

August 18, 2008

Investor Letter, 2nd Quarter 2008

Dear Investor,

Bulgaria has been in the news lately, some good and some not so; but taken together; they highlight the argument that Bulgaria is primed for potentially sizeable economic growth in the coming years.

The first, not so good headline (and why it is not as bad as it seems); Bulgaria is on the verge of being sanctioned by the European Union for corruption problems – or more specifically, for not doing much about it after repeated warnings. For this, the EU is likely to withhold a substantial amount of undisbursed aid. This aid, in the form of grants for badly needed infrastructure and farming improvements, will be put on hold till a new administration is elected at the end of next year.

The core of the problem is that politicians, mostly on the national level, have been firmly entrenched with organized crime. This is not new to the people of Bulgaria. Corruption, large and small, in the government bureaucracy has long held down business growth. Numerous state assets have ended up in favored hands; the legal establishment offers little chance of redress, and overall it has just been frustrating to get things done. The mood of the average citizen has been one of resignation to a certain degree. Even though the overall opportunities and living conditions have improved dramatically, people have not been able to see an end to the corruption problems.

This has set the stage for change. All Bulgarians know that membership in the EU and all the opportunities it brings are huge; there is little thought of any other alternative to Bulgaria becoming a fully working part of Western Europe. Given this belief, the European Union has a great amount of leverage; by their coming down so hard on Bulgaria (in unprecedented fashion) the door is wide open for real and lasting change to take hold.

Given that real political progress can be made and combine this with the initial signs of higher economic growth as evidenced in their current labor shortage (the “good news”) – one can begin to see a very positive picture emerging in the coming years. The enclosed article from Financial Times explains why the true unemployment level is very low. In addition, we have personally noticed that wages have been increasing for educated Bulgarians with modern skills. These people are forming a new, more progressive middle class who in turn, will continue to be significant players in the demand for real estate.

Our expectations for the timing of this increased growth demand will be triggered by a few key factors: time for the credit crunch to run its course; a cycle of new politicians to be elected; and the tendency for companies looking to make new foreign investments in Eastern Europe to be patient till they see Bulgaria making solid progress. Time for these things to run their course

does not necessarily hinder the prospects for our funds, since it allows us the opportunity to continue making attractive strategic investments at good values.

Since the end of last year, we have been active in the market, committing to a number of excellent projects at very good prices relative to the current market values (which has continued to climb, but at a slightly slower pace.) The accounting firm of Rich and Bander, LLP just completed the financials for Fund 2 up through the end of June, 2008; a copy is enclosed and posted on the website. Fund 2 shows a gain of 4.34% life-to-date, compared with 5.60% at the end of 2007. Keep in mind these numbers appear low because they do not include gains that could be realized from the four properties under construction (accounting rules only permit mark-to-market valuations for completed units, of which there is only one in Fund 2 – the rest are carried at cost till they are done.) Using current sales prices of unfinished units of the same type (and sometimes in the same actual project) as a benchmark, the estimated gain for Fund 2 grows to 22.87%.

Fund 1 would show similar improvements for the last two quarters, but the financials for that fund are done just once a year. Please read the enclosed articles and check our website (www.GQINV.com.) If you have any questions on the financial statements or your investment, feel free to contact me anytime.

Sincerely,

Jeff Notaro

CEO
Global Quest LLC.