BNP PARIBAS
INVESTMENT PARTNERS

MONTHLY REPORT

BNP Paribas L1 Equity Russia September 2011

Performance overview

Performance at the end of September 2011 (gross of fees - %)	Sept	Last 3M	YTD	Last 12M	Last 24M*	Last 36M*	Last 60M*	Since inc.,**
BNP Paribas L1 Equity Russia (EUR)	-16.10	-25.67	-28.73	-14.53	9.09	7.02	-	-2.74
MSCI Russia 10/40 Net Return Index	-17.00	-26.11	-26.68	-12.65	7.40	7.49	-	-1.59
Excess return	0.91	0.44	-2.05	-1.88	1.69	-0.47	-	-1.15

Risk indicators (annualised)	Last 36W	Last 52W	Last 24M	Last 36M	Last 60M	Since inc.,**
Fund volatility (%)	27.25	25.17	23.05	37.89	-	36.67
Benchmark volatility (%)	28.77	26.65	22.11	37.95	-	37.00
Tracking error (%)	4.35	4.30	4.55	6.25	-	5.40
Information ratio	-0.04	-0.43	0.37	-0.08	-	-0.21

all figures gross of fees (in EUR)

* annualised performance

** inception date: 06/03/07 (annualised)

Past performance or achievements are not indicative of current or future performance,

Performance at the end of September 2011 (gross of fees - %)	Sept	Last 3M	YTD	Last 12M	Last 24M*	Last 36M*	Last 60M*	Since inc.,**
BNP Paribas L1 Equity Russia (USD)	-21.73	-31.11	-28.64	-	-	-	-	-34.43
MSCI Russia 10/40 Net Return Index	-22.66	-31.62	-26.67	-	-	-	-	-32.11
Excess return	0.93	0.51	-1.97	-	-	-	-	-2.32

Risk indicators (annualised)	Last 36W	Last 52W	Last 24M	Last 36M	Last 60M	Since inc.,**
Fund volatility (%)	29.75	-	-	-	-	28.57
Benchmark volatility (%)	31.42	-	-	-	-	30.46
Tracking error (%)	4.34	-	-	-	-	4.53
Information ratio	-0.05	-	-	-	-	-0.50

all figures gross of fees (in USD)

* annualised performance

** inception date: 15/12/10 (annualised)

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MARKET REVIEW

- **The Russian equity market fell by 11.6% in rouble terms in September** on the back of turmoil on the global markets. Local news continued to be mostly positive, with supportive macroeconomic data for August, inflation continuing to slow and the results of the coming elections becoming more predictable.
- **Russian GDP rose 5.2% YoY in August, according to Ministry of Economy estimates.** Retail sales were up 7.8% YoY, fixed investments rose 6.5% YoY and real wages increased by 3.9% YoY. We expect further improvement in real wages as the government tries to lift its popularity in the pre-election period. Local consumption should remain one of the key drivers of the Russian economy. Despite August's strong macro data, we retain our view that the main factors influencing the Russian market through to the end of the year will be external, in particular, global risk appetite and oil prices.
- **In annual terms, inflation dropped to 7.2% at the end of September from 8.2% at the end of August, according to Rosstat.** Inflation in September was zero. Food prices contracted 0.6% on the back of a good harvest. At the same time, prices rose 0.7% in the non-food segment, supported by rouble depreciation. In Q4, the effect of the good harvest should fade, which we believe will put pressure on CPI growth rates coupled with further rouble depreciation. For 2011, we estimate inflation will be under 7%.
- **The United Russia party announces Putin as its candidate for the presidential elections next March.** While the timing of Prime Minister Vladimir Putin's announcement of his return to the presidential election stakes came somewhat earlier than expected, there was very little surprise in the party's choice of him as its candidate. Opinion polls show Putin has more support than Medvedev. Putin has also clearly held a very strong role in managing the country's affairs since leaving office in May 2008, and his formal return should have little impact on equity markets. Investors are currently far more focused on events in the eurozone and news from the European Central Bank and US Federal Reserve. With Medvedev standing aside for Putin, a key question concerning the presidential elections has been answered. We thus expect the capital outflows associated with perceived political risk to slow over the months between now and the election. As a consequence, we also expect depreciation pressure on the rouble to ease over the same period, though we do not expect the currency to recover either quickly or strongly.

