

# Russian Prosperity Fund (EUR)



PROSPERITY CAPITAL MANAGEMENT

December 2011

## Investment Objectives and Methodology

RPFE has a long only unlevered "fundamental value" strategy - and is UCITS III-compliant. The fund selects well-managed companies benefiting from Russia's fast-developing market economy. RPFE takes positions in mainly blue chips – allowing the fund to offer daily liquidity. But by harnessing PCM's unique experience and contact network across corporate Russia, it also invests in mid-cap restructuring situations, providing high-return opportunities. The Fund is advised by Alexey Krivoschapko.

## NAV EUR €75.80

Performance*	% Inception	Dec	YTD	1 Yr	3 Yr	5 Yr	10 Yr
The Fund	658.0	-5.7	-22.9	-22.9	215.0	-22.7	437.5
MSCI Russia (Euro)	175.9	-7.3	-18.5	-18.5	99.8	-40.0	112.9
RTS (Euro)	503.1	-6.8	-19.3	-19.3	135.4	-26.8	267.0

\* In EUR terms, net of all PCM fees

## Fund Comment

Having shown resilience during October and November, the Russian market last month succumbed to the sharp deterioration in the global investment outlook, with the RTS index of leading shares losing 10.4%. The 21.9% fall in Russian stocks over 2011, similar to that in the other large emerging markets, was largely driven by global "risk off" sentiment amid rising concerns over Western sovereign and bank indebtedness, not least in the eurozone.

Against this backdrop, *Russian Prosperity Fund (Eur)* lost 5.7% last month, beating the 6.8% euro-denominated drop in the RTS. The Fund's oil exposure fell 4%, with Bashneft down 12% but TNK-BP losing only 1%. We swapped our entire Tatneft position into Gazprom on big outperformance and signs of increased Gazprom dividends. We also cut our KMG exposure following riots in Zhanaozen, one of its main production hubs, and the consequent dismissal of KMG and Samruk top management.

RPFE's power sector stakes fell 11%. Delays in the KES-Gazprom merger pushed TGK-5 down 15% while Bashkirenergo fell 7%. Our limited MRSK exposure lost 13-22% after Prime Minister Putin's orchestrated dismissal of top utility managers on corruption charges. Our materials exposure dropped 4% and Mriya finished the month down 2%, with the Fund increasing its exposure during the sell-off. Evraz was up 4% on rumours of a possible merger with Severstal, while Mechel prefs shed 15% during the month.

The Fund's transport holdings lost 7%, in line with the market. Cargo growth remained well into double-digits in November. Our consumer exposure fell 6.5%, with Dixy 5% off after reporting strong openings and sales growth the previous month. MHP was flat and Magnit fell 11% as the stock approached the level of the recent SPO, priced earlier in the month. RPFE participated in this SPO with 1% of the Fund, switched from Dixy, M Video and Cherkizovo.

The Fund's telecom and media exposure was down 5%. Mobile operators lost 12-14% on signs of increased competition but valuations still look compelling. Kazakh Telecom was up 17% on the sale of its mobile subsidiary and RPFE took some profits. Our meeting with the management of CTC-Media confirmed that the stock is cheap, while highlighting mid-term management uncertainty. Overall, RPFE trades at 5x 2011 P/E.

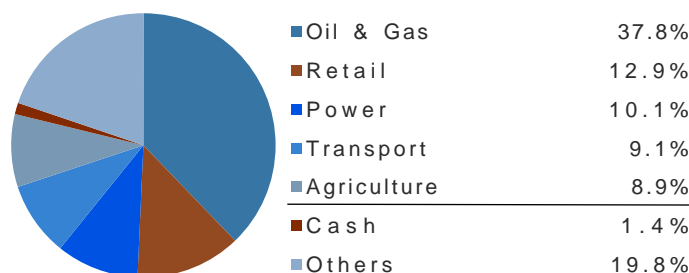
## Top 10 Exposures (Month-end Valuations)

Security	Type	Exposure %	Sector	Mthly Perf %	PE11	PE12	Inv Driver	Manager's Comment
Bashneft	P	8.8	Oil & Gas	-11.9	4.3	3.6	Restructuring	Low valuation, upside from organic growth and acquisitions
TNK-BP	P / C	8.4	Oil & Gas	-1.3 / -0.4	3.8	4.2	Value	Low valuation, dividend yield in the mid teens
Gazprom	G / C	8.2	Oil & Gas	-1.1 / -1.3	2.5	3.1	Value	Beneficiary of growing domestic gas prices
Surгутneftegas	P / AP	6.7	Oil & Gas	0.2 / 1.7	2.7	7.5	Corp. Gov.	High dividend yield, cash pile accounts for over 80% of market cap
DIXY		4.9	Retail	-4.9	11.2	8.2	Growth	Leading discount food retailer in Russia
Transneft	P	4.7	Transport	0.8	2.0	2.0	Corp. Gov.	Huge discount to replacement value
Magnit		4.7	Retail	-11.4	19.9	12.5	Growth	Leading discount food retailer in Russia with focus on small cities
MHP	G	4.6	Consumer Goods	0.1	4.7	3.6	Value	Integrated poultry producer in Ukraine with 40% market share
Mriya Agro	G	4.1	Agriculture	-2.1	3.4	3.5	Value	Low cost agricultural producer in Ukraine, high growth potential
M.Video		3.1	Retail	-15.2	7.6	5.1	Growth	Leading consumer electronics chain in Russia
Total		58.2						

