



## Tera Capital Fund

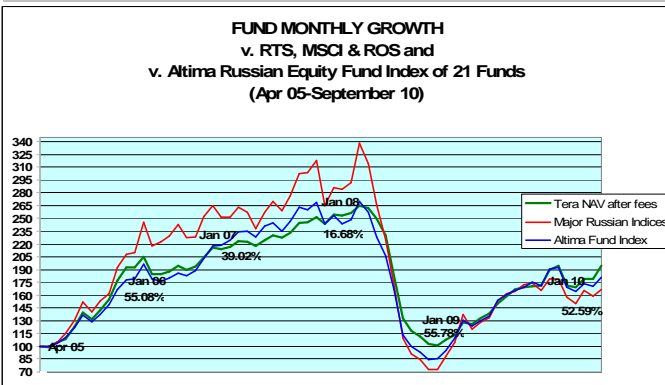
Tera Capital Fund is the only Fund of Funds in the world which pays no fees other than a success fee  
**Tera Capital Fund was the No. 2 performing fund of funds in the world in 2010**

### Fund Information

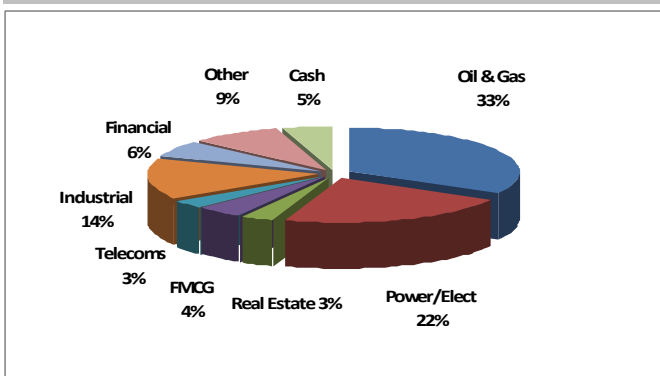
**Strategy:** Tera Capital Fund is a Russian-focused fund of funds that invests in 5-8 funds (usually equity funds) that are diversified by sector, size, geographic focus and strategy.

<b>Date Formed</b>	April 2005
<b>Investment Advisor</b>	Altima Asset Management
<b>Fund Size</b>	\$5.1 M
<b>Currency</b>	US dollar
<b>Current Price (NAV)</b>	\$219.37
<b>Min. Investment</b>	\$100,000
<b>Fees/Expenses</b>	<b>Success fee only (20%)</b>
<b>Subscription</b>	Monthly
<b>Redemption</b>	Monthly, with 30-days notice
<b>NAV</b>	Monthly
<b>Administrator</b>	Maples Finance Limited
<b>Auditor</b>	Altschuler, Melvoin & Glasser
<b>Bank</b>	Bank of New York
<b>Legal Advisors</b>	Maples & Calder
<b>German Tax Transparency Advisor</b>	PriceWaterhouseCoopers
<b>ISIN</b>	KYG8760X1034
<b>Eurekahedge ID No.</b>	15532
<b>URL</b>	<a href="http://www.altim.ru">www.altim.ru</a>
<b>Advisory Board</b>	<b>Michael Wallenberg</b> , SVP EFG Bank, Geneva <b>Bruce Bean</b> , Co-Chair ABA Russian Law Committee

### NAV



### Sector Allocation



### Performance (net of fees)

Returns	Tera* (%)	RTS, MSCI & ROS Avg** (%)	AAM Russia Fund Index <sup>1</sup> (%)
<b>Monthly</b>	<b>1.74</b>	<b>5.04</b>	<b>2.83</b>
Year-to-date	4.57	10.21	6.66
Trailing 12 months	27.94	25.96	26.38
Since Fund inception (Apr 05)	119.31	115.14	116.24
Anlzd mnthly rtn (since Fund inception)	16.93	15.63	16.54
Annualized Stand. Dev. (since inception)	24.13	38.49	31.39
Sharpe Ratio <sup>2</sup>	0.60	0.47	0.45
Trailing 12 m Sharpe	<b>1.36</b>	<b>1.13</b>	<b>1.17</b>

\*Weight averaged, all series (currently 6) combined

\*\*RTS: 5.3%, MSCI: 6.3%, ROS (Crédit Suisse): 3.5%

### Investment Advisor's Assessment

#### Russia

The best news from Russia in February was **factory output**: it grew at the **fastest rate in three years**, reaching its highest level since January 2008, due almost exclusively to stronger domestic demand.

As a result, the **Russian Purchasing Managers' Index** rose to 55.2 from 53.5. (The index indicates a contraction when below 50 and growth when above 50.)

