



Tera Capital Fund

Investor Fact Sheet

November 2010
(final)



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

No early investor in Tera saw the value of his investment fall below the amount invested at any time during the 2008-09 economic crisis

Fund Information

Strategy: Tera Capital Fund is a Russian-focused fund of funds that invests in 5-8 funds (usually long equity funds) that are diversified by sector, size, geographic focus and strategy.

Date Formed	April 2005
Investment Advisor	Altima Asset Management
Fund Size	\$4.5 M
Currency	US dollar
Current Price (NAV)	\$200.64
Min. Investment	\$100,000
Fees/Expenses	Success fee only (20%)
Subscription	Monthly
Redemption	Monthly, with 30-days notice
NAV	Monthly
Administrator	Maples Fund Services
Auditor	Altschuler, Melvoin & Glasser
Bank	Bank of New York
Legal Advisors	Maples & Calder
German Tax Transparency Advisor	PriceWaterhouseCoopers
ISIN	KYG8760X1034
Eurekahedge ID No.	15532
URL	www.altim.ru
Advisory Board	Michael Wallenberg, SVP EFG Bank, Geneva Bruce Bean, Co-Chair ABA Russian Law Committee

Performance (net of fees)

Returns	Tera (%)	RTS, MSCI & ROS Avg* (%)	AAM Russia Fund Index ¹ (%)
Monthly	0.63	0.52	0.99
Year-to-date	18.13	2.67	11.25
Trailing 12 months	20.53	7.26	13.94
Since Fund inception (Apr 05)	100.64	76.52	88.75
Anlzd mnthly rtn (since Fund inception)	16.06	13.87	14.59
Annualized Stand. Dev. (since inception)	24.63	39.11	31.81
Sharpe Ratio ²	0.55	0.39	0.38
Trailing 12 m Sharpe	1.05	0.31	0.62

*RTS: 0.64%, MSCI: -0.08%, ROS (Crédit Suisse): 1.00%

Investment Advisor's Assessment

Russia

November and early December were nothing less than spectacular for Russia! It would be difficult to imagine more positive news at all levels: international, political, macroeconomic and microeconomic. The overarching theme of all of these developments: Russia is completing major steps to become an integrated member of the world community.

In particular, there were three major events that illustrate this conclusion. The major events were (1) **Russia reached an agreement with the European Union on its entry into the WTO** (after doing the same with the US just one month before); entry is now expected within 6 months; (2) **PepsiCo announced that it will pay \$3.8 billion for 66% of Wimm-Bill-Dann**, the largest milk product and juice producer in Russia (with an option to buy the entire company for \$5.4 billion); and (3) **FIFA selected Russia to host the 2018 football World Cup**. The latter two events were both announced on December 2, which may well go down as a benchmark day in Russian history.

1) Russian entry into the WTO

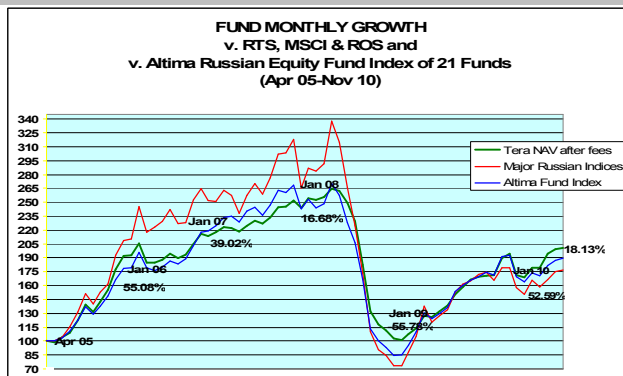
On December 7, President Medvedev and EU leaders signed an MOU that resolved all EU-Russia bilateral issues for Russia's WTO entry. Russia is the largest economy – at \$1.3 trillion – outside the WTO and has been negotiating for entry since 1993.

The World Bank estimates that entry could **increase Russian gross domestic product by as much as 3.3%** in the medium term and a **stunning 11% in the long term**.

