



# Tera Capital Fund

## Investor Fact Sheet

December 2010  
(final)



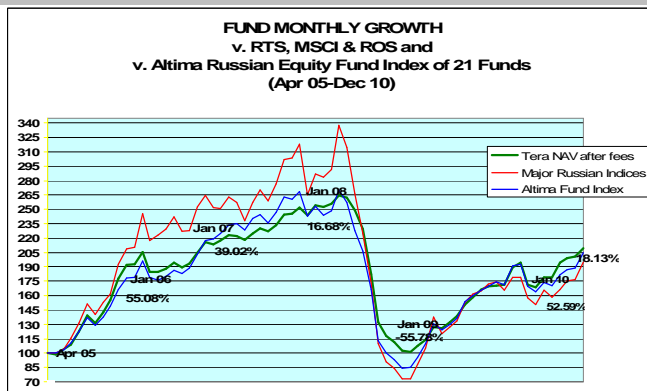
Tera Capital Fund is the only Fund of Funds in the world which pays no fees other than a success fee  
No early investor in Tera saw the value of his investment fall below the amount invested at any time during the economic crisis

### Fund Information

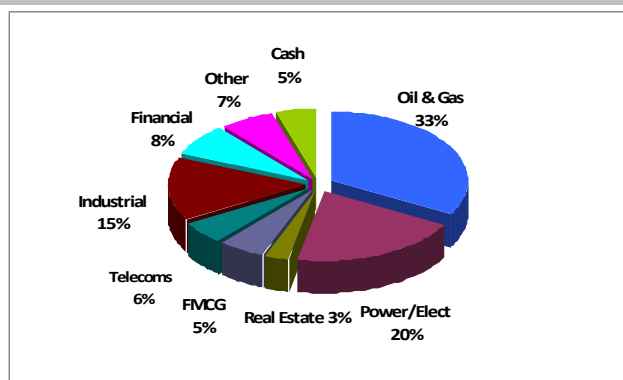
**Strategy:** Tera Capital Fund is a Russian-focused fund of funds that invests in 5-8 funds (usually equity funds) that are diversified by sector, size, geographic focus and strategy.

<b>Date Formed</b>	April 2005
<b>Investment Advisor</b>	Altima Asset Management
<b>Fund Size</b>	\$4.7 M
<b>Currency</b>	US dollar
<b>Current Price (NAV)</b>	\$209.73
<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> (%)
Monthly	4.53	10.60	8.45
Year-to-date	23.48	13.54	20.86
Trailing 12 months	23.48	13.54	20.86
Since Fund inception (Apr 05)	109.73	95.20	105.06
Annld mthly rtn (since Fund inception)	17.65	14.27	15.91
Annualized Stand. Dev. (since inception)	24.42	38.77	31.72
Sharpe Ratio <sup>2</sup>	0.62	0.46	0.42
Trailing 12 m Sharpe	<b>1.17</b>	<b>0.54</b>	<b>0.88</b>

\*RTS: 10.83%, MSCI: 10.83%, ROS (Crédit Suisse): 10.10%

### Investment Advisor's Assessment

#### Russia

December was tremendous month for Russia markets. All of the recent good news – ranging from WTO membership, to economic growth and the 2018 World Cup, almost certainly coupled with optimism for 2011 – combined to result in an advance of more than 10%. As we have pointed out in the most recent Fact Sheets, we share this optimism and feel confident that Tera will exceed its 25% 2010 growth in 2011.

The most important news for the first half of 2011 may well be completion of negotiations to allow Russia's entry into the **World Trade Organization**, with the actual accession taking place in early 2012 (which would be automatic at that point). Very few points remain and negotiations are scheduled to continue in late January. Theoretically, negotiations could be concluded as early as April, although they will probably take slightly longer. The only major outstanding issues are the size of agricultural subsidies after joining the WTO and meat import quotas.

