



## Tera Capital Fund

## Investor Newsletter

May 2012



Tera Capital Fund is the only fund of funds in the world which pays no fees other than a success fee

**Based on Tera Capital Fund's performance and innovation, in February 2012 the Global Banking & Finance Review announced that Tera won its award as the most innovative fund of funds in Europe for 2011, Tera's second such award**

### Fund Performance (net of fees)

Returns	Tera* (%)	RTS, MSCI & ROS Avg** (%)	AAM Russia Fund Index <sup>1</sup> (%)
<b>Monthly</b>	(18.04)	(22.15)	(18.32)
<b>Year-to-date</b>	(5.74)	(11.03)	(9.85)
<b>Trailing 12 months</b>	(29.53)	(37.38)	(31.93)
Since Fund inception (Apr 05)	148.71	130.10	132.96
Anlzd mnthly rtn (since Fund inception)	9.50	8.43	8.82
Annualized Stand. Dev. (since inception)	26.33	39.23	31.31
Sharpe Ratio <sup>2</sup>	0.27	0.23	0.20
Trailing 12 m Sharpe	(0.81)	(0.87)	(1.15)

\*Weight averaged, all series (currently 9) combined

\*\*RTS: -22.07%, MSCI: -22.42%, ROS (Crédit Suisse): -21.95%

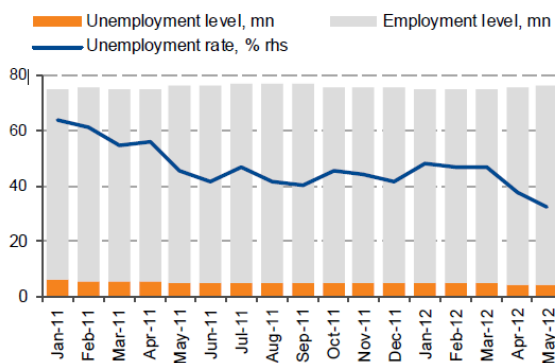
### Investment Advisor's Assessment

#### Russia

May was a disaster on global equity markets, in particular for Russia, due to increasing concerns over the results of Greek elections and Spanish banks and debt levels. The major indices all fell about 22%, making May the worst month for Russian stocks since October 2008.

Against this dismal global macroeconomic background, however, Russia continued to produce extremely strong domestic economic numbers. **Unemployment reached an all-time low** in May (last reached for one month in May 2008): falling from **5.8% to 5.4%**; the number of unemployed fell by 279,000 to 4.1 M. At the same time, **real wage growth** remained steady at a remarkable **11.1%**.

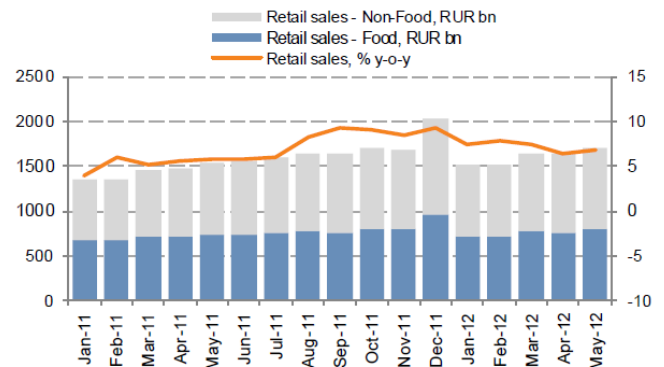
#### Labor market



Source: Rosstat

**Russian consumption continued to grow rapidly:** retail trade increased by 6.8% year-on-year, further increasing the tempo from April's 6.5%. Growth in food sales accelerated compared to April's figures to 4.8% (up from 3.9%); growth in non-food sales increased 8.5% compared to 8.6% in April.