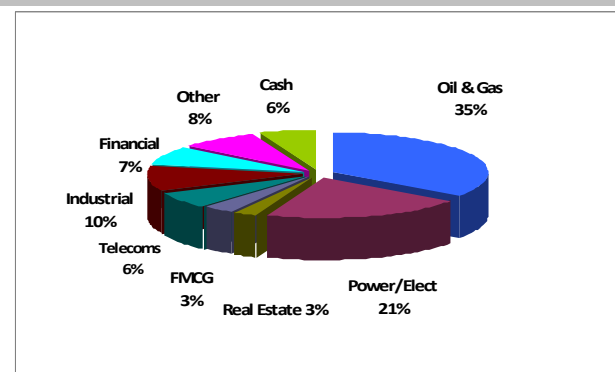
As noted in last month's newsletter, the last issues to be resolved were Russia's pricing policies for lumber exports and railway fees. Russia agreed to cut the timber export duty from 25% to 15% and to lower fees on Asian freight reaching Europe by train through Russia.

The EU is Russia's biggest trading partner, accounting for just over half of its foreign trade; through Q3 2010,

NAV



Sector Allocation



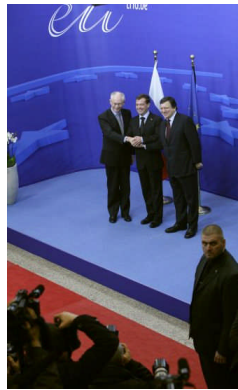
¹ Altima Asset Management created this index of 21 Russia-focused equity funds created on or before May 2005 to provide an appropriate benchmark.

² Risk free rate: 2.5%

their trade in goods and services increased almost 35% to \$217.8 billion. Russia is also the EU's third-largest trading partner (after the US and China).

The EU sold about € 66 billion of machinery, transport equipment, food and live animals to Russia last year and bought € 115 billion Russian goods, three-fourths of which consisted of energy and minerals.

Certain multi-lateral issues remain to be ironed out before Russia can enter the WTO, mainly conditions for trade-related investment, health rules on food imports, over-flight fees and intellectual property rights. The best current estimates are that Russia will actually join the WTO mid-way through 2011.



WTO entry will give an almost immediate boost to the Russian economy, as it would remove certain export barriers (especially for the steel industry which would see quotas disappear altogether) and prompt credit-rating agencies to raise Russia's sovereign-debt grade, which most analysts believe

is long overdue.

Perhaps most importantly, WTO entry would improve investor attitudes toward Russia. **BofA Merrill Lynch** wrote in a research note, "As a WTO member, Russia will have to import rules and regulations that will open up uncompetitive sectors to non-residents, thus improving overall business environment, increasing production and leading to structurally lower inflation". In another research note, **Citigroup** stated that "foreign companies already operating in Russia could accelerate their investments as business confidence improves". Finally, **ING Group** stated that "WTO accession could improve investors' sentiments toward Russia."

However, the biggest sticking point may be reaching an agreement on its WTO accession with Georgia, which is already a member. The former Soviet republic has threatened to block Russia's entry if Russia fails to lift a four-year-old economic embargo. Georgia says Russia cannot join the WTO because of its support of two breakaway regions of Georgia, after their war in 2008, which deprives Tbilisi of control of customs points on its internationally recognized frontier where it would like to post customs officials. Under the WTO's system of decision by consensus, Georgia has an effective veto over Russian membership. It is allowing negotiations to proceed informally but is blocking formal steps. Georgia has said it is prepared to discuss Russia's bid to join the WTO.

EU-Russia Free Trade Zone

In a related development, on November 26, Prime Minister Putin proposed a free trade zone with the EU that would stretch "from Lisbon to Vladivostok" and would be worth trillions of euros; he also pushed for visa-free travel between Russia and the EU.

Putin said that improved bilateral ties should seek to encourage a "new wave of industrialization" for Europe by creating "strategic alliances" in the car industry, shipbuilding, aviation, space technologies, pharmaceuticals industry, nuclear power and logistics. He also again stressed the need for a common energy market.

