



Tera Capital Fund

Investor Newsletter

June 2012

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 July 2011 World Finance announced that Tera had won its prestigious award as the most innovative fund of funds in the world

According to EurekaHedge, Tera Capital Fund was the No. 3 performing fund of funds in the world in January 2012

Fund Performance (net of fees)

Returns	Tera* (%)	RTS, MSCI & ROS Avg** (%)	AAM Russia Fund Index ¹ (%)
Monthly	4.78	8.27	3.50
Year-to-date	(1.23)	(3.67)	(1.76)
Trailing 12 months	(28.69)	(33.70)	(31.36)
Since Fund inception (Apr 05)	155.82	140.86	144.89
Annldz mnthly rtn (since Fund inception)	10.06	8.45	9.44
Annualized Stand. Dev. (since inception)	26.22	39.10	31.00
Sharpe Ratio ²	0.29	0.25	0.22
Trailing 12 m Sharpe	(0.66)	(0.66)	(0.90)

*Weight averaged, all series (currently 9) combined

**RTS: 8.69%, MSCI: 9.20%, ROS (Crédit Suisse): 6.92%

Investment Advisor's Assessment

Russia

➤Russia is now a **full member of the World Trade Organization** after almost 18 years of negotiations. On December 16, 2011, the protocol on Russia's accession to the Marrakesh Agreement, the foundation document for the WTO, was signed in Geneva. On July 10, 2012, the Russian State Duma approved the federal law that authorizes the protocol for Russia's accession to the WTO; the Federation Council did the same on July 18. On July 21, 2012, President Putin signed the law, **completing the accession process**.



Russian Economic Development Minister Andrey Belousov said that Russia would **begin to fulfill WTO commitments September 1, 2012** and that import tariffs would be scaled down every year from the current average of 9.5% to about 6% from that date until 2015. Belousov also said during the Duma vote that Russia would lose \$5.7 billion in revenue in 2013 due to declining customs duties.

The **transition period** to liberalize access to Russia's markets is **two to three years**, extended to **five to seven years** for markets requiring more protection such as the **automobile industry and agriculture, agricultural machinery production and light industry**. Russian companies (and foreign companies) are in a much better position to capitalize on the free flow of goods and capital that WTO membership offers. And it is already happening: one fourth of the **\$85 billion of capital flight in 2011** was actually **Russian companies reinvesting profits** earned from their foreign assets

abroad. (These profits never touch Russian shores and have nothing to do with the Russian economy, but are included in the capital flight numbers because of an accounting quirk.)

Russia is superbly positioned to capitalize on WTO accession in that it already runs the most open trade and capital account regimes of any of the large global emerging markets.

In contrast, **Brazil** has imposed special taxes on inbound capital to cool its capital market and stop the Brazilian real from appreciating. **China** doesn't even pretend to run an open currency or trade regime and despite the huge investment there, foreign companies have a hard time making money or getting profits out. And the administrative trade barriers to foreign business in **India** are legendary.

There is already a **steady stream of consumer-related businesses** arriving in Russia, such as all the fast-food companies that arrived last year, like **KFC** and **Burger King**. But this stream could turn into a flood as Russia is already the largest consumer market in Europe and the first trade barriers to fall will be those affecting consumer goods.

But maybe the biggest and most important benefit that WTO membership will bring is that it should **bring the cost of goods down**. The cost of living in Russia (and especially Moscow) is famously high due to the closed nature of the Russian market. A survey at the end of 2011 found that the biggest concern among voting Russians was the high cost of living. WTO-inspired competition could start bring down prices from this year to a level more appropriate to Russia's income levels.

➤The Russian Ministry of Economy estimated **1H GDP growth at 4.4%**, as the Russian domestic economy continued to defy the global slowdown. Forecasters now expect GDP to increase by 3.8% in 2012, compared with a May poll which showed expected GDP growth of 3.5%.

➤The 1H Russian **federal budget surplus was 0.9% of GDP, up from 0.2% in May**. As a result, **Russia may now show a budget surplus for the entire year** – one of the very few countries in the world that can make such a claim.