The volume of new work accepted by Russian manufacturers also rose at its fastest rate since March 2008.

At the same time, price increases for manufacturers' raw materials and finished products dropped slightly, falling to a four-month low.

As a result of greater-than-expected oil receipts to the Russian budget, Russia will **curb its borrowing plans** this year. (Russia has been the largest oil producer in the world – ahead of Saudi Arabia – for the past two years.) Russia's deficit is now projected to total less than 2% of GDP. As a result, the Russian Finance Minister, Alexei Kudrin announced that the **Reserve Fund** would not be depleted this year as was initially anticipated. Instead, the Fund will not be touched at all – and is actually projected to grow: at the end of January, it held \$26 billion. It is currently projected to reach \$50 billion in December if oil prices remain above \$90 per barrel.

As a result of such positive macro-economic developments, **Fitch Ratings** announced that an **upgrade of Russia's rating** was "highly probable" as the budget deficit remains in check and the economy continues to expand. Fitch put Russia on "watch positive" in anticipation of such an upgrade.

As in the rest of the world, however, inflation pressures in Russia are increasing. **Consumer prices rose** an annual rate of 9.6% in January, prompting the Central Bank to raise its key interest rates and mandatory reserve requirements on February 25.

<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%

More and more Russian companies are emulating Western standards and **adopting codes of ethics** to help them operate in a corrupt environment and create at least the appearance of trustworthiness. In the last three years, state-owned companies, including **Sberbank** and **Rosneft**, have established codes such for their workers as part of President Dmitry Medvedev's initiative to increase transparency. **Gazprom** has begun putting together ethics guidelines, which could take more than a year to deploy. Private companies have followed suit.

**LUKoil** recently added a code for its employees. Since it has offices in many countries and employees about 130,000 people, it felt that a common set of rules was necessary. It has established a committee to monitor the effectiveness of the code. **TNK-BP** has one of the most respected codes which covers a set of principles covering ethical conduct, employee behavior, external relationships, health, safety, security and environmental performance, control and finance. It was adopted in 2004.

It is not only Russia's largest companies that are adopting such codes: recently, members of **Opora of Russia**, an association of medium-sized businesses, passed and signed a resolution on ethical conduct. The companies stated that such an effort is good for their image and to help create a more trustworthy environment for clients, investors and partners.

The codes are based on international best practices and include clauses on conflicts of interest and social responsibility.

The first such codes were adopted by **Delovaya Rossia**, an association of 65 companies in the retail and franchise sector, including the **X5 Group**, the country's leading supermarket operator. The association has required members to sign a code of ethics since its founding in the 1990s. A new version of the code was promulgated in 2003.

Efforts are currently underway to measure the effectiveness of the codes. Much more information should be available later this year.

Russian President Dmitry Medvedev announced that a single "universal electronic card", or UEC, will be issued



to all Russian citizens over the next three years. The UEC will serve as a combination of a state electronic ID, driver's license, proof of car insurance, migration cards, medical insurance card, and credit card – among a wide range of possible uses.

Each card is estimated to cost \$9. It will use a foreign-manufactured microchip.

The **number of Russian billionaires reached 114** in 2010, more than the prior record of 101 total reached in 2008. The wealth of Russia's 10 richest people increased 30% to \$139 billion; it was \$221 billion in 2008.

The richest man in Russia is Vladimir Lisin, the owner of Novolipetsk Steel, worth an estimated \$18.8 billion. However, world-wide, Lisin was ranked 14<sup>th</sup> and is the only Russian in the top global 20. (Last year Lisin was ranked 32<sup>nd</sup>.)

Russia ranked third in terms of billionaires, after the United States and China, which produced 413 and 115,

respectively. Moscow also won back its status as the world's "billionaire capital" from New York in 2010 with 79 of the world's wealthiest people.

The growing number of Russian billionaires was essentially due to **China's demand for commodities**, as well as to domestic expansion of the technology and retail sectors. These trends boosted the stock market by almost 20% in 2010 (note: **Tera grew by almost 25% last year**), which in turn increased by value of the billionaires' assets.

The biggest loser from the previous list was **Yelena Baturina**, wife of **former Moscow Mayor Yury Luzhkov**, who fell from 342<sup>nd</sup> to 993<sup>rd</sup>, when her fortune dropped from almost \$3 billion to \$1.2 billion.

One of the trends in Russia that Altima tracks is **philanthropy**. From virtually nothing in the 1990s and early 2000s, philanthropy is on a clear upswing. We feel this is important because it reflects the "**psychological health**" of a country and its culture. An absence of philanthropy is a very poor sign of that health.

