

Dear Investors,

The Orange Capital Master Fund returned -11.8% in the second quarter 2011. Net of fees the fund is up 1.9% for the year. Since inception the fund's NAV grew 91.3% net of fees and trading commissions, that is a cumulative average annual return of 24.2%.

Positions held as of Jun 30th 2011

Caterpillar	(the position contributed -3.1% to the portfolio since initiation)
Foster's	(+2.2%)
Nestle	(+1.2%)
SABMiller	(+0.3%)
Rusforest	(-0.9%)
Brazilian Banks	(+1.4%)

Positions closed in the second quarter 2011

Mosaic	(-6.7%)
WTI Oil	(-2.5%)

Current events

The markets are concerned about a US recovery. We don't see the same level of concern on the companies' side. While we don't perceive any major risk in the US, we have observed a few negatives in other parts of the world.

First, the European debt crisis has gone out of control since now Spain and Italy are also affected. With long term yields around 6% and no growth these countries cannot function under the Euro. The only alternative for these people would be lots of austerity and adjustment. The easier way out would be to leave the Euro and adopt their own currency. We also don't expect Germany to support ever more rescue packages. The rift between France and Germany is growing because France has more incentive to save the Eurozone since its banks seem to be more exposed.

The other major negative is the rising inflation and high interest rates in Emerging Markets. We are particularly concerned about countries where leverage is high, either on the consumer level such as in Brazil or on the country level such as Russia. Russia doesn't have much debt but is still running a budget deficit with oil prices above \$100 per barrel. In Brazil, the banks are expanding credit rapidly. A sneak preview in what might be coming to Brazil is given by Australia. Despite booming commodity exports the consumers in Australia are suffering from increased inflation and pressure on real wages. The strong currencies in both countries are hurting the local economy.

Portfolio changes

We initiated a short position in Brazilian banks given the first signs of accelerating delinquencies of consumer loans have started to appear.

We bought Nestle for two reasons. First, the company is listed in Swiss Francs and we like to have part of the assets in Swiss Francs. Second, the company has 20b in cash that they can deploy to deliver growth and margin expansion. Nestle is a food company that uses low tech solutions to make food more affordable and convenient. The best example is Nescafe, which is a low tech solution to bring coffee to all corners of the world. We feel the risk reward for Nestle in the current macro environment is very favorable.

Another new position is Foster's Group. We bought Foster's Group because we believed that the company will be taken over. Indeed, a few weeks after we bought the stock, SAB Miller announced the intention to buy the company. So far, there has not been any communication between the two boards but we think that a deal will eventually happen at a higher price. Beer mergers have been very successful in the past and therefore command high multiples. We also believe that there is a high chance that Grupo Modelo comes in with a counter offer.

Positions we closed

In our daily operations we aim to control our portfolio through identifying profitable entry and exit points. Whenever we are forced to exit a position before we reach our target we usually take a loss. That is undesirable but unfortunately not always avoidable. In the case of Mosaic we had to liquidate the position because there was a fundamental change in the dynamics of the fertilizer industry. The US Senate indicated that they would not tolerate the high subsidies for US ethanol either through cutting directly ethanol subsidies or through allowing Brazilian imports of ethanol. In our opinion the main driver of corn prices and generally food prices is not demand from Asia but the high usage of corn for corn based ethanol in the US. If that usage goes down, then prices of agricultural commodities will drop too. We believe the risk of this happening is high and we are therefore not comfortable holding Mosaic anymore so we exited the position even though we were at a loss at the time of exit.

Our crude oil position lost money because we missed the fundamental shift in global crude oil pricing away from WTI towards Brent. For decades the benchmark for crude oil has been the price for WTI. When we decided to enter our long oil position we naturally chose WTI. Our thesis that oil demand outside of the US coupled with instability in the Middle East will drive oil prices higher was right but the vehicle was wrong. While Brent prices kept going up, WTI actually stalled. The spread between Brent and WTI has grown to over 20\$ per barrel, which is unprecedented. Usually WTI is higher than Brent but nowadays Brent is much higher. There are two main reasons for this dramatic increase in the Brent/WTI spread. One is slower demand in the US and the other is the massive growth in domestic US shale oil production which is filling the storage tanks in Cushing, the main terminal where WTI is priced. Since there are only limited physical delivery possibilities from Cushing to the refineries on the Gulf coast the price of WTI is only driven by local US demand and supply and not by global dynamics. Because of this peculiarity we decided to exit the WTI position.

New ideas we are working on

Since the macro environment is very unclear we focus on a few things which we can be more sure about. First, we stay away from leverage. We don't want exposure to anything that depends on debt to generate adequate returns. Second, we stick with companies that have pricing power since that is the only thing which will keep them safe in an environment of rising commodity prices. Third, we want to have at least 50% of our assets in foreign currencies just in case the USD keeps weakening.

One interesting development is the US shale gas and shale oil sector, which is growing production at an unprecedented pace. Like many such developments it is easy to spot the trend but very hard to identify the assets which will benefit from it. One option are the US based oil service providers such as Schlumberger and Baker Hughes which are leaders in the techniques required to produce shale gas and oil. Their services are in high demand which leads to higher prices and better margins. We believe the future of oil production will be in more difficult and hard to develop fields such as ultra deep offshore or the Arctic, which require advanced techniques and will benefit the service providers. Also, the largest existing fields are maturing and require advanced technologies to enhance production.

In the past few months we visited Brazil and Russia. Both countries suffer from high inflation and political interference. Even though the potential is immense the near term outlook is bad. Both countries lack quality companies to invest in.

Please feel free to call if you want to discuss more.

Thanks,

Krim Delko

New York, July 2011