



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, 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)
Performance (net of fees)**

Returns	Tera* (%)	RTS, MSCI & ROS Avg** (%)	AAM Russia Fund Index ¹ (%)
Monthly	(9.67)	(10.74)	(5.88)
Year-to-date	(24.78)	(25.09)	(26.50)
Trailing 12 months	(24.78)	(25.09)	(26.50)
Since Fund inception (Apr 05)	157.76	145.23	144.36
Anlzd mnthly rtn (since Fund inception)	10.50	9.21	8.77
Annualized Stand.			
Dev. (since inception)	25.35	38.78	31.14
Sharpe Ratio ²	0.37	0.28	0.14
Trailing 12 m Sharpe	(0.29)	(0.34)	(0.36)

*Weight averaged, all series (currently 6) combined

**RTS: (10.32)%, MSCI: (11.30)%, ROS (Crédit Suisse): (10.60)%

January Performance (estimate; net of fees)

Returns	Tera (%)	RTS (%)	AAM RFI (%)
Monthly	14.10	13.30	n/a
Year-to-date	14.10	13.30	n/a
Trailing 12 months	(16.50)	(19.10)	n/a
Since Fund inception (Apr 05)	165.70	145.23	n/a
Anlzd mnthly rtn (since Fund inception)	12.46	10.80	n/a
Annualized Stand.			n/a
Dev. (since inception)	25.35	38.79	n/a
Sharpe Ratio	0.39	0.29	n/a
Trailing 12 m Sharpe	(0.22)	(0.29)	n/a

**Investment Advisor's Assessment
Russia**

The **World Trade Organization** officially welcomed **Russia as a member in December**, ending Russia's 18-year accession process. **WTO Director-General Pascal Lamy** acknowledged Russia's membership with **Economic Development Minister Elvira Nabiullina** during an official ceremony in Geneva on December 16. The two signed a protocol on Russia's accession after the organization's ministerial conference approved documents granting Russia membership organization.

Russia now has 220 days to ratify the documents and will become a full-fledged WTO member 30 days after ratification.

With Russia's accession, the **WTO will cover more than 97% of world trade.**



"As a WTO member, Russia will push for the implementation of existing rules of global trade and development of new principles of trade between member states to reduce growing risks of protectionism amid the current uncertainty on global markets," Nabiullina said.

"Joining the WTO, we are ready to actively fight these risks, so for us, completing the WTO talks is not a finish but a start. ... We share the organization's focus on supporting the most vulnerable economies."

President Dmitry Medvedev, who did not participate in the ceremony, echoed the idea in his address to the conference, saying Russia is prepared to help ensure global economic stability.

Nabiullina also said "preserving the status of the WTO as a trade organization" is crucial for Russia, as developing mutual trade could help resolve problems in relationships between countries. "Problems in relationships between countries have always existed and unfortunately will remain. The development of trade can really help solve them."

The last hurdle to Russia's membership was removed last month when Russia resolved its dispute with Georgia, which was blocking Russia's entry into the organization, over monitoring trade on the borders of Abkhazia and South Ossetia.

Medvedev said the country's accession to the WTO "is a result of long, difficult negotiations" that will be beneficial for both Russia and other member states.

Russia's entry into the WTO opens its **economy of almost \$2 trillion** to foreign companies and is widely expected to boost the country's economic growth and attract investment.

Former Finance Minister Alexei Kudrin stated that, as part of the WTO, Russia will become a more favorable environment for developing domestic business, which will result in increasing exports and "will create a new standard of business development in Russia."

Russia's entry will spur economic and investment cooperation between Russia and the United States, **US President Barack Obama** told Medvedev in a telephone conversation on the day of the ceremony. The US Congress is expected to decide soon on **abolishing the 40-year-old Jackson-Vanik amendment**, part of the 1974 Trade Act that prevents the US from granting Russia permanent normalized trade relations. Obama reiterated to Medvedev his administration's commitment to push for the amendment's abolishment.

One of the major barriers that long hampered Russia's accession to the WTO was **intellectual property violations**, with pirated software and DVDs available in kiosks and marketplaces across Russia.

Even though the situation seems to have changed for better, concerns remain over protection of intellectual property rights on the Internet, which provides a huge base of counterfeit software, films and music.

