



Tera Capital Fund

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 for being the most innovative fund of funds in the world

According to Eurekahedge, Tera Capital Fund 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	14.35	15.12	13.88
Year-to-date	10.78	7.63	12.99
Trailing 12 months	4.49	3.87	2.26
Since Fund inception (Apr 05)	87.13	80.31	80.90
Anlzd mnthly rtn (since Fund inception)	13.29	12.49	10.67
Annualized Stand. Dev. (since inception)	24.11	37.76	31.02
Sharpe Ratio ²	0.45	0.37	0.26
Trailing 12 m Sharpe	0.42	0.36	0.23

*Weight averaged, all series (currently 7) combined

**RTS: (13.37%), MSCI: (21.80)%, ROS (Crédit Suisse): (15.12)%

Investment Advisor's Assessment

Russia

The biggest event potentially affecting Russia and much of the world in August didn't take place in Russia: S&P downgraded **US debt, cutting its AAA credit rating**. The **S&P index in the US fell 6.7%** the next day and more than 11% over three days. Strangely enough, **yields on US debt actually fell** at the same time.

Russia was hit hard in two ways: a decreasing appetite for risk and a (perhaps corresponding) drop in equity prices. Oil fell 2% in August and the ruble lost almost 5% of its value to the US\$-€ basket. Overall, it was the worst month for the Russian market since November 2008.

As one would expect, given the rising profits of Russian companies in the face of falling equity prices, the **P/E ratio's** of Russian company is at **near-record lows: 5.4**. **Gazprom's** P/E ratio actually fell to a low of 3.1 in August. This is almost half of its EM peers (10.1), notwithstanding a virtually identical return on equity (14.9% v. 15.0%).

In Tera's one sector fund, two of the largest holdings have P/E ratios of less than 5 – due to the tremendous drop in prices within that fund, even worse than the market as a whole.

At the same time, while analysts are downgrading earnings estimates for EM in general, they are upgrading those for most Russian companies.

On the positive side, the long-awaited **changes to oil taxation** were approved and will enter into affect on October 1. The amendments **lower overall taxation**, while clearly favoring upstream producers over downstream companies, underscoring the intention of the Russian government to stimulate crude oil product growth.

Late July and August also saw the biggest outflows from

emerging-market equity funds since January 2008 as investors fled equities in general. This may actually be a signal to buy stocks at the lowest valuations in 2.5 years. Investors pulled \$7.7 billion from EM in the week ending August 10, the third-largest withdrawal on record and about 1.1% of EM AUM, according to research firm **EPFR Global**. The **MSCI Emerging Markets Index jumped an average 17% in the six months** after outflows of this magnitude during the past decade, **posting gains on 11 of 12 occasions**, according to data compiled by EPFR Global and **Bloomberg**.

Investors have also been rewarded for buying when the MSCI emerging index fell below 9x earnings. The last dip to those levels in October 2008 was followed by a **60% rally** during the next 12 months. The index rose 44% in the year after valuations fell that low in August 1998, the month Russia defaulted on \$40 billion of debt.

A further retreat in commodities prices may spur more outflows from developing-nation equity funds, according to **John-Paul Smith**, emerging-market strategist at **Deutsche Bank AG** in London.

"Over the short term it's most likely a by-product of the global turmoil rather than a change of view on the relative attractions of emerging-market equities," Smith said. "The real damage is likely to happen further out if, as we expect, investors become more negative about the fundamental prospects of both emerging markets and commodities."

The **MSCI index** fell more than 15% in the month after fund outflows reached more than 1% of assets in August 2001, while the index fell 6.5% when withdrawals exceeded that level in May 2006.

Fund Awards



Most Innovative Funds of Funds
(for innovation and performance)



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



No 8 ranked fund of funds in the world for 2009



No 1 ranked fund of funds in the world for 2005

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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%