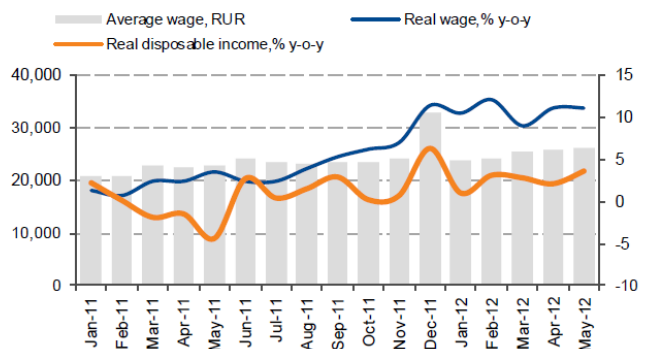
#### Retail sales



Source: Bloomberg

**Real disposable income grew** by 3.6% year-on-year, again up from April (2.1%).

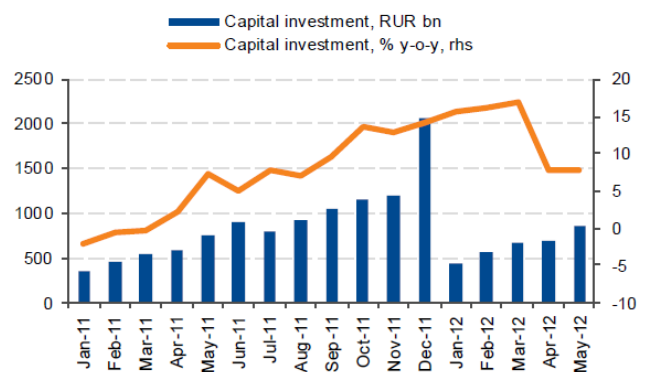
#### Wages and income



Source: Bloomberg

In the commercial sector, **investments in fixed assets grew by 7.7%** year-on-year; YTD, investment has grown by 12.1%. High investment levels are one of the main positive surprises of the economy in 2012.

#### Capital investment

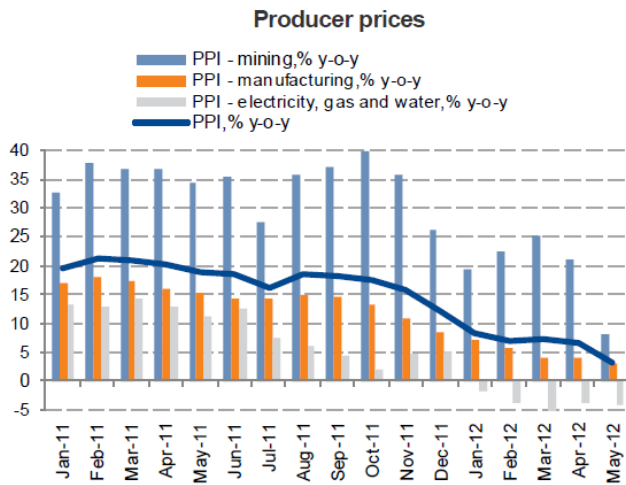


Source: Bloomberg

Meanwhile, **producer prices fell by 2.4%** from April's record-low levels due to falling oil prices: oil fell 15.2% in May. As a result, producer price growth dropped to 3.1% annually in May from 6.7% April. **This is the lowest inflation level in Russia since the breakup of the Soviet Union.**

<sup>1</sup> Altima Asset Management created this index of 21 Russia-focused equity funds created on or before May 2005 to provide an appropriate benchmark.

<sup>2</sup> Risk free rate: 2.5%



Source: Bloomberg

Further, the Russian budget enjoyed a **surplus of 0.2%** of GDP. As a result, the YTD budget deficit has shrunk to just **0.3% of GDP**.

The Russian Customs Service announced that **Russia's foreign trade surplus increased by 18%** year-on-year to \$82.1 billion in January-April 2012 compared to the same period in 2011.

Russia exported \$175.7 billion worth of goods and commodities in the first four months of the year and imported \$93.7 billion, up 14.7 and 9.6%, respectively. Three-quarters of all exports were fuel or energy products.

The **World Bank boosted Russia four slots** in its annual rankings on the **ease of doing business** just prior to the St. Petersburg International Economic Forum. This is consistent with goals expressed in February of this year by then-Prime Minister Vladimir Putin when he said Russia should try to break into the top 20 of the Doing Business ranking. However, even with the four-slot increase, Russia has a long way to go: the World Bank ranked it 120th out of 183 countries in its 2012 assessment.

