



SEPT 2011

MONTHLY REPORT

BNP Paribas L1 Equity Russia

November 2011



Performance overview

Performance at the end of November 2011 (gross of fees - %)	Nov	Last 3M	YTD	Last 12M	Last 24M*	Last 36M*	Last 60M*	Since inc.,**	
BNP Paribas L1 Equity Russia (EUR)	3.91	-1.10	-16.00	-9.62	14.63	36.26	-	0.78	
MSCI Russia 10/40 Net Return Index	3.73	-1.50	-12.98	-5.59	12.86	34.72	-	2.08	
Excess return	0.18	0.40	-3.01	-4.03	1.77	1.53	-	-1.30	
Risk indicators (annualised)				Last 36W	Last 52W	Last 24M	Last 36M	Last 60M	Since inc.,**
Fund volatility (%)			29.51	27.48	24.61	31.57	-	36.54	
Benchmark volatility (%)			31.49	29.86	23.97	32.96	-	36.92	
Tracking error (%)			5.28	5.07	4.47	5.53	-	5.32	
Information ratio			0.02	-0.74	0.40	0.28	-	-0.24	

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 November 2011 (gross of fees - %)	Nov	Last 3M	YTD	Last 12M	Last 24M*	Last 36M*	Last 60M*	Since inc.,**
BNPP L1 Equity Russia (USD)	0.28	-7.52	-15.68	-	-	-	-	-14.06
MSCI Russia 10/40 Net Return Index	0.11	-7.91	-12.69	-	-	-	-	-11.21
Excess return	0.17	0.39	-2.99	-	-	-	-	-2.85

Risk indicators (annualised)	Last 36W	Last 52W	Last 24M	Last 36M	Last 60M	Since inc.,**
Fund volatility (%)	33.78	-	-	-	-	-
Benchmark volatility (%)	35.94	-	-	-	-	-
Tracking error (%)	5.21	-	-	-	-	-
Information ratio	0.03	-	-	-	-	-

all figures gross of fees (in USD)

* annualised performance

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

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MARKET REVIEW

- **Russian equity market performance was flat in November, in rouble terms**, on the back of mixed news from global markets. Uncertainty over whether there would be any effective solutions to the US and eurozone's debt problems continued to have a negative effect on the markets. On positive note, however, there was a coordinated move by some of the major central banks to reduce the cost of swaps and so ease liquidity conditions for banks. Local news continued to be mostly positive with supportive macroeconomic data and the WTO working group's approval of Russia's accession package.
- **Russian GDP rose 4.3% YoY between January and October, according to Russia's Economy Minister, Elvira Nabiullina.** Before this announcement, another Ministry of Economy representative, Oleg Zasov (head of the department of macroeconomic analysis), had said that the GDP growth estimate for 2011 was likely to be revised upwards from 4.1% to 4.2%-4.5%. In our opinion, this pace of growth is comfortable for Russia's economy and suggests greater stability than in 2008. We believe that a floating rouble policy will continue to help insulate the budget, economy and corporate sector, at least in the short term, should oil prices fall.
- **Macroeconomic statistics continue to be strong.** In October retail sales rose 8.8% YoY and investment was up by 8.6% YoY, according to Rosstat. Growth in consumer demand came mainly from the non-food segment. This growth has continued despite the slight increase in unemployment. State-sponsored investment is on the rise, fuelled by a number of large infrastructure projects (Sochi Winter Olympics 2014, World Cup 2018 and the APEC summit in 2012 among others). Industrial production rose by 3.6% YoY: we believe healthy investment growth and increased local demand should support industrial production, especially in the food industry and the construction materials sector.
- **The WTO working group approved Russia's accession package, which was then approved later on in December at the WTO Ministerial Conference** The Russian Parliament should make a decision to ratify the accession before mid-June 2012. Fitch rating agency expressed its positive view on Russia's likely entry into the WTO by predicting that the economy should become more diversified and see a decrease in its exposure to oil prices. We foresee WTO accession increasing the overall efficiency of the economy, as uncompetitive manufacturers will be forced out of the market or face re-structuring, which would free up labour and other resources. An efficiency increase should improve the long-term growth prospects for earnings in the corporate segment, which should be supportive for Russian equities. It should also prove supportive for Russian equities over the short term on the back of improved market sentiment.
- **The law on foreign investment was liberalised.** Amendments to this law were approved by the Duma on 1 November and signed by President Medvedev later on that month. The major changes are the following: 1) there is no need for approval of deals with up to 25% (10% before) of companies' equity, which uses reserves of federal importance; 2) companies controlled by Russian residents do not need to comply with this law; 3) there is no longer any need for preliminary approval of certain deals where a State-approved international financial institution participates.



