

# The Troika **Russia Fund**

Size of Fund, mln

US\$ 45.6

## NAV Data (Troika Russia Fund Inc. net of all fees)

Share Class	US\$ Monthly	US\$ Biannual	RTS
Launch Date	03.05.06	03.05.06	
Latest NAV	\$69.9	\$74.0	1,473.8
1M return	8.6%	8.7%	2.0%
YTD return	8.6%	8.7%	2.0%
Since inception	-30.1%	-26.0%	-14.5%

## Annualised Return Data (since inception)

	TRF	RTS
Annualised Return since TRF inception	-9.1%	-4.1%
Standard Deviation	54.5%	43.7%
Sharpe Ratio	-0.2	-0.1
* Risk free rate		1.0%

## Top 10 Net-long positions, %

IDGC of Centre	5.7
Sibirtelecom	5.6
LSR Group	5.0
AFK Sistema	4.7
MOESK	4.4
Sinergia	4.3
Akron	3.9
MTS	3.7
Integra	3.5
Aeroflot	3.4

## Monthly Return Data (% change in monthly dealing US\$ share class net of all fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2006	-	-	-	-	-3.9%	2.3%	2.8%	3.7%	-2.3%	6.9%	7.4%	6.1%	24.6%
2007	-0.3%	1.4%	3.6%	-0.2%	-6.5%	8.2%	4.6%	-5.6%	5.9%	6.2%	1.3%	1.4%	20.7%
2008	-19.4%	10.4%	-0.9%	-1.0%	16.5%	-7.9%	-18.5%	-22.3%	-43.8%	-49.3%	-11.9%	-11.9%	-86.9%
2009	-15.7%	7.9%	20.4%	35.0%	36.9%	-6.5%	7.2%	7.33%	21.9%	5.8%	5.1%	10.5%	226.4%
2009	8.61%	-	-	-	-	-	-	-	-	-	-	-	8.6%

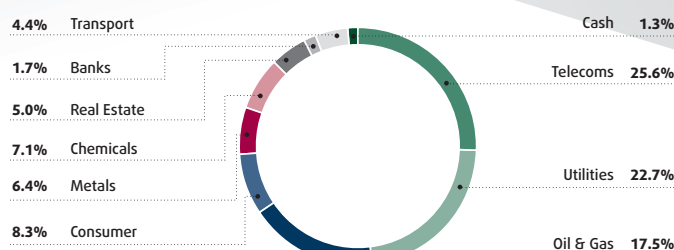
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## Sector Allocation



## Portfolio Exposure, %

	Long	Short	Net long	Gross
	98.7	0.0	98.7	98.7

## Largest Contributors to Performance, %

MOESK	1.4%
LSR Group	1.1%
AFK Sistema GDR	0.6%

## Largest Detractors from Performance, %

Rosneft	-0.2%
IDGC of Northern Caucasus	-0.1%
Vimpelcom ADR	-0.1%

Beta Net Exposure 0.7

5 Day VAR at 95% confidence 7.0%

Less Liquid Shares 14.5

Number of Holdings (incl.derivatives) 47

## Market commentary and outlook

The Russian stock market grew moderately in January, despite the gloomy mood in the international exchanges and sharp drop in commodity prices. The RTS index gained 2.0% to close at 1473.81 points while MSCI EM index lost 5.6% and SP500 slipped 3.7%. Since the start of the year the Russian stocks outperformed their peers.

**The Fund brought its investors hefty 8.6% in January, vastly outperforming broad market once again. This result was made possible by our fundamental sector and individual stock selection we did both this month and months before.**

Global investors believe that the real economy is lagging the market's perception of recovery as macroeconomic data showed that economic stability is fragile. Chinese monetary authorities increased the interest rates on its one-year bill and raised banks' reserves requirement. ECB, US Fed and Bank of England did not raise rates in January. Meanwhile worries on Greece budget deficit and high unemployment in Spain continued to weaken the euro. Proposals of Barack Obama to limit the size and activities of the nation's largest banks also brought disappointment to the markets. Fund flows dried up after initial portfolio composition at the beginning of the year. Commodity prices fell as economy recovery has been questioned and dollar gained some strength against major currencies and ruble, Urals price declined by 8.3% in January.

