THIRD ROME
INVESTMENT SOLUTIONS

Product Book

October 2015

Portfolio management. Standard and tailor-made strategies	Asset allocation, list of recommended ideas, hedging, structured products	Focus on absolute return strategy	Portfolio assessment and restructuring	External as well as internal platforms. Portfolio management via international bank	Detailed and user-friendly reporting

Contents

FED up!

Alexander Varyushkin
Head of Asset Management

A fresh report on U.S. employment released in early November substantially surpassed the consensus view.

With U.S. jobs growing at a blistering pace and economic data painting a brighter picture of the economy markets now believe there is a three to one chance that the U.S. Federal Reserve would raise its short-term lending rate at its final meeting in December. Obviously, yields on U.S. Treasuries and the U.S. dollar have been two asset classes to react the most to the change in outlook — both climbed higher. We should also point out that the overall market view on the future pace of rate hikes by the Fed did not change much — markets do not expect the interest rate to exceed 0.75-1% before the end of 2016. At the same time, market players believe that the Fed will be sticking to a target rate range (rather than a specific federal funds rate it pursued previously).

All this does not sounds too thrilling, yet the possible rate rise is the most expected event of 2015. Seriously! What other economic developments can you think of that kept markets excited this year (naturally, filtering out the geopolitical upheavals that eclipsed everything else over the past two years). Another Greek default? Or yet another "debt ceiling" in the United States? The Chinese slowdown? Of course, not — it was first and foremost the Federal Reserve rate, followed by the monetary policy moves by the ECB and the central banks of Japan and China. First we expected the rate to go up in March, then in September, now we see it happening in December or March 2016 at the very latest. Make no mistake, it is not some ordinary central bank move that we are holding our breath for — the first federal funds rate rise in nearly 10 years could mark a turning point in a 45-year-long history of interest rate cutting around the world. It could and most certainly will become a turning point because long-term interest rates are 90-95% determined by the Federal Reserve rate (those interested are welcome to check the coefficient of determination). But does it mean that with one long-term trend (lower interest rates) coming to an end the new one will be its mirror image? In other words, that we are looking at 30-50 years of interest rates hikes from nearly 0% to 12-18% (we are talking about dollars here)?

We are certainly not into making any forecasts for the next 50 years, and even 10 years would be too much of a long shot. But if there is something that we can presume with a degree of fairness based on the long history of interest rates it is that in some distant future, provided the global economy keeps growing at its current rate and inflation remains subdued, we will see only quite moderate rate increases. The average yield on 10-year U.S. Treasuries is about 4%. With yields seen in the 1980s being a case apart after all, it is not such an impressive jump from the current 2.3%, is it?

Nobody expects the Federal Reserve to embark on an aggressive monetary tightening (forget about the other central banks, which are so far preoccupied with loosening their purse strings). As we have already pointed out, it is not likely to exceed 1-1.5% over the next two years. A repeat of 2004-2006, when the rate went up from 1% to 5%, is not on the cards. In view of these rather moderate forecasts, we believe that concerns about the reaction of high-risk assets to the rate rises are exaggerated. There are two reasons for it:

1) the rate rise is going to be minimal and gradual;
2) it has been a long time coming and is already priced in by the market. Which leads us to believe that the "key" macroeconomic event of 2015 may well pass virtually unnoticed by market participants. And those who should be tackling macroeconomics will still be focused on geopolitics.

Third Rome
Asset management products

Traditional benchmark strategies –

Strategies with investment universe limited to one asset class with additional constraints within the class.

These strategies' return levels are highly dependent on relevant benchmark return. In every phase of the economic cycle only one or two asset classes have best risk-return characteristics. Therefore, the correct asset class selection largely determines short term profitability. The added value of these strategies (the so-called "alpha") is in achieving a higher rate of return for the strategy than for a relevant benchmark with the same level of risk.

Strategy	Actual portfolio creation date	Performance since inception (annualized)		Performance for October 2015	
		portfolio	benchmark	portfolio	benchmark
Fixed Income Global Investment Grade	**13.10.2009**	**6,01%**	**1,83%**	**0,78%**	**0,09%**
Fixed Income High Yield	**01.10.2009**	**8,75%**	**7,73%**	**1,39%**	**2,87%**
Global Equity Strategy	**01.01.2012**	**11,9%**	**8,7%**	**8,9%**	**7,7%**

Absolute return strategies –

Strategies investing in different asset classes, similar to classic hedge fund strategies.

These strategies have no benchmarks, but have limits on portfolio risk. The risk (volatility) of the portfolio is reduced through the combination of asset diversification and long and short positions. The purpose of such strategies is to achieve positive return in the long term, regardless of the performance of the individual asset class or the economic cycle. The level of expected return depends on the level of risk allowed.