While there have not been – and may not be – concrete results from this initiative, it is noteworthy that it was Russia that took the first formal step to try to establish such a free trade zone and not vice versa.

2) PepsiCo's \$5.4 billion bid for Wimm-Bill-Dan

PepsiCo announced that it will acquire a controlling stake in **Wimm-Bill-Dann**, the largest juice and dairy producer in Russia, and will become the biggest food and beverage company in the country. As a result of the deal, Pepsi will have 49 manufacturing facilities and employ over 31,000 people in Russia, the Ukraine and Central Asia. Zein Abdulla, chief executive of PepsiCo Europe, stated that the business will be "the crown jewel of PepsiCo Europe." Russia will be PepsiCo's biggest market outside the United States.

PepsiCo will initially pay \$3.8 billion for 66% of the company and will have an option to buy the rest of the company later for a total of \$5.4 billion, a 32% premium over the value of Wimm-Bill-Dann shares on the day the deal was announced. (Interestingly, Wimm-Bill-Dan was valued at \$2.6 billion when **Danone** sold its 18.4% share in October for \$470 million. Danone sold that stake to comply with antitrust laws so it could acquire **Unimilk**, another Russian dairy company.)

This transaction is **the largest in Russian history outside of the oil and gas sector** and shows the tremendous confidence in Russia that experienced players are showing more and more interest and commitment.

Wimm-Bill-Dann was the last major independent player in the market after Pepsi's acquisition of **Lebedyansky** in 2008 and **Coca-Cola's** acquisitions of **Nidan Soki** earlier in 2010 and **Aquavision** in 2007. The Russian juice market is now effectively divided between the two US rivals.



Pepsi co-founder Donald Kendall, now 90, attended the announcement ceremony. Mr. Kendall conducted a taste test for Soviet Premier Nikita Khrushchev in Moscow in 1959, the first time Pepsi

was drank in Russia.

In a related announcement, PepsiCo said it is setting up a \$250 million "ecosystem" of farming and production in the southern Russian city of Azov, opening a new potato chip plant and laying the cornerstone for a beverage plant. The chip factory cost \$110 million and will produce Frito Lay brand potato chips. The Azov beverage plant is expected to open in 2011 after a \$140 million investment. The two plants will eventually employ over 1,000 people.

3) Russia's winning 2018 World Cup bid

FIFA announced that Russia's bid to host football's 2018 World Cup won. The announcement drove the biggest bond rally in five months for Russia's largest steelmakers since the government plans to spend at least \$9.6 billion on stadiums and expanding airports and roads.

In addition to the direct economic stimulus, the award provided a major boost to Russia's growing acceptance in the world community and confidence in its long-term stability.

Construction and transportation companies are expected to directly benefit from the construction boom that preparations will cause. As Chris Weafer, chief strategist at UralSib Financial Corp., noted, "It's a boost for

Russian equities, bonds and the Russian investment case. The news is very good as it sets down a specific six-year timeline for Russia to complete its infrastructure program."

Net Impact for 2011: more than 30% growth in equity prices

The fundamental strength of the Russian economy, combined with the many recent positive developments, of which the three described in detail above are only the most dramatic, led **HSBC Global Asset Management to make Russia its biggest overweight position in emerging markets**, predicting 2011 returns in **Russia would outstrip the 10-30% gains** it expects from broader emerging equities.

Obviously, HSBC is far from the only company that believes this as, on 1 December 2010, **Mubadala Development, the investment arm of the Abu Dhabi government**, said it will make a **\$100 million investment with Russian hedge fund Verno Capital**, its first in Russia. As Chief Executive Khaldoon al-Mubarak wrote in an e-mailed statement, "Russia's recent economic performance and the future potential for the broader region make it an exciting new market for Mubadala." Dmitry Kryukov, CIO of Verno said that "Mubadala may add to its investment, which is also the first by a sovereign wealth fund from the Middle East in a Russian-focused equity fund and is a vote of confidence and a signal to top emerging market investors around the globe."

