



Tera Capital Fund

Investor Fact Sheet

July 2012
(final)



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

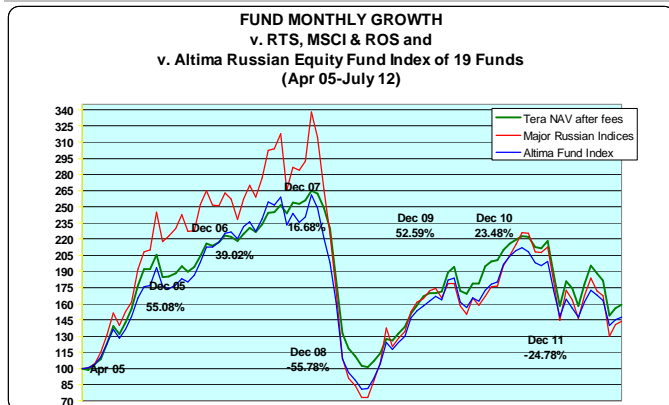
Based on Tera Capital Fund's performance and innovation, in February 2012 the Global Banking & Finance Review announced that Tera won its award as the most innovative fund of funds in Europe for 2011, Tera's second such award

Fund Information

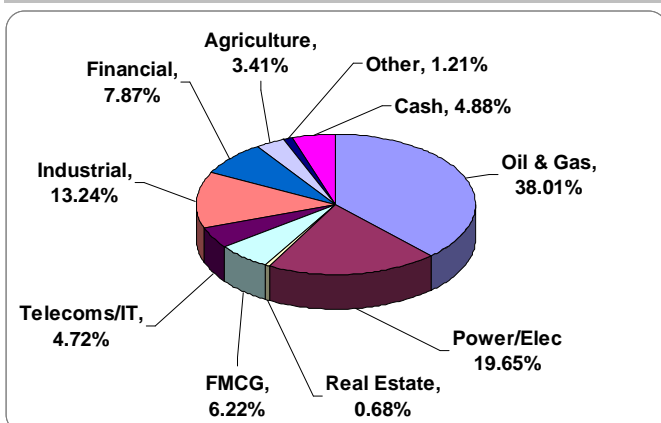
Strategy: Tera Capital Fund is a Russian-focused fund of funds that invests in 5-8 funds that are diversified by sector, size, regional focus and strategy.

Date Formed	April 2005
Investment Advisor	Altima Asset Management
Fund Size	\$4.4 M
Currency	US dollar
Current Price (NAV)	\$155.82
Min. Investment	\$10,000 (non-US); \$100,000 (US)
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	PwC
Lipper Tass/Thomson Reuters ID No.	96695
Bloomberg Ticker & ID	TERARUS KY, BBG0036S3HD0
Eurekahedge ID No.	15532
ISIN	KYG8760X1034
CUSIP/CINS	G8760X103
URL	www.altim.ru
Advisory Board	Michael Wallenberg , SVP EFG Bank, Geneva Bruce Bean , Co-Chair ABA Russian Law Committee

NAV



Sector Allocation



Performance (net of fees)

Returns	Tera* (%)	RTS, MSCI & ROS Avg** (%)	AAM Russia Fund Index ¹ (%)
Monthly	2.12	2.18	1.85
Year-to-date	0.86	(1.57)	(1.76)
Trailing 12 months	(14.97)	(20.17)	(18.91)
Since Fund inception (Apr 05)	159.12	143.94	147.87
Anlzd mnthly rtn (since Fund inception)	10.24	8.61	9.62
Annualized Stand. Dev. (since inception)	26.07	38.88	30.65
Sharpe Ratio ²	0.30	0.26	0.23
Trailing 12 m Sharpe	(0.60)	(0.66)	(0.90)

*Weight averaged, all series (currently 9) combined

**RTS: 1.95%, MSCI: 2.60%, ROS (Crédit Suisse): 2.00%

Investment Advisor's Assessment

Russia

Russia remains an island of macro-economic stability in a sea of troubles. A veritable sea of statistics shows this:

- 1) The Russian budget ran a *surplus* of 0.9% of GDP in 1H 2012;
- 2) CBR reserves increased by \$2.6 B to \$510 B as of the end of July;
- 3) Foreign direct investment rose 8% to \$7.59 B in 1H of 2012
- 3) In July, unemployment remained at 5.4% for a third month in a row;
- 4) Retail trade grew by 5.1% y-o-y;
- 5) Jan-Jul food sales grew by 4.2% y-o-y; non-food goods sales increased by 9.1% y-o-y;
- 6) PPI *dropped* 1.1% in July;
- 7) Industrial output rose 3.4% in July y-o-y;
- 8) Manufacturing output rose 5.7% in July y-o-y;
- 9) Capital investment by companies rose 4.7% in July y-o-y.

