

**KEY FACTS**

CJSC Uralsib Management Company

Open-ended mutual investment fund of shares

**FUND SIZE:** US\$276m (October 2009)

**FUND MANAGER/ADVISER:** Igor Mikhailov (since October 2008)

**LOCATION:** Moscow

**LAUNCH DATE:** September 1998

**STANDARD AND POOR'S OPINION (NOVEMBER 2009)**

Previously named Lukoil Fund First, this is one of the oldest and largest local investment funds in Russia. It was set up in 1998 and run by Igor Mikhailov until July 2004. After four years spent elsewhere in the industry, Mikhailov returned to CJSC Uralsib Management Company in October 2008 and has since been the lead manager of this portfolio.

Mikhailov has a total of 12 years' investment experience and has a detailed knowledge of the Russian market. His approach is pragmatic in that he tends to blend elements of top-down and bottom-up, as well as some awareness of sentiment and market trends. Resources available to him include two research analysts and the head of investment research, an assistant manager for the fund, and the CIO of the firm. While we note that there has been some turnover among both fund managers and analysts, with the latter being cut to two from eight, we gain some comfort from the decision to expand the team by hiring a new analyst.

The reasonably concentrated nature of the Russian market makes a manageable set of around 70 stocks to be followed and analysed in detail by the research team. The analyst team maintains a proprietary model on each of the companies. Valuations are also important, against both historic levels and peers. However, the manager is also keen to add an element of common sense both in terms of his evaluation of management quality and his awareness of what the consensus view is and how that differs from the house view.

Portfolio construction is based on benchmark awareness and adds investment ideas. Mikhailov has also shown willingness to take significant positions different from the index. The active style of management is nevertheless operated within a framework of controls set by the Investment Committee and ensuring that fund objectives, diversification requirements and targeted liquidity levels are fully met. In addition, he is able to actively use cash (normally up to 25% but in extreme cases up to 50%), not as

a trading tactic, but in a strategic sense if he feels the market is overvalued for a period of time. The number of holdings can also vary significantly and, when the fund was reviewed, the portfolio had exposure to nine stocks from seven issuers.

Fees are high when compared to Western competitors, but are nevertheless in line with local funds in Russia. However, returns have more than compensated for this and the fund has secured an extremely strong track record against its benchmark.

CJSC Uralsib Management Company is one of the leading names in the Russian asset management industry and has achieved considerable success not only in terms of asset gathering but also in terms of relative performance across a number of strategies.

The approach adopted by the group appears well suited to the more erratic nature of this market. Experience levels are also good and compare well to several western-based asset managers with mandates invested in Russia.

Potential investors into this fund should bear in mind that the Russian market can be highly volatile and, at times, fairly illiquid and a long-term investment horizon is therefore required. However, the levels of experience of CJSC Uralsib Management Company, the sensible approach and the strong performance record make this fund worthy of consideration by investors looking to gain exposure to Russian equities.

**GROUP BACKGROUND**

CJSC Uralsib Management Company is one of the largest Russian asset managers with assets of \$3.4bn across open-ended mutual funds, managed accounts and closed-ended real estate funds. The company is part of the privately owned Financial Corporation URALSIB, the main asset of which is URALSIB Bank - one of Russia's top 10 banks. The current structure is the result of a number of mergers and acquisitions in the period between 1993 and 2007. The corporate activity undertaken during this period has allowed the company to broaden its horizon from providing investment services and advice to oil companies to offering a broad range of financial services.

The asset management division was founded in 1996 and hence is one of the longest-running in Russia. It has around 150 employees and provides services ranging from asset management for retail clients, high net worth clients, and institutional investors. The group's first three equities funds

were launched in 1998 and have since been followed by a number of additional products covering all asset classes. At the end of September 2009, assets under management are around R101bn (of which R15bn are in mutual funds) or US\$3.4bn. Currently, assets are relatively evenly split between equities, real estate (mostly domestic) and fixed income. This includes a number of mandates run in joint venture arrangements with some well-established Western European asset managers. The client base is currently almost exclusively based in Russia.