Industrial Production and Manufacturing Accelerate

Russian industrial production increased at an annual rate of 6.6% in October, after a 6.2% advance in September, led by the production of cars, trucks and other manufactured goods. **New sales of passenger cars and light vehicles jumped 62% in October** from the same period last year to 188,478. Manufacturing output rose an annual 9.9%, with **truck production increasing 97%**.

Russian Stocks Cheapest in the World

As the Bloomberg article attached to October's Fact Sheet stated: "**The [Russian ruble-denominated] Micex [index] is valued at 6.8 times profit forecasts for the next 12 months, the lowest level among 59 world stock indexes tracked by Bloomberg and about half the global average of 12 times.**"

Despite recent price growth, **Russian stocks are actually getting even cheaper** after Russian companies posted record profits that **topped analysts' estimates by the widest margin in emerging markets**.

MICEX Index companies reported combined earnings of 178 rubles a share (\$5.70) during the past year, the most since 2003 and 29% above the average of about 400 analyst estimates. **While the MICEX advanced 13% in the past year, its valuation fell 31%** because Russian equities failed to match growth in earnings estimates caused by oil prices increasing to almost \$90 a barrel.

Maarten-Jan Bakkum, an emerging market equity strategist in The Hague at **ING Investment Management**, which oversees about \$100 billion in developing nations, said that **"Russia really stands out as being cheap and attractive"**. Investors will increasingly be looking for emerging economies that can still improve. For Russia, there should be some room for improvement."

For instance, **Gazprom**, the country's largest listed company, trades at **4.3 times 2011 profit estimates**, compared with **10 times for PetroChina**, the biggest

Chinese energy company. **The discount on the gas export monopoly compared to PetroChina has actually increased from 50% to 58% since the beginning of 2010.**

Sberbank trades at a 60% discount to India's ICICI Bank, compared with 38% at the end of 2009.

Jim O'Neill, who helps oversee about \$820 billion as chairman of **Goldman Sachs Asset Management** and coined the term BRICs in 2001 to describe the four biggest emerging markets, said **"If I look at the forward PE, for Russia it's really cheap."**

In 2010, MICEX companies beat analysts' estimates by 29%, while earnings in the MSCI Emerging Markets Index surpassed forecasts by 5.7%. Companies in the

	Brazil	China	India	Russia
Difference from Analyst Estimates	+1.5%	-2.4%	+7.7%	+29%

Hang Seng China Enterprises Index trailed projections by 2.4%, profits in India's Bombay Stock Exchange Sensitive Index topped estimates by 7.7% and Brazil's Bovespa Index exceeded expectations by 1.5%.

Jonathan Garner, the chief Asia and emerging markets strategist at **Morgan Stanley** in Hong Kong, wrote in a Nov. 8 report that **Russia has the cheapest stocks among major developing nations**, based on 10-year reported earnings, a valuation measure designed to adjust for economic cycles. ING's Mr. Bakkum also that that **Russia "is probably the cheapest market among global emerging nations" and recommends an "overweight" position in Russia**. "A lot people are prepared to buy Russian assets," he said.

Ballmer Vows Millions for Skolkovo

Microsoft CEO Steve Ballmer signed off on a plan Monday to join Russia's Skolkovo innovation hub, which could see Microsoft invest **tens of millions of dollars** in the project and Russian tech ventures.

Ballmer signed an MOU with billionaire Viktor Vekselberg, whom President Dmitry Medvedev has tasked with overseeing the project and attracting big-name foreign investors. **Cisco Systems agreed in June to invest \$1 billion over a decade** in the project.

"The timing could not be better," Ballmer said, "the **opportunities [in Russia] are fantastic**. That's why we're here." Microsoft will make five major contributions to Skolkovo, each totaling tens of millions of dollars annually and will offer 100 new Russian companies anywhere from \$50,000 to \$500,000 a year to get started. It will also start an R&D center at Skolkovo to work on mathematics-heavy technical computing. The company may use Russian firms as subcontractors and sell the end product outside of Russia.

