathaway

After languishing for a while, Berkshire's stock has finally started increasing again in 2012 and has been performing well in 2013. Valuing BH is fairly straightforward. Assigning a 10X multiple to the operating business earnings (\$9K/share X 10) and adding in the current per share value of the securities portfolio (\$120K/ share) gets us to about \$210K value per share. This assigns no value to the expected growth in insurance float over time, to future underwriting profits, to the phenomenal team of business and money managers at Berkshire, and to the exceptional management and capital allocation abilities of Mr. Buffett.

Currently trading at about \$175K per share, BH shares are somewhat cheap with about 20% upside to current fair value. Importantly, we believe intrinsic value is growing at about 10% per year. Furthermore, BH is levered to an economic recovery and to a recovery in the US housing market (which we think are both ongoing).

AIG

AIG is one of the world's largest multi-line insurance companies. It came close to bankruptcy in the 2008 financial crisis due to its insurance bets on subprime mortgage loans and credit default swaps. AIG was saved in the last minute by a US government bailout.

Today AIG is a very different company. Since 2008, AIG has focused on reducing risks, selling non-core assets, eliminating its complex derivative exposure, and paying back the US government. AIG is now well managed and conservatively run. It has a leading position in both property & casualty insurance (Chartis) and US life & retirement (Sun America). It has paid back the government in full and is focused on unlocking shareholder value by increasing its ROE to double digit levels.

Yet AIG still trades for only 75% of its book value. We think that in a few years AIG could trade at book value, and that book value will be higher, thus generating strong returns from today's prices.

Conclusions:

We continue to follow our disciplined global value investing process that has worked for well over a decade and will continue to outperform over a full market cycle. While we could perform a little better in the short run if we invested more aggressively and cut back on our shorts and hedges, doing so would leave us vulnerable to the next (inevitable) stock market decline.

Therefore, we choose to maintain our conservative investment stance. We invest mostly in good businesses run by honest and capable management teams. We only invest after careful and detailed research and when we are certain there is a large discount to intrinsic business value. We also choose to maintain our book of short positions and hedges. Conservative investing is like insurance - it seems like a waste of money in good years, but you are happy to have it in bad years.

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, comments or requests. I am always happy to speak with partners and potential new partners.

Sincerely Yours,
Ori Eyal
Managing Partner

Disclosure:

This document does not constitute an offer to sell or the solicitation of an offer to purchase any security or investment product. Any such offer or solicitation may only be made by means of delivery of an approved confidential offering memorandum. Past results are no guarantee of future results and no representation is made that an investor will or is likely to achieve results similar to those shown. All investments involve risk including the loss of principal.

An investment in the Fund may be deemed speculative and is not intended as a complete investment program. It is designed only for sophisticated persons who are able to bear the risk of the substantial impairment or loss of their investment in the Fund. The Fund is designed for investors who do not require regular current income and who can accept a high degree of risk in their investments. Prospective investors should carefully consider the risk factors specified in the Offering Memorandum before making a decision to invest in the Fund.