



Tera Capital Fund

Investor Newsletter

March 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

Fund Performance (net of fees)

Returns	Tera* (%)	RTS, MSCI & ROS Avg** (%)	AAM Russia Fund Index ¹ (%)
Monthly	1.65	5.08	1.26
Year-to-date	6.30	15.81	7.94
Trailing 12 months	17.75	26.23	16.78
Since Fund inception (Apr 05)	122.94	116.07	112.88
Anlzd mnthly rtn (since Fund inception)	16.97	16.20	14.69
Annualized Stand. Dev. (since inception)	23.96	38.25	31.16
Sharpe Ratio ²	0.60	0.49	0.39
Trailing 12 m Sharpe	1.32	1.13	1.08

*Weight averaged, all series (currently 6) combined

**RTS: 3.8%, MSCI: 5.2%, ROS (Crédit Suisse): 6.3%

Investment Advisor's Assessment

Russia

In what activist minority shareholder Alexey Navalny, a corporate lawyer who has waged a campaign to improve corporate governance at Russian state-owned companies, called a "small revolution", Russian President Dmitry Medvedev ordered the removal of eight deputy prime ministers and ministers from the boards of major state-owned companies by July 1. By Oct. 1, steps must be taken to remove all top state employees from the boards of public companies as part of a drive to improve Russia's investment climate, Medvedev ordered. Navalny called the move a major step forward in improving "civil society". The officials will be replaced by independent directors.

Shortly thereafter, Deputy Prime Minister Igor Sechin resigned from **OAO Rosneft**, the largest Russian oil company. Deputy Energy Minister Andrei Shishkin was replaced on the government's list of candidates for the board of directors at **RusHydro**, which operates the majority of Russia's hydroelectric power plants. Many more such resignations will follow shortly.

The **export duty** on most crude shipments will increase 7.1% on May 1 to the highest level since the 2008 financial crisis. (Russia taxed oil exports at \$495.90 a ton in August and September 2008.) The standard tax rate will rise to \$453.70 a ton (\$61.90 a barrel) from \$423.70 a ton in April. The discounted rate on oil pumped via the East Siberia-Pacific Ocean pipeline to Asia and from the Caspian Sea may climb to \$211.70 a ton from \$191.

Russia sets its export duties based on the average Urals price from the 15th day of one month to the 14th day of the next. Urals averaged \$114.47 during the most recent monitoring period.

Car sales surged 77% in March, the Association of European Businesses announced, adding that it will need to raise its full-year forecast if the Russian economy continues to benefit from high oil prices.

In the first quarter, 517,304 cars were sold in Russia, up from 292,437 in the same period of 2010.

"The official AEB Consensus forecast for the full year remained at 2.24 million in March, but "we will review with our members during April and I expect that our official forecast will then increase," said David Thomas, chairman of the AEB automobile manufacturers committee.

Before the recession hit in late 2008, Russia had been on track to overtake Germany as Europe's biggest car market, and the AEB has previously said annual sales could return to pre-crisis levels of 2.8 million to 2.9 million units in 2012.

In March alone, sales totaled 223,429 units, led by the Lada brand made by **AvtoVAZ**.

Going forward, sales growth is expected to slow down in year-on-year terms, reflecting the fact that in March 2010 Russia introduced a "cash-for-clunkers" program which boosted sales by giving drivers 50,000 rubles (\$1,770) for trading in models more than 10 years old for new domestically manufactured cars. The program was set to expire this month, but Prime Minister Vladimir Putin announced in early April that it would be extended until the end of the year, at a cost of 5 billion rubles.

The number of **billionaires in Russia** grew by more than 50% over the last year, reaching 101, according to **Forbes Russia** magazine. At the beginning of 2010, there were 62 billionaires in Russia; in 2009 only 32.

Forbes estimates the combined wealth of the top hundred businessmen at \$432 billion – \$135 billion more than in 2010 and \$290 billion more than the 2009 total of \$142 billion – but still lower than the pre-crisis 2008 valuation of \$522 billion.

This year, Forbes expanded its rating to include the top 200 richest Russians, with a threshold net worth of \$500 million – but the entire second hundred had a combined value of "only" \$67 billion. Wealth is highly concentrated even in the top 10, who together have about 40% of the total net worth of the top 100.

Company News

Gazprom announced that its Q4 2010 profit rose 2% because of higher oil prices and the sale of **Novatek** shares. Net income rose to \$11.4 billion from \$11.2 billion in Q3 2009. Revenue climbed 30% to \$39.4 billion on higher prices in Europe and domestically as demand recovered.

Gazprom sold a 9.4% stake in Novatek for \$2.1 billion rubles in cash in December. The sale contributed to a \$2.8 billion gain, which also relates to its remaining 9.99% in Novatek, Russia's second-largest gas producer. Net sales of natural gas rose 27% to \$24.8 billion rubles in Q4 as rising gas prices offset an 8.1% decrease in volumes to Europe. (European contract prices are tied to crude and oil-product prices with a lag of up to nine months.)