Strategy	Actual portfolio creation date	Performance since inception (annualized)		Performance for October 2015	
		portfolio	benchmark	portfolio	benchmark
Global Macro	**01.01.2010**	**5,21%**	**0,69%**	**1,05%**	**2,14%**
Market Neutral Quantitative Strategy	**01.01.2012**	**19,02%**	**-0,83%**	**1,04%**	**-0,99%**
Fixed Income Special Situations	**24.11.2009**	**12,68%**	**6,87%**	**2,33%**	**9,89%**
Small Caps Value	**30.10.2009**	**8,78%**	**-9,63%**	**9,33%**	**4,70%**

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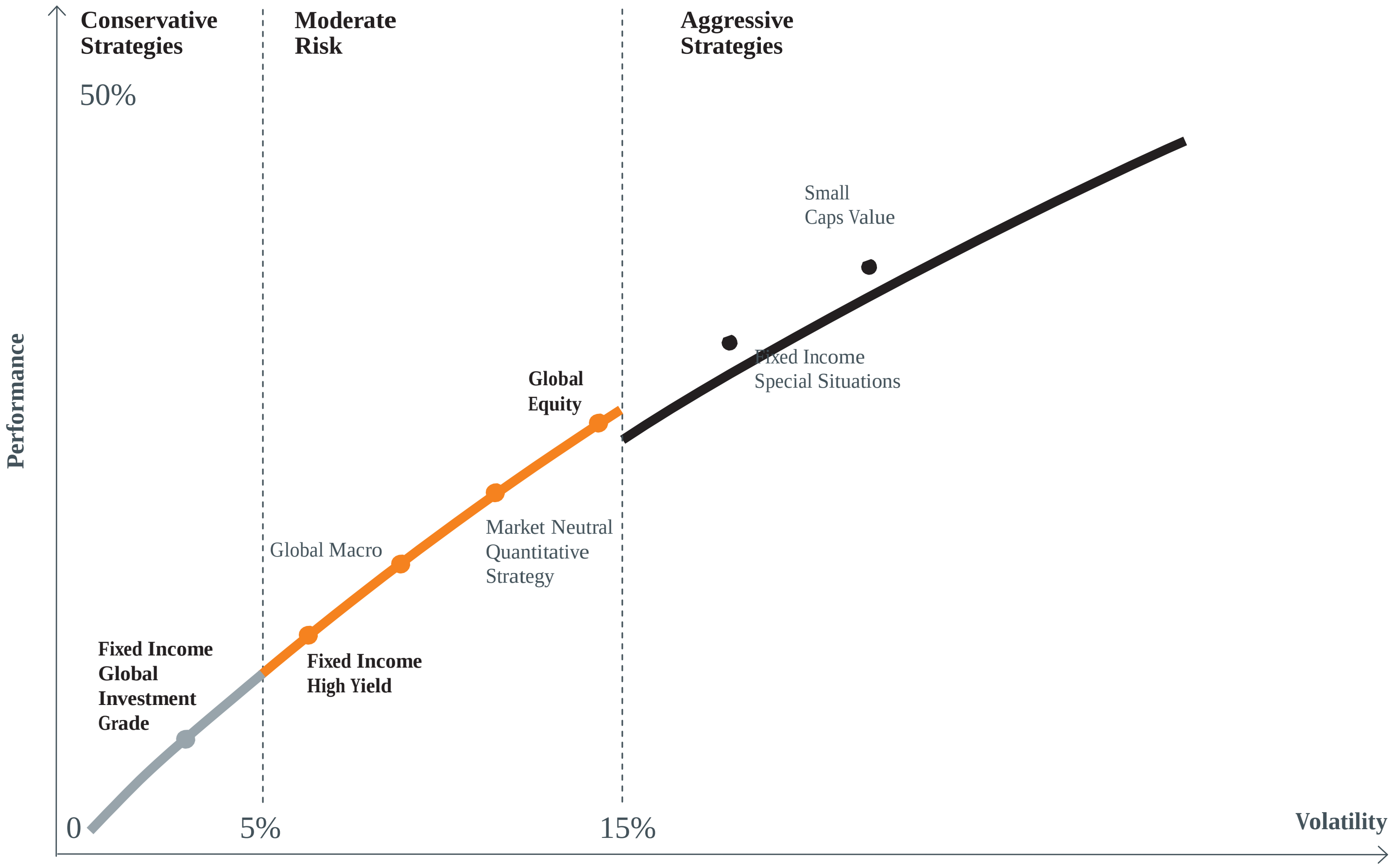
THIRD ROME PRODUCTS' RISK/RETURN PROFILE



Third Rome products are structured according to increasing risk/return scale.

STRATEGIES CORRELATION MATRIX

Strategy	IG	MR	GM	MN	GE	FI_SS	SC	
IG	100%	65%	48%	-7%	6%	14%	53%	IG: Fixed Income Global Investment Grade
MR	65%	100%	48%	-4%	13%	26%	44%	MR: Fixed Income High Yield
GM	48%	48%	100%	3%	5%	9%	44%	GM: Global Macro
MN	-7%	-4%	3%	100%	6%	-4%	-9%	MN: Market Neutral Quantitative Strategy
GE	6%	13%	5%	6%	100%	13%	24%	GE: Global Equity Stategy
FI_SS	14%	26%	9%	-4%	13%	100%	23%	FI_SS: Fixed Income Special Situations
SC	53%	44%	44%	-9%	24%	23%	100%	SC: Small Caps Value

At each stage of the business cycle only one or two asset classes have the best/winning risk/reward ratio. Selecting the right asset classes is therefore key to achieving attractive short-term returns.

Our product book provides an alternative to highly correlated single asset class strategies, allows to create a portfolio that includes several strategies and offers the best expected return for a given level of risk (i.e. a portfolio which is located on the 'efficient frontier').

