***Terra Partners Asset Management Limited***
Portomaso Tower Suite 8/5A
St. Julian's Malta STJ4011
Telephone +356-2371-7000
*Regulated by Malta Financial Services Authority, Reg No. C56353*

***Manager's First Quarter Report for 2013*** ***April 19, 2013***

*The opinions expressed in this report represent the views of the Investment Manager (Terra Partners Asset Management or "Terra") at the time of its preparation. All reasonable precautions have been taken to ensure the accuracy of the information utilized and relied upon in preparing this report and which are provided herein, and Terra believes this information to be reliable; however no representation or warranty as to the accuracy of the information contained in this report is made or is to be implied. The information reported herein does not represent all of the information Terra had available, or which it relied upon, when making its initial and continuing investment decisions and therefore this report will necessarily be incomplete and/or condensed. Terra reserves the right to amend this report and its opinions at any time.*

*Please note that investments in Emerging and Frontier markets usually suffer from liquidity problems, and are often affected by governmental interference in the free market, local politics and vagaries in commodity prices; therefore, their prices can be very volatile. This means that it can be difficult to acquire and subsequently sell the shares noted in this, and prior, reports.*

*This report is for information purposes only, and is not intended as an offer or solicitation with respect to the purchase or sale of any security or investment vehicle. All offers or solicitations are on the public market of the AIM Section of the London Stock Exchange and occur solely by reference to the information contained in the document titled "Tender Offer to Purchase Ordinary Shares at the Tender Price and Restructuring and Amendment to the Directors' Incentive Plan and Change of name to Terra Capital PLC and Notice of Extraordinary General Meeting" (the "Circular") accessible on the Fund's website www.terracapitalplc.com in the "**Investor Center**" under the **Documents and Announcements** section of the file "**AIM Rule 26**". This website contains important information which may supplement, modify or differ from the information contained herein and no prospective investment decision should be considered before careful reading of the documentation found on the Fund's website. All current and prospective investors should be aware that* **PAST PERFORMANCE IS NOT NECESSARILY INDICATIVE OF FUTURE RESULTS.**

***Update on Current Positions:*** We are continuing to invest the portfolio in deep value stocks, moving slowly to take advantage of market dips and to complete our due diligence. As of the date of this report about 40% of the portfolio has been invested and we explain below about most of the new positions. We withhold precise information on positions we are in the process of buying until we have acquired our target amount.

## *Hrvatski Telekom DD*

**What is it?:** T-Hrvatski Telekom dd ("HTRA") is Croatia's largest telecommunications provider and the market leader in all segments in which it operates, i.e. fixed-line and mobile telephone, data transfer, and Internet access services. As at Dec. 2012, HTRA

Group served 1.3m fixed-line customers, 2.3m mobile subscribers, 657,572 broadband access lines and provided TV services to 364,324 customers.

**Why did we buy it?:** HTRA has higher profitability than the average telecom in the CEE region and ranks in first place (or second place at worst) when compared to the best CEE region companies. At our average acquisition price of HRK @217.5, its dividend yield is approx. 9.4% although dividends have been declining. Its largest shareholders are Deutsche Telekom (51%), Société General Splitska Bank (12.48%), Hypo Alpe-Adria Bank (7.24%), Raiffeisen Mandatory Pension Fund (7.1%), and Privredna Banka Zagreb (3.04%) creating a stable shareholder base and it has relatively liquidity high for an Emerging Market stock, trading around US$400,000 daily.

The Company is efficient and has achieved cost reductions which lead to very decent profitability despite a revenue decline during the FY 2012 and it continues to create shareholder value. It currently sells at a P/E of 10x, a P/B of 1.6, its Return on Equity is 15.5% (vs. the average CEE of 11.5%) has an ROA of 12.9 (vs. the average CEE telecom of 8.3) and Net Income Margin of 22.7% vs. the average CEE of 15.1%.

In addition to fixed line services, the company entered the Pay-TV market, a business which has grown very well and somewhat made up for the decline in traditional telephony services. It has also engaged in aggressive cost cutting, (to help maintain EBITDA at reasonable levels) and is making fixed and mobile broadband investments.

**What could go wrong?:** The entry of a competitor, Tele2, into this market has led to aggressive price cuts and discount tariffs, which have lowered Average Revenue Per Unit and increased the churn rate. Competitive pressure has brought down EBITDA, and a bad economic environment has both cut tourist receipts (tourists pay roaming fees which are an important revenue stream) and hurt business expenditures.

