



Tera Capital Fund

Tera Capital Fund is the only Fund of Funds in the world which charges 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	(0.29)	(0.31)	(1.68)
Year-to-date	5.99	15.56	6.13
Trailing 12 months	14.43	15.56	13.56
Since Fund inception (Apr 05)	122.29	115.59	109.14
Anlzd mnthly rtn (since Fund inception)	16.98	16.20	14.31
Annualized Stand. Dev. (since inception)	23.80	37.99	31.02
Sharpe Ratio ²	0.60	0.48	0.38
Trailing 12 m Sharpe	1.34	1.02	0.63

*Weight averaged, all series (currently 6) combined

**RTS: (0.84)%, MSCI: 0.05%, ROS (Credit Swiss): 0.15%

Investment Advisor's Assessment

Russia

Russian GDP rose 4.1% compared to 2010 in Q2, slightly down from the 4.5% growth in Q1. At the same time this figure was announced. President Dmitry Medvedev announced the goal of increasing growth to 10% within 5 years, to match the pace of the fastest-growing developing economies.

Investment in **Russia's real estate market grew 128%** in 2010, reaching almost \$3.1 billion, from both foreign and Russia investors. Russia outperformed other countries in Central and Eastern Europe.

27 major real estate transactions were complete in Russia in 2010, compared with 22 in 2009. Average transaction volume was € 80 million, almost twice as much as in 2009.

"The results of 2010 showed a significant increase in the investor confidence of the stability of Russia's real estate market," said Christopher Peters, head of research at **CB Richard Ellis**.

Domestic investors accounted for 82% of the total; before the crisis, the majority of investors came from abroad. The biggest deal was valued at € 691 million for five office buildings in Moscow by **Lenmar Capital**, controlled by **Otkritie Financial Corporation**, from domestic developer **Horus Capital**.

The biggest deal by a foreign investor was the purchase of Greenwood Business Park in the Moscow region by the **Chinese Center for Trade Development and Investment Management in Europe** for € 285 million – which was also the first major transaction completed by a Chinese company on the Russian real estate market.

Investment volume in 2011 is expected to **grow by 50%** over 2010, partly sparked by investors looking outside of Moscow and foreign investors coming to the market, which is becoming increasingly attractive compared with Western counterparts.

Russia attracted more investment in its real estate market last year than other countries in Central and

Eastern Europe, including the Czech Republic, Hungary and Poland, CBRE said.

During a speech at a business forum in Moscow, Russian Premier Minister Vladimir Putin promised Russia's **GDP per capita would double in a decade**, placing Russia in the top five of the world's largest economies – consistent with the IMF projections that appeared in this newsletter earlier this year.

"We are setting an ambitious task of becoming one of the world's five largest economies in ten years, and GDP per capita should grow from slightly more than \$19,000 today to



\$35,000 and higher," Putin said in such televised speech. At the beginning of his first term as president in 2000, President Putin made the same claim, targeting 2010. That didn't quite materialize due to the global financial crisis.

Russia took a major step forward in its three-year effort to join the OECD when it signed the **OECD Anti-Bribery Agreement**, which outlaws the bribery of foreign officials in international business transactions and provides for enforcement measures. 38 countries have signed the agreement, including Brazil, South Africa, the US and UK.

U.S. Secretary of State Hillary Clinton said that "meeting the high standards of the OECD will complement Russia's own goal of further modernizing and diversifying its economy and at the same time, Russia will enrich the OECD's efforts to drive economic and development cooperation around the world."

This is the latest step in Russia's fight against corruption, including a mass of **anti-bribery legislation** that was signed recently. In late April, President Dmitry Medvedev ordered the Justice Ministry to monitor how laws and court decisions are being enforced, and report on progress annually. In Early April, Medvedev signed an anti-corruption law raising fines to as much as up to 100 times the bribe.

Thus far, Russia has implemented over one third of the 26 anti-corruption obligations set by the **Council of Europe's Group of States Against Corruption**, or GRECO, of which Russia is a member.

Ratification of Article 20 of the **United Nations Agreement Against Corruption**, which deals with illicit enrichment of public officials, is pending before the Russian Duma.

A move to codify business ethics is also underway in Russian companies. As described in detail in this newsletter earlier this year, most large companies have established some kind of anti-bribery measures in the last three years, and others are following suit.

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

² Risk free rate: 2.5%

"Russian companies are keen to find ways of reducing the risk of corruption, and ... they find bribery quite shameful and economically debilitating," said **International Business Leaders Forum** director Brook Horowitz.

A newly released report commissioned by **Google** and prepared by the **Boston Consulting Group** concluded that the Internet economy will see "rapid future growth" in Russia between now and 2015.

Russia's Internet economy, which is Europe's second-largest after Germany, should account for 3.7% of its GDP by 2015, up from 1.6% of GDP in 2009 when it was valued at \$19 billion.

With improved Internet penetration in the regions, growing e-commerce infrastructure and investment made from the Russian government and private business, the **Internet economy will grow at least 22% annually** – and as much as 30%.

Spending on **online shopping**, Internet access and web devices like laptops and mobile phones **will grow 26% annually** until 2015.

Internet advertising accounts for 11% to 12% of advertising spending in Russia, compared with about 25% in Britain and 18% in the United States, but is increasing rapidly in Russia. **Online advertising grew 59% a year between 2005 and 2009 to \$600 million**, or 9% of the country's total advertising market.

One of the major problems for Internet users in the regions is poor broadband penetration: Just 20% of households outside Moscow and St. Petersburg have access to it, compared with 55% and 49%, respectively, in those cities. **Penetration should reach 80% nationwide by 2015.**

Russian Internet companies have been attracting more interest from investors since **Mail.ru** Group went public on the **London Inventory Exchange** in November 2010 and raised \$912 million. Russia's No. 1 search engine **Yandex** raised more than \$1.15 billion in its recent IPO, with more IPOs to come.

But Russian Internet expansion is not limited to Russia – Russians are also expanding into the United States. Silicon Valley's hottest investor is currently from Moscow: Yuri Milner, who was an early investor in **Facebook** and **Zynga** and earned his way onto the Forbes billionaire list in 2011. He now has a residence in Silicon Valley (in April, Mr. Milner he paid a reported \$100 million for an estate in Los Altos Hills).

Earlier this year, New York-based **General Atlantic**, a fund with extensive emerging market and technology expert report, invested \$200 million in **Kaspersky Lab**, a producer of security and anti-virus software. It was one of the most high-profile foreign direct investments in Russian technology to date and paves the way for another Russian technology IPO in three to five years.

Company News

Mobile TeleSystems, Russia's largest cellular provider in terms of subscribers, reported that unconsolidated sales revenue increased by 12.3% to \$1.9 billion in Q1 2011, driven by sales revenue from cellular services which rose 10.5%.

MTS now provides services to more than **100 million cell phone subscribers** in Russia, Ukraine, Uzbekistan, Turkmenistan, Armenia and Belarus.

Yandex NV, Russia's most popular search engine and largest by revenue, rose 55% in its first day of trading during its IPO in April. Underwriters exercised the full over-allotment option for \$130.4 million and raised a total of over **\$1.5 billion.**

Fund Awards



Hedge Fund Databases

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



Hedge Fund Databases

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

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