Fund performance

- **BNP Paribas L1 Equity Russia rose by 3.91% (gross of fees, in EUR terms) in November**, outperforming the MSCI Russia 10/40 Net Return index, which gained 3.73%. In USD terms, the fund rose by 0.28% (gross of fees), while the benchmark rose by 0.11%
- **Materials made the largest positive contribution to excess return** at an industry level, mainly due to our underweight in Mechel. We have been decreasing exposure to Mechel since the start of the market turmoil in August and closed our position in October. A reduced forecast for steel and raw materials prices led us to downgrade the company's target price estimate. In addition, we believe the global economic slowdown could reduce China's GDP growth damaging the demand for non-food commodities. For Mechel, we see additional risks due to its high leverage (expected net debt/EBITDA for 2012 is 2.5x) and possible problems with its plans to develop the Elginskoe coal field. The net present value of this project is expected to be lower than initial estimates due to the high level of low-quality coal.
- At the same time, the **energy industry was the largest detractor for performance**, mainly due to our underweight in Transneft. Its price surged in November after its CFO met with investment bank analysts and asked what could be done to increase the company's market capitalisation. We believe that the market reacted too positively to the news. For a long period of time Transneft has repeatedly shown that it does not care about minority investors as it has been deliberately decreasing net profit (under Russian accounting standards) to avoid paying significant dividends (dividends are usually only 3-7% of IAS¹ net profit).

Portfolio activity

- The most significant portfolio change in November was a partial substitution of LUKOIL by NOVATEK and Gazprom.
- **We were disappointed with LUKOIL management's decision to use cash flow for capital expenditure rather than dividend increases.** The Board of Directors wants to develop projects in Uzbekistan, Iraq and the Caspian shelf.
- **We increased exposure to NOVATEK as we foresaw a short term catalyst** when the company's weight on the MSCI Russia 10/40 index was likely to increase at the beginning of December (we were right - it happened on 1 December). Novatek has strong fundamentals: a high level of efficiency, expected strong production growth (this year it might be 50-55%) and a growing interest from international investors in its stocks and LNG project. For example, in November Qatar's minister of energy and industry Mohammed Bin Saleh Al-Sada said that the country is interested in buying a stake in NOVATEK as well as in its LNG project. The catastrophe in Japan highlighted the importance of LNG as a strategic resource for energy generation with many countries now putting less emphasis on nuclear energy. If the trend continues, we could see further interest in Russia's gas projects generally and for NOVATEK in particular.
- **We continued to decrease our underweight in Gazprom since we believe there is upside risk in the short term** as information about expected high dividends for 2011 (double the size of 2010) should support the stock price. The dividend yield is expected to be 4-5%. In addition, possible seasonal increases in gas prices in Europe could have a positive influence on the company's stock. Nevertheless, we remain underweight since the medium to long-term prospects seem relatively poor and the company has relatively low efficiency. Gazprom's production for the local domestic market is hardly profitable, while NOVATEK managed a healthy profit margin of 30-35%, mostly from the local Russian market. What's more, we expect higher taxation for Gazprom. Several of its large investment projects have ended (e.g. North Stream) which should improve cash flow. We believe that the authorities would be keen to use it to compensate for losses due to oil tax cuts, effective from November this year.