Fixed Income
Global Investment Grade Strategy

Actual portfolio creation date: 13.10.2009

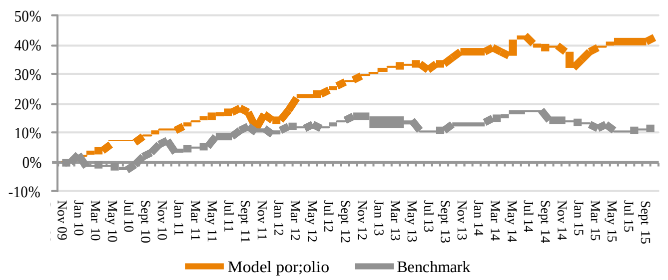
Risk level	Expected return (USD)	Target volatility (annual)	Investment horizon
Low	**3-5%**	**2-4%**	**2-3 years**

Investment goal

Capital preservation + returns above deposit rates

Investment in portfolio of bonds of high-quality borrowers secures returns well above the rates of interest offered by global banks while carrying low risk.

Strategy performance since inception



Gross figures

Performance

	October'15	YTD	1 year	3 years (annualized)	2014	2013	2012	Since inception (absolute)	Since inception (annualized)
portfolio	**0,78%**	**7,72%**	**1,76%**	**3,30%**	**-3,96%**	**5,04%**	**14,87%**	**42,40%**	**6,01%**
benchmark	**0,09%**	**-1,72%**	**-2,45%**	**-1,16%**	**1,29%**	**-2,65%**	**4,25%**	**11,58%**	**1,83%**

Gross figures

Product management

The major part of the portfolio is made up of investment-grade securities. The manager carries out credit analysis for each issuer and picks securities that meet the strategy's requirements for safety, liquidity and maturity. Preference is given to securities, which by virtue of temporary market inefficiencies offer extra premium. The manager participates in initial bond offerings.

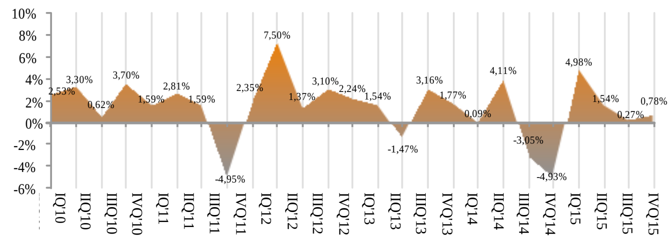
Product benefits

- **Low credit risk** (high quality bonds).
- **Relatively short duration** (2-4 years on average, i.e. a large chunk of the portfolio could be kept to maturity, if necessary).
- **Liquidity** (the funds can be sold quickly).
- **Ability to use the portfolio as loan collateral** (at rates ranging from 1.5% to 3% in dollars with discounts to market value of 15-30%).
- **High diversification** (the portfolio is a mix of bonds by issuers from different industries and geographies, which makes it a safer investment bet than deposits).

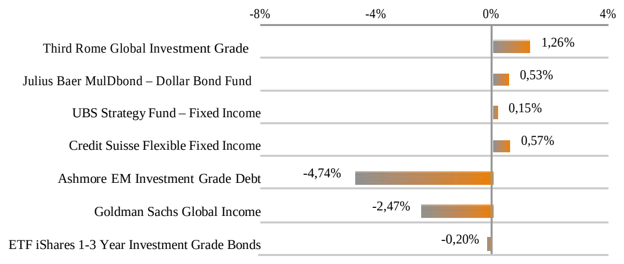
Current outlook

In our opinion, a 30-year downward spiral in interest rates came to an end back in 2013. In the years ahead we are expecting a tightening of monetary policy, beginning in 2015, together with a growth in rates. Our portfolios, therefore, will be geared towards a relatively short-term duration and maximum credit spreads.

Quarterly returns



Global investment grade strategies' performance (1 year)



Net performance

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General information

Targeted portfolio credit rating	A	Shorts	up to 75% NAV for hedging only, no net shorts
Benchmark	Global Broad Market Index	Expected turnover	50-150% NAV
Instruments	Fixed income, credit, interest rates and currency derivatives	Liquidity	50% can be sold in 1-3 days, 50% in 3-15 days
Base currency	on clients decision	Minimum amount invested on discretional account	$5 mln
Leverage	up to 100% NAV	Portfolio manager	Alexander Varyushkin

Current portfolio VS benchmark

	Portfolio	Benchmark
Weighted average yield to maturity	2,03	1,68
Duration	1,44	6,60
Weighted average credit rating	BBB+	AA+
Number of holdings	13	20650
10 biggest holdings	52%	-

Absolute statistics (1 year)

	Portfolio	Benchmark
Sharpe ratio	0,19	-0,56
Sortino ratio	0,18	-0,56
Volatility	6,17%	5,44%
Semi variance	6,44%	5,44%
% periods up	67%	65%
% periods down	33%	35%
Skewness	-1,57	-0,139
Kurtosis	5,20	-0,43

Relative statistics (1 year)

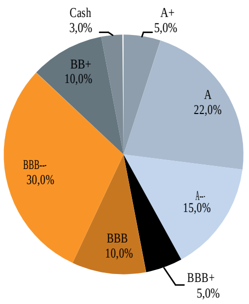
	Portfolio
Excess return	4,20%
Tracking error	8,57%
Information ratio	0,491
Alpha	0,83%
Beta	-0,103
Correlation	-9%

Top picks

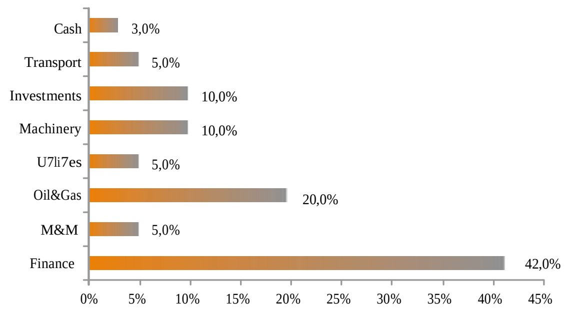
	YTM	Duration
Akbank 18 (BBB-)	3,5	2,7
Doosan Infracore (A-)	2,5	2,3
China Orient Asset Management (A)	2	4
Israel Electric (BBB-)	2,5	3

You will find portfolio manager's comments on top picks at the end of the report.