The company is continuing to invest in Capex to generate interesting new business lines and staunch the EBITDA drop. Should EBITDA remain steady until the economic environment in Croatia improves, the stock is still undervalued and would be undervalued even given further revenue and profit declines. According to the company, revenue will decline further in 2013 – and this is likely to continue until the price war ends – but EBITDA margins should remain robust, in the 43-45% range.

## *Al Khaliji Bank*

**What is it?** Al-Khaliji is a “small” bank in Qatar (but with a 2 Billion USD market cap) holding mainly private deposits from high net worth Qatari individuals. The bank’s conservative management has proceeded cautiously. It is the cheapest bank in Qatar at Price-to-Book ratio of 1.03 and we believe Al-Khaliji makes a compelling long term investment for the reasons set out in “why did we buy it”.

**Why did we buy it?:** Qatar is one of the strongest Macro-economies in the world. Its significant oil and gas surplus led to a 29% current account surplus (as a share of GDP) and it funds one of the world’s most ambitious infrastructure and development projects. Non-oil and gas GDP growth is forecast to outstrip oil and gas GDP growth in 2013. Significant growth comes from real estate development and infrastructure projects, which are expected to grow steadily until 2022 when the World Cup will be held in Qatar.

Qatari banking is an interesting investment because we seek exposure to the anticipated infrastructure growth in Qatar; we chose Al-Khaliji because it is not only the cheapest and safest bank, but the cleanest "pure play" on the Qatari economy while collecting a Qatari Riyal based dividend in excess of 6% p.a.

The government has committed many billions of USD to a wide variety of projects, including food-self sustainability, development of Qatar as a cultural and conference based tourism center, expensive college annex campuses for Qataris, etc. Money has poured into the Qatari banking system and since Qatar has the funds to continue to make major deposits into the system; it will probably continue to do so.

Mainly due to the very low profit spread, which has now dropped in some cases to less than 2%, results of Qatari banks were lackluster in 2012 but on the other hand, the banking system has very low NPLs since most borrowers are either directly backed by the government or indirectly backed through moral suasion.

**What could go wrong?:** Out of its 11 Billion Dinar loan book, 2.3 Billion was lent directly to the government, 4.7 Billion, the highest exposure, is to the services industry and a relatively small exposure – 1.2 and 1.1 respectively, or about 10% each – to Real Estate and Personal Loans. The remainder of the loan book is spread among industry, commerce, and contracting. Intangibles, PP&E, etc. are negligible as are impairments (less than 1% of loan book over the year). Total NPLs are 240 Million, or about 2.3%.

Al-Khaliji is a quiet bank and despite its multi-billion USD market cap, it gets little coverage, mainly because of its conservative strategy. The loan book and asset structure imply a very low downside risk, unless there is significant turbulence in Qatar, something unlikely to happen unless oil or natural gas prices drop considerably.

## *Imexpharm Pharmaceutical JSC*

**What is it?** Imexpharm one of only two local Vietnamese pharmaceutical companies of any scale focusing on prescription drugs. The majority of Vietnamese pharmaceutical companies focus on either mass-market drugs or Chinese traditional medicine. Its sales from the hospital sector have traditionally accounted for over half its revenues and it is known for its high technology. It has a reputation of delivering only the highest quality drugs, even at the expense of profit margin. Its Board specifically instructed its managers to only import raw material and chemicals from well-known producers in countries with the highest standards of drug manufacturing such as Germany, England, or the US.

**Why did we buy it?:** The stock trades at significant discounts to its peers at a P/E of 5.5 and P/B of 0.78 while providing a dividend yield of 5.8%. The stock trades at only 17% above its 3-year low despite rising operating profit, while most of its peers, even highly leveraged ones, trade at all-time highs. Its depressed stock price is probably due to both lack of attention from media, brokers, and financial analysts and its lackluster growth rate compared to the average industry growth rate.

The company is committed to continue in its niche, producing high-quality, high-value drugs and derives more than 50% of its revenue from this activity. It is also considering options to join the lucrative mass-market generic drugs segment. The company just completed a new Penicillin injection plant and is working on another Cefalospirin injection plant - both to be fully operational in 2013. The Penicillin plant, with capacity of 10 million vial ampoules per year, will produce specific drugs under customer orders.

**<u>What could go wrong?:</u>** Depreciation of capital expenditure from the plants, as well as depreciation from the company's new headquarters, are expected to contribute a sizable portion to operating costs and therefore could depress net margins in 2013.