Fund performance

- **BNP Paribas L1 Equity Russia declined 16.1% (gross of fees in EUR terms) in September,** outperforming its benchmark (MSCI Russia 10/40 Net Return Index), which fell by 17.0%. In USD terms, the fund declined by 21.73% (gross of fess), while the benchmark fell by 22.66%.
- **An increase in cash and our exposure to defensive stocks in the energy sector paid off in September as these contributed the most to the excess returns**. The main contribution within the energy sector came from our overweight position in Surgutneftegas preferred stocks and from our position in an off-benchmark stock, TNK-BP. We expect a dividend yield of 10%-14% for 2011 from Surgutneftegas preferred stocks. In addition, Surgutneftegas has USD 29 bn in cash and financial assets, which is close to the company’s capitalisation. Finally the “60-66” oil taxation regime should benefit the company as it only refines 35% of the oil it extracts and has substantial reserves in East Siberia. TNK-BP should benefit substantially from the “60-66” oil taxation regime as well. We believe the company’s corporate governance is of high quality, and that its significant projects in Yamal and East Siberia should help it increase production.
- **The most negative effect came from the telecommunications sector** – mainly our overweight in MTS as its stocks performed relatively poorly due to concerns over tougher competition.

Portfolio activity

- We continued to **increase exposure to quality defensive stocks and cash, mostly at the expense of cyclical stocks**. Thus, our largest sales were in Federal Grid company and Uralkali and our largest purchases were in LUKOIL and JFC Sistema.
- We see a high level of uncertainty for the **Federal Grid company,** particularly forits future cash flow, due to a lack of clarity on the policy related to tariffs regulation. The company also has a high valuation relative to defensive stocks, like LUKOIL, and poor cash flow growth prospects.
- **Uralkali** has risen 30% YTD as of the end of August, against a market downtrend over the same period. In our view, its valuations are at excessively high levels. Its 2012 EV/EBITDA is higher than that of Potash Corp (7.9 vs. 7.2), which we do not consider a fair reflection of their relative values. Uralkali's possible acquisition of Belaruskali at even higher multiples might be value-dilutive. There is also a risk that major Uralkali shareholders might want to take profit (possibly through an SPO) after the stock rallied on its recent merger with Silvinit.
- **JFC Sistema** is a holding company with two main assets – MTS and Bashneft (both defensive stocks). In September, Sistema traded at a discount of more than 40% to the portfolio of MTS and Bashneft it holds. As to the defensive quality of MTS and Bashneft, for MTS we expect a dividend yield of around 8% for 2011. The company's dividend payout ratio is usually no less than 50% of its profit. It is trading at a 30% discount to its peers in emerging markets based on 2012 P/E ratios. MTS is also aiming to increase its efficiency – it revised its agreements with several agents and is continuing to develop a system to attract users through its own distribution net. Meanwhile, Bashneft also has a relatively high dividend yield – 10%-12% and is on relatively low multiples.
- We see **LUKOIL** as a defensive stock due an expected improvement in its dividend yield on the back of higher free cash flow and low multiples. LUKOIL reported strong results for Q2 2011 in terms of free cash flow, which, at USD 2.7 bn, was the second highest free cash flow figure ever reported, after USD 3.8 bn in Q3 2010. We expect LUKOIL to be able to generate free cash flow in excess of USD 8 bn this year, which suggests the company may increase its 2011 dividend payments on a YoY basis. The CEO of LUKOIL indicated that the company expects production growth from 2013 and that free cash flow would be allocated to upstream investments and potentially higher dividends. Meanwhile, LUKOIL is trading at a 2012 P/E of 4.6x, well below its EM peers (7.7x).