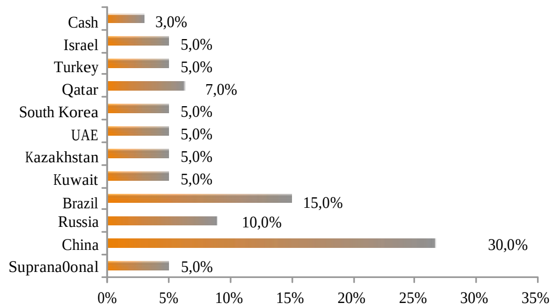
Rating breakdown



Sector breakdown



Country breakdown



Fixed Income
High Yield Strategy

Actual portfolio creation date: 01.10.2009

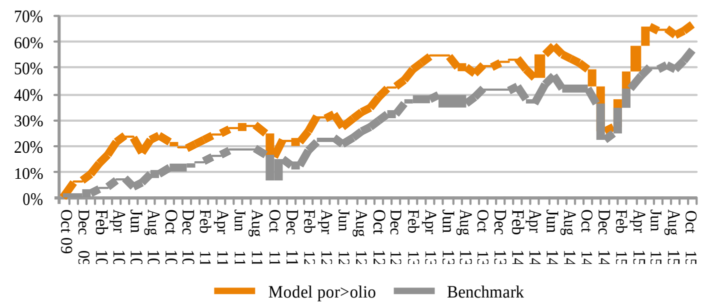
Risk level	Expected return (USD)	Target volatility (annual)	Investment horizon
Moderate	**8-10%**	**5-7%**	**2-3 years**

Investment goal

Long-term capital preservation/inflation protection + high current returns

By investing in bonds of the largest private companies with moderate credit risk and yields significantly above the rates of interest currently offered by banks with sub-investment grade credit rating.

Strategy performance since inception



Gross figures

Performance

	October'15	YTD	1 year	3 years (annualized)	2014	2013	2012	Since inception (absolute)	Since inception (annualized)
portfolio	**1,39%**	**32,46%**	**11,41%**	**5,49%**	**-17,31%**	**4,44%**	**19,88%**	**66,62%**	**8,75%**
benchmark	**2,87%**	**28,37%**	**10,94%**	**6,01%**	**-13,67%**	**4,06%**	**21,24%**	**57,30%**	**7,73%**

Gross figures

Product management

This portfolio is made up of sub-investment grade bonds issued mostly by the largest private or quasi state-owned companies operating on emerging markets. The manager conducts an insightful credit analysis of the issuers to identify those most fit to withstand possible negative scenarios and picks the most undervalued among them.

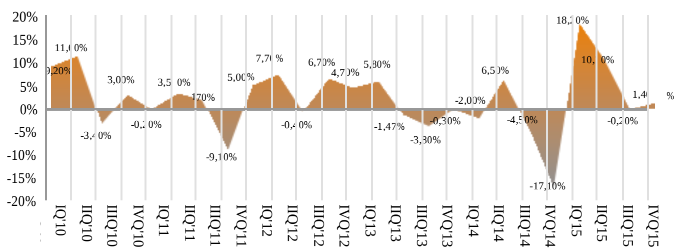
Product benefits

- **Moderate risk** – this portfolio comprises bonds by the largest emerging market companies whose credit profile remains acceptable even in adverse macroeconomic conditions.
- **High current yields** – the average coupon across the portfolio is 9%.
- **Relatively short duration** – on average 2-4 years, which means that a large chunk of the portfolio could be held to maturity, if necessary.
- **Ability to use the portfolio as loan collateral** – at rates ranging from 1.5% to 3% in dollars and discounts to market value of 15-30%.
- **High diversification** – the portfolio is a mix of bonds by issuers from different industries and geographies, which makes it a safer investment than deposits).

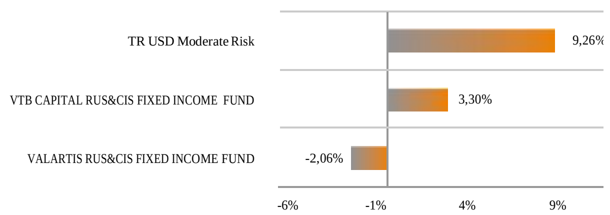
Current outlook

Issuers from emerging markets – which are our targeted investments – are still significantly underestimated. For example, the middle spread of issuers at "B" rating amounts to approximately 550 points (which over an average period of repayment of 4.5 years suggests a repayment yield of around 7%); while the ratio of net debt to EDITDA is approximately 4.5 times. The "Third Rome" portfolio at a composite rating of "B" offers a spread of 1500-1800 points, and net debt/EBITDA equals 2.0 (due to the availability of the share of Russian issuers). We consider that such a ratio of credit risk profitability in conditions of a negative relation to interest risk and the recovery of the global economy is exceedingly attractive for investors who are looking for a high income yield.

