



# CIS Special Opportunities Index

**G&G Private Finance S.A.M. (Monaco)**  
**Maximus Capital S.A. (Switzerland)**

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*Strictly Confidential*

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# Executive Summary



- The goal of the **CIS Special Opportunities Index** is to exploit event-driven, short-term opportunities arising from extreme volatility and the misinterpretation of news and events in the index's core markets of Russia, Ukraine, Kazakhstan and Azerbaijan.
- The Index targets an annual return in excess of 30% by focusing on price volatility of individual liquid assets that have direct exposure to the core markets and that are affected by a particular event.
- Investment team members have deep and broad experience investing in the core markets since the mid-1990's, and have demonstrated skills in rapidly and accurately interpreting events and their impact on asset prices. This has resulted in a track record of highly profitable results in over 70% of trades.
- The Index invests in equities, bonds, derivatives and cash and equivalents. It invests only in U.S. dollar- and euro-denominated assets and deals solely with major global banks, thus eliminating local currency, counterparty trade and settlement risks.
- G&G Private Finance and Maximus Capital are both seed investors in the CIS Special Opportunities Index, as are the investment team members.

# Principals



## **Gene Zolotarev is co-head of the investment team.**

- Gene, the founder of Maximus Capital, has spent more than 20 years in senior executive management roles, including CEO, in the asset management and investment banking divisions at large U.S., Russian and Baltic banks. That experience includes 13 years at Republic National Bank of New York (Moscow) and Parex Banka (Latvia), where he was responsible for capital markets, asset management and investment banking.



## **Gabriele Tagi is co-head of the investment team.**

- Gabriele is a director at G&G Private Finance and has been in the industry since 1986. He is a deep value specialist stock picker whose investment portfolios have averaged annualized returns of more than 20% since 2001. Gabriele was previously the CEO of KBL Bank (Monaco) and has also held numerous senior positions at top Italian banks.

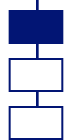


## **Andrei Movchan is an advisory board member of Maximus Capital.**

- Andrei is a former CEO of leading Russian investment houses Renaissance Asset Management and Third Rome. He is also widely considered to be a leading authority on investing in the capital markets of the CIS. Andrei frequently lectures at major conferences and authors regular columns in the financial press.

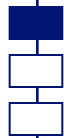
**All three are seed investors in the CIS Special Opportunities Index.**

# About the Companies



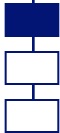
- The Index Sponsor, **G&G Private Finance S.A.M.**, is based in Monaco and offers its clients tailored and discretionary asset management services, including risk analysis, capital preservation and portfolio management in collaboration with leading and stable banks located across Europe. G&G Private Finance also offers personalized advisory services, including investment advisory, consolidation of portfolios and cost optimization. The firm manages more than €500 million.
- **Maximus Capital S.A.**, the authorized distributor of the CIS Special Opportunities Index, is based in Geneva and specializes in investing in Russia and related markets. The company helps clients find optimal solutions to their investment needs by providing access to the best profit-generating opportunities in the high-potential Russian, Baltic and CIS markets. Maximus Capital's partners include several major international banking groups, global hedge funds and leading investment advisors.
- Both G&G Private Finance and Maximus Capital are seed investors in the CIS Special Opportunities Index.

# Investment Strategy



- The index's core markets -- Russia, Ukraine, Kazakhstan and Azerbaijan -- regularly present compelling investment opportunities in both the equity and fixed income markets. Stocks and bonds in these countries often see sharp falls in response to news events, followed quickly by corrections that can be multiples of the original market pricing as investors begin to fully comprehend the impact of the event and price it correctly.
- This volatility often stems from an information disconnect, as Western investors can lack the ability to rapidly and accurately interpret and act on events. Our investment team members, having deep knowledge of these markets, identify the mis-pricings that offer the potential for double-digit short-term returns.
- Historically, we identify a few such opportunities per year in bull markets, and several per month during crisis times, which produce greater volatility and a much greater frequency of event mis-pricings. While awaiting these event-driven trades, assets will be in cash or in high-yielding carry trades.

