



Tera Capital Fund

Investor Newsletter

April 2012
(final)

Altima
asset management

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. According to Eurekahedge, Tera Capital Fund was the No. 6 performing fund of funds in the world through April 2012

Fund Performance (net of fees)

Returns	Tera* (%)	RTS, MSCI & ROS Avg** (%)	AAM Russia Fund Index ¹ (%)
Monthly	(3.71)	(2.94)	(2.74)
Year-to-date	15.01	14.27	10.37
Trailing 12 months	(14.75)	(19.82)	(19.67)
Since Fund inception (Apr 05)	181.44	167.10	162.78
Annld mnthly rtn (since Fund inception)	12.19	10.73	8.13
Annualized Stand. Dev. (since inception)	25.49	38.47	30.76
Sharpe Ratio ²	0.38	0.32	0.18
Trailing 12 m Sharpe	(0.50)	(0.61)	(0.86)

*Weight averaged, all series (currently 9) combined

**RTS: -2.62%, MSCI: -3.20%, ROS (Crédit Suisse): -2.99%

Investment Advisor's Assessment

Russia

➤The Russian Economic Development Ministry announced in April that the Russian economy grew by a robust 4.9% in Q1, significantly outperforming forecasts. **Dmitry Polevoi**, an economist at **ING bank**, stated that the impressive year-on-year expansion was the result of strong government consumption and a slowdown in import growth, as well as higher inventories. Q1 2012 growth was slightly higher than the 4.8% reading for Q4 2011. This trend was echoed by the IMF, which recently upgraded its Russian GDP growth forecast from 3.3% to 4.0%. Consensus forecasts for 2012 growth have been gradually rising and now stand at 3.7%. As you will see from the variety of statistics below, the Russian economy remains remarkably strong.



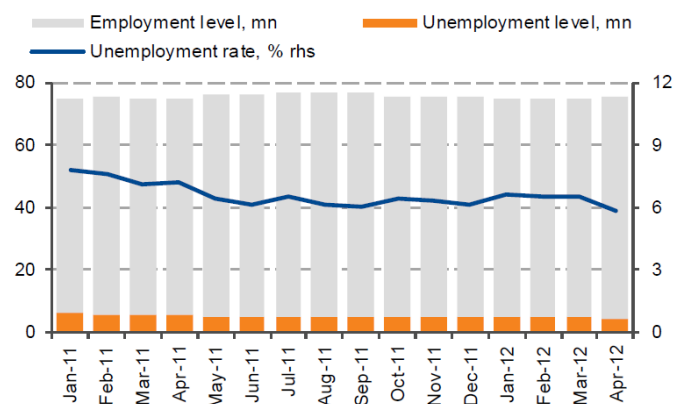
Russia consumption increased 7-8% during the first part of 2012, driven by higher real wages and government spending. In April, manufacturing PMI rose to its highest level since March 2011, implying short-term economic resilience.

The Russian federal budget deficit was just 0.9% of GDP at the end of Q1; March actually showed a budget

surplus of 1.7% of GDP. The Russian Finance Ministry revised the 2012 budget deficit target down from 1.5% to 0.1% of GDP, based on budget execution so far in 2012 and higher-than-expected oil prices.

➤Russian consumption was fuelled by **double-digit increases in real wages. Unemployment fell from a relatively low 6.5% in March to an excellent 5.8% in April, continuing a steady downward trend.**

Unemployment



Source: Bloomberg

Retail sales increased 7.3% year-over-year in March, while the Russian consumer confidence index reached the highest level since Q3 2008. The consumer credit boom continues with the year-over-year growth in outstanding consumer loans accelerating to 41% in March. This is the fastest pace of growth since the middle of 2008. Corporate borrowing, which is generally directed at investment, also remains healthy growing at around 20%.

➤Notwithstanding an excellent macroeconomic picture, like most world markets, the Greek debt problem has depressed Russian equity markets. However, there is also a secondary effect: in Russia, Spain, China and elsewhere: issues that would have been small in another context become much larger as a result of Euro-zone debt issues.