## ASSET MANAGEMENT TEAM

CJSC Uralsib Management Company currently offers 10 mutual funds investing in Russia across a number of strategies ranging from equities (both blue chips and mid- and small-caps), fixed income, balanced, real estate and sector funds (oil & gas, metals and mining, energy, financials, communication and IT). There are also five discretionary strategies. The company also manages four offshore funds in BVI and Cayman, as well a number of segregated portfolios invested in blue chips, absolute returns, fixed income and mid- and small-caps. The group is looking to launch a Luxembourg-domiciled version of this strategy.

Within the investment area, the structure is fairly flat and encourages debate and exchange of opinion. There are regular investment committees (twice a week) and daily meetings to discuss market trends and recent developments.

After a reduction in personnel in the earlier part of the year, the team is once again recruiting and the number of analysts, which currently stands at two, is likely to increase. They support the portfolio managers dedicated to all the mutual funds.

CJSC Uralsib Management Company is headed by CEO Alexander Pugach. Reporting to him are CIO Oleg Galkin (12 years' experience) and the head of the investment research team, Alexander Golovtsov (ten years' experience). The two fund managers are Igor Mikhailov (12 years' experience) and Stanislav Kopylov (five).

Those most involved within this strategy include:

- Oleg Galkin – CIO – MS (Moscow Aviation Institute), joined Uralsib AM in 2006 with experience at Credit Suisse First Boston and ING Bank.
- Alexander Golovtsov - head of the investment research team – BS (Baltic State Technical University), CFA, joined the group in 2000 and is responsible for market research and analysis.
- Igor Mikhailov – senior portfolio manager - PhD physics & mathematics, switched to investments in 1997 after a career in physics, joining NIKoil Registrar (now CJSC Uralsib Management Company) first as an analyst and eventually as head of trading and fund manager. He was at on the prop desk Renaissance Capital for a year from 2004, before moving to Vostochniy Insurance Alliance as head of investment department. He became financial director at Dion 50 in January 2007 and rejoined CJSC Uralsib Management Company in October 2008 as senior portfolio manager.

- Stanislav Kopylov – portfolio manager, graduate (Finance Academy under the government of the Russian Federation), joined UralSib in 2005 first as an economist then moved over as portfolio manager in 2008.

## MANAGEMENT STYLE

- The manager aims to achieve a balance between capital preservation and outperformance of both peers and the RTS index benchmark. The approach combines both top-down and bottom-up elements.
- Top-down analysis concentrates on GDP growth, inflation, interest rates, salary growth and forex.
- The team maintains detailed coverage (including from sell side research) of around 70 companies, of which around 10 are large-caps with the remainder mainly mid- and small-caps. Targeted stocks include names directly listed in the Russian exchanges, as well as ADRs and GDRs.
- The approach blends elements of market awareness and valuations. Ideas are generated by both fund managers and analysts, from sell side research, and company meetings. Common across the team is a focus on valuations, fundamentals and sentiment.
- Valuations are assessed against market, industry peers (both in and outside Russia) and mid-cycle. The second leg of the process targets fundamentally healthy companies able to generate consistent cashflows. Management quality is important but the team is prepared to invest in less well run companies if justified by fundamentals and valuations, and company visits are regularly undertaken. Assessment of sentiment is key in highlighting where the team's view differs from peers and where opportunities might lie.
- The portfolio has historically held up to 30 stocks. The primary constraint is a minimum of 50% in equities. Cash can be raised to substantial levels and fixed income issues can also be purchased, primarily for capital preservation. A typical positioning would normally include a minimum of 50% in liquid large-cap names, around 30% in mid-caps and around 10% in Tier 3 small-cap stocks.
- The manager is aware of the benchmark and is unlikely to ever have zero exposure to the index heavyweights such as Gazprom. However, Tier 2 and Tier 3 stocks can be zero. Illiquid stocks are limited to 25% of the total assets. Exposure to a single issuer is capped at 15%.
- Annual turnover is typically above 50% and is partly generated by some active trading on some of the larger names such as Gazprom, Lukoil or Sberbank.