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%

The average gas price for countries outside the former Soviet Union rose 1.7% in 2010, reaching \$301.80 per 1,000 cubic meters; domestic prices rose 25%.

Gazprom sees European gas prices climbing to \$500 by December 2011 as its export market sets records for higher oil prices and recovering demand.

VTB, Russia's second-biggest lender, affirmed its commitment to strategic acquisitions to strengthen market positions as it posted **record Q4 2010 net profit**.

VTB recently bought stakes in **TransCreditBank**, or TCB, and **Bank of Moscow**, Russia's 5th largest lender and intends to further increase its holdings.

VTB, which reported under international standards for the first time since it floated 10% of state-owned shares in February, stated net profit reached \$576 million in Q4. Full-year 2010 net profit was \$2.0 billion.

The acquisition of 43.2% stake in TCB last year helped it increase total gross loans by 20.2% to \$110 billion.

VTB's net interest margin, which shows the bank's efficiency in core business, rose to 5.1% last year from 4.6% in 2009. Its nonperforming loan ratio decreased to 8.6% of total gross loans from 9.8% at the end of 2009.

The results were also boosted by lower provision charges for impairment of debt financial assets, which were down to \$1.87, one-third of such charges in 2009.

Consolidated pretax profit in the Russian banking sector increased 84% year-on-year to \$7.75 billion rubles in the first quarter of 2011. This figure was \$4.2 billion for the same period of 2010.

There were 913 banks that did not generate losses in the Q1 compared to 894 during Q1 2010. The number of loss-making banks decreased from 153 to 93 banks during the same period. The total number of active banks was 1,006 banks on April 1, 2011, a decrease of 41 from 1,047 banks on the same date in 2010. The share of profitable banks increased to 91% from 85%.

Seimens launched the production of 38 of 54 Desiro (Lastochka) electric trains in March for **Russian Railways** at a plant in Germany. The \$598 million order for the shipment was submitted in December 2009. The electric trains are being purchased by Russian Railways to transport passengers for the 2014 Olympics in Sochi. 54 Lastochka trains will begin operating in 2013.

The final 16 trains, the production of which had been included in the preliminary contract, will be assembled in Russia by a Siemens and **AeroExpress** JV. Initial localization of production will come to 35% but will eventually increase to 80%.

Nestle celebrated its 140th year in Russia. The company has proven very successful by expanding its product lines and localizing production.



The company is "covered in chocolate," as the Russian saying about success goes.

Nestle Russia and Eurasia chief executive Stefan De Loecker said at a news conference "We believe that Russia has a huge potential in long-term investment, that is why we continue to invest in the development of the local market".

Nestle began exporting mostly milk products to the Russian market in 1871. Products continued to be sold on and off in prestigious stores during the Soviet Union.

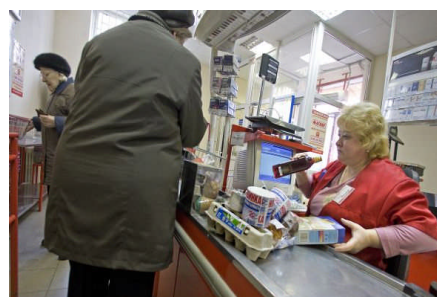
After the Soviet collapse, Nestle acquired a chain of distributors and importers and has been operating in Russia since 1995.

Over the past 16 years, it has invested more than \$1 billion in Russia. It owns some of the country's most recognized brands, including Nescafe Gold and Maggi. Nestle has 12 production facilities in Russia, one of which, located in Perm, is the **biggest Nestle chocolate factory in the world**. In June, it announced plans to invest more than \$50 million to build a new Maggi factory in the Vladimir region. Last year the company opened an innovation center in Moscow where it will conduct consumer research such as product testing.

Supermarket chain **Magnit** saw more customers and average receipts both increase nearly 6% in 2010. **Magnit increased its sales growth forecast for the second time in a month** in March and raised capital expenditure guidance to keep pace with recovering demand.

"49% growth, I think we can say already today, is the low end of our forecast," chief executive Sergei Galitsky.

Russia's largest food retailer by number of stores set its forecast for 2011 growth in rubles at 36% earlier this month, anticipating a likely surge in consumer spending.



Magnit saw sales growth in the first two months of 2011 break records: **18% in January followed by 22% in February**. Galitsky added that "We are very optimistic in our expectations." 2010 revenue jumped 45% to \$7.8 billion.

Magnit and rival **X5** are in the midst of a major store opening campaign to take advantage of economic growth and the emergence of a middle class that spends more on food and other consumer goods. **Magnit plans to open between 800 and 1,000 stores in 2011 after opening 827 in 2010** and renovate hundreds of old outlets; CapEx reached a record \$1.2 billion in 2010.