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 share of **retail kiosks offering pirated software** across the country **declined to 23% this year from 27% in 2010**, according to a survey issued by **Microsoft** last month. Russia has a sufficient legislative base to protect intellectual property, but its practical implementation remains an issue.

Retail sales rose 9.5% in December 2011 compared to one year earlier, at the fastest pace since October 2008, after unemployment fell and wages grew. **M.Video**, a major Russian electronics retailer, said same-store sales advanced 17% in December.

The **CPI hit a new post-Soviet low of 6.1%** in 2011, helped by a good harvest after the 2010 drought. Russia's annual inflation rate in November 2011 was 6.8%, a sixth consecutive monthly decrease, increasing chances that the Russian Central Bank may loosen monetary policy. **Russian food price inflation dropped sharply to 3.9% in 2011 from 12.9% in 2010.**

Unemployment fell to 6.1% in December. **Real wages grew 4.9%** over 2010 in December after a **revised 7% advance in November**. **Real disposable incomes grew 6.3%** after a revised 0.3% increase the previous month

Investment rose 8.9%, the fastest pace in a year.

Russian e-commerce totaled \$10.4 billion in 2011, an increase of 30% over 2010, as leading e-commerce websites like **Avito.ru** saw huge increases in users and turnover.

The local equivalent of eBay, Avito.ru was launched in 2007, but began to see significant growth in 2010.

The site provides a free marketplace for individuals selling goods, but also charges for premium services to entrepreneurs and small business.

"When I arrived in Russia five years ago, everybody told me that this will never work here," Avito.ru



General Director **Jonas Nordlander**.

Avito.ru's income hit \$10 million last year, a tenfold increase over 2010, and expects to **triple that in 2012**.

The number of Internet users in Russia reached 60 million by the end of last year, making it the No.1 market in Europe.

With deals worth tens and even hundreds of millions of dollars, **real estate buyers have poured about \$7.5 billion** into the Russian market this year, a post-Soviet record.

Though the market is unlikely to repeat such a feat in 2012, it will continue to be an active market with billions of dollars in deals, both analysts and their numbers suggest.

In addition, a handful of major deals are on the way to completion, either by the end of this month or in Q1 2012. **Hines**, the Houston-based real estate developer, will receive about **\$370 million** for the whole of **Ducat Place III**, **Jones Lang LaSalle** estimates. Hines built it in the 2000s.

In St. Petersburg, the sale of the **Galereya mall** could close in Q1 of 2012. A real estate analyst interviewed for this article said the mall, which has close to 300 shops

and 10 movie screens, could be sold for **\$1.1 billion to Morgan Stanley Real Estate**.

2011 deals have also been impressive. After Q1 2011, when the landmark **Ritz-Carlton Hotel** sold to Kazakhstan's **Verny Capital** for about **\$600 million**, investors bought office, retail, warehouse and industrial park real estate for **\$100 million to \$200 million per deal**.

Capital Group sold three major pieces of commercial property, the **Concord business center**, **Pushkin House business center** and a **Metromarket store complex**, to **UFG** in the Q3 for about **\$300 million**, according to figures from **CBRE** and **Cushman & Wakefield**.

In another major deal, **Hines Global REIT** bought the Class A office center at 11 Gogolevsky for about **\$100 million** from **Fleming Family & Partners**.

The real estate market has been growing rapidly: In 2009, real estate investments totaled just \$2.3 billion, and in 2010, they were about \$4 billion. The 2011 figure is \$7.5 billion, which means that the market surpassed its previous high (before the economic crisis) by 30%.

Jones Lang LaSalle is predicting at least \$6 billion in new investment in 2012.

Oil output in Russia, the world's top crude producer, stayed at a post-Soviet high of 10.34 million barrels per day in November, encouraged by a record rally in its Urals-blend crude and sustained by a recent duty cut that boosted export profits.

Russian oil production to date in 2011 also rose 1.25% to a record level for the post-Soviet era, as Russian companies took advantage of higher prices and boosted output at new projects.

The **average price for Urals crude**, Russia's benchmark grade, for delivery to northwestern Europe **jumped 40% to \$109.30 a barrel**.