Fitch Ratings raised its outlook on Russia's sovereign rating to stable from negative following December move of Standard & Poor's. The forecast has been changed due to the increasing confidence of economic and financial stability in the country. Positive developments in Russian economy were mentioned, i.e. the resurgence of net capital inflows to the private sector, lower inflation, improvement of the banking sector's position and contraction of federal budget deficit. However, the agency still points to the problems in economy – it forecasts that the total bad loans may peak at around 25% compared with 19% in October 2009.

**The positive trend in the economy is likely to continue in 2010 as revival of domestic demand, recovery of credit activity and planned modernization of economy will start to gain momentum. The price of oil is still far above the critical levels and the overall perception of foreign investors of Russia improved. Cheap liquidity promised by major international monetary authorities will support the market additionally. Also, we expect inflation rates to decline in 2010, which**

**should support domestic demand, recovery of real disposable income and wages this year.**

In January **the RTS Oil and Gas Index** was 2.0% down led by local shares of Rosneft (-7.3%). Local preferred shares of Surgutneftegas (-2.0%) outperformed local ordinary shares of the company (-5.3%) and ADRs for ordinary shares (-4.7%) for the sixth consecutive month. Lukoil's local shares and ADRs declined by 1.7% and 3.0%, respectively. At the same time Gazprom's local shares appreciated by 0.6%.

The most important news in January was public discussion about the possibility of cancelling a zero export duty rate for oil extracted at fields in Eastern Siberia. The Ministry of Finance believes that the zero export duty might be costly for the budget. As a temporary decision announced by the Minister of Finance tax breaks will be applied till the end of February and then they can be revised. It was negatively viewed by the market and share prices of the main beneficiaries of the tax breaks – Rosneft and Surgutneftegas – went down.

Rosneft is more than others influenced by tax stimulus for the development of East Siberia oil fields because of its significant interests in the region. In January it became known that Rosneft registered about 1.2 bn barrels of oil reserves at one of the fields in East Siberia after drilling one exploration well yielded a flow of oil. But a well drilled at different field in the same region, which Rosneft acquired for \$260 mn in 2005, didn't produce a flow of oil. The decision over the export duty rate will influence further investments in the region.

**This month we slightly reduced weights in Rosneft – due to rhetoric from Ministry of Finance – and Tatneft Preferred shares, as they are illiquid and we don't like them much at this levels. We continue to increase our weight in BMB Munai (KAZ US) but in small steps, as the stock is very illiquid.**

In January the **RTS Electric Utilities** Index was 10.7% up led by local shares of RusHydro (+13.5%) and IDGC Holding (+21.3%). Local shares of Mosenergo appreciated by 12.2%, while ADRs of RusHydro were up 13.8%.

This month Russian government finally approved the resolution, which constituted an introduction schedule of a long-term tariff regulation for interregional distribution grid companies. It was positively viewed by the market and share prices of interregional distribution grid companies

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outperformed the broader market and the sector on average. The market anticipated that the RAB-methodology would be fully applied. Under the new approach investments made by companies would have a "market" return, tariffs would state for 3-5 years and cost savings would be allocated to companies. A switch to the RAB-methodology would result in a significant regulated tariff growth, which could be unwelcomed by regional authorities.

**Cold winter and economic recovery in Russia may lead to electricity consumption increase and free electricity price appreciation. Domestic electricity market liberalization and tariff regulation system modernization may attract new investors to electric utilities stocks. We decided to place a solid bet on RAB story and continued to increase our presence in IDGC names – we added MRKK (IDGC of Northern Caucasus), MRKC (IDGC of Centre), MRKS (Siberia) and MRKV (Volga) in decent weights to our portfolio.**

Russian **metals companies** performed well in December – the RTS Metals and Mining Sub Index was up 5.97%. Russia's largest steel maker Severstal rocketed by 37.4%. The company announced that it is in the process of selling one of its European units and is planning to restart part of halted steel mills in North America as market conditions allow it to do so.

