



Tera Capital Fund

Investor Newsletter

May 2011



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

Tera was the No. 2 performing fund of funds in the world in 2010

Fund Performance (net of fees)

Returns	Tera* (%)	RTS, MSCI & ROS Avg** (%)	AAM Russia Fund Index ¹ (%)
Monthly	(4.25)	(7.62)	(5.19)
Year-to-date	1.48	6.76	0.62
Trailing 12 months	24.07	22.25	22.31
Since Fund inception (Apr 05)	112.84	108.41	107.77
Anlzd mnthly rtn (since Fund inception)	16.76	16.33	13.21
Annualized Stand. Dev. (since inception)	23.74	37.91	30.95
Sharpe Ratio ²	0.56	0.44	0.35
Trailing 12 m Sharpe	1.90	1.37	1.28

*Weight averaged, all series (currently 6) combined

**RTS: (6.83)%, MSCI: (8.30)%, ROS (Crédit Suisse): (7.82)%

Investment Advisor's Assessment

Russia

The Russian economy grew at 4.1% during Q1 2011, up from 3.5% growth during Q1 2010. Industrial production rose 5.3%; retail sales increased 4.8%. The PMI Survey Index reached 55.6, its highest level in over four years. Non-food inflation was down from 2010 to 5.9%. In May, **Russia's foreign currency reserves hit \$528 billion, exceeding pre-crisis levels** for the first time and setting a new all-time record.

Goldman Sachs announced in a May 2011 report that it believes **Russian stocks** will more than **triple in value** over the next 10 years to \$3.5 trillion as economic growth boosts companies outside the oil, gas and metals industries. The **market capitalization of companies outside the commodities industry will climb more than 600% to \$2 trillion in 10 years**. Such companies currently account for 30% of Russia's equity market.

Goldman stated that "There is a significant mismatch between the current composition of GDP and that of the public market. The tremendous GDP growth potential over the next 10 years will be skewed toward non-resource sectors, as natural resource wealth starts to flow into consumer spending and infrastructure investment."

"The structural themes that will shape Russia's development over the next decade are already becoming a driver of primary equity issuance. Post-crisis IPOs and secondary offerings have been disproportionately skewed toward the broader consumer sector."

The likelihood of such an increase is clear from the following table, comparing Russia's RTS with the main indices in the other BRIC countries:

Index	2011 (May)	Last 12 mn	2011 P/E
RTS	+7%	+38%	6.8
Bovespa	-7%	+4%	11.1
Shanghai B	-5%	+36%	14.0
Bombay Sensex	-10%	+10%	16.0

As is clear from the table, not only have Russian markets outperformed all other BRIC markets, generally by a wide margin, they are also in by far the best position for future growth.

Russian issuers have led the way thus far in 2011 in London IPOs, raising \$2 billion during the first four months of 2011, exceeding the 2010 total of \$1.73 billion. Significantly, three of the recent IPOs (**Nomos**, **Rosagro** and **Etalon**) were from companies operating banking, agribusiness and real estate development – all sectors hit hard by the global financial crisis.

Russia will announce in June how it will end certain remaining protectionist measures to join the **World Trade Organization** this year. In late May, **G8** leaders called for Russia to enter the 153-member body by the end of 2011, a move which is expected to increase Russia's GDP and enhance its international standing. However, Russia must first dismantle various programs such as industrial subsidies, import limitations on meat, red tape, foreign investment restrictions and health standards that slow trade, stated the WTO's **Russian Accession Working Group** chairman, Stefan Haukur Johannesson, after the latest round of negotiations with Russia.

In two positive developments, Johannesson said he was very hopeful that a closed-door mediation process with Georgia would persuade it to withdraw its objections to Russia's accession and Russia announced it will guarantee that a customs union launched in 2010 with Belarus and Kazakhstan will not override obligations to the WTO.

With respect to the first issue, on June 1, after a meeting between **US Vice President Joe Biden** and **Georgian President Mikheil Saakashvili**, a report was issued by the Georgian presidential administration that Georgia would shortly announce that it is removing its conditions to Russia's WTO entry. Russia and Georgia were scheduled to discuss Russia's entry into the WTO on June 2 in Switzerland, but the talks were postponed until later in June.

The World Bank estimates that **WTO entry will increase the size of the Russian economy by 3.3% in the mid-term and 11% in the long term**. It expects that Russian import tariffs would fall from an average of 14% to 8%.