➤Russia's **current account surplus grew to \$58.4 billion** in 1H 2012, **equaling that of 1H 2008**, prior to the economic crisis.

➤**Rapid wage growth** is fueling a **consumption boom** that has enabled the economy to compensate for weaker oil prices and exports. Data released by the Russian State Statistics Service showed that already-rapid wage growth accelerated further in June. **Wages rose by 17.7% in nominal terms, and 12.9% in real terms**, from a year earlier.

This reflects a tight labor market, with the **unemployment rate at its lowest level in four years**, steady at 5.4% in May and June.

¹ Altima Asset Management created this index of 21 Russia-focused equity funds created on or before May 2005 to provide an appropriate benchmark.

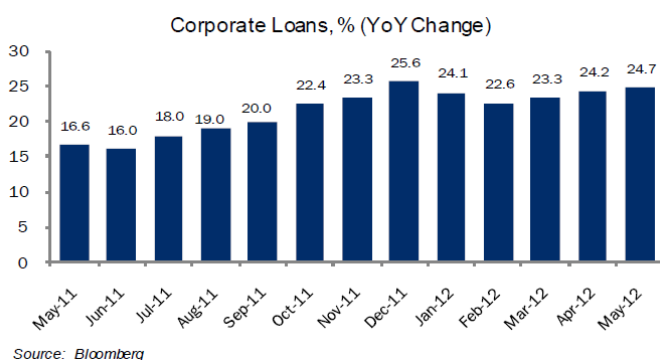
² Risk free rate: 2.5%

➤ **Rising household incomes** continued to fuel strong growth in **retail sales**, which **increased by 6.9%** in June. **Russian air passenger traffic grew by 18.3% y-o-y.** Wage and consumption increases help explain why the Russian economy is proving so resilient to the global slowdown.

➤ **The Russian domestic economy remains strong:** 1H figures show **industrial production growing at 3.7%, investment by 7.7%, and retail sales by 6.5%, y-o-y.** Separate data on car sales shows an 11% y-o-y increase.



➤ The banking industry also continues to be healthy as **corporate loans rose by 24.7%** and **retail loans by 43.3% y-o-y.** There are few, if any, signs of overheating as the Russian consumer is generally under-leveraged (retail loans are 10% of GDP), perhaps an indicator of potential growth in the banking industry.



➤ **BRICS are contributing more than ever to the global economy** as their proportion of the world stock market shrinks, leaving investors with the **widest valuation gap in seven years.** IMF data show that they will make up **20% of the world economy in 2012** after **growing more than 400%** over the past 10 years. At the same time, their combined **stock-market value has dropped to a three-year low of 16%** of the total invested in equities, according to Bloomberg.

To **Jim O'Neill**, the chairman of **Goldman Sachs Asset Management**, who coined the term BRIC in a 2001 research report, the 4 percentage point difference makes the stocks in these markets irresistible. The last time the gap was this wide, in 2005, the **MSCI BRIC Index jumped 53% in 12 months**, more than double the gain in the MSCI All-Country World Index.

"Unless we are seeing a major collapse of those economies, **it's a huge opportunity for investors**," said O'Neill. The BRIC stock markets may double by 2020 as their share of world GDP increases to about 27%.

Combined **GDP in the BRICs will rise to more than \$14 trillion** this year from **\$2.8 trillion in 2002**, according to the IMF. **Their equity value**, which includes locally-traded shares and companies based in the BRIC nations with primary listings abroad, has **dropped to**

\$7.6 trillion from \$9.5 trillion a year ago, when they made up 18% of the global total, according to Bloomberg. The retreat has pared what was a 180% increase in the MSCI BRIC index since October 2008 while the BRIC economies expanded by 4.8% on average during Q1 2012.

"**[BRIC stocks] are cheap now**," **Burton Malkiel**, an economics professor at **Princeton University**, chief investment officer at Walnut Creek, and author of "*A Random Walk Down Wall Street*," wrote at the end of June.