At the end of the month, in a major concession, the Russian Defense Ministry agreed to significant spending cuts to ensure that the budget will remain in balance going forward. As you may recall, defense spending was the issue over which then-Finance Minister Alexei Kudrin resigned in 2011. As a result of this news and the Russian economy's very strong 2012 performance, the Russian Economic Development Ministry, which currently forecasts 3.5% growth in Russian GDP for 2012, is considering raising it to 3.8-4.0%.

There was almost no domestic economic news other than the normal statistics, which were extremely positive. The major news events were the usual seasonal flooding in southern Russia and forest fires in Siberia. On the non-economic front, the Pussy Riot verdict garnered much international attention, while the court verdict releasing Platon Lebedev (the other Yukos executive

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%

imprisoned with Mikail Khodorkovsky) several years early, in March 2013, went largely unpublicized.

Russian Markets

July was a slow month on Russian markets due to summer holidays in the northern hemisphere and pending developments in the European debt crisis. After being range-bound during the first half of the month, markets ultimately rose about 2%. Continuing the optimism from the June Euro summit, the month started positively, but then fell sharply as Spanish bond yields rose. They recovered when ECB President, Mario Draghi, promised that the ECB would do "whatever it takes" to resolve the Eurozone financial crisis.

Turnover was low even by usual July standards; August will probably be even slower.

July Fund Performance

The **Fund was up just over 2%** in July, virtually identical to major Russian indices and slightly better than the AAM Russia Fund Index.

As a result, YTD Tera is now again in positive territory, while **all Russian indices** (both in our benchmark average and taken separately) **are still down over 1.5%**. Meanwhile, the Fund Index is at virtual break-even for the year. As a result of its steady performance, over the past 12 months, Tera remains **well over five percentage points ahead of Russian indices** and **four ahead of the index average**.

In terms of volatility (annualized standard deviation), **Tera remains far ahead of the indices** (26 v. 39) and **well ahead of other Russian funds** (at 30.6), clearly showing the **advantage of investing in a fund of funds**.

Underlying Funds and Sectors

The chart below shows the July 2012 performance of the funds in which Tera is invested. Five of the positions (four funds, including two classes of one fund) were up nicely. While the blue chip position was down only slightly (we've obviously rounded all results), the long-short fund was down over 1%; we are redeeming that position and will exit it at the end of September. While we hesitate to exit the only true long-short fund in the portfolio (and one of the very few funds in Russia which is genuinely long-short), its performance simply has not justified retaining the position. In brief, it's proven too difficult for the fund's managers to time the market and take real advantage of its ability to short. In addition, the fund's managers have not been as responsive as we would expect from a professional fund which, while not in and of itself enough to justify an exit, certainly makes it easier for Tera to do so.

We have already identified the likely successor fund, the first real Russian arbitrage fund, arbitraging both (i) the stock price difference between ADRs/GDRs in London and New York and the RTS/MICEX in Moscow, and (ii) the difference between stock futures prices and their current market price. The fund has been around for several years, but the arbitrage strategy is relatively new. We have been monitoring the fund since it's formation and have met with fund management several times more recently. We will continue to closely monitor its performance and meet its management. Assuming there are no major changes, we will invest in that fund near the end of September.

Our one sector fund was again the most volatile position,

this time to the upside as the sector continues to recover from pre-election restrictions on price increases and other generally "populist" measures that hammered power sector stock prices.

Strategy	Size	Perform.
Diversified, 1 st and 2 nd echelon	Sm	3%
Diversified, 2 nd echelon (class A)	Med	3%
Diversified, 2 nd echelon (class B)	Med	3%
Blue chip	Lg	-1%
Aggressive, long-short	Sm	-1%
Aggressive, 2 nd & 3 rd echelon	Sm	3%
Sector (power)	Sm	5%

Sector allocations were a also bit less volatile in July than they have been recently, with industrial up 2% and FMCG, telecoms and cash down 2%. "Other" jumped back up 5% after falling 13% in June.

Other Russian Funds

July saw less volatility among the funds in the AAM Fund Index as well. Two funds were up just over 5% and three over 3%, while three actually fell during the month. The remainder (12 funds) were up between 1 and 2%.

Among all the funds we track which are not included in the AAM Fund Index, the range was considerably broader, with the best up almost 9% and the worst down more than 4%, with most between 0.5% and 3.5%.

August First Look

By and large, August looks to be a repeat of July, with positive and negative economic news fighting for the upper hand – all dominated by the European debt crisis. Hope springs eternal and the generally positive news out of the US has reinforced it. After Mr. Draghi announced that any serious action by the ECB was on hold until the results of the German EMS case are announced by the German Constitutional Court on September 12, it has become clear that there will probably be no major market moves anywhere on the planet until then.

That decision was already going to be a critical one as the formation of the \$500 B EMS fund depends on it; Draghi's announcement significantly increased the already high stakes.

Fund Awards



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



EUREKAHEDGE

Hedge Fund Databases

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



EUREKAHEDGE

Hedge Fund Databases

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



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



EUREKAHEDGE

Hedge Fund Databases

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



EUREKAHEDGE

Hedge Fund Databases

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

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