One of the largest Russian coal producer Mechel jumped by 17.5% while its peers – Belon and Rapsadskaya grew by 13.6% and 13.1%, respectively. The key driver for the coal names was price appreciation in international coal markets, especially, in China where the coke prices added another 4% after a 15% jump in the previous month. This price increase caused expectations of the comparable price revision in the domestic coal market. It also helped MMK advance by 15.8%, – recently the company increased its share in coal producer Belon up to 80% which makes it more self-sufficient in coking coal.

**We decided to take part in coal rally, but through cheaper alternative – KZRU (Kuzbassrazrezugol), which slightly lagged behind due to lower liquidity.**

The key event of the month in the non-ferrous segment was the IPO of the world's largest aluminum producer United Co. Rusal Ltd, which placed its shares in Hong Kong. It was the first test for the global IPO market in 2010 as well as the first placement of a Russian company in Hong Kong. The final pricing gives UC Rusal a market value of \$21 billion, ranking it the second Russian non-ferrous producer in terms of market capitalization after Norilsk Nickel. On the first trading date On

January 26 the company's shares dropped by 10%. GMK Norilsk Nickel, Russia's largest mining company, added 10.2% percent despite a weak performance in nickel and copper prices, which closed the period by +1.1% and –6.9%, respectively.

**We decreased our weight in GMKN slightly on it's local peaks before Rusal's IPO, We sold almost all our position in Uralkaly (URKA LI) on growing concerns from China, but we replaced it by much cheaper though less liquid Apatit (APAT) as it has almost no exposure on China. We did also sell 1/3rd of our position in Uranium One (UUU CN) as the stock is realizing its potential and we'd like to fix profits as it is also very volatile.**

Telecom sector in January performed in line with the market, RTS Telecom Sub Index was up 2.8% – after the spectacular gains last year investors were cautious. Fixed-line telecoms outperformed mobile operators on the back of increase in tariffs for local calls by 7-10%. Regional telecoms rose by 5.8% on average. The key driver of the sector performance is reorganization of Svyazinvest, however, there were few news on it in January. State-controlled bank KIT-finance announced purchase of 6.3% stake in Uralsvyazinform. Market positively reacted to it, as state participation in a regional telecom capital shall increase probability of attractive swap ratios for it. Uralsvyazinform common and preferred shares gained 8.9% and 11% respectively. Investors continued to favor Rostelecom preferred shares as a save way to invest in fixed-line segment, as it has no risk of the unfavorable swap ratios. Rostelecom preferred shares were up 11% in January.

Mobile operators finally launched 3G services in Moscow in December. According to companies since that internet traffic in 3G covered areas rose 2-3 times. However, increase in traffic will not translate into the same increase in revenues, as customers shift to cheaper tariffs. Mobile statistics for December showed penetration of 143% that is up 1.2% MoM. Megafon had the largest share of new subscriptions – 33%, followed by MTS – 23% and Vimpelcom – 12%. Telecom minister Igor Shchegolev said that Svyazinvest is in talks to acquire a stake in Megafon. This is seen as positive factor for mobile industry. In this case Svyazinvest has no need to create the forth large mobile operator out of regional telecoms and distort prices. MTS local shares were up 4.4% and ADRs down 0.6%, while Vimpelcom GDRs were up 1.1%.

The asset swap between AFK Sistema and government continued in January. AFK Sistema received approval to acquire 23% stake in MGTS. As a part of the swap VEB will take up Comstar loan in exchange for 25%

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stake in Svyazinvest. Sistema will exchange mobile operator Skylink for 23% of MGTS. Valuations reported by press imply that deal will be value accretive for Sistema. Market reacted positively to this news – shares of Sistema rose 13% in January.

