

December 2011

## Alfred Berg Rusland

DKK

### RUSSIAN MARKET REVIEW

The Russian equity market declined in December on the back of protest meetings 'for fair elections' in Russia and continuing uncertainties over finding effective solutions to the US and eurozone debt problems. Sporadic protests in Russia may continue up until the presidential elections in March, but we expect them to have only a limited impact on the market as both the government and opposition have shown they are keen to deal peacefully with this dispute within the limits of the law.

### PORTFOLIO ACTIVITY REVIEW

In December Alfred Berg Rusland outperformed its benchmark strongly, mainly due to positions in materials and energy.

An overweight in Surgutneftegaz preferred shares has the largest positive contribution within energy. We consider this stocks to be defensive, with the expected dividend yield of 14%. Surgutneftegas has USD 29 bn in cash and financial assets, which is close to the company's capitalisation, which can be seen as hedge against rouble depreciation and support for its stocks prices. Surgutneftegas should benefit substantially from the "60-66" oil taxation regime, as it only refines 35% of the oil it extracts. In addition the company launches hydrocracking unit at its Kirishi refinery in 2012, which should improve its refining margin.

Off-benchmark stock, Highland Gold, had the largest positive contribution within materials. We see it as a defensive stock given its exposure to gold prices (we think monetary easing in the USA should support the gold price this year), net cash position and attractive multiples. Highland Gold is trading at a more than a 50% discount to its Russian and international peers based on 2012 P/E ratios.

Telecoms detracted the most, largely due to Vimpelcom. Its stocks performed poorly in December mainly due to the news about CEO of the Russian part of the company business change. The negative sentiment was due to the new CEO, Anton Kudryashov, lack of experience in the mobile operators industry and weak track record in CTC Media, where he previously worked. Over three years he was CEO in CTC Media the company audience share decreased from 13% to 11%.

### OUTLOOK AND STRATEGY

The Russian market may remain range-bound for at least the first half of in 2012, with a high degree of volatility on the back of contagion from sovereign debt concerns in Europe and the US, and a global slowdown impacting China. Nevertheless, it should reward good stock-pickers, as some Russian stocks are expected to yield more than a 10% dividend. At the same time, certain companies oriented to local demand are expected to produce good earnings growth. For example, electricity generating company, E.ON Russia, is expected to post 40% earnings per share growth in 2012.

In the early part of 2012 we will maintain the defensive structure of the portfolio, with an emphasis on stocks with high dividend yields and low multiples and an underweight of pro-cyclical stocks. Our largest overweight position as of the end of December 2011 was in Surgutneftegas preferred stocks. We will also remain underweight in companies like Mechel, the steel and coal producer, that have high leverage (expected net debt/EBITDA for 2012 is 4.5x) and high exposure to the economic cycle.

Alfred Berg Rusland invests in depositary receipts of Russian shares. The fund's goal is to create a long-term excess return relative to benchmark.

Much of the analytical work consists of assessing the macro factors influence on different sectors and industries in Russia because the Russian market is strongly influenced by its political and economic development. In parallel with macro-analysis, corporate analysis is carried out continuously with the aim to identify undervalued companies within each industry.

### FUND FEATURES

Inception:	October 16 1997
Benchmark:	MSCI RUSSIA 10/40 Net (DKK)
ISIN:	DK0010237809

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### 2012 OUTLOOK

We believe that the long-term growth drivers in the Russian market remain largely intact:

- Expanding consumption backed by a growing middle class. One of the world's lowest levels of private debt (circa 10% of GDP) and a low 13% flat income tax rate mean that many Russians have over 80% of their monthly earnings as disposable income, which drives consumption. The middle class is also expected to double in size in the coming decade. There is good evidence that international companies recognise the potential of the Russian consumer market. For example, at the end of 2010, PepsiCo acquired WBD, a leader in dairy products and children's food, and in 2011, Unilever's announced a plan to acquire 82% of Kalina, one of Russia's leading cosmetics companies.
- Accession to the World Trade Organisation. 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.
- Growth in China and emerging Asia as well as increasing direct connections between the Russian and Asian regions. Russia currently depends on emerging Asian growth largely in an indirect way – through the commodities market, which we believe should be supported by demand from emerging Asia in the long term. In 2010, China overtook Germany as Russia's biggest international trade partner, and trade volumes between the two countries continue to grow. China needs ever more resources to feed its fast-growing economy and is increasingly turning to its neighbour, Russia, one of the richest providers of raw materials.
- Increase in infrastructure spending. Investment activity is being fuelled not only by a number of large infrastructure projects (Sochi Winter Olympics 2014, soccer World Cup 2018 and the APEC summit in 2012, among others) but by the expected growth in government transportation infrastructure spending. Russia's Transport Strategy to 2030 involves the construction of some 21 000 km of railroads (24% more than exist today), and 500 000 km of roadways, a 50% increase.