¹ IAS = Internal Accounting Standards

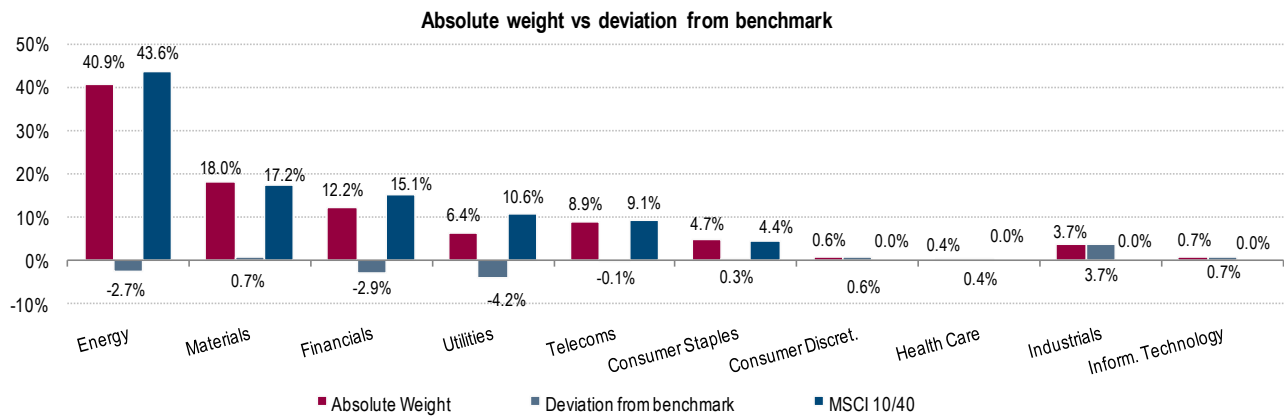


Outlook & positioning

- **Russia's economic outlook so far remains stable**, with GDP growth and budget balance not yet visibly affected by the economic problems in Europe and US. GDP growth accelerated in Q3 2011 to +4.8% YoY, higher than Q2's 3.4%, with overall figures from January-September GDP showing 4.1% YoY.
- **Economic forecasts should remain unchanged** assuming no substantial falls in oil price, other commodity exports prices or Chinese growth, all of which would affect fiscal performance. Another risk to fiscal performance is a higher level of government spending, which would usually occur in the lead-up to presidential elections.
- **Despite strong underlying fundamentals, Russia's equity market performance in 2012 is expected to be vulnerable to contagion from sovereign debt concerns in Europe and the US and the risk of a global slowdown.** Some sectors could be particularly sensitive, especially the pro-cyclical retail and real estate sectors, as well as materials, where vertically integrated steel producers with high leverage, such as Evraz and Mechel, might suffer from a short-term weakening of coking coal prices. We should also mention that for the banking sector, the situation looks slightly better than the downturn three years ago, with less wholesale foreign-denominated debt, more deposits (in absolute and in relative-to-loan terms) and lower multiples (current P/B ratio of less than 1, down from 3-4 seen three years ago).
- **The elections in March 2012 are likely to contribute to volatility on the Russian markets.** Sporadic protests which started at the end of 2011 may continue up to the elections, however, we expect them to have limited impact on the election's result as the State and opposition have shown they are motivated to peacefully deal with this dispute within the limits of the law.
- At the same time, we think that the **long-term drivers for growth in the Russian market remain largely intact:**
 - Growth in China and emerging Asia
 - Increase in Russia's trade balance with China and the rest of Asia
 - Expanding domestic consumption
 - Strong domestic bank capitalisation facilitating lending
 - Increase in infrastructure spending
- **We expect the following factors to support Russian fundamentals**, however we are unclear if this will translate into market performance in 2012 due to the headwinds from a global slowdown, predominantly in Europe:
 - Low historical valuations, with a 2012 P/E for the MSCI Russia 10/40 of 6.1 (end November 2011)
 - WTO entry, which should improve market sentiment and could be a powerful catalyst for serious economic reform and greater industrial efficiency
 - Positive effects from the "60-66" oil taxation change, which should stimulate investments in oil field development and lead to an oil production increase
 - Sound consumption growth expected. The positive outlook for local demand growth is supported not only by positive trends in macro statistics, but also by international companies' M&A activity with the latest announcement being Unilever's plan to buy 82% of Kalina for more than USD 500 mn
- **In the early part of 2012 we will keep the defensive structure of the portfolio with an emphasis on stocks with high dividend yields (up to 15%) and low multiples.**



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 1037 mn

Performance (net of fees C share) (%)	Nov	Last 3M	YTD	Last 12M	Last 24M*	Last 36M*	Last 60M*	Since inc.,**
BNP Paribas L1 Equity Russia (EUR)	3.73	-1.64	-17.61	-11.52	12.25	33.45	-	-1.21
MSCI Russia 10/40 Net Return Index	3.73	-1.50	-12.98	-5.59	12.86	34.72	-	2.08
Excess return	-0.01	-0.13	-4.62	-5.93	-0.61	-1.27	-	-3.29

Risk indicators (annualised)	Last 36W	Last 52W	Last 24M	Last 36M	Last 60M	Since inc.,**
Fund volatility (%)	29.49	27.47	24.56	31.52	-	36.48
Benchmark volatility (%)	31.49	29.86	23.97	32.96	-	36.92
Tracking error (%)	5.28	5.07	4.47	5.52	-	5.30
Information ratio	-0.29	-1.12	-0.14	-0.23	-	-0.62

all figures net of fees (in EUR)

* annualised performance

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

TER : 2,17%

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Performance (net of fees I share) (%)	Nov	Last 3M	YTD	Last 12M	Last 24M*	Last 36M*	Last 60M*	Since inc.,**
BNP Paribas L1 Equity Russia (EUR)	3.81	-1.37	-16.77	-10.56	13.44	34.87	-	-0.19
MSCI Russia 10/40 Net Return Index	3.73	-1.50	-12.98	-5.59	12.86	34.72	-	2.08
Excess return	0.08	0.13	-3.79	-4.97	0.58	0.15	-	-2.28

Risk indicators (annualised)	Last 36W	Last 52W	Last 24M	Last 36M	Last 60M	Since inc.,**
Fund volatility (%)	29.50	27.48	24.59	31.55	-	36.52
Benchmark volatility (%)	31.49	29.86	23.97	32.96	-	36.92
Tracking error (%)	5.28	5.06	4.47	5.52	-	5.30
Information ratio	-0.13	-0.93	0.13	0.03	-	-0.43

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 C share) (%)	Nov	Last 3M	YTD	Last 12M	Last 24M*	Last 36M*	Last 60M*	Since inc.,**
BNPP L1 Equity Russia (USD)	0.11	-8.02	-17.29	-	-	-	-	-15.78
MSCI Russia 10/40 Net Return Index	0.11	-7.91	-12.69	-	-	-	-	-11.21
Excess return	-0.01	-0.11	-4.60	-	-	-	-	-4.57

Risk indicators (annualised)	Last 36W	Last 52W	Last 24M	Last 36M	Last 60M	Since inc.,**
Fund volatility (%)	33.77	-	-	-	-	-
Benchmark volatility (%)	35.94	-	-	-	-	-
Tracking error (%)	5.20	-	-	-	-	-
Information ratio	-0.27	-	-	-	-	-

all figures net of fees (in USD)

* annualised performance

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

TER : 2,17%

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