Tera Capital Fund

Investor Newsletter

January 2011

Altima asset management

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	**2.78**	**4.92**	**3.82**
Year-to-date	2.78	4.92	3.82
Trailing 12 months	26.76	17.25	22.64
Since Fund inception (Apr 05)	115.57	104.82	112.85
Anlzd mnthly rtrn (since Fund inception)	16.87	14.87	15.32
Annualized Stand. Dev. (since inception)	24.30	38.75	31.60
Sharpe Ratio[2]	0.59	0.45	0.44
Trailing 12 m Sharpe	**1.17**	**0.54**	**0.90**

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

***RTS: 6.65%, MSCI: 4.02%, ROS (Crédit Suisse): 5.10%*

Investment Advisor's Assessment

Russia

As a result of the growing length of the Tera Capital Fund Fact Sheet each month, we have decided to split it into two documents: the **Fact Sheet**, which will focus on Fund performance and this **Newsletter**, which will focus on major events in Russia and the overall view of the country.

This first Newsletter begins with a rather interesting assessment of Russia that recently appeared in an article by **Chris Mayer**, editor of **AgoraFinancial.com**, looking back of the past decade of performance, which is appropriate as we start the new decade. We quote extensively from the article below.

"In the wake of Russia's financial crisis in 2008 and given all that we know about the problems in Russia, I think most investors then would not have given the country much of a chance.

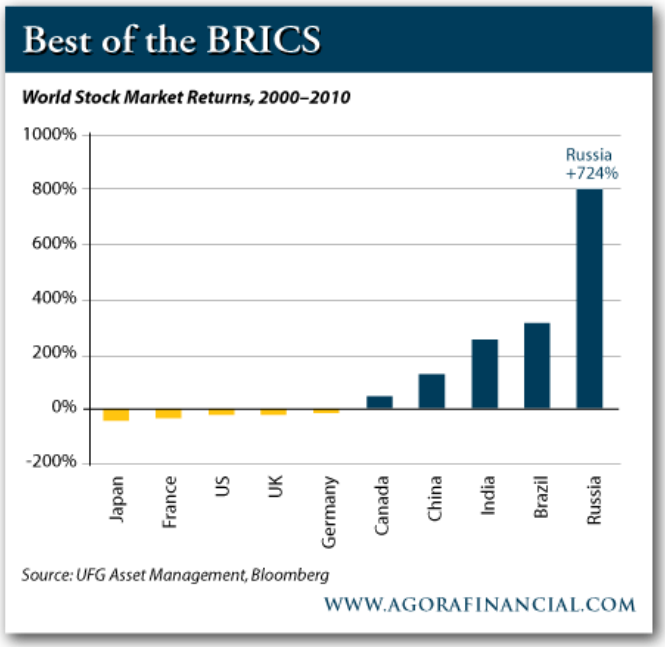
"If we had to pick then which of the BRICs…would have had the best decade, I don't think many people would've picked Russia. In fact, the casual investor today asked the same question about which one did best in the decade 2000-2010 would probably pick anyone but Russia.

"Yet Russia was the best by far.

"True, natural resources performed well during the decade, and Russia has a lot of them – a quarter of the world's natural gas reserves, 15% of the coal reserves, 15% of the coal, and 20% of the nickel.

"But there's more to the story. Russia also has the advantage of having less debt relative to the size of its economy than its BRIC peers. And it's a growing consumer market.

"Russia is also **General Motor's** No.1 market worldwide in terms of market share and profit. **Coca-Cola** recently announced sales rose 31% in Russia. Its Russian division makes **three times the profit of its Chinese unit on one-third of the sales**."



Of course, also not to be forgotten on this list is that, after it's $5.6 billion acquisition of **Wimm-Bill-Dann**, Russian is **PepsiCo's** second largest market – after the United States.

Bloomberg reported that **Nassim Taleb**, author of **The Black Swan**, said ballooning debt in the United States and the risk of asset bubbles in China make the Russian economy look comforting by comparison: "When I look at the future, **I feel comforted by a country like Russia**. I feel a little nervous about China and very nervous about the United States."

Russia has "resilience" after going through "several crises over the past hundred years," whereas the United States "can't sustain shocks," said Taleb, whose 2007 best seller argued that most people underestimate the frequency of rare events that have a major effect on markets.

Taleb said that the budget deficit in the United States is worse than the fiscal problems in Greece, which received a bailout last year from the European Union and the International Monetary Fund to stem its soaring borrowing costs and avert the risk of a default.