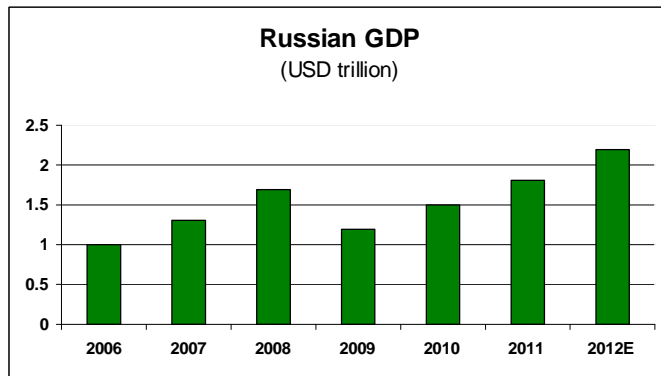
"If we hadn't had this problem with Greece, the impact of the [anti-government demonstrations and their aftermath] would have been very minimal," **Sergey Dergachev**, who helps oversee \$8.5 B in emerging-market funds at **Union Investment Privatfonds** in Frankfurt, wrote. "When everything gets worse, investors remember all the political stuff and a vicious selling cycle starts."

"In Europe, there is a sovereign debt crisis and there is turbulence on financial markets, not only in Europe but in other markets too," **Russian Central Bank Governor Ignatiev** said. "That's why foreign investors are trying to shield themselves and pulling out of emerging markets." As Europe suffers and global markets decline, it is worth pointing out the dramatic growth in Russia. **Nominal**

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%

GDP is now over \$2 trillion, an increase of 25% since 2008 and 75% since 2009.



➤ **Russian car sales rose 14% year on year in April**, slightly more than the 13% growth rate seen in March, the Association for European Businesses announced. The AEB full-year forecast for passenger cars and light commercial vehicles was **increased by 50,000 units to 2.85 million**. 880,540 units were sold in the first four months of 2012, up 18% year on year.

Russia is on track to become Europe's biggest car market by the middle of the decade – on top of already being Europe's largest consumer and the European country with the most internet users.

➤ After the April and early May drops, **Russia stocks trade at a P/E of less than 5**. The Russia-US Index trades at 6.1 times estimated earnings, nearly half the 10.3 valuation for the average company on the MSCI Emerging Markets Index and the 12.6 multiple for the BSE India Sensitive Index's stocks.

"On the valuation side, **Russia is intriguing**," said **Nelson Saiers**, who oversees \$639 M at **Alphabet Management LLC**. "It's one of the cheapest markets in the world and **one can argue it's the cheapest**."

➤ **President Dmitry Medvedev** signed a series of **political reforms** supported into law. Key elements include the **return to direct gubernatorial elections** and an **easier process to register political parties**.



The new provisions are considered a response to the protests that erupted across Russia following the Dec. 4 State Duma elections.

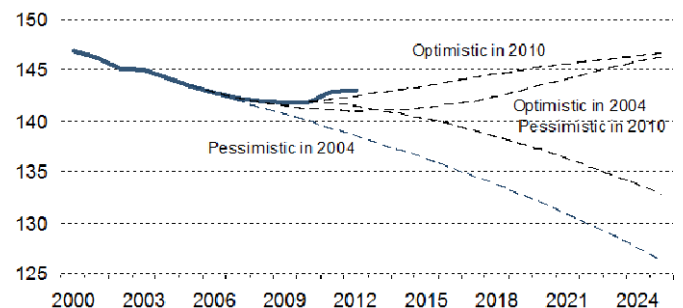
The reform also creates a **new procedure for dismissing an ineffective regional head**. The process can be initiated from the top or bottom. The president may fire governors who are involved in corruption, misconduct and other violations of the law, if such allegations have been proven in court. Additionally, if 25% of local residents vote to remove a governor, he will have to leave his position. He also won't be able to run for governor again for two years. Governors will be elected for five-year terms and won't be able to hold an office more than twice in succession.

The law will come into force in July 2012; the first gubernatorial elections under the new provisions will take place in January 2013, continuing on a rolling basis as governors' terms expire.

Medvedev also signed into law a bill that will make it **easier for political parties to participate in elections**. From now on, parties will not have to gather signatures in order to participate in elections for Russian State Duma or local parliaments. However, parties not currently represented in the Duma or local bodies will have to gather the signatures of 100,000 voters.