For the past 3 years, its average growth rates of revenue (7.4%) and profit (5.7%) were below the overall market's growth rate of approximately 16% annually. Some rivals, like DHG and TRA, saw growth rates exceeding 20%. The company's subdued growth rate is due to a number of factors, including limited scope to increase selling price and lack of distribution in large parts of the country. Its operating efficiency leads the market and while growth rates have been flat, its return on capital and net margin have been very good compared to its peers. In summary, it seems to be relatively well-run compared to its rivals. Its efficiency indicators only lag behind DHG, the leading company in the market 10 times bigger. Traphaco (TRA), the fastest growing pharma company, only had an ROA of 12% versus Imexpharm's 18% ROA (and TRA's debt level is much higher at 100%). The opening of two new plants should help to raise Imexpharm's growth rate and in the interim we take comfort in the fact that its profitability indicators have been very good compared to its peers, despite its slower growth rate.

The majority of medicinal costs in state hospitals is borne by the government's budget, so there is always a risk that government could issue a new policy to force drug suppliers to reduce their selling price. Although Imexpharm can generally produce drugs at a lower cost than its foreign competitors, such a policy could trigger a "race to bottom" and adversely impact its profit margin. Since its business is very stable and predictable, the stock might only pick up once there is momentum in the overall market; positive developments within the company might be limited.

## *Housing Finance Kenya*

**<u>What is it?</u>** Housing Finance Company (HF) (established 1965) and has two main activities; mortgage lending and development and housing construction. It is one of the oldest, and the only stand alone, mortgage company in the East African region.

**<u>Why did we buy it?:</u>** There is a huge shortage of affordable and decent housing for both rental and owner-occupation in the Kenyan urban housing sector. Low level house ownership is estimated to be just 16%. It is estimated that while 150,000 housing units are required annually in the urban areas to clear the housing backlog, only about 30,000 units are developed each year. Out of this annual production, only about 20% or 6,000 housing units cater to low-income urban households. The company utilises a system in which mortgage repayments are deducted directly from the employee's paycheck, resulting in a very low number of NPL's, in line with similar business models throughout the rest of Africa. In terms of recovery on an NPL, the company claims to be able to get possession of, and resell, the apartments it mortgages within 90 days.

On April 11, 2012, HF signed an international financing agreement for KSH2.2 billion with the European Investment Bank (EIB) for funding eligible SMEs in the construction industry and funding of USD10.0 million from Ghana International Bank on June 6th 2012. In addition, HF has now completed the second placement of a 7 year Corporate Bond which raised KES 3.3 billion ($38 million).

Partially to improve demand for its mortgages in a small economy, Management entered into property development. The 160 properties it is now completing could mean an additional USD $11.2 million revenue stream. The growth in this business is dependent on growing the mortgage book (currently USD $322 million with a short term target of USD $500 million) which in turn implies monthly growth in monthly interest inflows.HF recently started offering current accounts and entered a strategic arrangement with the Post Bank to utilise the latter's 80 branches to distribute its products. It is envisaged that this move will broaden HF delivery channel and hence widen its deposit base. In the meantime this counter pays an indicated 5.5% dividend in Kenyan Shillings.

**What could go wrong?:** First is its ability to replace funds when its bonds are due. Second is the risk that the government and employers would cease to deduct the mortgage payments from employees payroll checks and turn that money over to the company, an event which would likely cause NPL's to increase. Another risk is the volatile Kenyan Macroeconomic environment and especially interest rates, which have varied widely between roughly 10-18%. Although interest rates currently stand at 15.5%, this may have to be lowered. The management of Housing Finance will have to be skillful to navigate this environment without getting caught borrowing at high interest rates and lending at lower ones. In addition, Kenya has had balance of payments issues and it has a B+ rating according to Moody's, which, although currently stable, could be subject to shocks if it has problems with the IMF (although it has successfully received waivers for external arrears problem so far). While there is great potential in the Kenyan Macro-economy, it is important to note that this stock is not without risk.

## IRSA Inversiones y represent. SA GDR

**What is it?** IRSA is Argentina's largest public real estate company, with some of the most prestigious such properties in the country in a diversified portfolio including shopping centers, office buildings, hotels & resorts, and residential properties. Its shares trade in Argentina and are listed as GDR's on the New York Stock Exchange.