Outlook & positioning

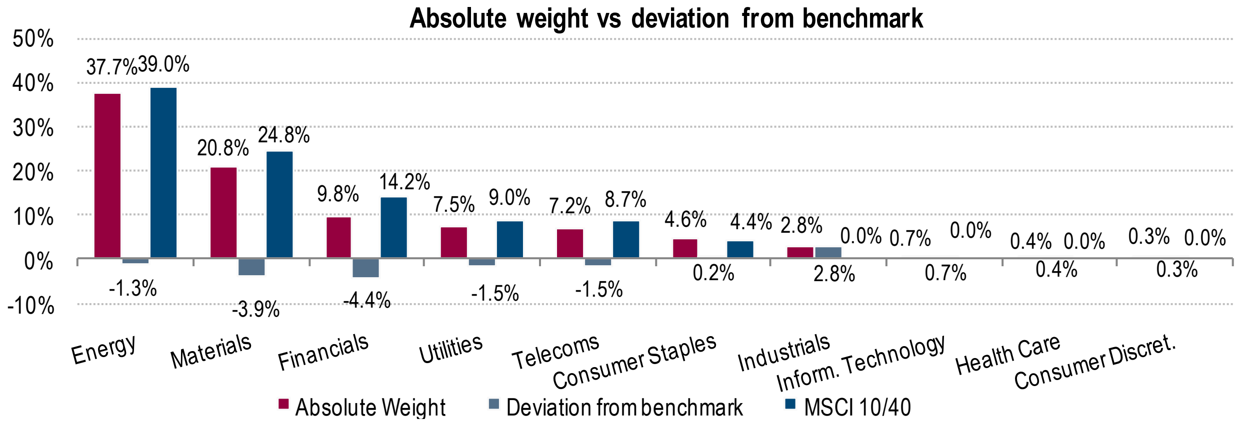
- **Russia's economic outlook so far remains broadly stable,** with the GDP/budget balance not yet indicating stress from a potential global slowdown. Forecasts should remain unchanged assuming no substantial falls in oil prices, other commodity exports or Chinese growth, all of which would affect fiscal performance. Despite good projections for 2011 GDP growth and underlying fundamentals, Russia's equity market performance remains vulnerable to sovereign debt concerns in Europe and the US and the risk of a global slowdown. Some sectors could be particularly sensitive, especially in the pro-cyclical retail and real estate sectors, as well as materials, where vertically integrated steel producers with high leverage, like Evraz and Mechel, might suffer from short-term weakening of coking coal prices. We should also mention that for banks, the situation looks slightly better than three years ago, with less wholesale foreign-denominated debt, more deposits (in absolute and in relative-to-loan terms) and lower multiples (with a current P/B ratio of less than 2, down from the 3-4 seen three years ago).

- **The Russian equity market offers diversification of exposure versus other major EM economies**, with a large proportion of relatively defensive energy companies (low multiples, high dividend yields) making up the market capitalisation. Russian sectoral performance is typically contrarian to that of other emerging markets – its energy stocks are defensive and domestic consumer-oriented stocks tend to be high beta, while elsewhere among the emerging markets, this tends to be the other way round.

- After the market correction in the third quarter, **we believe the following factors are supportive for Russian equities in the short to medium term**:

  - Low historical valuations, with a P/E for the MSCI Russia 10/40 of 5.6 (end September 2011)
  - Robust consumption growth at 6.2% YoY between January and September 2011, on the back of falling unemployment and real wage growth. Our positive outlook on local demand growth is supported by international companies' M&A activity in this segment, the latest announcement being Unilever's plan to acquire 82% of Kalina (one of the leading Russian cosmetics producers) for more than USD 500 mn.
  - Expected government debt-to-GDP levels of 9% in 2011
  - International reserves high enough to cover all government debt more than three times over
  - 2011 budget is expected to be balanced, which is far better than the situation in the US and many European countries

Additional information



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Performance details

ISIN Codes: LU0269742168, LU0269742671, LU0269742754, LU0269742325, LU0269742598, LU0531769684, LU0531769767

Total AUM as of end of reporting date: EUR 886 mn

Performance (net of fees C share) (%)	Sept	Last 3M	YTD	Last 12M	Last 24M*	Last 36M*	Last 60M*	Since inc.,**
BNP Paribas L1 Equity Russia (EUR)	-16.25	-26.08	-29.85	-16.33	6.83	4.81	-	-4.67
MSCI Russia 10/40 Net Return Index	-17.00	-26.11	-26.68	-12.65	7.40	7.49	-	-1.59
Excess return	0.76	0.03	-3.17	-3.68	-0.57	-2.68	-	-3.07