And Nokia does the same...

In November, **Nokia also signed an MOU to open a research facility at Skolkovo**. Esko Aho, Nokia Executive Vice President and board member, said there that the "knowledge-intensive ecosystem that is being designed at Skolkovo" would suit Nokia's development needs. Victor Saeijs, CEO of Nokia Eurasia, said Russia will now join Europe, India and China as key sites of Nokia intellectual activity and will be the eighth country where the company has such a center.

Goldman Sachs says Balanced Budget Possible in 2011

Goldman Sachs Group is of the opinion that Russia will balance its budget in 2011, four years earlier than the government itself estimates and post a surplus in 2012

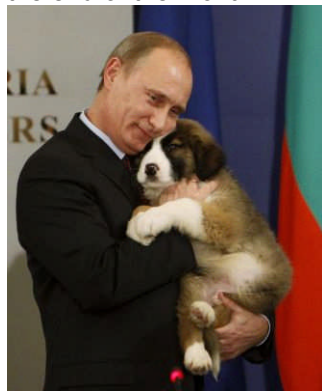
as oil prices rise. Clemens Grafe, a Moscow-based economist at Goldman Sachs, said in an e-mailed report that the Russian economy will grow 5.3% next year and 5.6% in 2012. Goldman feels that oil futures will average \$100 a barrel in 2011 and \$110 a barrel in 2012. Oil currently trades at just under \$90.

\$14B In Plan for Far East Railroad

In the continued development of Russian infrastructure pointing east rather than west, Prime Minister Vladimir outlined plans for a multibillion-dollar extension of the Trans-Siberian Railroad to boost commodities production and investment in the Far East. The project will cost an estimated \$14 billion.

Company News

Gazprom and **Bulgarian Energy Holding** signed an agreement on forming a 50-50 joint venture that will build and operate the stretch of the **pipeline running through Bulgaria**. The venture will be registered in Bulgaria by the end of the month.



Through the South Stream project, Bulgaria will receive almost € 2.5 billion for the pipeline alone. The € 20 billion South Stream project is run by **Gazprom** and **Italy's Eni**. Bulgaria became the eighth country to sign on to the 900-kilometer South Stream pipeline, following Austria, Croatia, Bulgaria, Serbia, Hungary, Greece and

Slovenia.

In a final move showing the friendship between the two countries, Bulgarian Prime Minister Boyko Borissov gave Putin a Bulgarian shepherd puppy.

X5, Russian biggest food retailer by sales, reached an agreement to buy rival **Kopeika** in a deal worth \$1.65 billion. It will be financed solely with cash and debt. Kopeika has 591 stores, including 33 franchises. Kopeika was also seen as a takeover potential target for U.S. **Wal-Mart**. Russian retail sales grew 2.9% in October over September.

VTB, Russia's second-largest lender, said it generated **more profit than estimated** in Q3 after a loss a year earlier as economic growth fueled loan demand. **Net income reached \$468 million**. The bank posted **record profit of \$1.2 billion** for the first nine months of 2010, compared to a loss of \$1.5 billion during the same period last year. VTB also issued guidance for significant profit growth next year, up from estimated net income of \$1.7 billion this year as lending increases.

Russia's financial sector has recovered from the 2008-09 economic crisis and is approaching the industry's 2007 record profitability of \$17 billion.

Russia Car Sales rose 80% in November, the most in two years, as the economy rebounded. Sales of automobiles and light trucks reached 189,902 vehicles last month, pushing the year-to-date total to 1.7 million, or 28% more than for the same period last year. Sales may reach 1.9 million units this year, significantly above any previous forecast

Foreign carmakers including **Volkswagen AG**, **Ford Motor Co.** and **Toyota Motor Corp.** are increasing output in Russia and rolling out new models as the country's economy expands.

Sberbank said that its Q3 net income was up 10-fold as it boosted lending and decreased the share of bad loans. **Net income rose to \$1.5 billion** from \$120 million a year earlier.