# Investment Case for Core Markets



➤ **Russia:** The country's equities and debt remain undervalued and volatile, in part because Western investors are fearful of the ongoing tension with Ukraine and the ruble's recent drop. The RTSI index fell from 1100 to nearly 600 in November before rebounding to almost 1100 by early May, and Russian CDS spreads have also shown a lot of volatility lately. This volatility is exacerbated by Western misinterpretation of news events. Sanctions that are to expire in July will mean even more volatility.



➤ **Ukraine:** Debt restructuring plans have attracted attention from investors, creating significant volatility around Ukrainian debt securities, which are often undervalued. The country's default risk dropped from near 100% to 48% in a single day earlier this year, but has since spiked amid expectations of a 7.5% GDP contraction this year.



➤ **Kazakhstan:** Despite strong credit metrics, sovereign and corporate debt issuance are rare; last year the country sold dollar bonds for the first time since 2000. Also, investors tend to undervalue Kazakh debt. Meanwhile, the government said it won't devalue the tenge this year, which will present more mis-pricings and volatility to exploit.



➤ **Azerbaijan:** Investors reacted favorably to the country's first eurobond in 2014, and to a March 2015 bond issue from SOCAR. Still, Azerbaijani debt remains very undervalued compared to countries with similar economies, and compared to other nations rated BBB-. Depending on timing and liquidity constraints, we think it possible to gain a spread premium of over 400 basis points.



# Representative Investment: MTS

## OPPORTUNITY

- In September, Russian oligarch **Vladimir Yevtushenkov**, founder of Russia's leading mobile phone company **MTS**, was arrested and accused of financial improprieties – a move widely considered to stem from his unwillingness to relinquish ownership of his oil company, **Bashneft**, to the state.
- MTS shares in New York fell from \$18.55 pre-arrest to nearly \$6 on Dec. 16.
- Yevtushenkov was released from house arrest on December 17.

## ANALYSIS

- As MTS share prices plunged, it was clear that the market was overreacting, even as Yevtushenkov's fate remained uncertain.
- We began to look at MTS in October, as we were convinced that the mobile giant would be unaffected by the power struggle.
- After Yevtushenkov's release on December 17, the market began to realize that MTS would not be affected by personal hostilities or by sanctions, and shares rebounded.

## THE TRADE

- We started buying MTS shares at \$14 and continued to buy as a "perfect storm" developed, with a broad sell-off bringing our average price to \$9.
- We exited the trade at around \$12, booking a profit of 30%.
- MTS shares have continued to climb, but we were happy to have exited when we did, as the shares had reached our target price. (See Risk Management, Slide 10.)



# Representative Investment: Uralkali

## OPPORTUNITY

- ↳ **Uralkali** is the world's largest potash producer, and its Global Depository Receipts are traded on the London Stock Exchange.
- ↳ Last November, shares were trading at nearly \$19 when news broke that one of the company's largest mines was flooding badly and could be shut down completely. That single mine comprised nearly one-fifth of the Uralkali's annual production.
- ↳ Shares plunged, hitting a low of \$9 about a month later.

## ANALYSIS

- ↳ The situation seemed to be another case of investors bidding a stock down to levels that were out of proportion to the news that inspired the sell-off.
- ↳ Indeed, after speaking with our industry contacts, we were certain that the accident, even in the worst case scenario, would only reduce production by 10%.
- ↳ We were right: the company said in April that its first-quarter output was stronger than investors had expected.

## THE TRADE

- ↳ We started buying Uralkali in December at about \$14, expecting a quick exit.
- ↳ A massive sell-off in Russian stocks delayed our exit plans. This actually created more opportunity for us, however, as we bought more Uralkali stock at its December lows of around \$9. This brought our average price to about \$11.
- ↳ We exited the trade in January 2015 at nearly \$14, booking a 27% profit.





# Representative Investment: Ukreximbank

## OPPORTUNITY

- ↳ **Ukreximbank** bonds have fallen in recent months amid geopolitical tensions, a falling currency and a weak Ukrainian economy.
- ↳ The bank's bonds are seen as sovereign debt due to cross-default clauses. The government has been deciding whether to repay or restructure the bonds.
- ↳ After a declaration of "imminent default" and "likely 50% haircut," an 8.375% Ukreximbank bond maturing in April 2015 fell to the low 50s in March.