Quarterly returns



High Yield strategies' performance (1 year)



Net performance

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General information

Targeted portfolio credit rating	BB	Shorts	up to 50% NAV for hedging only, no net shorts
Benchmark	Euro CBONDS Non-Investment Grade	Expected turnover	50-150% NAV
Instruments	Fixed income, credit, interest rates and currency derivatives	Liquidity	50% can be sold in 1-7 days, 50% in 10-20 days
Base currency	on clients decision	Minimum amount invested on discretional account	$3 mln
Leverage	up to 50% NAV	Portfolio manager	Alexander Varyushkin

Current portfolio VS benchmark

	Portfolio	Benchmark
Weighted average yield to maturity	**13,6**	**6,5**
Duration	**1,9**	**3,5**
Weighted average credit rating	**B**	**BB**
Number of holdings	**18**	**47**
10 biggest holdings	**57%**	**36%**

Absolute statistics (1 year)

	Portfolio	Benchmark
Sharpe ratio	**0,86**	**0,96**
Sortino ratio	**0,90**	**1,04**
Volatility	**12,50%**	**10,76%**
Semi variance	**12,03%**	**9,90%**
% periods up	**71%**	**72%**
% periods down	**29%**	**28%**
Skewness	**-1,06**	**-1,24**
Kurtosis	**1,73**	**2,41**

Relative statistics (1 year)

	Portfolio
Excess return	**0,47%**
Tracking error	**10,72%**
Information ratio	**0,04**
Alpha	**-0,57%**
Beta	**1,10**
Correlation	**95%**
Percentile*	**95%**

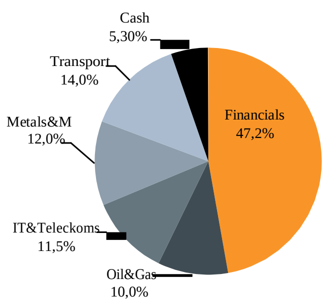
** Percentile rank is evaluated across 750 funds with IPS focusing on USD Moderate Risk Strategy.*

Top picks

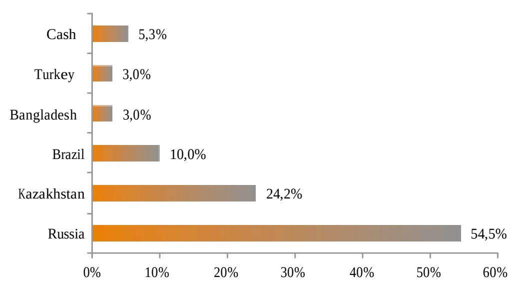
	YTM	Duration
Eastcomtrans 18	**10**	**2,8**
RenCredit 18 sub	**21**	**2,27**
Petrobras 18	**8,6**	**2,2**
Kaspi Bank 16	**9,8**	**1,4**
Banglalink Digital	**9**	**3,3**

You will find portfolio manager's comments on top picks at the end of the report.

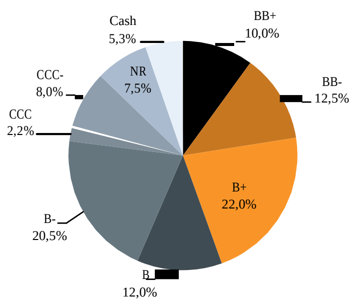
Sector breakdown



Country breakdown



Rating breakdown



Global Macro Strategy

Actual portfolio creation date: 01.01.2010

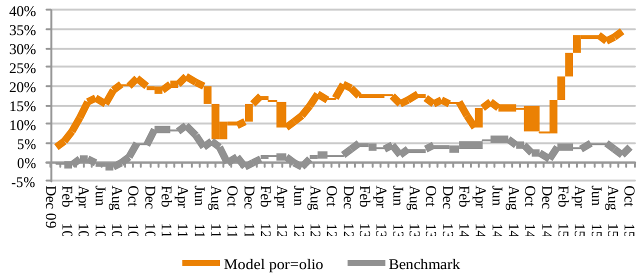
Risk level	Expected return (USD)	Target volatility (annual)	Investment horizon
Moderate	**10-15%**	**7-9%**	**3-5 years**

Investment goal

Long-term average annual return of 15%

By exploring global macroeconomic trends and their impact on asset prices, overvaluation/undervaluation of certain assets, geopolitical trends and monetary policy.

Strategy performance since inception



Gross figures

Performance

	October'15	YTD	1 year	3 years (annualized)	2014	2013	2012	Since inception (absolute)	Since inception (annualized)
portfolio	**1,05%**	**24,45%**	**17,94%**	**4,86%**	**-6,97%**	**-3,65%**	**8,72%**	**34,47%**	**5,21%**
benchmark	**2,14%**	**2,97%**	**1,71%**	**0,90%**	**-2,29%**	**-0,13%**	**3,94%**	**4,12%**	**0,69%**

Gross figures

Product management

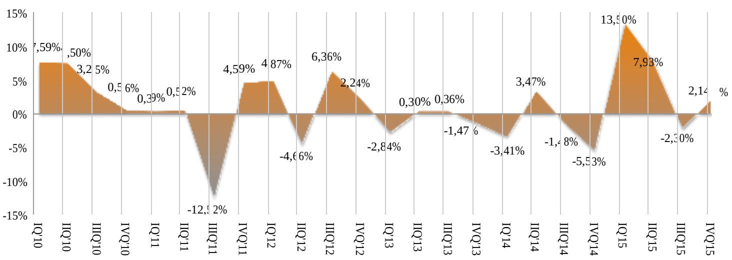
"Macro" – ideas for the portfolio are generated on the basis of macroeconomic analysis – anticipated global economic and geopolitical trends. "Global" – a broad investment declaration, the manager is not constrained by geography and a single asset class.