"We went from 124 to 120, this place really is shameful," **Deputy Economic Minister Stanislav Voskresensky** said, adding that "But according to the World Bank we are among the **25 countries that made the most progress over the past year** on changing the regulatory environment". **Voskresensky** blamed the "imbalance" of Russia's rating on the gap between the creation of effective laws and their enforcement in practice. He added that many new laws had been passed over the past year but their positive effects have not yet been reflected in the rating.

Russia performs most poorly on **obtaining a permanent electricity connection** – for which it ranks dead last at 183 – because of the grueling 281-day process of connecting to the grid and high associated fees.

Positively (and, for many, surprisingly), Russia's **highest ranking relative to other countries is in enforcing contracts**, for which it takes 13th place. Russia rose six spots in its three most-improved categories, registering property, trading across borders and enforcing contracts.

**St. Petersburg International Economic Forum** attracted luminaries to that city, including the chairman of **Goldman Sachs**, Lloyd Blankfein. Among many other things, in an interesting turn of events, Putin picked up Dmitry Medvedev's favorite topic and pledged to tackle corruption.

As Roland Nash, chief investment strategist at Moscow-

based **Verno Capital**, which manages \$200 million in Russian equities, noted, "Putin's trying to make it into a Davos for Russia. A big part of it is PR. One of the problems is the negative image of Russia."

In what Nash called "a stamp of approval for Russia," Goldman, **BlackRock** and **Templeton Asset Management** signed an agreement with the **Russian Direct Investment Fund** to invest in Russian companies preparing to sell shares through initial public offerings.

**BP CEO Bob Dudley**, who headed up TNK-BP prior to taking over BP, stated that Russia is "**moving in the right direction**. [This forum] brings together leaders in the energy industry from all over the world. Even Davos doesn't always do that."

Between February and April this year, **Ernst & Young** surveyed 150 leading PE funds in 22 countries. 48% of them said they would increase acquisition activities, up from 25% in October. Leading PE funds are showing a growing appetite for Russia and are ready to expand their investment in over the next year.

The number of deals by PE funds in Russia totaled 55 last year, compared with 46 in 2010, with the average deal size growing from \$48 million to \$76 million.

**Kirill Dmitriyev**, CEO of the Russian Direct Investment Fund, the \$10 billion PE fund created by the Russian government, said that Russia's stable macroeconomic situation and high income per capita is attractive to foreign investors, although they also understand the challenges investors are likely to face in the country, including red tape, high corruption levels and the need to improve the work of courts.

**Sales of new cars were up 15%** year-on-year from January to May. Car imports surged 16% in the first five months of 2012 according to customs service figures, reflecting continued recovery in the auto market.

Total sales of new cars were up 11% in May.

Joerg Schreiber, chairman of the **AEB Automobile Manufacturers Committee**, called the growth "healthy" and "consistent with earlier expectations." Russians bought 2.6 million cars and light vehicles in 2011 while AEB has forecast sales of 2.85 million in 2012, just below the pre-crisis level of 2.9 million. Russia imported 324,200 cars worth a total of \$6.682 billion in the first four months of the year versus 280,400 for \$5.383 billion in the same period last year, a 15.6% increase, the customs service said, Interfax reported. Imports of non-CIS vehicles led the way, growing 20% to 293,800. There was a particularly large spike in imports of trucks, which soared 36.4% to 31,800, boding very well for overall state of the Russian economy.



**Chinese Vice Premier Li Keqiang** met with Vladimir Putin to exchange views on ways to boost bilateral economic and trade cooperation. The two leaders announced an initiative to work jointly to achieve the goal of increasing bilateral annual trade volume to \$100



billion in 2015.

Initial agreements were also signed with Chinese companies accompanying Li in Moscow, Krasnodar region, the Dagestan republic and Irkutsk representing total investment of \$600 million.

Most Chinese interest in Russia is directed at the natural resources sector, but the tourism industry is also very promising. There were 840,000 Chinese visitors to Russia last year, making **Chinese the second-most-numerous tourists after Germans**. At current growth rates, they are likely to soon occupy first place. About 80% of Chinese visitors come to Moscow and St. Petersburg, while 15% are arriving as a result of cross-border traffic where the two countries meet on the Amur River.