Russian bank lending to individuals has increased eight straight months, while loans to companies have climbed seven. Total corporate loans increased 8.9% in Q3 to \$140 billion. Loans to individuals increased 3.9% to \$80 billion during the same period.

Coal exporter **SUEK** opened a new office in Tokyo to expand its sales into Asia. The Pacific region has become an increasingly important market for Russian thermal and coking coal because demand there, led by China, has boomed, while Russia's traditional key market in Europe has stagnated. SUEK has invested heavily in building its own port at Vanino in Muchka Bay on the Pacific coast that it will expand again in 2011 to boost Asia sales. **SUEK currently exports about 12 million tons of coal a year** through three different ports in the Far East into the Pacific region, primarily to Japan, China, South Korea and Taiwan.

The new Tokyo office is part of the expansion in the Pacific region by SUEK, which opened Beijing and Seoul offices earlier this year in addition to the existing Taipei and Jakarta offices. This expansion will be completed in 2011 with the opening of an office in India.

Iron ore miner **Metalloinvest will supply 2 million metric tons of ore, worth about \$320 million, to Baosteel**, as the Chinese giant diversifies its supply sources. Baosteel, China's second largest steel producer, traditionally buys from global leaders such as VALE, Rio Tinto and BHP Billiton.

Sukhoi Civil Aircraft Company won a **\$300 million order from Orient Thai** for 12 of Russia's first major passenger planes since the collapse of the Soviet Union. Sukhoi agreed to deliver 12 of the mid-range Sukhoi Superjet 100 airliners before 2014. Orient Thai plans to use the aircraft on domestic flights, gradually replacing its current fleet. Delivery of the first two planes is planned for November 2011. The Russian 98-seat planes will replace U.S.-made, 172-seat MD-80s and MD-90s. Sukhoi is competing with **Bombardier** and **Embraer** in the regional carrier sector.

Intourist, the face of Russia for foreign visitors from Soviet days to the present, and **Thomas Cook**, Europe's second-largest tour operator, signed a \$45 million agreement to create a joint venture. Thomas Cook will get a 50.1% stake in the newly established company by paying \$10 million in cash and the remaining \$35 million in its own shares. The new venture will operate under the Intourist brand. Thomas Cook's CEO Manny Fontela-Nova said that "the move into Russia is in line with our established strategy of capturing growth in emerging markets. I am glad we have taken our time to secure a strong partnership. We think that Russia is a very attractive market. Within the next **five to 10 years Russia will become Europe's biggest market.**"

The joint venture has some grand plans in mind, hoping to take leadership positions in both domestic and international travel.

Thomas Cook, which has \$14.9 billion in revenues, is planning to diversify its business by moving away from Europe's saturated market through the purchase of Intourist's tour operator and retail business. In exchange for access to the Russian market, Intourist, with \$324 million in revenues, wants to tap into Thomas Cook's

European clientele. The new venture is hoping to revamp Russia as a tourist destination by launching a new marketing campaign and introducing new products.

Magnitogorsk Iron & Steel Works spent \$129 million on a steel mill that it opened near St. Petersburg to meeting surging domestic car sales. The company is already planning on spending another \$120 million to expand production.

Severstal announced that **net income nearly doubled to \$368 million** in Q3 from the previous quarter, allowing the country's largest steelmaker to resume dividends halted during the crisis. 2010 revenue through September increased by 43% to reach \$11.3 billion, while **EBITDA skyrocketed 416% to \$2.2 billion**.

Severstal reported it saw almost double-digit growth in prices and production volumes across all key product lines in the first nine months of 2010, with coal sales increasing by 36% and iron ore pellets growing 19%.

Ironically, the only dark spot in Severstal's earnings was in its **North American division**, which reported negative EBITDA of \$59 million for Q3 quarter because of lower prices, higher raw material prices and its Sparrows Point plant idling.