The manager is tasked with building a portfolio that would make good use of current global economic disbalances. Diversification of the portfolio with a wide range of assets helps mitigate the strategy's risks.

Product benefits

- **Moderate risk level** – risk to the portfolio is mitigated by targeting the portfolio's historic volatility level at 7-9% (equal to the embi+ bond volatility index) and its historic volatility ceiling at 20% (corresponds to the volatility of S&P500).
- **High liquidity** (the funds can be redeemed quickly)
- **Global diversification** (little impact from local trends)

Quarterly returns



Current outlook

The allocation of assets under this strategy is always a reflection of our view on what asset classes offer the best risk-return ratio. We maintain significant positions in high-yield bonds and selected bets in global markets (Argentina's GDP warrant, uranium). At present, we see the highest "value" in EM equity and bonds (the most risky fincacial instruments, which have been forgotten by the investors in the past three years, however unmeritedly). We also opened a short postition in US Treasuries with long term to maturity.

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General information

Upper limit on historic volatility	20%	Shorts	Net short up to 200% NAV depending on asset class
Benchmark	Lyxor Global Macro Index	Expected turnover	100-200% NAV
Instruments	Stock market indices, currencies, commodities, fixed income	Liquidity	50% can be sold in 1-2 days, 50% in 3-5 days
Base currency	on clients decision	Minimum amount invested on discretional account	$3 mln
Leverage	Net long up to 200% NAV depending on asset class	Portfolio manager	Alexander Varyushkin

Current portfolio

	Portfolio
Portfolio historical volatility	**5**
Number of holdings	**9**
Notional long position	**80%**
Notional short position	**0%**

Absolute statistics (1 year)

	Portfolio	Benchmark
Sharpe ratio	**2,15**	**0,14**
Sortino ratio	**2,70**	**0,16**
Volatility	**8,04%**	**7,77%**
Semi variance	**6,42%**	**6,92%**
% periods up	**70%**	**65%**
% periods down	**30%**	**35%**
Skewness	**0,25**	**-0,381**
Kurtosis	**0,24**	**0,12**

Relative statistics (1 year)

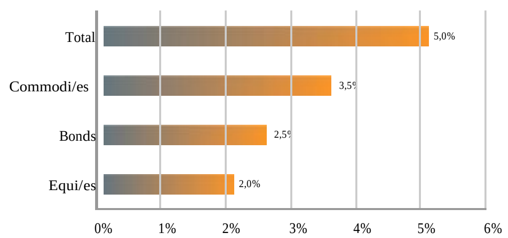
	Portfolio
Excess return	**16,23%**
Tracking error	**9,58%**
Information ratio	**1,695**
Alpha	**17,11%**
Beta	**0,189**
Correlation	**18%**

Top picks

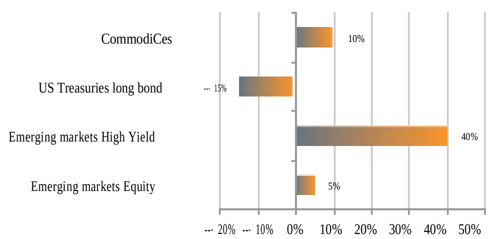
- US Long Bond Short
- CNY (Renminbi)
- Argentina GDP linked unit
- Emerging Markets High Yield Bonds

You will find portfolio manager's comments on top picks at the end of the report.

Volatility by asset class



Nominal positions



Market Neutral Quantitative Strategy

Actual portfolio creation date: 01.01.2012

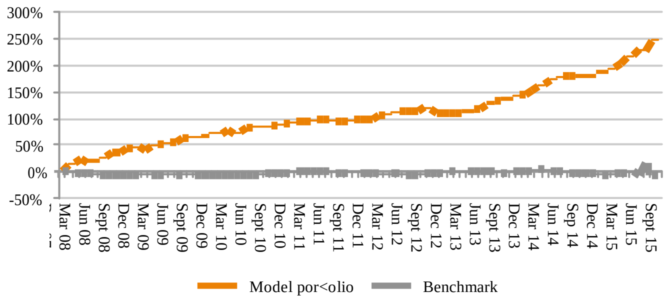
Risk level	Expected return (USD)	Target volatility (annual)	Investment horizon
Moderate	**10-20%**	**10-11%**	**1-2 years**

Investment goal

Long-term capital gains

By sourcing potential stock-market opportunities while keeping away from its systemic risks. The strategy employs mathematical methods to identify and apply statistical arbitrage. The portfolio is a combination of long and short positions developed in a way to avoid it being affected by overall market fluctuations.

Strategy performance since inception



Gross figures

Performance

	October'15	YTD	1 year	3 years (annualized)	2014	2013	2012	Since inception (absolute)	Since inception (annualized)
portfolio	**1,04%**	**23,08%**	**25,68%**	**21,06%**	**15,49%**	**14,21%**	**9,28%**	**248,19%**	**19,02%**
benchmark	**-0,99%**	**-1,96%**	**-3,91%**	**-1,45%**	**-4,83%**	**2,05%**	**0,53%**	**-5,80%**	**-0,83%**

Gross figures

Product management

The Quantitative Market Neutral strategy involves:

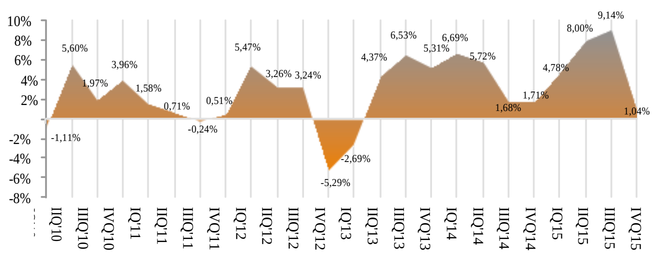
- Opening long and short positions using statistical methods to analyse pairs and evaluate undervalued and overvalued stocks.
- Taking a market-neutral position disregarding directional views on the markets and bets on their future movements.