**Svyazinvest is expected to provide more information on the reorganization in February. We believe that swap ratios offered to regional telecoms will reflect their fundamental value. Current valuations are below fair values, as suggested by low multiples: 2010 PE of 6.8 and EV/EBITDA of 3.0. Mobile operators shall benefit from the recovery of the consumer demand and launch of 3G services in Moscow.**

**But this month we came to decision to fix profits, while the market is hot, and sold some portion of our position in regional telecoms – reduced ENCO (Sibirtelecom), ESMO (Centrtelecom), NNSI (Volgatelecom), SPTL (North-West telecom) and ESPK (Dalsvyaz). On the other hand we added ADRs of Comstar (CMST LI).**

**Banks** were very strong with RTS Financial Sub Index gaining 7.28%. Statistical data reported in January suggest that lending was weak during December with c.0.5% MoM declines in corporate and retail loan books. At the same time, overdue loans were down 2.5% MoM, with a corporate part dropping to 6.68% of the loan book – mostly thanks to restructuring processes.

On the positive side, banks recorded a strong inflow of retail deposits in 2009 – up 26% YoY, now the CBR expects 20% lending growth in 2010 with corporate lending will take off from 2Q10, and retail lending starting to grow by the end of year. Another reason for that may be rapidly falling interest rates and growing banks' risk appetite. CBR expects overdue loans to reach 7% by mid-2010.

Russia's second largest bank VTB added 7.4% extending the 3-month rally up to 25%. The key reason for that is a catch-up play against its main peer Sberbank, which common shares rocketed during the same months by 30%. Another reason was the fact that the market participants expect strong earnings improvement of VTB via possible provision release due to active restructuring processes.

Sberbank common and preferred shares added 5.3% and 4.2%, respectively. There were a few interesting developments at Sberbank

in January. Among the bullish ones – the management announced that bank saw a record inflow of retail deposits December of RUB 230 bn (6.5% MoM, implying 20.8% YoY growth in 2009). Also, to stimulate demand, Sberbank lowered the interest rates on both retail loan and deposits by an average of 1.5% to the range of 6.0-6.5%. On the bearish note, Sberbank's CEO German Gref said that no provisions releases were expected for this year and that the bulk of the releases would only fall in 2011-13F. He also mentioned that provisions to continue being created in 1H10.

**We sold almost all of our position in Sberbank preferred as we see much less upside from these levels and CEO's words make us even more cautious.**

**Consumer sector** rose 2.9% in January. The best performance in January showed Rosinter, the only public company in Russian restaurant business – shares showed a dizzying spike of 55.4%.

Wimm-Bill-Dann issued a press release disclosing that dairy volumes in Q4 were negatively affected by an acute shortage of raw milk caused by both a seasonal decline in production and an unforeseen shortage of dry milk. WBD had to restrict production of some dairy products in the quarter, resulting in lower-than-expected dairy sales. The increase in raw milk prices also had a negative short-term effect on the company's margins. WBD expects FY09 EBITDA at the level of \$300-310 mln, which is 4% below consensus. Company's shares dropped 12.8% in ADR and rose 1.5% in local market.

Aeroflot's BoD approved the purchase of 25.8% of its own shares from the National Reserve Corporation for USD400mn at a 20% discount to the current price. The shares could be used in M&A deals with Rosavia (one of the largest Russian airline corporation) and Sheremetevo2 airport. This potential deal could bring significant synergy effect to Aeroflot. But still there are a lot of risks for Aeroflot that are not transparent now. The shares rose by 5.2% in January.

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## Troika Russia Fund – Key Term Sheet Information

<b>Structure :</b>	Cayman master LP lus Cayman Feeder Fund with US\$ share classes
<b>Launch Date and Size:</b>	May 3, 2006 with US\$42 million
<b>Listing:</b>	Irish Stock Exchange
<b>Bloomberg Ticker:</b>	TRORUFM KY
<b>Share Classes (2):</b>	US\$ Monthly and Six-monthly dealing classes
<b>Management Fee:</b>	2% (monthly class) & 1% (six monthly class)
<b>Performance Fee:</b>	20% (monthly class) & 15% (six monthly class)
<b>High watermark:</b>	Yes
<b>Minimum investment:</b>	US\$100,000 (monthly class) & US\$1 million (six monthly class)
<b>Subscriptions:</b>	2 days' notice (reduced by Directors' decision from 10 days until further notice)
<b>Redemptions:</b>	4 weeks' notice (reduced by Directors' decision from 45 days until further notice)
<b>Redemption Gate:</b>	10% max each month (only as necessary)
<b>Legal Counsel:</b>	Dechert LLP
<b>Prime Broker:</b>	Unicredit Securities International Limited
<b>Auditor:</b>	PriceWaterhouseCoopers (November 30 year-end)
<b>Administrator Contact:</b>	Michelle McDonnell at JPMorgan Hedge Fund Services +353 1 612 4071 or michelle.m.mcdonnell@jpmorgan.com