Rosneft, Russia's biggest producer, raised average output from its Vankor field, one of Russia's largest, by 18.1% last year. **TNK-BP** increased average production by 0.7%, while **LUKoil** pumped 5.31% less crude in the country last year.

Chinese trader **Unipecc** paid a record premium for a February 2012 cargo of Russian crude as the world's second-largest oil consumer looks to cover for reduced Iranian supplies. China slashed Iranian crude imports by more than half for January as the two countries negotiated 2012 payment terms. The latest deals show that the negotiations could continue at least into February.

Russia is often singled out as the BRIC country that doesn't belong in the BRICs. Critics say that with its ageing population, dependence on oil and gas and widespread corruption, it's not in the same league as its dynamic rivals – Brazil, India and China.

Jim O'Neill, who created the term "BRIC", disagrees. In **The Growth**



Map: Economic Opportunity in the BRICs and Beyond, a book marking the 10th anniversary of his coining the acronym, he rejects suggestions that Russia should be dropped from the team. He argues that in terms of GDP per head, Russia has the potential to beat not just the other BRICs but "all other European countries" and join the European Union.

The book covers the broad sweep of BRIC development since O'Neill coined the expression in 2001 and his forecasts for the next 10-40 years.

In addition to the BRICs themselves, O'Neill deals with the prospects for South Korea, Mexico, Turkey, Indonesia and other emerging markets. But he doesn't like the "emerging market" label. It's out of date, he says, preferring "growth markets". It doesn't have the same ring to it as BRICs.



"If Russia fulfils its potential, it will create all sorts of interesting and complex political and social issues for the European Union and the world, besides the obvious economic ones. For the

EU to have a wealthier neighbor on its borders would be quite remarkable. Provided it does not provoke conflict, it could raise the possibility of Russian membership of the EU," O'Neill wrote.

The former **Goldman Sachs Chief Economist**, who is now **chairman of Goldman's asset management business**, correctly addresses the challenges Russia faces. These start with the demographic: reducing deaths through alcohol and promoting the birth rate.

"If Russia stems population decline it could easily reach a **GNP of \$10 trillion** by 2050, about the same as Brazil, he predicts. Even if it doesn't, it has the potential to hit \$7 trillion, about four times today's figure.

This is important to bear in mind in view of the 'gloom' about Russia's potential. Russia doesn't need dramatic growth rates. It just needs to avoid crises. If it were to achieve this, **its GDP could overtake that of Italy** as soon as 2017, and in the decade 2020 to 2030, steadily sweep past France, the UK, and ultimately Germany."

O'Neill has **little time for western critics of Russian authoritarianism**, arguing that a lack of democratic development does not seem to concern most Russians. He suggests that political "antipathy" blinds western critics to Russia's advantages, such as its strong position in technology and education.

He concedes **Russia does badly on corruption** and the rule of law, but claims that Italy's economy has "rolled along for years", despite having weak rule of law for a long time.

O'Neill agrees with many economists and Russia's own economic reformers that a key to success is **diversification from natural resources** production into high quality manufacturing. He goes as far as to say that Russia could become an important export base for global multinationals wanting to reach other former Soviet republics, Iran, Iraq and the rest of the Middle East.

Company News

VTB posted a \$607.3 million net profit in Q3 2011.

Sberbank's 2011 Q3 profit climbed 74% year-on-year to reach \$2.54 billion.

Magnit, Russia's largest food retailer, reported a sharp jump in 2011 sales as it **opened 1,254 stores**, mostly small neighborhood stores, including **286 in December alone**, increasing selling space by almost 40% and annual sales by 34%. **Sales rose 42% to \$10.63 billion.**

Russian retailers are boasting higher growth rates than Western peers due to rising disposable incomes and because a relatively low penetration of modern shops enables them to build new stores. **Approximately two-thirds of Magnit's 5,309 stores are located in small cities with a population of less than 500,000.**

Same-store sales in the Q4 rose 3.1%, down from a 7.6% increase in the Q3. For the year, **same-store sales rose 11.1% in 2011**, up from a 9.2% increase in 2010.

The company **raised \$475 million** through a new share offering in 2010 to help finance its 2012 investment program and **plans to spend up to \$1.4 billion** on further expansion.

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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