Magnit has significantly outperformed the food retail market in Russia and top global retailers in terms of revenue growth. In 2010, Magnit's like-for-like sales grew 9.19% in ruble terms, with traffic up 3.03% and the average ticket price of goods sold up 5.97%. 2010 full-year net profit rose 21% to \$333.7 million.

Cisco Systems electronic components began rolling off a Zelenograd assembly line just northwest of Moscow in March as part of Cisco's commitment to invest in Russia. Cisco contracted with **Altonika**, a small electronics manufacturer, to complete printed circuit boards for its VPN equipment.

The new agreement is a part of **Cisco's pledge to invest \$1 billion** in the development of information



technologies and entrepreneurship in Russia over the course of the next 10 years.

Altonika, a company with more than 20

years of manufacturing history which makes 4 million electronics items a year at its Zelenograd site, will install components on printed circuit boards made in Taiwan and China and test the assembled units.

Cisco Russia's general manager Pavel Betsis said cooperation with Skolkovo is at the top of the company's priority list.

Cisco also plans to invest in creating an R&D center at Skolkovo and participate in the so-called "virtual Skolkovo" project, which will unite specialists, venture capitalists and academia in an ecosystem before the actual city of Skolkovo is built in 2015.

Cisco opened up the third phase of its worldwide competition for startups to access Cisco venture capital to Russian entrepreneurs in November 2010 and received more than 2,000 applications – more than it had globally during the first two years of the competition.

Coca-Cola announced that **Russian sales increased by 27% in Q1 2011**. Sales revenue excluding juice producer **Nidan** increased 16%. Sales of beverages under the Coca-Cola brand name increased 24%. Total sales of Coke's beverage production increased 6% in Q1, while **sales revenue increased 40% to \$10.52 billion**. The company's net profit came to \$1.9 billion, up 18% year on year. Coca-Cola owns 14 bottling plants and 75 distribution centers in Russia.

Russia's Federal Anti-Monopoly Service has approved **Alstom's** purchase of a 25% stake in rolling stock manufacturer **TransMashHolding**. TransMashHolding combined 2009 sales totaled \$2.54 billion.

Novolipetsk Steel, Russia's fourth-largest steelmaker, announced that **Q1 2010 sales reached \$2.4 billion, 41% above** the same figure in 2009, due to higher prices. Last year, Novolipetsk reported Q1 sales of \$1.7 billion. Q1 crude steel production reached 2.9 million tons, up from 2.8 million in Q1 2009.

VimpelCom completed its merger with **Wind Telecom**, creating the **world's sixth-largest mobile phone company** by number of subscribers. Wind's operations in Egypt and North Korea will be spun off to shareholders in Wind's **Orascom Telecom** Holding unit, North Africa's biggest mobile network operator, while VimpelCom will work to keep Orascom Telecom's **Djezzy** unit in Algeria. Wind CEO Khaled Bichara will become president of the combined company and coordinate actions aimed at cost savings of \$2.5 billion.

VimpelCom, Russia's third-largest wireless carrier, announced its plan to buy Wind from Egyptian billionaire Naquib Sawiris in October 2010. The deal, then valued at about **\$6.5 billion**, doubles VimpelCom's mobile-customer base to about 181 million in 20 countries,

adding subscribers in Italy, Pakistan, Bangladesh and Zimbabwe, as well as an interest in Globalive Wireless Canada.

Alfa Bank said Monday that its **net profit increased sevenfold to \$553 million** in 2010 and its gross loan portfolio rose by more than \$3 billion over 2009 to \$18.2 billion, due to an increase in corporate lending.

Alfa said it cut provisions for loan impairments to \$1.38 billion in 2010 from \$1.5 billion a year before, while its net interest margin rose to \$1.3 billion from \$1.1 billion.

US conglomerate **3M** plans to **invest at least \$15 million** building two local facilities, one for the production of Thinsulate, an insulation material, and the other to make glass bubbles used in the oil and gas industry.

Investment in the facilities – one tentatively in the oil-producing Tyumen region and the other in the automotive industry center of Samara – could reach \$30 million.

The construction is part of 3M's expansion plan through 2015. Thinsulate is used in clothing, while glass bubbles are additives to cement that fortifies oil and gas wells.

3M is spending an additional \$8 million in 2011 mainly to increase capacity

for producing face masks for the chemical and mining industries at its existing domestic plant in Volokolamsk.

3M is also reviewing options for a local

acquisition of a company that manufactures home and office products.

Investment to date totals \$28 million and includes the construction of the Volokolamsk facility, which went into operation in 2008. 3M also plans to set up a lab in Volokolamsk that would test the quality of local raw materials and study ways to modify company products to the Russian market.



Fund Awards



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



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

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