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## Overview

- The investment objective of the Fund is to achieve long term total return through investment primarily in the publicly traded equity-related securities of companies operating in Russia and to a lesser extent, other CIS countries, which means at present chiefly Ukraine and Kazakhstan. The Fund expects to achieve this primarily through capital appreciation although there may well be some current income. The Fund may have both long and short positions and use leverage.
- The Fund aims to capture the majority of market returns in bullish conditions with below market volatility and to maintain positive absolute returns in bearish market conditions by, for example increasing short positions, reducing net long positions, etc.
- The Investment Adviser ("TDAM") believes these returns can be achieved by taking advantage of local market conditions such as under/over valuation in particular stocks, uneven research coverage, lack of rigorous valuation discipline, variable liquidity, rapid changes in corporate governance and variable foreign participation.
- The Fund uses the current version of the "A2A" portfolio strategy developed by TDAM, which generated returns of 34.5% p.a., net of fees of 2% +20% since inception (26.07.02) through 31.03.06. The A2A performance data has not been independently audited and/or verified.

## Investment strategy

- Currently the Fund has identified a securities universe of c.150 domestic, ADR/GDR and London/NY listed companies, operating in Russia, Ukraine and Kazakhstan. The Fund currently expects to invest not more than 20% in less liquid issues, including pre-IPO private placements (that are traded OTC).
- Maximum 30% invested outside Russia. Maximum 20% in any one issuer. Maximum 150% net long. Maximum 250% gross long. Minimum 0% net long.
- TDAM maintains a detailed macro scenario for the region which leads to recommendations for sector, factor, country, currency, gross and net portfolio weightings and risk levels.
- TDAM's internal company research and valuation modelling (emphasis on DCF) leads to recommended long, short and pair trade positions. The Fund expects to hold 40-70 underlying positions over time and to use primarily ADR/GDR and NY/London listed companies for short positions. Currently, Ukrainian and Kazakh companies will only be selected on a stock by stock basis.
- The Fund may also invest in certain OTC derivatives, including options, baskets and notes and use traded futures. Cash is held in US\$ and local currency exposure is hedged into US\$, as necessary to manage risk.

## Key Investment Professionals

**Oleg Larichev** is the CIO of TDAM. He has over 11 years' experience in Russian securities with Troika. Before this he was an economic expert with the Russian European Centre for Economic Policy. He has an MA in Maths from Moscow State University and an MA in Economics from the New Economic School, Moscow.

**Vladimir Potapov**, CFA, is the Co-Portfolio Manager for the Troika Russia Fund together with Oleg Larichev. He joined TDAM after graduating with BSc in Economics from the State University, Higher School of Economics and from the People's University of China in Beijing. He is a PhD candidate and in 2006 was named in Finance Journal as one of Russia's top 10 fund managers.

**Pavel Teplukhin** is the Chairman and Executive Director of TDAM (Cyprus) and also the Chairman and a Founder of TDAM in 1996. Before this he was involved in various government bodies during the transitional phase of the Russian economy. He is widely known in the Russian investment community. He has an MA in Economics and Statistics from Moscow State University and an MSc from the London School of Economics.

## Risk Management

- Team Meetings review investment activities, risk reports, performance, counterparty limits, market liquidity data, the macro scenario outlook, exposure limits for sector weightings, factor risks, F/X, country weightings, net long, leverage, etc.
- Beta is part of strategy. VAR is reviewed weekly or as necessary.
- OTC derivatives are used to help to manage volatility and improve risk-adjusted returns.
- Risks inherent to ongoing exposure to Russia/CIS markets include inter alia political, legal, tax, corporate governance, settlement, organised crime, liquidity, currency, disclosure, etc. risks.

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