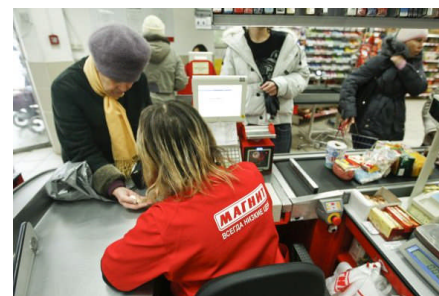
Falling valuations for developing-nation shares spurred **Jonathan Garner**, the chief Asia and emerging-market strategist at **Morgan Stanley**, to **recommend "maximum" overweight holdings**, or 10% more than benchmark weights, on June 8. The last two times Garner turned this bullish, in December 2011 and October 2008, the MSCI BRIC index climbed at least 8% within three months.

"It's not news that growth in emerging markets has been slow, and our argument is that it's discounted in equity valuations," Garner said in a June 26 phone interview. "What's not discounted is the capability of emerging markets to generate GDP acceleration at some point in the second half." The Hong Kong-based strategist has **overweight ratings on China and Russia**, recommending Rosneft which trades for 5.4 times earnings, compared with 9.1 times for MSCI's gauge of global energy companies.

"**The emerging markets are a place to be**," **Byron Wien**, the vice chairman of **Blackstone Group LP's** advisory services unit, said on June 26. "They've done poorly but now prices have come down to very attractive levels."

Company News

➤ **Magnit**, Russia's largest food retailer by number of stores with more than 5,700 outlets, reported a **142% jump in 1H net profit**. It expects sales to rise by up to 30% this year with by 1,400 new store openings. The company's **1H net profit increased to \$339.6 million**, with an **86.8% rise in EBITDA, to \$670.6 million**. The EBITDA margin rose to 9.9% from 6.6% a year ago, the highest reading among Russian public retailers. It reported a **32.5% rise in 1H sales** to \$6.48 billion and a 3.5% rise in like-for-like sales.



Magnit is now opening three shops a day and has a market valuation which rivals that of Europe's biggest retailer, **Carrefour**. Magnit has grabbed business in provincial towns from outdoor markets and kiosks, while some Western retail giants like **Wal-Mart** have yet to break in to Russia. Carrefour came to the country in 2009 – and has already left.

Magnit's regional focus, an unusual strategy for big chains normally seeking to gain a foothold in Russia's wealthiest markets of Moscow and St Petersburg, has allowed it to take advantage of a lack of competition. Russian retail sales rose 6.9% y-o-y in June, compared with 1.6% in Britain. Real wages rose 12.9%.

Investors have caught on to the trend, piling money into Magnit and eschewing more established Western players held back by weak domestic economies.

Despite generating only about 10% of Carrefour's sales, **Magnit has seen its market value jump to \$11.2 billion**, compared with the French company's \$11.7 billion. "The likes of Magnit...can get many years of solid growth just by building stores where there aren't any," said **Bruce Bower**, portfolio manager at **Verno Capital**, which recently switched out of Magnit into archrival **X5**, Russia's top food retailer by sales on concern that Magnit was getting too expensive. It views X5 as a candidate for a turnaround after a year of underperformance.

Magnit's Moscow-listed shares were up 31% in 2012 through June, versus a 2% decline in the broader MICEX and a 14% drop in X5, while Carrefour lost 23% of its value.

Magnit's P/E ratio is now 27 for 2012, among the highest in Russia. X5 and smaller rival Dixy Group trade at 18 times and 26 times for 2012, respectively.

➤ **Dixy Group's** consolidated revenue **increased 89.5%** y-o-y to \$2.15 billion in 1H 2012. Pro forma sales revenue went up by 20.7%. In June, Dixy's consolidated sales revenue increased 88.1% to 12.1 billion rubles, while pro forma sales revenue increased 22.2%. As of June 30, 2012, the group operated 1,276 stores, including 1,036 Dixy neighborhood stores.

➤ **Retailer Lenta's** net profit jumped 31.7% to 3.82 billion rubles in 2011. The company posted **revenue of \$3.01 billion, up 29.05%** on the year. Gross profit climbed 37% to 16.15 billion rubles, and commercial expenses rose to 15.11 billion rubles from 11.77 billion rubles. Lenta manages 46 stores, 15 of which are in St. Petersburg and five in Novosibirsk.