Nissan announced that it will buy 10% of **AvtoVAZ** at an estimate price of \$240 million. According to CEO Carlos Ghosn, Nissan and **Renault** intend to take a majority stake in Tolyatti-based AvtoVAZ, the maker of Lada vehicles, after Renault bought 25% in 2008. Renault paid \$1 billion for its 25% stake and it is upgrading AvtoVAZ's plant to roll out new models in 2012 under all three brands.

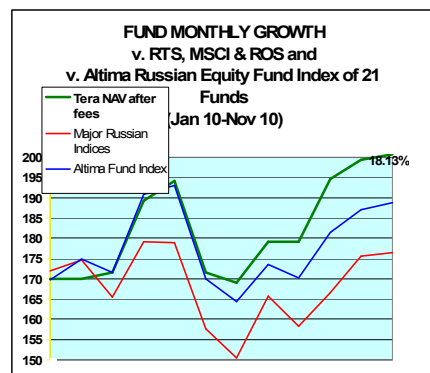
Tatneft will start sales by early next year from Russia's **first new refining complex** since the collapse of the Soviet Union, as it doubles capacity. The goal of the **\$9.5 billion** project is to raise the price of the Urals crude export blend by removing lower quality oil from pipelines and refining it domestically.

Russia

Russian markets moved essentially sideways the entire month of November as recent market gains and continued uncertainty regarding European sovereign debt and the US economy left traders unsure as to which way to move. From a technical standpoint, it was reassuring to see a solid "bottom" put in as the market was almost never down for the month – and was never up more than a couple percent. There was tremendous news for Russia itself, but international news dampened – or perhaps more accurately delayed – the impact on stock markets.

Tera November Performance

Tera's NAV broke through the \$200 level for the first time



since before the crisis. It outperformed the Russian market indices by a small degree and underperformed the Altima Russia Fund Index Average by a small degree as well – but none of the differences

were material. YTD, however, Tera has still outperformed the markets by almost 15% and the Altima Russian Fund Index by 7%, as you can see in the above graph. Also, the gap between Tera and the indices and other funds in terms of volatility and Sharpe Ratio continues to increase as Tera's performance is both better and more stable than these two benchmarks.

After several months of relative stability, there were some significant changes in Tera's sector allocation in November. The telecoms sector doubled to 6% while the FMCG, industrial, financial and "other" sectors all fell 1%. Oil & gas increased for the first time this year to 35% of the portfolio – a record. Physical gold (held by one underlying fund in lieu of cash) increased from 2.5% to 3.5% of the overall Fund.

The main drivers behind these moves are the general economic recovery, the tremendous potential for growth in the Russian economy in 2011 and the anticipated increase in commodities prices as the global recovery from the 2008-09 economic crisis gains strength.

Underlying Funds

The performance of Tera's underlying funds was more varied than usual, with the worst-performing dropping 3% and the best-performing up by the same amount. Half of Tera's underlying funds rose in the 2% range. There were no major investments in or reallocations among underlying funds in November.

Other Russian Funds

While all but five of the funds in the AAM Russian Fund Index were up in November, only three were up more than 3% and half were up less than 2%. Those that fell, however, fell rather significantly: an average of over 3%. In general, however, the performance range was quite narrow. Eliminating outliers, the range was from -3% to +3%.

December First Look

We have been predicting an end-of-year rally for several months now and, at first glance, we got it at the beginning of December, with Russian stock indices up just over 10% at one point. However, we feel that this was more a "relief rally" due to yet another "recovery" after European debt concerns and a reaction to the tremendous news described above that appeared at the very end of November and very early December. Unfortunately, the rally was quite narrowly focused and did not spread to the general market as much as we would like: our underlying funds are up about half of the market. However, we do not believe that the good news is all behind us and would look to see further progress in the second half of December – although perhaps a bit more broadly based – which would make December a truly excellent month.

Fund Awards

EUREKAHEDGE
Hedge Fund Databases

No. 1 ranked fund of funds in the world for **March 2010**

EUREKAHEDGE
Hedge Fund Databases

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

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