Based on a recent poll, at least half of all Russians assisted a non-relative in 2009, with most giving to support medical procedures. Philanthropy experts see a growing trend of Russian individuals providing charitable assistance to their countrymen. Natalya Kamenskaya, an executive secretary at **Donors Forum**, a partnership of nongovernmental organizations, in a recent interview stated that "volunteerism is growing. People are responding. The process of civil society is growing, developing."

In an important decision, the **Supreme Arbitration Court** has ruled that **minority shareholders** have the right to request any document, including agreements with contractors, from a company in which they own shares in – but not from its subsidiaries. Shareholders can request any document from the company, including contracts and documents containing commercial or other types of secrets. The company can have the recipient sign a nondisclosure agreement or delete confidential information in documents.

A minority shareholder does not need to explain why he is requesting information and he can demand documents even from a period before he became a shareholder. At the shareholder's request, the company is required to provide documents by mail, charging only a "reasonable" copying fee.

Probably the last hurdle to Russia finally joining the **WTO** are the consequences of the 2008 war between **Georgia** and Russia. Georgia opposes Russia's entry because of disputes over customs checkpoints in South Ossetia and Abkhazia. To help these issues, Switzerland has agreed to mediate between Russia and Georgia on Russia's accession (Georgia is already a WTO member). The first round will take place in early March. The US has already begun putting pressure on Georgia to allow Russia to accede.

#### [Company News](#)

French energy giant **Total**, Europe's third-largest oil company, agreed in February to buy about 12% of the largest independent natural gas producer in Russia, **Novatek**, and to join the **Yamal LNG liquefied natural gas project** in the Russian Arctic.

Total's chief executive, Christophe de Margerie, in a meeting with Russian President Dmitri Medvedev stated that "The upheavals taking place in a number of the oil-

and gas-producing countries now send a **signal to investors to come to Russia.**"



Mr. Margerie said Total was committing about **\$4 billion** to the venture and plans to raise its holding to 19.4% within three years. Mr. Margerie stated that **"Russia offers**

**a much safer environment for investment."**

Total will gain access to equity production of 120,000 barrels of oil equivalent a day and about 1 billion barrels of proved and probable reserves, and appoint a director to Novatek's board.

Chris Weafer, chief strategist at UralSib Financial, wrote after the deal was announced that **"Russia is today the 'go-to' place for energy deals.** It has the resource base and is open for business with clearer investment rules."

The Total deal follows on the January deal by British oil major **BP**, which also cited **Russia's relative stability** compared with OPEC regions, when BP announced a **\$7.8 billion deal** to invest in the state-owned Russian oil company **Rosneft** and jointly search for oil in the Arctic. **Exxon Mobile** also signed a deal with **Rosneft** to explore offshore in the Black Sea.

**LUKoil** said it generated record free cash flow of **\$6.9 billion** in 2010. Net income in Q4 2010 rose 27% to \$2.19 billion. LUKoil has stated that it intends to increase free cash flow through 2019, boost dividend payout ratios by more than 30% and scale back output growth plans.

**TNK-BP**, Russia's third-largest oil producer, announced that **profit jumped 51% in Q4 2010** on higher crude prices, production and trading. Q4 Net income rose to **\$1.93 billion** from \$1.28 billion a year earlier. Sales rose 25% to \$12.5 billion on larger trading volumes and a higher percentage of refined products. The company increased oil and gas output 1.9% in Q4 to 1.77 million barrels per day (excluding its half of the Slavneft JV). That extends gains made in 2009 after BP and its partners resolved a dispute over strategy and management. Refining throughput reached a record 732,000 bpd.

**Magnit**, Russia's largest supermarket chain by market value, announced that February 2010 year-on-year **sales jumped 54%** and that it had added 81 stores to its chain. Sales reached \$848 million in February.

Magnit also increased its **revenue growth forecast for 2011 to a 49%** annual increase, up from 36% announced less than one month earlier, given the likely surge in consumer spending this year. It also said it anticipates an EBITDA margin of 7.5-8% this year.

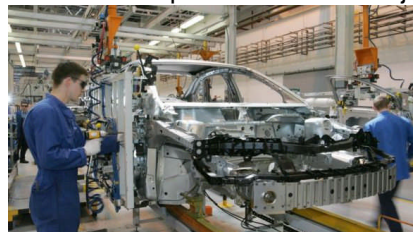
**MegaFon**, Russia's third-largest mobile operator, announced that its revenue increased by 18.5% to **\$7.6 billion** in 2010. The company ended the year with 57.3 million subscribers, 13% more than at the end of the prior year.