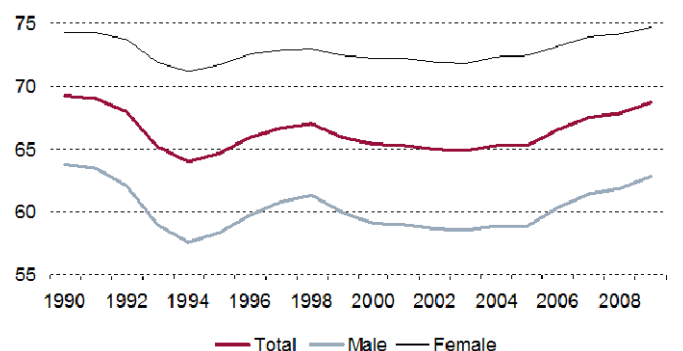
The law is a companion to one signed by Medvedev in early April that made it **easier to register political parties**. After this law was signed, a party only needed 500 members to register rather than 40,000. Since April 2012 nearly 170 organizations have submitted applications to become registered parties.

➤ One of the most **persistent discount factors on Russia has been demographics**. The population fell by 0.5% per year through 2004, which led to forecasts that the population would fall to 125 M by 2025, which is still on many people's minds when they think about Russia. It has caused people to suggest that Russia should not be part of the BRICs – even though the inventor of the acronym has argued against that claim – and that Russia has a huge employment challenge.



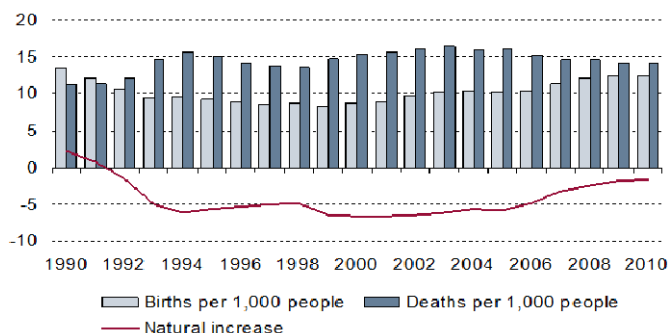
Source: Troika, State Statistics Service

Things have changed since 2004 when those bearish forecasts were made. A more current forecast made in 2010 suggests that the population will be around 147 M in 2025, which is roughly the same as in 2000. Such long-term forecasts can be uncertain and it is fair to argue that demographics remains a problem in Russia but the **negative trend has been broken** and there are reasons to be optimistic. **Life expectancy has increased from the record low noted in the early 00s**. It has on average increased by 5 years to 63 for men and 75 for women.



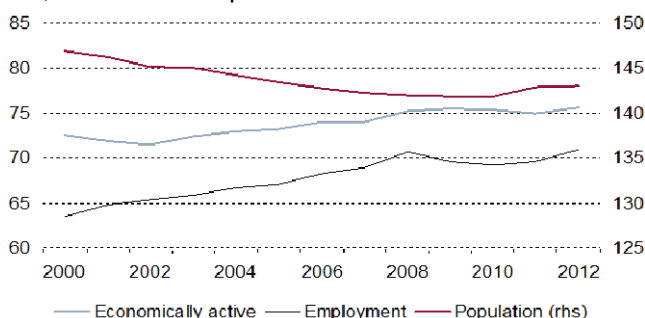
Source: Troika, State Statistics Service

The Russian population is still shrinking but the rate of decline has decelerated from more than 0.5% per year to around 0.1% due to more births and Russians living longer. The Russian population actually grew by 100,000 in 2011 due to immigration.



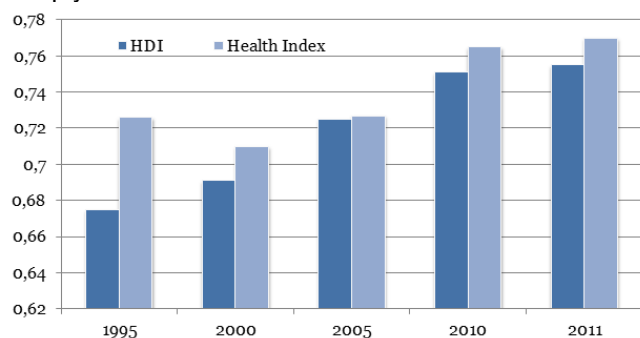
Source: Troika, State Statistics Service

The positive changes have already caused the economically active population to increase, after a slump in the 00s following the negative demographics in the 90s; this trend is expected to continue.



Source: Troika, State Statistics Service

Russia has not yet overcome its demographic challenges but it is fair to argue that things are going in the right direction. The underlying reason behind the positive development is probably that the **standard of living has improved dramatically since the early 90s** and that Russians have a more positive outlook today. The 90s was very hard on Russia while the 00s has been very good from an economic perspective. **The Russian economy is ten times larger today compared with 2000** and the country has moved up significantly on various socio-economic indices while poverty has fallen sharply.