Product benefits

- **Absolute returns** that do not depend on the direction of the market, coupled with low portfolio volatility.
- **Sophisticated mathematical methods** used to develop algorithmic strategies (involving full-time researchers from Moscow University).
- **Algorithmic strategies** almost completely banish subjective factors from the investment process – the function of the portfolio manager boils down to oversight.
- **Fine-tuned risk management system** that limits the portfolio's downward swings.
- **High liquidity** (portfolio can been redeemed within several days).

All team members boast extensive experience in asset management as well as mathematical research, including statistics, the probability theory and its applications.

Quarterly returns



Net performance

Market outlook

The strategy has been developed to generate reasonably stable capital gains irrespective of the markets' direction and the "moment" for entering the strategy is no different today and yesterday. Empirical results demonstrate that the strategy performs better amid higher market volatility, which is quite in line with the logic of market behaviour. Therefore, we can expect the strategy to outperform at the beginning of the new business season.

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General information

Benchmark		Credit Suisse / HS Market Neutral Index (HSGMN)	Leverage	up to 100% NAV
Beta	target	0,0	Shorts	up to 100% NAV
	upper limit	0,2	Expected turnover	up to 200% NAV
Correlation		(+/-)0,4	Liquidity	3-5 days
Instruments		Liquid equities, equity and index derivatives	Minimum amount invested on discretional account	$3 mln
Base currency		on client's decision	Portfolio manager	Dmitry Voznesenskiy

Current portfolio

	Portfolio
Historical volatility	**10,11%**
Beta	**0,097**
Correlation (RTS index)	**0,12**
Number of holdings	**6**

Absolute statistics (1 year)

	Portfolio	Benchmark
Sharpe ratio	**2,16**	**-0,98**
Sortino ratio	**2,36**	**-0,98**
Volatility	**11,61%**	**4,54%**
Semi variance	**10,64%**	**4,53%**
% periods up	**71%**	**65%**
% periods down	**29%**	**35%**
Skewness	**-0,97**	**-0,782**
Kurtosis	**14,54**	**2,86**

Relative statistics (1 year)

	Portfolio
Excess return	**29,59%**
Tracking error	**12,39%**
Information ratio	**2,389**
Alpha	**27,04%**
Beta	**0,427**
Correlation	**16,7%**
Percentile rank*	**96%**

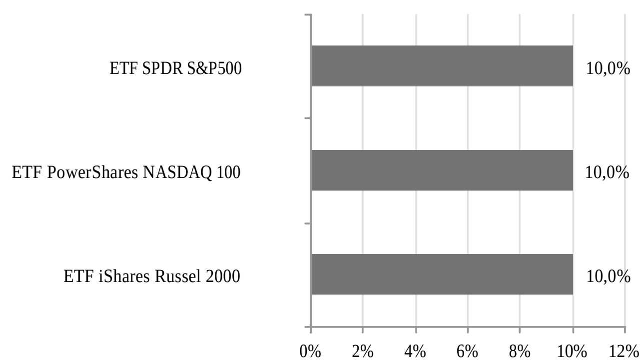
** Percentile rank is evaluated across 24 funds with IPS focusing on USD Market Neutral Strategy.*

Top picks

	Upside	Duration
ETF iShares Russel 2000	**5-15%**	**1 month**
ETF PowerShares NASDAQ 100	**5-15%**	**1 month**
ETF SPDR S&P500	**5-15%**	**1 month**

You will find portfolio manager's comments on top picks at the end of the report.

Sector breakdown



Global Equity Strategy

Actual portfolio creation date:
01.01.2012

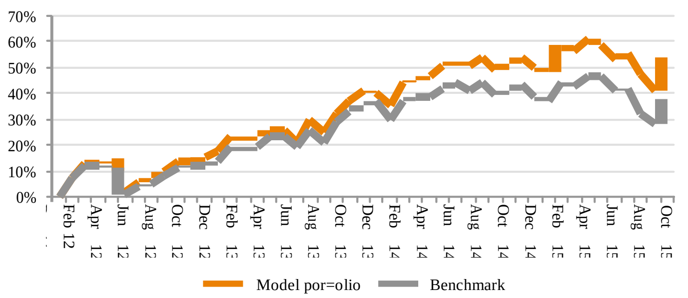
Risk level	Expected return (USD)	Target volatility (annual)	Investment horizon
Moderate	**12%**	**15%**	**3-5 years**

Investment goal

Long-term asset growth

By investing in global equities and seeking selected undervalued stocks. The strategy is designed for investors aiming to build a global equity portfolio focused primarily on the developed markets.

Strategy performance since inception



Gross figures

Performance

	October'15	YTD	1 year	3 years (annualized)	2014	2013	2012	Since inception (absolute)	Since inception (annualized)
portfolio	**8,9%**	**2,4%**	**1,4%**	**10,9%**	**6,9%**	**18,7%**	**18,2%**	**53,8%**	**11,9%**
benchmark	**7,7%**	**-0,7%**	**-2,6%**	**7,7%**	**1,5%**	**19,8%**	**14,0%**	**37,7%**	**8,7%**

Gross figures

Product management

The strategy actively seeks value stocks to outperform the benchmark or sells short substantially overvalued stocks. The selection process is focused primarily on identifying temporarily undervalued stocks or analyzing the effect of significant corporate events.