➤ With China no longer generating eye-popping growth for **General Motors**, robust sales in Russia and other emerging markets have quickly filled the gap during 1H of this year.

"While China is still strong, it is no longer the gravity-defying growth we have seen in prior years," **Tim Lee**, head of **GM International Operations**, said. **In 1H of 2012, GM sold a total of about 136,400 vehicles in Russia, up 21%** from the same period in 2011. While that volume is still a fraction of the 1.4 million vehicles GM sold in China during the same six months, the **sales growth rate for GM Russia was twice that of China**.

➤ **Virgin Atlantic** airlines, which has long considered entering the Russian market, has decided to begin operating daily flights between London's Heathrow Airport and Moscow starting in 2013.



companies, new openings for flights will become available. Virgin Atlantic chief **Steve Ridgeway** said the airline hopes to take all 12 of the slots opening between Moscow and London. Traffic between Moscow and London has tripled over the past five years and the Virgin hopes to capitalize on the booming market.

British Airways was the only British company to service Moscow until 2006, when **British Midland International** began flights. But after the merger of the two

"Our core flying has always been across the Atlantic, but we have been clear that we will also continue to grow our routes to emerging markets if given the slots at London Heathrow. Moscow would be our third BRIC country, and we think it is imperative for British trade that we are operating in these economies," Ridgeway said.

➤ **Drugmaker Pharmstandard** posted **14.7% y-o-y rise in Q2 sales**. Its revenue totaled \$244 million, versus \$214 million in Q2 2011.

➤ A sign of prosperity in Russia's capital, luxury car producer **Rolls-Royce Motor Cars** has announced it will open a second dealership in Moscow, a status symbol until now only enjoyed by New York City.

Rolls-Royce said that **purchases of its automobiles in Russia doubled in 2011, and 2012 sales are continuing to grow**, outpacing all other markets in continental



Europe.

A new Rolls-Royce costs at least \$517,000 in Russia.

Though the company has not officially disclosed sales numbers, a former salesman at the existing Moscow dealership said that about 70 cars were sold in 2011.

Director of Rolls-Royce Europe James Crichton noted that with 12 million residents – more than the population of Switzerland – and **a greater concentration of billionaires** than anywhere else in the world, Moscow has a great potential for sales.

➤ **Gazprom** announced that 2012 Russian gas exports are expected to hit a record high of 222 billion cubic meters. It expects its **sales of gas to Europe** in 2012 to be worth **\$61 billion**, totaling total 150 billion cubic meters, unchanged from 2011.

➤ US cable network **HBO** will launch its services on the lucrative Russian market by the end of 2012.

Time Warner, HBO's parent company, and **Amedia**, a Russian media company, will set up a joint venture which will invest over \$20 million dollars in the project. In addition to running HBO content, the JV plans to buy series and films produced by other US companies and may also purchase Russian shows.

HBO's television package will be distributed through cable and satellite networks and will consist of three channels, including one focused on television series and another channel featuring films. The new episodes of US shows will be run in Russia almost simultaneously with their premiere in the United States for the first time.

➤ **Sberbank** and the **US Export-Import Bank** signed a **\$1 billion MOU** to increase the amount US goods and services exported to Russia. The memorandum also applies to other countries in which Sberbank operates and Ex-Im Bank programs are available. **Ex-Im Bank** chairman Fred P. Hochberg and Sberbank chief executive German Gref **signed the agreement during the St. Petersburg International Economic Forum**.

"This MOU begins the process of joint cooperation between Ex-Im and Sberbank," Hochberg said. "We believe there are **tremendous opportunities for US**



exporters to sell into these markets. We look forward to working with Sberbank to make sure US companies can provide Russia with the best goods and services available to meet the growing economic opportunities in Russia and other CIS countries."

Gref said he sees great opportunities, especially for the sectors of aviation finance and leasing, infrastructure and energy, including both conventional and renewable energy.

According to the terms of the agreement, Ex-Im and Sberbank intend to support up to \$1 billion in US exports to buyers in Russia and other target countries through 2014. And Ex-Im will consider increasing the amount of financing support should demand exceed \$1 billion. Ex-Im Bank exposure in Russia at the end of fiscal year 2011 was approximately \$315 million.