We expect the following factors to support Russian fundamentals in 2012:

- Relatively high oil prices. We expect Urals crude to be around USD 100-110 per barrel in view of the tensions in the Middle East (especially concerning Iran).
- The oil taxation change introduced in October 2011 should support oil production growth this year. From 1 October 2011, the marginal crude oil export duty was reduced to 60% from 65%, while export duties for most light and dark oil products were unified at 66%.
- Russia is now better prepared for external commodities shocks than it was three years ago. Overall corporate debt has longer maturity and private sector external debt is lower. The move to a more flexible currency policy is the most important change since the crisis in 2008. A flexible rouble provides a cushion for exporters should adverse commodities price shocks arise.
- Relatively low multiples, with a 2012 P/E for the MSCI Russia 10/40 of 6.0 (as of beginning of January 2012).

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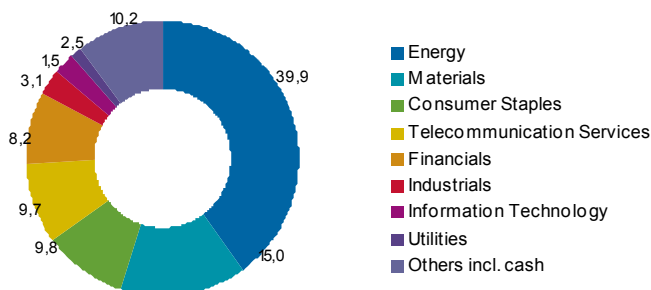
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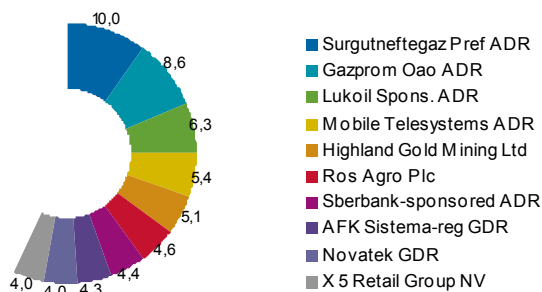


**PORTFOLIO COMPOSITION** (31.12.2011)

Section breakdown

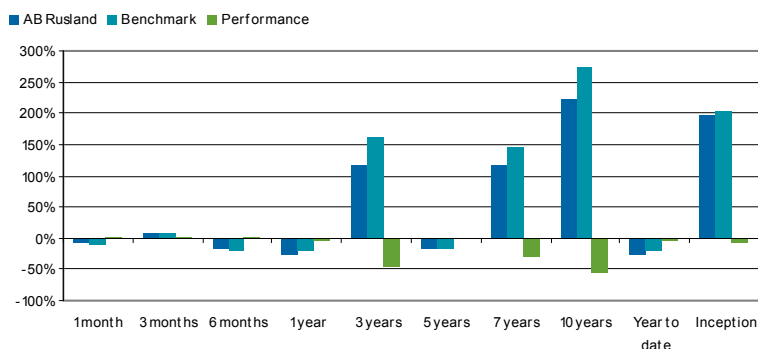


Ten largest holdings



**PERFORMANCE IN DKK** (31.12.2011)

Period	AB Rusland	Benchmark	Performance
1 month	-5,7%	-9,4%	3,7%
3 months	9,5%	7,5%	2,1%
6 months	-17,7%	-20,8%	3,1%
1 year	-25,9%	-21,3%	-4,6%
3 years	118,5%	163,3%	-44,7%
5 years	-17,7%	-17,5%	-0,1%
7 years	119,1%	147,1%	-28,1%
10 years	221,9%	275,7%	-53,8%
Year to date	-25,9%	-21,3%	-4,6%
Inception	196,8%	203,9%	-7,2%



**RISK INDICATORS** (31.12.2011)

	Last 12M	Last 36M	Last 60M
Fund Volatility (%)	27,93	29,07	33,83
Benchmark Volatility (%)	31,08	30,93	37,18
Tracking Error (%)	6,98	8,81	9,68
Information Ratio	-0,66	-0,94	0,00
Sharpe Ratio	-0,97	0,98	-0,19

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