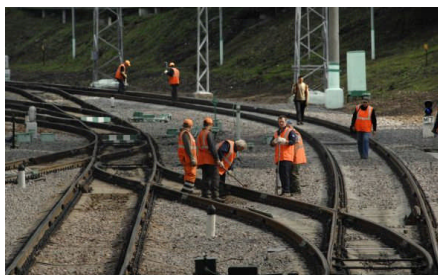
The representatives of the Chinese companies said they were well aware of the problems associated with Russia's investment climate, having heard lots of "rumors" about the issue. They stressed their decision to invest would be a methodical process.

"I know for certain that my wife is very beautiful, but I can't say for certain that my neighbor thinks the same," said Tszysin Tsi, Vice President of **China Oceanwide Holding Group**, referring to perceptions of Russia abroad. "And if she's ugly it's not necessary to tell her," he joked. "Investment is just the same."

A **European Commission** delegation headed by **Transport Commissioner Siim Kallas** gave its backing to a **Russian Railways** proposal, dubbed the **Eurasian Land Bridge**, to incorporate the Trans-Siberian Railroad into a corridor for freight between the Far East and Europe. A new wide-gauge railway line to Vienna could be a key part of Russian plans to build a Eurasian "land bridge" between China and Europe. The multibillion-dollar project, which would take more than a decade to complete, would be the most westerly extension of the "Russian" 1,520-gauge railway lines.

The project is intended to provide a rail-based alternative to traditional sea and air freight routes between far eastern producers and European markets.

Russian Railways president Vladimir Yakunin said he believed the route would be able to compete on speed.



"They are building ships that can carry 10,000 containers at a time. We can never compete with that," Yakunin told reporters in Sochi on Friday.

"But while we can never increase capacity like that, they can never reduce journey times." The option of sending goods by rail would appeal to producers keen to get their goods to market in as little as 14 days, compared with the 40-day sea journey. Russia's WTO accession will also assist as transit fees will drop. Rail freight between Europe and its Eastern neighbors to grow 30% between 2007 and 2020.

Another hindrance is the inconvenient transition between the 1,520-millimeter gauge lines used in the former Soviet Union and the narrow 1,485-millimeter "standard" gauge used in Europe and China. Russian Railways would like to extend its 1,520-gauge line all the way to a new depot near Vienna, giving direct access to trans-European rail and road networks as well as the Danube

River system.

### Company News

**Sberbank** acquired Turkey's **DenizBank** for \$3.5 billion from Franco-Belgian **Dexia** as it continued to diversify its operations by buying banking assets outside Russia. DenizBank has \$23.4 billion in assets and is the eighth-largest bank in Turkey, where it has 592 branches.

The acquisition will close by the end of this year and is the biggest acquisition in Sberbank's history. It comes shortly after the closing of a \$660 million deal to purchase the international arm of Austria's **Volksbank** in February. Sberbank is now **Europe's third-biggest lender**.

Sberbank has targeted Central and Eastern Europe to diversify its operations and turn itself into a player on the world stage. It intends to eventually expand into Western Europe, India and China.

The acquisition of DenizBank will mean the proportion of Sberbank's profits earned abroad will rise to between 7% and 8%. Sberbank's **2011 earnings of \$10.75 billion** were about equivalent to the total profitability of the **entire Turkish banking sector**.

**Burger King** announced that it plans to open more than **300 new restaurants in Russia** with the help of its franchise operators.

The deal is another confirmation of the vitality of franchising in Russia, which has seen the number of outlets grow 30% in recent years.



**Burger King Europe, VTB Capital** and Alexander Kolobov, the owner of the **Shokoladnitsa** chain and franchisee of 54 Burger King restaurants in Russia,

agreed on a deal that would make them co-shareholders in the restaurant's franchise. VTB plans on investing up to \$100 million in the first five years of the deal to radically increase the number of franchised Burger King restaurants in Russia.

**ExxonMobil's** Berkut platform consists of 52,000 cubic meters of concrete and 27,000 tons of steel and marks the beginning of the **third phase of the Sakhalin-1 project**, which anticipates peak annual oil production of **4.5 million tons by 2017**.



It is also a potential template for the lucrative exploration agreement signed last year with **Rosneft** to tap about **36 billion barrels** of oil in Russia's Arctic waters.