➤ **Rostelecom** announced that its **net profit in Q1 grew 38% y-o-y**, with **net income rising to \$446 million** and revenues up 17% to \$2.6 billion rubles. Revenue from broadband services increased by 9% and from pay television products by 58%.

➤ Russian housing builder **Etalon** announced that its sales for Q2 2012 rose 37% over Q2 2011 due to "phenomenal growth" in prices. The company, which builds tall residential complexes, business centers and industrial facilities, mainly in St. Petersburg and Moscow, said **demand was rapidly returning to levels seen prior to the last financial crisis.**

Q2 sales rose to \$159 million.

➤ Russia's second-largest gas producer, **Novatek**, has signed a landmark deal to supply German utility EnBW with gas, establishing a foothold in the lucrative European market.



The agreement will also allow Novatek to start forming its customer base in

Europe as it eyes sales of LNG to the European Union from its Arctic plant, Yamal LNG, which is due to come online in 2015 or 2016. This new deal will allow the company to be well-prepared before startup.

The 10-year deal will be conducted via **Novatek Gas&Power**, the Switzerland-based trading arm of Novatek, which is legally not allowed to export gas directly from Russia. EnBW stated the deal forecasts an annual volume of 21 billion kilowatt-hours, equivalent to **1.9 billion cubic meters per year.**

➤ Freight operator **Globaltrans Investment** said it **raised an above-target \$520 million** from a share sale, giving it added firepower to expand and make further acquisitions possible. The company is one of the few Russian companies to raise capital this year. Depressed markets and the euro-zone crisis have severely limited the ability of companies to raise money.

Globaltrans said it priced its offering at \$16.50 per GDR, in the middle of an indicated range of \$16.00-\$17.25 per GDR. The company had **planned to raise around \$450 million** through the share sale while under an over-allotment option, underwriters could purchase up to an additional \$50 million GDRs.

➤ **TransContainer** posted strong 1H 2012 financials. Net sales grew by 23% mainly due to higher results in container transportation and integrated logistic services.

➤ **UTair Airlines** signed a **\$2.07 billion contract to**

acquire 20 Airbus A321 planes. The new 220-seater planes will be used for popular international tourist destinations and domestic flights. The first should be delivered in 2013.

"The contract with Airbus for new planes shows our firm intent to sustain high growth rates and strengthen our position among the Russian aviation market leaders," **UTair CEO, Andrei Martirosov**, said. He added that the A321s would help the airline guarantee a high level of flight safety, improve services and develop the transportation network.

Airbus said that UTair is a new client in Russia and that it hoped for long-term cooperation with the airline.

UTair is part of **UTair Group**, one of **Russia's top three airlines** in terms of passenger traffic. The group carried **6.7 million passengers in 2011**, and it operates scheduled and charter flights to more than 30 countries, with 61 domestic and 39 international routes.

➤ The three largest Russian mobile operators, **VimpelCom**, **MegaFon** and **Mobile TeleSystems**, and state-owned telecommunications giant **Rostelecom** have won licenses to operate 4G mobile high-speed networks in Russia and will **spend \$1.8 billion a year** building their networks. In addition to making massive investments, the tender winners will need to work with the current holder of the 4G frequencies – the military – to free the frequencies for civilian use and development.

The Russian government awarded MegaFon the frequency package that requires the operator to conduct the **fastest and widest rollout** of all the winners. That may be because MegaFon is expanding its operations by undertaking a partial merger with state-backed **Skartel**, a provider of 4G services under the **Yota** brand.

➤ After several years of considering the move, **eBay** will create a Russia-based company under the name of **eBay Marketplaces.**

Vladimir Dolgov, who has managed the Russian division of **Google** for the last six years, is set to head eBay's new Russia project.

In 2010, the company expanded the reach of its eBay International Market project, launching a dedicated Russian-language shopping site where Russian customers could browse, compare and buy goods all over the globe. But broader expansion plans were delayed by the fact that **PayPal**, the online payment system eBay uses, until recently operated under restricted terms in Russia, preventing eBay customers from receiving payments directly to their bank accounts.



Fund Awards



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



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