In a closely related development, **Finch Ratings** announced that it will probably upgrade Russia's credit rating this year based on economic growth, very low budget deficits and control over inflation. Fitch put Russia on a "watch positive" status in September 2010. **S&P** rates Russia the same as Fitch; **Moody's** rates it one level higher. Russian 2015 bonds currently yield 3.600%, the lowest in its history and lower than that of many Western European countries – and even some US bonds – reflecting the ever-growing confidence in the Russian economy.

In a further rationalization of its economy, over the New Year's holidays Russian President Medvedev signed a decree to cut the number of federal government employees by at least one fifth by 2013. The government will dismiss 5% of its employees in both 2011 and 2012, and an additional 10% in 2013. Approximately **110,000 government jobs** will be eliminated, saving at least \$1.4

<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%

billion annually. Half of the funds freed up from cutting jobs will be used as bonuses and to increase compensation for the remaining state employees. The Russian federal government currently employs 510,000 people.

In a very important development both from the standpoint of financing the government, but also with respect to decreasing government control over the economy, Russia expanded the list of investment banks that will advise it on its planned **\$59 billion state asset sale** program over the next five years. The banks that will now advise the government include **Morgan Stanley, Credit Suisse Group AG, Renaissance Capital, VTB Capital, Sberbank, Alfa Bank** (the largest private lender in Russia), **Troika Dialog** (the oldest investment bank in Russia), **BNP Paribas SA, Citigroup Inc., Royal Bank of Scotland Plc.** and **UBS AG**. Russia plans to sell as much as 15% of **Rosneft**, its largest oil producer, and stakes in its two biggest banks, Sberbank and VTB, and to raise \$59 billion in asset sales over five years to help balance the budget and decrease government influence over the economy.

Russia, the world's largest oil producer, set a post-Soviet record for yearly crude output in 2010. **2010 output rose 2.2% to 10.15 million barrels a day**, the highest annual average since the collapse of the Soviet Union in 1991. (During the Soviet-era, Russian output peaked in 1987 at 11.48 million barrels a day.) Russia produced 9.93 million barrels a day in 2009. December output was 10.18 million barrels a day; by comparison, **Saudi Arabia produced 8.25 million barrels a day in December**.

In a curious move that may not be generally accepted, **Jim O'Neill**, the man who invented the acronym **BRIC**, thinks these markets can no longer be classified as emerging markets, and has added Indonesia, Mexico and Turkey to the group of economies he now thinks should just be called "Growth Markets". It remains to be seen whether the financial community will adopt this new terminology.

In his latest strategy paper, the chairman of **Goldman Sachs Asset Management** urged investment managers to give more weight in their portfolios to "Growth Markets", stating that **the rise of the BRICs is "one of the most important strategic stories of our time"** that will "underpin the most important investment themes in all markets over the decades ahead" and "more than compensate for any sluggishness in US consumption going forward".

His paper maps out the potential consumption paths of "Growth Markets" over the next 15 years and predicts that the dramatic income shifts across these economies will have huge implications for three sectors in particular: consumer durables (mainly autos), luxury goods, and travel and tourism (mainly aviation).

"Importantly, these big shifts in demand patterns are not several decades away, they are already on the doorstep" wrote O'Neill.

In a first, but strong, sign of the modernization of Russia beyond Moscow, the **Khanty-Mansiisk autonomous district**, a regional government in West Siberia, completed the search for a new minister online, reviewing 2,563 applications from 305 localities nationwide and even abroad.

The winner, Yelena Bashalova, 35, will trade her current job as the head of a district IT department to become IT Minister of the **Ulyanovsk region**, located along the

Volga River in central Russia. The vacancy was published in September on Superjob.ru, marking the first time in Russia that an official of that rank was recruited through a commercial job web site.

The 37 applicants who made it to the third and final round were interviewed via **Skype** on their management skills and credentials.

One trend that we informally monitor in Russia is philanthropy – which was nonexistent or effectively forced in the 1990s, which showed some small signs of developing during the first decade of the 21<sup>st</sup> century and which now appears to be gaining some traction. Philanthropy is obviously an important measure of the sophistication and development of any country.