Maxim Medvedkov, Russia's chief WTO negotiator, announced that talks to join the **World Trade Organization** will extend into May 2011, meaning that they will run beyond the spring WTO session, at which membership must be approved. Talks should be wrapped up by the summer, meaning that Moscow's 17-year-old membership bid should be approved before elections in Russia and the United States.

Once the report on Russia's accession, which serves as the basis for a membership bid, is completed, it must be approved by the WTO's General Council, which convenes every two months. The next session of the Council takes place in July.

[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%

President Dmitry Medvedev Prime Minister Vladimir Putin and WTO Director-General Pascal Lamy have all said Russia can join the trade group this year.

Company News

U.S. chain **Chili's** opened its first Russian restaurant on Novy Arbat in what it called an effort to tap an underserved casual dining niche.

The Texas-based chain is expanding the spectrum of foreign flavors available in the Russian capital, along with Moscow's five **Starlite Diners** and **T.G.I. Friday's**, which now operates 14 restaurants in Moscow and another 20 in other parts of Russia and Eastern Europe.

The **Trio Group** will operate the restaurant in Russia under franchise. The Group hopes to open 25 Chili's restaurants in the country by 2017, with the next one to open in July.

Moscow's **MICEX** and **RTS** stock exchanges have decided to merge, in a move that will attract investment and encourage companies to list in Russia. Five RTS shareholders, **Renaissance Capital**, **Aton**, **Alfa Bank**, **Troika Diolag** and **Da Vince Capital**, agreed to sell stakes amounting to 53.7%% of RTS; the deal values MICEX at $3.4 billion and the RTS at $1.15 billion.

Market veterans said the merging of the two bourses will finally resolve an "accident of history" that resulted in their creation during the chaotic, demand-driven evolution of Russia's financial system in the 1990s.

"There were no exchanges — people wanted exchanges, and so they went out and set up their own ones," explained Roland Nash, senior partner at the **Vimpo** investment fund. "There was no plan to it … and therefore two exchanges were set up rather than one."

The dollar-denominated RTS began trading in 1995 and is owned by Russian and foreign investment banks. It became the favored venue for derivatives trading.

The ruble-denominated MICEX, started in 1992 as the center for currency trading, added debt transactions to its portfolio and now claims to be the largest stock exchange in the CIS and much of Central and Eastern Europe.

The government expressed support for the deal.

Central Bank Deputy Chairman Alexei Ulyukayev stated that the Central Bank's 36% stake in MICEX will be cut to 30% after the merger, with the remainder being divested over the next two to three years.

The first phase of the **Wimm-Bill-Dann** deal has been closed. **PepsiCo** completed the acquisition of 66% of the Wimm-Bill-Dann juice and dairy company and expects to make an offer for the remaining shares by March 11. The $3.8 billion deal brings PepsiCo's stake in Wimm-Bill-Dann's ordinary shares to about 77% and makes **PepsiCo the largest food and beverage business in Russia**.

Bloomberg reported that Russian companies may raise the most money this year from share sales since 2007 as the government starts its **$34 billion privatization program**. Equity offerings by companies including hydropower producers, gold miners, pipe makers and state-run banks will probably raise $30 billion. Initial public offerings will account for up to $20 billion and government asset sales for up to $10 billion.

According to data from Morgan Stanley, Russian companies raised a record $36 billion in 2007, when the price of oil averaged $72.32 a barrel. It averaged $79.61 a barrel in 2010.

Mazda will begin assembly of its cars in Primorye, in the Russian Far East, making it the first foreign car manufacturer to start a production facility post crisis. Mazda will either build a new plant in the region or use existing production facilities and infrastructure, with primary capacity possibly reaching 30,000 automobiles.

The Far East is a logical choice because most components will be supplied from Japan.

Sollers opened a factory with an annual capacity of 25,000 automobiles in Vladivostok in Primorye in late 2009. The plant assembles crossovers for **SsangYong**. This year it will operate at maximum capacity; in 2013 capacity will increase to 40,000 vehicles per year.

Last year, although the Russian automobile market grew 30%.

Rosneft and **ExxonMobil** will hunt for and extract oil from the Black Sea floor under a $1 billion deal signed at Davos. The companies will form a joint venture to explore the Tuapse Trough, an 11,200-square-kilometer deepwater offshore area along the Black Sea coast of the Krasnodar region.

The JV will be split 50-50 at the exploration stage and 66-33 in Rosneft's favor at the development stage. The first well should be drilled in 2012. The Tuapse Trough is estimated to hold 7.2 billion barrels of oil equivalent.

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**

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