The huge structure was officially presented in a ribbon-cutting ceremony in May; engineering and procurement was completed by **Kverner**, a Norwegian oil and gas construction company that has built similar concrete

platforms in Norway, Spain, Canada and Australia. Bjorn Gundersen, a vice president at the company, described Berkut as a "mastodon."

In the coming days it will be towed 1,800 kilometers to the installation point 25 kilometers off Sakhalin Island.

**LUKoil** reported a **7.7% increase** in its Q1 net profit to \$3.79 billion due to higher hydrocarbon prices. **Q1 sales grew 19%** to \$35.26 billion from \$29.63 billion in Q1 2011 and EBITDA increased 0.1% to \$5.35 billion from \$5.34 billion a year ago.

**Bashneft** said that **Q1 net profit rose 20%** to \$444 million, on revenue which grew up 12.5% to \$3.92 billion. EBITDA increased 17% to \$824 million, leading to a gain of \$75 million at the EBITDA level. Net debt fell 13% to \$2.35 billion.

German company **Gildemeister** will begin construction of a \$25 million plant outside Ulyanovsk in August which will produce lathe and milling-machine tools in Russia which are so sophisticated that the plan required a **security clearance from the German government** as the technology is dual purpose. Russia is one of the top 10 countries in the world in terms of demand for metal machining tools.

The local plant will allow Gildemeister, a global leader in the sector, to save on transportation costs of the equipment that weighs upward of five metric tons and on customs procedures. **No foreign machine-tool builders** have production units in Russia at present, while Gildemeister has plants across Europe and in China. It aims to produce **1,000 machine tools per year** in Russia, in addition to its current annual output of 7,000 units.

**Severstal**, Russia's second-largest steel producer, said that its Q1 net profit reached \$427 million due to a stronger ruble. Q1 EBITDA reached \$562 million. Revenues were \$3.68 billion, above the \$3.48 billion 2011 Q1 result.

**Bosch** is planning to localize more auto parts assembly lines in Russia following a profitable year during which the company saw its **sales in Russia jump 50%** to almost \$1.2 billion. The assembly lines will be for generators, starters, accelerators, oxygen sensors and electronic brake systems beginning in 2013 and 2014. Diesel technologies will also be produced in Russia after 2014. Bosch currently has three production locations and invested \$55 million in its regional network in 2011, 50% more than in 2010.

**TNK-BP**, Russia's third-largest oil company, plans to increase its 2011 dividend by a larger-than-expected 12% to \$6.6 billion. The board company's board recommended paying a dividend of \$0.32 per ordinary and per preferred share on top of a first-half dividend of \$0.12 rubles per share.

**Mobile TeleSystems** reported a **59% rise in quarterly profit**, while revenue increased 3%. MTS retained its top position in Russia's mobile-phone market with **69.38 million subscribers**. MTS said Q1 net profit rose to \$512 million, helped by a \$174 million currency gain. Revenues rose 3% to \$3.01 billion.

**Auchan Group's** banking unit and Dutch **Credit Europe Group** have decided to establish a joint bank in Russia to expand their presence and provide a broader range of services to corporate clients, which include retail chains Auchan and **Leroy Merlin**, the companies announced in a joint statement. The joint venture will begin to operate next year. The new bank's equity capital will initially be \$11.5 million. Auchan Group will control the joint venture. Similarly, **Renault-Nissan** announced that it will also form a partnership with **Unicredit Group** to set up a local JV to finance some of the \$322 million required to upgrade IzhAuto, Renault's JV with **AvtoVAZ** by 2016.

## Fund Awards



**Most Innovative Funds of Funds**  
(for innovation and performance)



**No. 6 ranked fund of funds in the world, YTD 2012 (April)**



**No 8 ranked fund of funds in the world for 2009**



**Most Innovative Funds of Funds**  
(for innovation and performance)



**No. 2 ranked fund of funds in the world for 2010**



**No 1 ranked fund of funds in the world for 2005**

## Contact Information

Altima Asset Management  
Mr. Timothy Enneking  
+7 910 439 1486  
[te@altim.ru](mailto:te@altim.ru)

Maples Fund Services Ltd  
Mr. Mark Wellon  
Tel.: +1 514 228 2227  
[investorservices@maplesfinances.com](mailto:investorservices@maplesfinances.com)