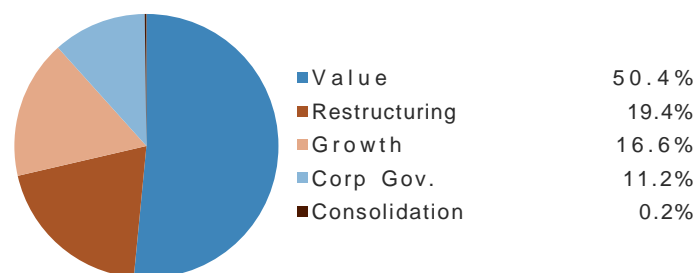
Company exposure may comprise several individual equity positions - in ordinary shares, preferred shares or, occasionally, derivatives. Where this is the case, the individual performance of each equity position over the last month is noted. The larger of the two positions by market value is listed prior to the forward slash.

A ADR  
C / Common Share  
G GDR  
P Preference Share

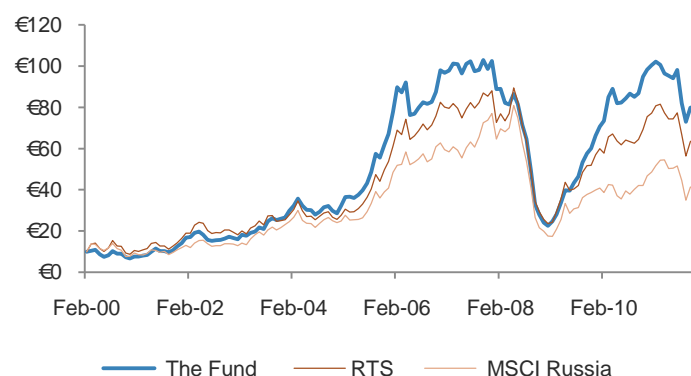
## Sector Breakdown



## Top 5 Driver Breakdown



## Performance



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## Risk Characteristic (3 Year)

Alpha:	1.24	Measurement of the Fund's risk adjusted performance against its benchmark.
Beta:	0.83	Correlation of the Fund's movement with its benchmark.
R-Square:	0.86	Measurement of the Fund's performance attributed to movements in its benchmark.
Sharpe:	1.51	Measurement of the Fund's risk adjusted performance.
Treynor:	0.50	Measurement of the Fund's return based on systematic risk.
Tracking:	11.61	Measurement of how closely the Fund tracks its benchmark.
Ann. Std Deviation:	27.56	Measurement of the Fund's overall volatility.

## Key Information

<b>Investment Advisor</b>	Prosperity Capital Management (RF) Ltd.
<b>Investment Manager</b>	Seligson & Co. (Helsinki)
<b>Location</b>	Finland
<b>Home Page</b>	www.prosperitycapital.com
<b>Status</b>	Open-ended with daily dealing (UCITS III)
<b>Domicile</b>	Finland
<b>ISIN Code</b>	FI0008808183 (K Shares) FI0008802004 (A Shares - open to Swedish/Finnish investors)
<b>Trading</b>	Daily
<b>Listing</b>	No
<b>Date Of Inception</b>	08-Mar-00
<b>Number Of Shares</b>	1.02 million (A)
<b>Total Fund Assets</b>	EUR113.47 million
<b>Fees</b>	K Shares: 2.9% mgmt fee, A Shares: 1.4% mgmt fee, performance fee of 15% over RTS Euro.
<b>Minimum Investment</b>	€25k
<b>Placing/Exit fees</b>	Up to 2.5%/0.5% (within 6 months)
<b>Redemption</b>	Daily, on dealing day
<b>NAV/Price Release</b>	Bloomberg (SELPRUS), Morningstar
<b>Administrator</b>	Seligson and Co (Helsinki) +358 9 6817 8200
<b>Custodian</b>	Citibank (Moscow)

## Advisor Profile

PCM is the largest portfolio investor operating in Russia today - controlling investments worth around \$3.5 bn.

Founded in 1996, PCM has consistently topped performance charts for emerging market funds. The firm has built a stellar reputation for its thorough research and "active" investment approach. PCM is now a major shareholder in some of the leading companies in Russia, Ukraine and Central Asia.

Our international client base includes international pension funds, insurers, endowments, family offices and private banks, as well as sovereign wealth funds.

PCM has a strong presence in Moscow - with around 16 staff based in offices close to Red Square. The majority of the staff are Russian. PCM also has offices in London and the Cayman Islands.

The company's philosophy is "long-only/activist" using no leverage. Investments are made on a fundamental value basis, using a bottom-up approach, with top-down themes. Portfolios tend to be concentrated.

## Performance vs. MSCI RU & RTS (Euro)

Year	Fund Returns %	MSCI RU %	RTS (Euro)%
Since Inception	658	176	504
2000	-34	-32	-30
2001	114	62	89
2002	18	-3	18
2003	60	42	31
2004	8	-4	0
2005	135	94	112
2006	46	38	53
2007	5	11	7
2008	-77	-73	-71
2009	176	95	123
2010	48	26	31
2011	-23	-19	-19
CAGR	19	9	16

\*Past performance is not an indication or guarantee of future returns.

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