Performance History (%)	2010	2009	2008	2007	2006
BNP Paribas L1 Equity Russia (EUR) (full year)	38.25	134.13	-72.00	-	-
MSCI Russia 10/40 Net Return Index (full year)	37.59	135.37	-70.91	-	-
Excess return (full year)	0.65	-1.23	-1.09	-	-
BNP Paribas L1 Equity Russia (EUR) (September to September)	36.40	0.89	-37.79	-	-
MSCI Russia 10/40 Net Return Index (September to September)	32.06	7.67	-37.35	-	-
Excess return (September to September)	4.35	-6.78	-0.44	-	-

Risk indicators (annualised)	Last 36W	Last 52W	Last 24M	Last 36M	Last 60M	Since inc.,**
Fund volatility (%)	27.24	25.15	23.01	37.83	-	36.61
Benchmark volatility (%)	28.77	26.65	22.11	37.95	-	37.00
Tracking error (%)	4.34	4.31	4.55	6.24	-	5.39
Information ratio	-0.37	-0.85	-0.13	-0.43	-	-0.57

all figures net of fees (in EUR)

* annualised performance

** inception date: 06/03/07 (annualised)

TER : 2,19%

Past performance or achievements are not indicative of current or future performance,

Performance (net of fees I share) (%)	Sept	Last 3M	YTD	Last 12M	Last 24M*	Last 36M*	Last 60M*	Since inc.,**
BNP Paribas L1 Equity Russia (EUR)	-16.18	-25.87	-29.27	-15.42	7.97	5.93	-	-3.69
MSCI Russia 10/40 Net Return Index	-17.00	-26.11	-26.68	-12.65	7.40	7.49	-	-1.59
Excess return	0.83	0.23	-2.59	-2.77	0.57	-1.56	-	-2.09

Performance History (%)	2010	2009	2008	2007	2006
BNP Paribas L1 Equity Russia (EUR) (full year)	39.63	136.70	-71.71	-	-
MSCI Russia 10/40 Net Return Index (full year)	37.59	135.37	-70.91	-	-
Excess return (full year)	2.04	1.33	-0.80	-	-
BNP Paribas L1 Equity Russia (EUR) (September to September)	37.84	1.95	-37.18	-	-
MSCI Russia 10/40 Net Return Index (September to September)	32.06	7.67	-37.35	-	-
Excess return (September to September)	5.78	-5.72	0.17	-	-

Risk indicators (annualised)	Last 36W	Last 52W	Last 24M	Last 36M	Last 60M	Since inc.,**
Fund volatility (%)	27.24	25.16	23.04	37.87	-	36.65
Benchmark volatility (%)	28.77	26.65	22.11	37.95	-	37.00
Tracking error (%)	4.34	4.30	4.55	6.24	-	5.39
Information ratio	-0.20	-0.63	0.13	-0.25	-	-0.39

all figures net of fees (in EUR)

* annualised performance

** inception date: 06/03/07 (annualised)

TER : 1,06%

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Performance (net of fees Classic USD share) (%)	Sept	Last 3M	YTD	Last 12M	Last 24M*	Last 36M*	Last 60M*	Since inc.,**
BNP Paribas L1 Equity Russia (USD)	-21.86	-31.48	-29.74	-	-	-	-	-35.94
MSCI Russia 10/40 Net Return Index	-22.66	-31.62	-26.67	-	-	-	-	-32.11
Excess return	0.80	0.14	-3.07	-	-	-	-	-3.82

Risk indicators (annualised)	Last 36W	Last 52W	Last 24M	Last 36M	Last 60M	Since inc.,**
Fund volatility (%)	29.74	-	-	-	-	28.55
Benchmark volatility (%)	31.42	-	-	-	-	30.46
Tracking error (%)	4.33	-	-	-	-	4.54
Information ratio	-0.37	-	-	-	-	-0.83

all figures net of fees (in USD)

* annualised performance

** inception date: 15/12/10 (annualised)

TER : 2,19%

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On 1 September 2010, Fortis L Fund Equity Russia was renamed BNP Paribas L1 Equity Russia.

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The Fund referred to in this monthly report is part of a Fortis Investments GIPS (®) compliant composite whose full performance is available on request.

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