



## Tera Capital Fund

## Investor Newsletter

July 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**

### Performance (net of fees)

Returns	Tera* (%)	RTS, MSCI & ROS Avg** (%)	AAM Russia Fund Index <sup>1</sup> (%)
<b>Monthly</b>	<b>3.54</b>	<b>2.25</b>	<b>2.13</b>
Year-to-date	4.18	8.83	1.73
Trailing 12 months	22.03	21.15	21.05
Since Fund inception (Apr 05)	118.49	112.44	110.04
Anlzd mnthly rtn (since Fund inception)	15.77	15.13	12.84
Annualized Stand. Dev. (since inception)	23.45	37.41	30.54
Sharpe Ratio <sup>2</sup>	0.57	0.44	0.34
Trailing 12 m Sharpe	<b>1.88</b>	<b>1.33</b>	<b>1.22</b>

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

\*\*RTS: 2.97%, MSCI: 2.02%, ROS (Crédit Suisse): 4.70%

### Investment Advisor's Assessment

#### Russia

**Arctic sea ice** is melting at a near-record pace, opening shipping lanes for cargo traffic between Europe and Asia, **Russia's Environmental Protection Agency** announced.

Ice cover is close to a record low, opening "almost the entire northern sea route to icebreaker-free shipping" as of early August, the **Russian Federal Meteorological Service** stated.

The so-called ice extent is as much as **56% less than average** in some areas, allowing "very easy" sailing that will persist through September, the FMS said.

Melting ice is making it easier for Russian and other European shippers to service Asia via the northern sea route, which is about **one-third shorter than the Rotterdam-Yokohama voyage through the Suez Canal**, saving time and fuel. **Iceland's President Olafur Ragnar Grimsson** said last year that the pace of global warming in the Arctic was three times faster than elsewhere, **cutting journeys between Asia, Europe and America by as much as half**.

Melting occurred "at a rapid pace through the first half of July and is now tracking below the year 2007, which saw the record minimum," the **U.S. National Snow and Data Center** said.

The northern route dates to 1932, when the Soviet Union sent the first vessel from Arkhangelsk to the Bering Strait. The route is currently used, with the help of icebreakers, from July to November.

Russia pumped **10.26 million barrels per day of crude oil** in July, **matching a post-Soviet high** recorded in May and retaining the title of top producer as its closest rival, **Saudi Arabia**, rapidly closes the gap.

Russia also pumped 10.26 million bpd in October 2011. The June rate was 10.2 million bpd.

By comparison, Saudi Arabia pumped as much as 9.8 million bpd in June, an increase of as much as 900,000

bpd in response to the loss of Libyan supply after it failed to persuade OPEC of the need for a coordinated increase.

However, while Saudi Arabia had the spare capacity to ramp up production by nearly 10% in a month, Russia's top oil companies are struggling to grow by just a few% a year.

**Financial organizations** for the first time outranked the government as top IT service users, as the market in Russia grew by nearly a third in 2010, to reach a value of \$4.6 billion, according to **IDC Consulting's** annual IT Services Forecast and Analysis report.

"As the economic situation in the country in 2010 improved, all types of organizations increased their IT expenses and the service market showed high growth," said head IDC analyst, Alexander Prokhorov.

**Financial organizations accounted for 19.8% of the market**, compared with the government's 17.5%. IDC attributed the shift to the speedy recovery of banks after the crisis and the freezing of various government projects due to budget deficits.

Telecommunications and energy companies ranked third and fourth, at 14.4% and 11.6%, respectively. The use of IT services rose in all industries, with the retail sector showing the fastest growth.

IT integration is the most sought after service. IT consulting has grown as the economy changed and companies updated their systems to protect themselves against IT fraud and keep up with new laws and technology.

The forecast for the **Russian grain harvest** grew as First Deputy Prime Minister Viktor Zubkov said it could reach **90 million tons in 2011**.

The latest expectations are still lower than the 97.1 million tons that farmers harvested in 2009, but much higher than in 2010 when severe drought decimated much of the crop, reducing the harvest to 60.9 million tons of grain and prompting an export ban that ended only on July 1, 2011.

#### Company News

Russia plans to sell as much as 15% of **Rosneft** in 2012 in the single biggest state asset sale in Russia's history.

The Russian government will auction the stake as part of an expanded state asset-sale program and wants to find buyers for its entire 75% holding by 2017, Alexei Uvarov, head of the **Russian Economic Development Ministry's Property Department**, which is overseeing the plan, said. At the current market value, the stake is worth about **\$14 billion**.

The Russian government owns 75.16% of Rosneft through investment vehicle Rosneftegaz. Rosneft stock has gained 10% this year, **valuing the company at 94.75 billion**.

**TNK-BP International** announced that its **net profit nearly doubled to \$2.02 billion for Q2 2011**, as oil prices rose.

<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%

"This was an exceptional first half performance for TNK-BP. Thanks to management's continuous efforts to enhance operational efficiency and further develop our key business streams, the company was able to deliver robust results," executive chairman and key shareholder **Mikhail Fridman** said.

"Growing our international business is a key priority for TNK-BP, and we have made great progress so far by closing the deal to acquire BP's upstream assets in **Venezuela** and identifying additional targets abroad," Fridman said.

EBITDA in Q1 was \$3.94 billion, while net income was \$2.44 billion.

**Norilsk Nickel**, the world's largest miner of nickel and palladium, said full-year **2010 profit climbed 27%** as rising demand for the metals drove prices higher.

**Net income rose to \$3.3 billion in 2010 from \$2.6 billion** in 2009. The company's finances improved as its selling prices rose, by 48% for nickel and 97% for palladium. At the same time, production cost growth was slower.

**Sberbank** announced the acquisition of Austria's **Volksbank International**, which has operations in nine European countries, for an estimated \$1 billion, which will give Russia's largest bank a platform to establish a global presence.

Sberbank, which currently has operations in Ukraine,

Belarus and Kazakhstan in addition to Russia, signed an agreement with shareholders for 100% of Volksbank International, or VBI in July.

Sberbank's move into Europe was stimulated by the continent's financial woes. The **European Banking Authority** announced late Friday that Volksbank was among eight banks out of 90 tested that failed a set of exams to gauge whether they would survive another financial crisis. Austria's fourth largest lender is also struggling to repay a \$1.4 billion state loan.

## Fund Awards



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



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



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



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

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