## PORTFOLIO AND PERFORMANCE ANALYSIS (NOVEMBER 2009)

Upon assuming responsibility for the fund in October 2008, Mikhailov significantly overhauled the portfolio by cutting the number of holdings from 15-20 (including some fixed income issues held for capital preservation) down to the current nine. Due to exceptional market conditions, this action took around four to five months to complete. However, as the prospects for the market started to improve, Mikhailov started to gradually add risk to the portfolio by reducing cash to around 10% from a level of around 50% in mid- to late-2008. This move has

largely resulted from the manager's positive view on the oil price. Great importance was placed on liquidity and the portfolio at the end of September 2009 was primarily invested in blue chip names. The only exception is currently Belon, which is held as a play on coal, an area where the manager is positive, and because of the company's long-term potential despite being fairly illiquid. At the stock level, the preference was for solid cash-generating businesses such as Surgutneftegaz, which offered a good combination of growth and the cushion of a high dividend yield. Gazprom was also liked, as the Mikhailov believes it has the potential to double its production.

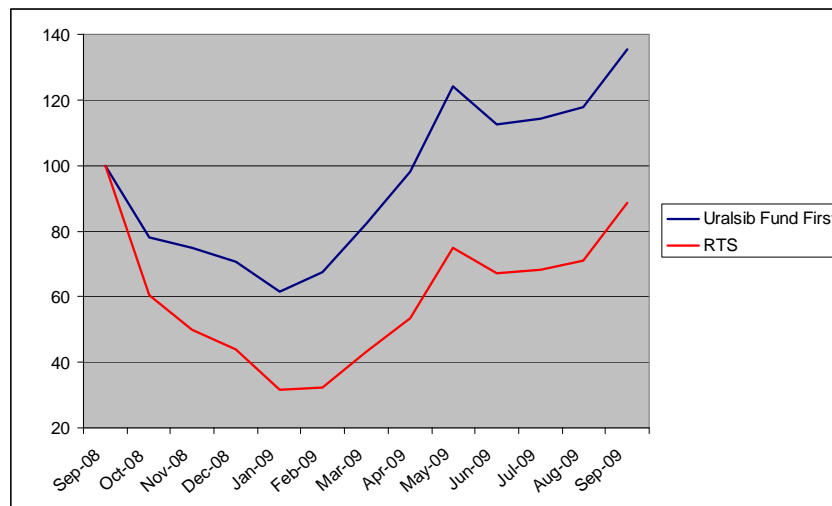
More recent activity has resulted in an increase to the cash level, as Mikhailov is wary of the market, which has now moved back to pre-crisis levels. At the end of September, cash was around 28%.

	Fund	Benchmark
Consumer Discretionary	0.00%	1.45%
Consumer Staples	0.00%	0.00%
Energy	49.64%	53.38%
Financials	12.85%	18.91%
Healthcare	0.00%	0.25%
Industrials	0.00%	1.76%
Information Technology	0.00%	0.00%
Materials	9.61%	14.12%
Telecoms	0.00%	1.82%
Utilities	0.00%	7.55%
Cash	27.91%	0.00%

On the performance side, the fund has outpaced its benchmark over the last 12 months. The call to raise cash to significant levels (which was implemented by the previous manager) helped limit the damage during the fourth quarter of 2008. Since the start of 2009, the fund has marginally lagged the index and has returned 92.3% compared to 102.1% for the RTS index. The move to cut cash and focus on a concentrated portfolio of mainly oil-related names has been beneficial.

Mikhailov managed this fund during the period from launch in September 1998 until July 2004. Returns over this period were strong, initially benefiting from a conservative positioning and high cash levels in the aftermath of the Russian crisis. A switch into more cyclical names during 2002 and 2003 and a substantial bet on Lukoil drove the fund's strong returns during the market bounce back.

Returns	Fund	RTS index
Five years to end of September 2009	151.0%	81.1%
Three years to end of September 2009	6.1%	-30.8%
Year to end of September 2009	35.5%	-11.4%



ANNUAL MANAGEMENT FEE: 3.50%

REDEMPTION FEE: 0.50%

CUSTODIAN: Specialized Depository Centre

PRICING: Daily

REGISTRAR: NIKoil

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