**Why did we buy it?:** Fixed assets include buildings and properties it owns in the Shopping, Office, Hotels, Development & Sale of Properties segments with a book value of Ps. 3.3 billion. IRSA accounts for its fixed assets at cost less accumulated depreciation. According to Note 2c of its Financial Reports, Argentine GAAP does not permit inflation accounting from Oct 2003; hence its Fixed Assets are entirely unadjusted for inflation from 2003 to present. With Argentine inflation running at 9%-12% recently, its fixed assets appear undervalued compared to the current market value, with some assets "listed" at less than their yearly income. Our adjusted P/BV is under .5 and it can possibly be significantly lower. Despite the challenging Argentine environment, the company has a Price times 2012 Operational Cash Flow after interest payments of about 5, and a strong dividend yield near 10%, in USD. P x 2013 OCF is shaping up to be even lower, given stronger domestic earnings, even factoring devaluation into account. We must caution that these are estimates, given the hyperinflation of the Argentine economy.

**What could go wrong?:** The risk for the company and the macroeconomic environment is that the Argentinian government will adopt an *ad-hoc* system of "fire-quenching" policy measures. While singly no one of such measures would be entirely unjustifiable, as a unit they may give the idea that the government is trying to force the economy to behave with interventionist, and not always effective, measures.

Due to the currency mismatches between its assets and liabilities, the Company has significant currency exposure. Most of its cash flow is denominated in Argentine pesos and a substantial part of its debt is in US dollars, hence devaluation is an important risk for IRSA. This risk is partially mitigated by its dollar-denominated asset portfolio and its long-term debt profile, only 20% of the company's debt is short-term. Its low leverage and high interest coverage ratio also offers some risk mitigation.

Four other positions not yet reportable are in the process of being acquired.

As of April 19, 2013 the Fund holds cash and the following positions, using an April 18 valuation:

| Company | Number of Shares | Valuation | % Portfolio |
|---|---|---|---|
| Brac Bank Ltd | 2,436,275 | $861,901 | 1.39% |
| U-Blox | 21,904 | $1,155,562 | 1.87% |
| Crnogorski Telekom | 242,,624 | $1,111,722 | 1.80% |
| Eurobank Properties | 191,770 | $1,439,104 | 2.32% |
| Portucel | 370,723 | $1,263,765 | 2.04% |
| Prime Office | 218,995 | $857,431 | 1.38% |
| Silvano Fashion Group | 267,000 | $892,062 | 1.44% |
| Société de la Tour Eiffel | 31,099 | $1,886,904 | 3.05% |
| Bank of Georgia | 43,500 | $1,042,150 | 1.68% |
| AllamiNyomda | 449,476 | $961,520 | 1.55% |
| EGIS Pharmaceuticals | 16,000 | $1,239,599 | 2.00% |
| Equity Bank | 4,410,200 | $1,749,871 | 2.83% |
| Housing Finance Kenya | 2,925,000 | $872,613 | 1.41% |
| Imexpharm Pharma | 534,772 | $813,750 | 1.31% |
| Komercijalna Banka | 22,845 | $1,085,197 | 1.75% |
| Oman Cement | 720,950 | $1,271,494 | 2.05% |
| Oman Refreshment | 175,000 | $,955,000 | 1.54% |
| KGHM PolskaMiedz | 12,620 | $,560,996 | 0.91% |
| IRSA Inversiones y represent | 99715 | $862,535 | 1.39% |
| Hrvatski Telekom | 36,228 | $1,332,578 | 2.15% |
| Al Khaliji Bank | 273,078 | $1,230,865 | 1.99% |
| Stock being acquired | 108,792 | 402,530 | 0.65% |
| Stock being acquired | 19,490 | $74,610 | 0.12% |
| Stock being acquired | 28,400 | 64,980 | 0.10% |
| Stock being acquired | 430,880 | $597,929 | 0.97% |
| Stock being acquired | 9,372 | $115,831 | 0.19% |
| **TOTAL** | **N/A** | **$24,702,498** | **39.90%** |

Respectfully submitted,
Terra Partners Asset Management Limited
Portomaso Tower Suite 8/5A,
St. Julian's Malta STJ4011
*Regulated by Malta Financial Services Authority, Reg No. C56353*

**Contact:**

**Galileo Fund Services Limited** (Administrator)
Ian Dungate or Suzanne Jones
+44 1624 692600

**Panmure Gordon** (Nominated adviser and corporate broker)
Paul Fincham or Jonathan Becher
+44 20 7886 2500

**Terra Capital plc.**
Howard Golden or Filip Montfort
+356-2371-7000