Source: UNDP

➤ Prime Minister Vladimir Putin said the **government would introduce measures**, including tax relief, for **unconventional oil output** in the world's largest crude-producing country.

Russia is trying to offset output decline at its depleted western Siberian oil fields by making forays into **new fields in eastern Siberia and the Arctic**.

The decision to support for tight oil follows similar steps to facilitate offshore oil and gas production in Russia. Putin said the **mineral extraction tax** – the single biggest tax item – for tight oil production will total **no more than 50% of the fee for standard oil fields**. "Tight oil" refers to hard-to-extract oil trapped in nonporous rock.

There are between **25 B and 50 B tons of tight oil resources in Russia**, and the tax relief will boost production of unconventional oil.

➤ Russia held its first-ever **Conference for Business Angels** in April. The conference started in Moscow and continued for a week across 25 regions of Russia. It was attended by investors from around the world to discuss how they could take an active role in jump-starting Russia's early-stage funding infrastructure. "It's not a problem to find entrepreneurs or good honest people [here]," said **Esther Dyson** at the conference. "The problem is finding the next group – entrepreneurs who were successful, sold and are now angel investors," said Dyson, who is an investor in and nonexecutive director of Russia's No. 1 search engine Yandex.

In April **\$75 M was invested into classified ad site Avito.ru**, further proof of the investment attractiveness of Russian startups, which are a key element in the government's push for diversifying the country's energy-dependent economy.

Also attending the conference, **Rusnano Director Anatoly Chubais** said diversification of the economy financed by the private sector was "broadly needed" and added that if the economy does not wean itself off its current 80% dependence on natural resources, it would no longer be able to compete with the rest of the world.

Konstantin Fokin, the president of the **National Association of Business Angels** in Russia, estimates that on average **business angels invest only \$300 M a year in Russian startups**.

By contrast, the European Business Angel Network, or EBAN, which coordinated its 12th Congress with the Russian business angel week, is made up of 17,000 business angels who invest \$4 B to \$5.3 B each year. The U.S. market tends to be three to five times larger.

And only 30% of angel investors in Russia are really active – people who understand their role and search for strategic partners, said **Tatyana Komissarova**, Director of the Center for Marketing Innovation at the **Higher School of Economics**.

Avito.ru is a good example of how the investment pattern can successively play out for Russian startups. The company started with \$10 M in seed money that came from two of its founders, Chief Executive **Jonas Nordlander** and fellow Swede **Filip Engelbert**, as well as two investment firms. Venture funds then came on board later, during a \$26 M first round of funding in 2010 followed by the \$75 M round just announced.

But the Internet investment market is very young. Only on April 24, **VTB Capital Venture Business**, the leading venture capital firm in Russia and the CIS, which is part of state bank **VTB**, recognized the strength of Internet startups by putting \$18 M into **Fast Lane Ventures**, which was created in 2010 to invest in the Russian Internet market.

According to research performed by Fast Lane Ventures, **\$1.3 B was invested into Russian Internet companies in 2010 and \$2.15 B in 2011**. But out of last year's number, only \$750 M went to start-up businesses.

For Internet startups, "there is really a small number of qualified investors," **Kanr Lidzhiyev** of **Preqveca.ru**, an analytical website devoted to Russia and CIS private equity and venture financing said. "They are seizing the best opportunities and are enjoying an **IRR that is higher than for U.S. or European venture capitalists** on developed markets with fierce competition."

➤ **Fitch Ratings upgraded the Novosibirsk region's** long-term foreign and local currency ratings to BB+ from BB and national long-term rating to AA(rus) from AA-(rus). The upgrade reflects the region's **sound budgetary performance**, supported by increased tax revenue underpinned by the continued expansion of the local economy, improved capital spending with sustained self-financing capacity on capex and low direct risk. Fitch said it expects Novosibirsk to maintain a **sound operating margin at about 15%** in 2012-14. The region's annual capital outlays stood at 22.3% of total expenditure in 2011, down from 24.9% the previous year. The region's **service-oriented and diversified economy** supports its median for the Russian region wealth indicators. The Novosibirsk region accounted for 1.3% of Russia's GDP and 1.9% of its population in 2010.

Company News

➤ **Novatek announced that its Q1 net profit attributable to shareholders rose 13.2% to \$704.93 M.** Its revenue was \$1.78 B in Q1 2012 versus \$1.47 B for the same period in 2011.