## ANALYSIS

- ↳ We strongly believed investors were overstating the possibility of a Ukreximbank default and the fallout from a restructuring.
- ↳ We also think it very unlikely that the IMF and EU will abandon Ukraine after their statement that they will "fight and die" for European values.
- ↳ As for the April 2015 bond itself, because of our sources and knowledge of the market, we felt a 50% haircut or default were both very unlikely.

## THE TRADE

- ↳ We started buying the April 2015 bonds in early April at a median price of 54.
- ↳ On April 27, the government finally made a reasonable restructuring proposal, which extended maturity by three months, and bondholders accepted. Prices rose to the mid-70s.
- ↳ We exited at 71 shortly after the restructuring, booking a profit of about 31% on the trade.



# Representative Investment: Alliance Oil

## OPPORTUNITY

- Last November, Alliance bonds maturing in March 2015 dropped from nearly 100 to the low 80s, following rumors that the company would have difficulty paying the bonds.
- After some reassurance of management, the price soon recovered to the mid-90s.
- Earlier this year, a few weeks before the bonds were to mature, the company announced it couldn't repay and threatened to default. This sent the bond prices back down, falling to the low 50s.

## ANALYSIS

- The company said it was low on cash and that international sanctions and other factors were impacting its business.
- After consulting our industry contacts, we concluded that management was bluffing regarding its ability to repay the March 2015 bonds.
- Our sources informed us that Alliance had sufficient cash reserves and that their product was sold mostly domestically, and hence was unaffected by sanctions.

## THE TRADE

- We started buying the bonds at about 55.
- Shortly before the bonds' maturity date in March, Alliance announced a restructuring which paid 20% in cash on maturity and extended the bonds by four years at a price of 70.
- We exited the trade at 70, booking a profit of more than 50%.
- The chart below shows a similar price drop for the company's 2019 bonds, which may present a similar investment opportunity.

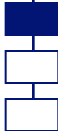


# Investment Detail: Carry Trades

- While awaiting event-driven trades, assets will be in cash or in short-term, high-yielding carry trades, targeting returns of 2% to 5% over a time period of a few days.
- These trades will involve buying ADRs/GDRs or dollar-/euro-denominated bonds shortly before the payout date for a dividend or coupon, respectively.
- Such trades can be profitable because, due in part to the information disconnect, certain bonds and equities in our core markets do not respond the same way as bonds and equities do in the West. In the West, ahead of a coupon or dividend payout, security prices will drop slightly to reflect the pending payment.
- Certain CIS securities do not follow this pattern: their price does not dip ahead of a coupon or dividend payment.
- Knowing how to identify such securities – as our investment team members do – allows for small but significant profits, in a very short time period.