In Russia, the New Year's holidays are a traditional time of gift giving. This year, at least 382 Russian companies made donations to charity instead of

distributing the usual New Year's gifts. (For historical reasons, gift-giving in Russia takes place on New Year's Eve, not on Christmas day – which is a purely religious holiday and is celebrated according to the Julian calendar on January 7.)

The "charity instead of business gifts" worldwide initiative was launched by Britain-based Charities Aid Foundation in 2005. In Russia, the initiative has raised more than \$7 million for worthy causes. Among big companies involved in the initiative are **PricewaterhouseCoopers, Troika Dialog, Alfa Bank, Renova Group** and **Interfax Group**.  
**Company News**

**General Electric** signed agreements with **Inter RAO UES** and **Russian Technologies** to produce equipment domestically and help upgrade the country's energy and health care systems. GE will take a 50% stake in a joint venture with those companies to assemble and sell gas-fired power generation units in the Yaroslavl region. The Russian companies will hold 25% each in the venture, which was registered in the Netherlands this month. GE, whose Russian sales exceeded \$1.6 billion last year, wants to manufacture high-tech goods locally. GE has about 2,500 employees in 25 cities across the country. Russia plans to invest more than \$80 billion in the next 10 years to upgrade power generation facilities and estimates that more than 80 gigawatts of new thermal capacity will be built in the next 20 years.

Inter RAO UES also signed a \$900 million agreement with **Sweden's Scaent** to supply electricity to Finland. The agreement provides for supplies until the end of 2013. Russia, which is already **the first country to offer direct yuan trading**



**outside China**, is extending dealing hours as increased exports spur demand for the currency. Banks led by **Sberbank** and **VTB** have been buying and selling yuan for rubles since Dec. 15, 2010. Transactions exceeded

the Micex's estimate by 64% in the first day of trading at 4.92 million yuan (\$738,185). China, the fastest-growing major economy, and Russia, the biggest energy exporter, conduct more and more trade with one another. Chinese exports to Russia surged 74% in November 2010, the biggest increase of the 20 nations and trade groups tracked by the Beijing-based Customs General Administration, while Russian trade flows to China hit a monthly record of \$2.6 billion in May 2010. China overtook Germany to become Russia's largest trading partner, along with the Netherlands, in the first 10 months of 2010 as trade increased 53% from the same period last year to \$47.5 billion.

Exporters will save as much as 5% in transaction costs by dealing in the local currency rather than in dollars. On Dec. 13, 2010, **HSBC**, Europe's largest bank, concluded what it said was the first Russian trade transaction in yuan (for Moscow-based sporting goods retailer **Sportmaster**). Rusal, the world's largest aluminum producer, plans to hire banks to sell yuan-denominated bonds as early as the first quarter of 2011. On Dec. 10, 2010, **VTB**, Russia's second-largest bank, became the first company from an emerging market outside Asia to sell bonds denominated in Chinese yuan on Dec. 10. The three-year bonds were priced to yield 2.95%, compared with a yield of 5.395% for Moscow-based VTB's five-year bonds in dollars.

"The relationship between Russia and China on the business side is getting closer," said John-Paul Smith, a London-based emerging markets strategist at **Deutsche Bank**, the world's largest currency trader. "You've got these Russian IPOs either achieved or attempted in Hong Kong so relations have taken on momentum."



Frankfurt-based **Deutsche Boerse**, Europe's largest exchange by market value, is in talks with **MICEX** and its rival **RTS** to create an alliance that may see equity swapped as part of the deal.

"Uniting MICEX and RTS and allying with foreign bourses will help lure investment to the state privatization program", First Deputy Prime Minister Igor

Shuvalov said in an October 2010 interview.

The Russian Central Bank is the largest MICEX shareholder, with 30%; **VTB**, **Sberbank** and **VEB** also hold stakes. RTS is owned by Russian and international investment banks including **UBS**, **Deutsche Bank** and **Credit Suisse Group**. MICEX is seeking to complete a "friendly takeover" of RTS.