Novatek produced 14.66 billion cubic meters of gas in Q1 2012, up from 13.43 bcm in Q1 2011, a 9% increase. It is aiming to more than double annual gas production to 12.5 bcm in 2020 through the launch of half a dozen or more new fields, including a source of gas for Yamal LNG, a project to build Russia's second liquefied natural gas plant in partnership with Total concluded In 2011.

Consolidated revenues of Stroigazmontazh grew by more than 50% from \$5.1 B to \$7.9 B. Net income more than quadrupled from \$121 M to \$557 M.

➤ **Sberbank posted a 14% increase in four-month net profit** under Russian accounting standards. The bank's **net profit from January to April rose to \$4.2 B** from \$3.6 B in the same period in 2011, based on strong core operations. **Net interest income was up by almost 27%** year on year, while **net fee and commission income rose 22.2%**.

Its nonperforming loan ratio was unchanged in April at 3.34% and the bank was able to **write back \$173 M of bad loan provisions** "due to improving financial conditions of some borrowers and loan restructurings."

During the first four months of 2012, Sberbank set aside \$220 M in bad debt provisions versus write-backs of \$479 M in the same period in 2011 as its loan book continued to expand.

Sberbank said its **assets had grown 8.1% since the start of 2012 to more than \$360 B.**

➤ **The Moscow government announced that it is considering privatizing the Moscow metro system** as a step toward developing the capital's infrastructure.

Posted on the website of **Moscow's Economic Policy and Development Department**, the document proposes "attracting private investment from outside the [city] budget for metro system development, including by corporatizing the metro system."

It says the privatization would be done "while preserving a controlling stake for Moscow," meaning that the metro would

be run by a private-public partnership. The document covers urban planning through 2025 but otherwise doesn't specify a date for privatization.

Though it carries no legal weight, the proposal could garner support: it comes as the city is undertaking an ambitious expansion of the metro system, with Mayor Sergei Sobyenin's administration announcing in March 2012 that **150 kilometers of new track and 70 new stations will be built by the end of 2020.**

Their plans call for building a **second, 42-kilometer ring line around Moscow through 17 outlying stations.** In order to be completed by 2020, the plans would entail building at a rate of **7-8 stations and 17 kilometers of track per year.**

One subway station in Russia has already been built with funds from a public-private investor. Also, gold company **Russkoye Zoloto** contributed to the financing of the construction of an additional exit for the Mayakovskaya metro station. **Moscow Metrostroi**, the company that builds and maintains the metro, was auctioned for about \$255 M to a company called **Tsentrostroi** in December 2010.

➤ **Renault and Nissan moved to expand in the growing Russian car market with a \$750 M deal** that would give the **French manufacturer effective control of Russian car manufacturer AvtoVAZ.**



Ghosn's four-year-old bet on the Russian market, valuing AvtoVAZ at \$3 B. The purchase will be finalized later this year and not implemented until 2014, according to a statement from the firms.

The fast-growing Russian automobile market will soon overtake Germany at the largest European market in volume terms.

With his original **\$1 B acquisition of a 25% AvtoVAZ stake** in 2008, Ghosn was gambling that he could transform the struggling firm into a profitable volume manufacturer by injecting modern, low-cost vehicle technology developed for Renault's Dacia Logan vehicle family.

Progress was complicated further by the economic crisis of the following year, which hurt sales and sparked a Russian government bailout. AvtoVAZ is only now introducing the first new Lada models based on the Renault vehicle platform.

➤ Higher advertising rates and record viewing figures at two of its channels pushed up net profit and revenue at Russian broadcaster **CTC Media** beyond expectations in Q1. Its ability to charge more for airtime in an advertising recovery and to pull in more viewers at its **Domashny** and **Peretz** channels **lifted net profit 43% from 2011 to \$32.6 M**, or \$0.21 per share. **Revenue grew 15% to \$191.1 M.**

The average audience share for Domashny, which targets women aged 25 to 59, rose to 3.7% from 2.8% a year ago. Peretz, which focuses on men and women in

The tentative agreement to **double the alliance's 25% stake** via a joint venture with a Moscow state entity ups the ante for Renault-Nissan boss **Carlos**

that same age group, grew its share from 2% to 2.6%. **OIBDA rose 38% to \$55.1 M for a 28.8% margin.**

The group – **the biggest non-state controlled broadcaster in Russia** – also operates the CTC network, the third-most popular channel for the quarter with 11% audience share. CTC runs entertainment channels and production companies in Russia and other former Soviet states. It is 38% owned by Sweden's **Modern Times Group**, while **National Media Group** – one of the largest private media holdings in Russia – owns a 25% stake.