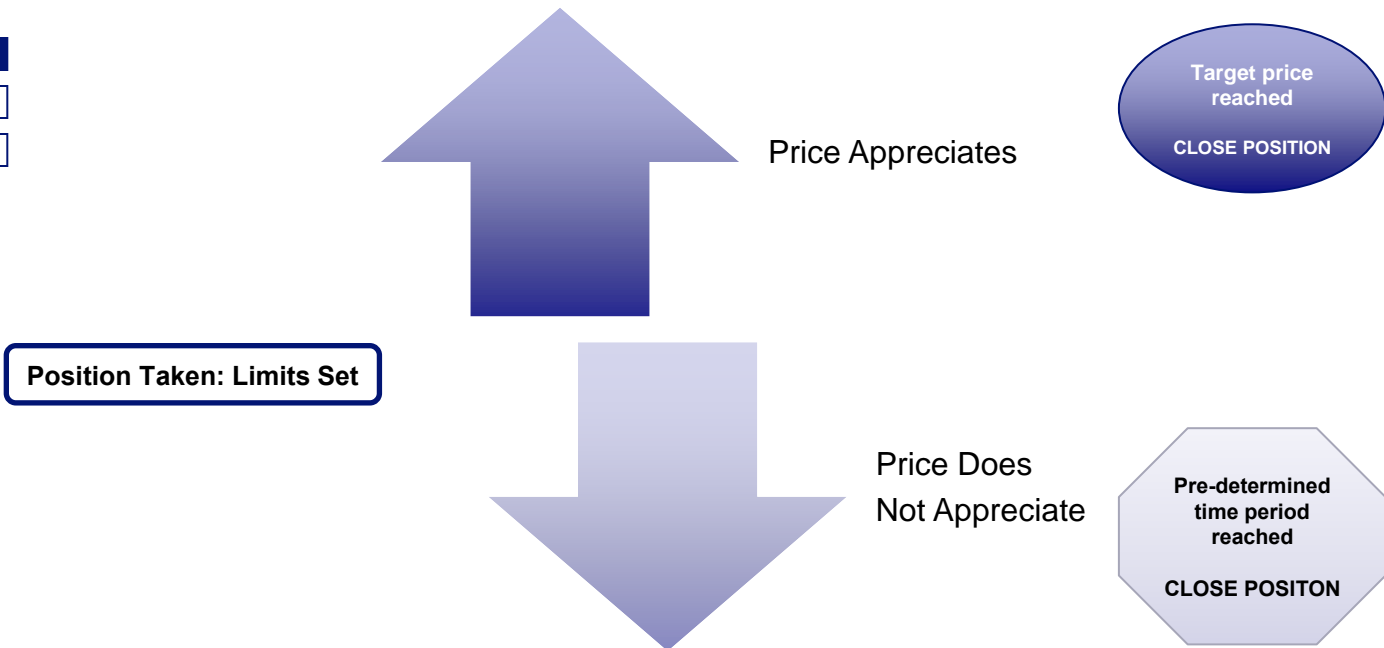
# Risk Management: Basics



The investment team of the CIS Special Opportunities Index takes numerous steps to ensure that risk is properly managed and monitored:

- No single position can exceed 10% of total assets.
- The investment team holds weekly meetings to discuss every position in detail.
- Additional special meetings are convened whenever news breaks that impacts any portfolio position, or when any position makes a significant move.
- The Index invests only in U.S. dollar- or euro-denominated securities, whether equities or bonds, which removes any local currency risk.
- The Index deals only with major global banks, thereby eliminating counterparty trade and settlement risks.

# Risk Management: Limits



- ✦ Whenever a new position is initiated, the investment team sets applicable limits, whether there is price appreciation or not.
- ✦ One limit is a target price, and we will exit the position when that target is met.
- ✦ The other is a target date, typically within a few weeks from the price move that precipitated the position. If the security price fails to correct by the time the target date is reached, we exit the position.



# Performance & Attribution

	2014	2015*
January	2.2%	13.6%
February	1.8%	30.1%
March	7.9%	-2.7%
April	0.6%	-1.3%
May	2.4%	12.53%
June	2.8%	
July	3.1%	
August	15.4%	
September	7.2%	
October	-4.2%	
November	-3.8%	
December	27.6%	
<b>Year to Date</b>	<b>63%</b>	<b>52.23%</b>
<i>*Performance figures prior to April 2015 represent performance of the strategy across several managed accounts</i>		

# Investment Details

- The CIS Special Opportunities Index seeks annual returns in excess of 30%.
- The Index invests in U.S. dollar- or euro-denominated securities from its core markets, with a roughly even split between equities and bonds.
- The Index can hold a maximum of 25 securities at any given time, and holdings may include equities, bonds, derivatives, cash and cash equivalents.
- The Index has maximum leverage of 30% for bonds and 300% for equities.
- We trade and custody only with Swiss banks, thus ensuring no local counterparty exposure risk.

# Structure & Terms

⇒	<b>Type of Security:</b>	Actively Managed Index
⇒	<b>Issuer and lead manager:</b>	Leonteq Securities AG, Zurich
⇒	<b>Index Sponsor:</b>	G&G Private Finance SAM, Monaco
⇒	<b>Authorized distributor:</b>	Maximus Capital SA, Geneva
⇒	<b>Launch Date:</b>	April 21, 2015
⇒	<b>Issue size:</b>	5,000 certificates
⇒	<b>Issue price:</b>	USD 1,000
⇒	<b>Observation dates:</b>	Quarterly, from and including March 31, 2015
⇒	<b>Last trading day, final fixing date:</b>	March 2, 2020
⇒	<b>Redemption date:</b>	March 9, 2020
⇒	<b>ISIN:</b>	CH0266705695
⇒	<b>Governing law/jurisdiction:</b>	Swiss law/Zurich
⇒	<b>Management fee:</b>	2%
⇒	<b>Success fee:</b>	0% initially, 30% after six months
⇒	<b>Underlying:</b>	The CIS Markets Debt-Equity Special Opportunities Index



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