The Russian government kicked off its **largest privatization effort** since the collapse of the Soviet Union, raising **\$3.26 billion** from the sale of 10% in its second-largest bank, **VTB**. The bank sold the shares at \$6.25 per Global Depositary Receipt, which was generally consistent with current share prices. The issue was 100% oversubscribed. Italian insurer **Generali** and

**TPG Capital** were the biggest buyers, purchasing \$400 million worth of shares, along with investment funds from the United States, Europe, Middle East and Asia. In total, more than 10 investors spent over \$100 million each on VTB shares, including Generali, **China Investment Corporation**, TPG Capital and **Harvard University**. The CIC investment was noteworthy as it was the first significant Russian investment by a Chinese investment fund. Current shareholders which increased their stakes included **Blackrock** and **Vanguard Group**.

**France's Alstom** and **RusHydro** signed a deal to build a **\$677 million** turbine plant in the republic of Bashkortostan in a JV. RusHydro CEO Yevgeny Dodd and Alstom CEO Phillipe Cochet signed the documents at a ceremony attended by Russian President Dmitry Medvedev in the Bashkir capital city of Ufa. The factory will produce hydroelectric equipment for small hydro plants with a capacity of up to 25 megawatts, as well as automatic control and complex security systems. Eventually, the plant will also produce parts for 100 megawatt and 150 megawatt power stations. Construction work will begin in April 2011, and the plant will begin production in 2013.

**Ford Motor Company** and **Sollers** agreed to combine their Russian plants into a 50-50 joint venture to produce



Ford cars, vans and pickup trucks, reaching at least 300,000 vehicles by 2015.

Sollers announced that it had decided not to partner with **Fiat** in

a \$3.3 billion domestic car assembly project.

Ford began local production in 2002 and has now replaced Fiat as one of the leading foreign automakers working in Russia. Sollers made the announcement one day after President Dmitry Medvedev visited to Italy.

The JV will include the Ford plant in Vsevolozhsk, outside St. Petersburg, and two Sollers facilities in Tatarstan. The company is expected to start operations by the end of 2011. The Ford St. Petersburg plant



produced 80,000 Mondeo and Focus models last year and has the capacity to produce 125,000 cars per year; Sollers has the capacity to make 195,000 vehicles in Tatarstan.

In addition to vehicles, the Ford-Sollers JV will would produce engines, operate a stamping facility to provide more local parts and establish R&D activities. It will also handle the import and distribution of Ford brand products, parts and accessories in Russia.

Sollers was also busy with **Toyota**, which will use the existing Sollers factory in Vladivostok to produce cars and possibly sport utility vehicles. The Sollers Vladivostok plant will be upgraded so that it can assemble about 30,000 Toyota vehicles annually. It will be Toyota's second production base in Russia. **Mitsui** will also join the Toyota project in Russia.

**General Motors** announced that it plans to increase production in Russia to 350,000 cars a year and reach an average component localization rate of 60%. GM and



**Avtotor** plan to form a joint venture to produce at least 300,000 cars per year.

**Volkswagen AG** and **GAZ** also agreed to produce VW brand and Skoda cars at a Russian factory.



Volkswagen plans to build more than 100,000 VW and Skoda cars at GAZ's plant in Nizhny Novgorod. VW has a factory in the Kaluga region with annual production capacity of 150,000 cars.

The reason for the **raft of automobile manufacturing and assembly deals** is a Russian tax incentive that was set to expire at the end of February. In addition to receiving tax benefits for eight-year investment agreements, automakers may also complete so-called "semi-knocked down production" during the first three years. Thereafter, automobile manufacturers must produce engines locally and, by the eighth year, local components must constitute 60% of the vehicles. By 2020, Russia will produce 3.6 million cars – double the 2010 figure – with 80% of foreign models to be assembled locally by the time.

Under these rules, carmakers may import components with zero or 3% duties in return for investment agreements to build at least 300,000 cars locally a year. Once Russian passenger-car sales reach 3 million (estimated in 2014), Russia will surpass Germany as Europe's biggest automobile market.

An analyst at VTB Capital in Moscow, Elena Sakhnova, said that "foreign carmakers don't want to expand their own capacities to 300,000, but they may apply for benefits with a Russian partner, that is why we saw so many deals recently."

Russia is set to become the world's **sixth-largest automobile market** in 2020, with 4 million vehicles sold a year. It is now the world's 10th-largest, with 1.9 million in annual sales.

### Fund Awards

  
**EUREKAHEDGE**  
Hedge Fund Databases

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

  
**EUREKAHEDGE**  
Hedge Fund Databases

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

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