**Aeroflot** will buy \$4 billion worth of **Boeing** airliners to expand its long-haul fleet. It confirmed that it has signed a deal for 16 Boeing 777s to be delivered between 2012 and 2017. Aeroflot originally ordered 22 of the 290-seat Dreamliners three years ago, but delivery was repeatedly delayed. The two sides have set up a working group to look for ways to deliver at least two of the Dreamliners before the **Sochi Olympics** kick off in 2014.

**Rosatom** agreed to buy **Mantra Resources** for \$1.15 billion, giving it the Australian-based company's Tanzanian uranium assets. Rosatom, through its ARMZ Uranium Holding subsidiary, will buy the Perth-based company for 8 Australian dollars per share, a 5.5%

premium to its last trading price before the shares were halted prior to the takeover. Rosatom is expanding to benefit from a revival of nuclear power as nations promote the technology to meet energy demand while curbing carbon output.

"Russia's looking to Africa to get energy resources, particularly uranium, and Tanzania's definitely one of the more mining and investor-friendly countries to do business in," said Gavin Wendt, a senior resources analyst at **Mine Life** in Sydney. "The Russians aren't silly: They're not going to enter high-risk destinations. This is about them securing future energy supplies." **Sberbank** signed a three-year, \$2 billion loan in the largest syndicated borrowing for a Russian bank. Sberbank agreed to pay initial interest of 150 basis points more than the London interbank offered rate on the unsecured deal, which compares with an average interest margin of 305 basis points for Russian lenders this year.

**Microsoft Russia** demonstrated its confidence in the ruble when it announced that it will begin conducting business in the currency with local partners starting March 1, 2011. Nikolai Pryanishnikov, president of Microsoft Russia, said that "the transition to the national currency is a sign of our confidence in the stability and development potential of the Russian IT market and the country's economy as a whole." The change will be simultaneously implemented with the company's 9,500 partners across the country and will help counteract currency fluctuations.

## Markets

In December, the Russian market did extraordinarily well, converting what was a solid year for equities into an excellent year. Almost 50% of the market's growth came in the last month of the year, generally in anticipation of a strong 2011 market.

## December and 2010 Performance

For the first time in 2010, the Fund significantly underperformed both the major market indices and other funds. It seemed that all of the investment strategies that had worked through the year were suddenly turned on their head. A remarkable number (almost half) of the funds we track earned almost half of their return in December alone. While they still did not catch up to Tera's performance, which was steady if not spectacular for the month at 4.5%, we are exploring a new fund that will take better advantage of the strong but narrowly focused advances.

**Most importantly, out of almost 2,600 funds of funds ranked by Eurekahedge, in 2010, Tera Capital Fund was the No. 2 best performer for the year, improving it's number 8 ranking in 2009.**

## Underlying Funds

All underlying funds were up nicely in December, from 2.5% (for the one sector fund Tera holds) to 8% (for the one blue chip fund it holds). The remaining funds were up between 4 and 6%.

There were significant changes in the portfolio as the underlying funds became more diversified in their strategies with markets return to something resembling pre-crisis dynamics.

The industrial sector jumped from 10% to 15%, reflecting the advancement of major construction projects (Sochi Olympics, FIFA World Cup, high-speed rail projects, etc.). FMCG increased from 3% to 5% because of improving consumer incomes. Oil & gas dropped slightly,



as did cash and “other”. Cash represents 5% of the fund, but half of that is in physical gold held by one underlying fund.

#### Other Russian Funds

As noted above, December was a spectacular month for many other Russia funds, most of which earned half of their 2010 returns during that single month. While this did little positive for volatility indicators such as the Sharpe Ratio, it did allow the AAM Fund Index to climb to within three percentage points of Tera’s performance.

#### January and 2011 First Look

We strongly feel that Tera will perform at least as well in 2011 as in 2010, when it increased 25%. The Fund was up about 5% through the first half of January, until the unrest in the Middle East caused virtually all market

worldwide to fall back. Still, we anticipate a small increase in January and a rapid advance once events, in particular in Egypt, calm down a bit.

#### Fund Awards



No. 1 ranked fund of funds in the world for **March 2010**



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

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