Sistema, one of the country's largest conglomerates with assets ranging from oil to telecoms, is looking at a range of possible deals as it **seeks to diversify** into new business lines such as **agriculture and infrastructure**. "Opportunities in our M&A pipeline range from transportation to logistics to infrastructure and forestry, mining and further agriculture assets, some of which we plan to announce in the near term," Chief Executive **Mikhail Shamolin** said.

Shamolin also told a conference call with analysts last month that Sistema, which **had sales of \$33 B in 2011**, was considering taking part in the privatization of Russian state-owned **United Grain Company**, or UGC. "Agriculture in Russia has strong investment potential. **Russia has the lowest land prices compared to European, North and South American benchmarks**," he said. He added that **IRR in the sector "can exceed 20%",** and we are considering further cluster acquisitions in 2012".

UGC is issuing additional shares to sell a stake of 50% minus one share in the company, allowing the government to retain majority control. Several parties have expressed an interest, including U.S. firm **Bunge**, **Louis Dreyfus Commodities** and Russian investment group **Summa**.

Sistema recently set up an **agricultural joint venture with members of the Louis Dreyfus family** – which owns one of the world's four dominant agribusiness companies – with the aim to expand in the grains sector.

➤**Polyus Gold**, Russia's largest gold producer sold a 7.5% stake to two strategic investors, raising \$635 M and helping to boost its free float ahead of plans to apply for a premium listing in London.

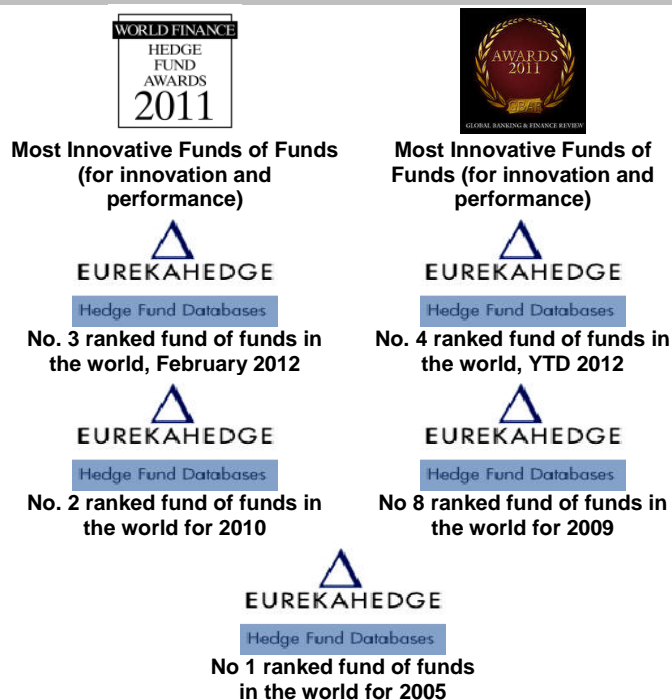
Polyus, worth about \$10 B and sitting on potentially lucrative gold reserves in Russia's Far East, said that it had sold a stake of 5% less one share to **Chengdong**

Investment Corporation, a subsidiary of China's CIC, and a 2.5% holding to VTB. It plans to apply for a premium listing on the **London Stock Exchange**, a move that would normally require 25% of its shares to be freely traded. The 7.5% stake sale increases Polyus' free float to 22%.

➤**Oleg Deripaska's Basic Element** announced it signed a **\$1 B cooperation deal** with China's state-owned **North Industries Corporation**, or **Norinco**, that will include construction of a rolling mill in Russia for metal production.

The deal will also allow the world's largest aluminum producer **RusAl**, which is majority owned by Basic Element's subsidiary **En+ Group**, to expand its aluminum exports to China by selling to North United Aluminum, a joint venture between RusAl and **Norinco**. RusAl is the world's largest aluminum maker, producing about **4 M tons of aluminum and 8 M tons of alumina last year.**

Fund Awards



Contact Information

Altima Asset Management
Mr. Timothy Enneking
+7 910 439 1486
te@altim.ru

Maples Fund Services Ltd
Mr. Mark Wellon
Tel.: +1 514 228 2227
investorservices@maplesfinances.com