Russia's oil output increased 0.2% to 10.26 million barrels per day in May, **matching a post-Soviet record** last seen in October 2010, as companies ramped up production with crude prices high.

Rosneft, Russia's largest oil producer, which is responsible for more than 20% of Russia's oil output, led all companies with a 0.7% monthly increase to 2.3 million bpd.

According to the International Energy Agency, Russia's oil production peaked at 11.41 million bpd in 1988, when it was still part of the Soviet Union. Russia then accounted for 90% of total Soviet oil output. Russia is

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%

expected to produce 10.26 million bpd of crude in 2011, up about 1.1% from 2010.



Russia remains the **world's top oil producer**, ahead of Saudi Arabia, which pumped 8.95 million bpd in May.

Production by **LUKoil**, Russia's No. 2 oil producer fell 5.6% year on year. Companies working under production sharing agreements in Russia, including **Exxon**-led Sakhalin-1, decreased their output in May by 2.6% month-on-month, although overall it increased 7.8% over the same period in 2010. TNK-BP increased its oil output by 0.6% from April to 6.13 million tons.

Euroclear Bank, which operates the world's largest system for settling bonds, plans to connect with Russia's domestic debt market by the end of 2011, a move investors say could cause local and international yields to converge. Talks on enabling investors with a Euroclear account to buy and sell Russian domestic bonds without the need for a local trading account are "progressing nicely" and a service is planned by the end of the year, Euroclear spokesman Martin Gregson stated in late May. In the words of one fixed-income research analyst in Moscow, this would "be a revolution; the yields of OFZs [*Russian government bonds*] and the ruble eurobond would converge."

Limited foreign investor participation in OFZs reflects the difficulties of opening fixed-income accounts in Russia; if investors can settle their bond purchases in Euroclear this obstacle will instantly be removed.

The yield spread on Russian bonds is currently 96 basis points below the average for emerging markets.

Company News

VimpelCom, Russia's third-largest mobile phone operator, posted a 55% increase in Q1 2011 net profit. The VimpelCom's Russian sales during the period rose 5.2% over the same period in 2010.

Group net profits rose to \$589.7 million in Q1 from \$381.5 million in Q1 2010. Earnings rose on a 23% increase in revenue to \$2.74 billion, driven by the consolidation of Ukrainian operator **Kyivstar**, as well as an increase in its subscriber base. OIBDA grew 16.2% to \$1.21 billion.

Russia concluded a remarkable contract with the **US Department of Defense** for the supply of **21 Mikoyan Mi-17V5 helicopters to Afghanistan** which is unique – and should lead to increased military-technical cooperation with the US. Defense experts estimate that the helicopters cost between \$300 million and \$360 million.

Cooperation with **NATO** is also advancing, in particular around a collective "trust fund" for operating helicopters

stationed in NATO countries, including those involved in Afghanistan. Russia will contribute spare parts and specialist training. Interestingly, in financial terms, it will **equal the contribution of the key NATO participants**.

Russian Railways signed an agreement to buy 1,200 electric rail cars worth **\$2.98 billion** from **Siemens** and **Sinara Group** in May.

The deal, which was signed by Russian Railways president Vladimir Yakunin, Mobility Division chief executive and Siemens vice president Hans-Jörg Grundmann and Sinara Group owner Dmitry Pumpyansky, was one of several signed by Russian Railways and its subsidiaries at the sixth international rail business forum hosted by Russian Railways in Sochi.

Under a localization clause, the trains – which are destined for use on regional routes – will mostly be produced at the Ural Locomotives plant near Yekaterinburg.

By 2017 the trains should be 80% locally produced.

Siemens will **invest approximately \$290 million** in the project.

Siemens is already in the process of delivering some 56

passenger trains to Russian Railways under agreements signed in 2009 and 2010. It sealed a deal for 221 freight trains at the 2010 conference.

Russian Railways also signed a deal with **Transmash Holding** for 200 electric locomotives in a deal worth over \$1 billion.

Russian Copper Company, which is planning an **IPO in London** this year, announced that profit soared 73% in 2010 as sales surged.

Russia's third-largest copper producer generated EBITDA of \$353 million in 2010 as sales jumped 76% to \$1.46 billion. Russian Copper expects profit to increase to \$546 million in 2011.

The company plans an IPO of as much as 25% in Q3 2011, valuing the company at \$3.6 billion to \$4.8 billion.



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**

Contact Information

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

Maples Fund Services Ltd
Ms. Teresa Solomon
Tel.: 1 (345) 814 5801

investorservices@maplesfinances.com