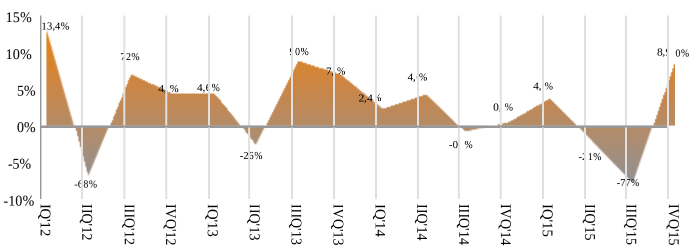
The strategy's benchmark is MSCI ACWI Index, which includes 2,446 large and medium companies from 23 developed and 23 emerging markets.

High level of diversification significantly reduces the portfolio risks.

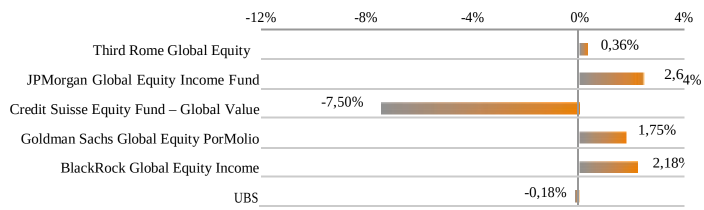
Product benefits

- Security, liquidity, risk diversification: global portfolio is comprised from large- and mid-caps from different countries.
- Value: the strategy shows returns above benchmark due to the efficient selection of undervalued stocks – an investment approach that has traditionally outperformed the market in the long run.

Quarterly returns



Equity strategies' performance (1 year)



Net performance

Market outlook

After an extended growth period at the stock market the upside became modest, but the recent correction could translate into returns around 12% in the medium term. We see South Korea as our top pick among undervalued economies while Financials and Automotive appear most promising sector-wise.

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General information

Benchmark	MSCI ACWI	Derivatives position	up to 50 %
Instruments	Global equities and derivatives	Expected turnover	up to 50% per annum
Basic currency	USD	Liquidity	1 week
Leverage	up to 20%	Minimum amount invested on discretional account	$500 000
Shorting	no more then 100% NAV in total	Portfolio manager	Alexey Debelov

Current portfolio VS benchmark

	Portfolio	Benchmark
P/E 2014	**16,3**	**17,2**
P/E 2015 E	**14,3**	**15,1**
Number of active positions	**7**	**-**

Absolute statistics (1 year)

	Portfolio	Benchmark
Sharpe ratio	**0,06**	**-0,21**
Sortino ratio	**0,06**	**-0,30**
Volatility	**15,2%**	**15,2%**
Semi variance	**14,5%**	**10,4%**
% periods up	**51%**	**50%**
% periods down	**49%**	**50%**
Skewness	**-0,31**	**-0,32**
Kurtosis	**3,67**	**4,04**

Relative statistics (1 year)

	Portfolio
Excess return	**4,0%**
Tracking error	**3,5%**
Information ratio	**1,15**
Alpha	**3,91%**
Beta	**0,98**
Correlation	**97%**

Top picks

	Upside	Duration
Hyundai	**25%**	**24 months**
PVH Corp.	**35%**	**24 months**
United Airlines	**30%**	**12 months**

You will find portfolio manager's comments on top picks at the end of the report.

Fixed Income Special Situations Strategy

Actual portfolio creation date:
24.11.2009

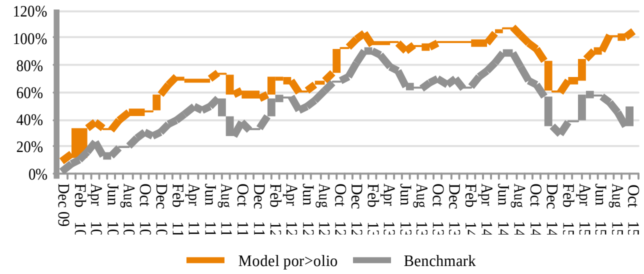
Risk level	Expected return (USD)	Target volatility (annual)	Investment horizon
High	20%	20%	3-5 years

Investment goal

Substantial capital gains

By investing long term in distressed bonds trading at hefty discounts.

Strategy performance since inception



Gross figures

Performance

	October'15	YTD	1 year	3 years (annualized)	2014	2013	2012	Since inception (absolute)	Since inception (annualized)
portfolio	**2,33%**	**26,45%**	**6,31%**	**2,20%**	**-18,57%**	**-0,49%**	**28,41%**	**104,73%**	**12,68%**
benchmark	**9,89%**	**10,39%**	**-10,32%**	**-3,97%**	**-20,65%**	**-6,14%**	**35,20%**	**49,02%**	**6,87%**

Gross figures

Product management

The portfolio would usually comprise some 15-20 issuers. To mitigate the risk of a significant drop in value the share of each single issuer is capped at 15%.

Preference is given to bonds trading at a steep discount from the face value and offering the prospect of manyfold growth under favourable circumstances.

Investors subscribing to this kind of strategy should be prepared to see news feeds and the market consensus vis-à-vis the issuers in the portfolio to be extremely negative, which is the only way for the securities to be priced at a sufficiently attractive level.

Product benefits

- The Special Situations strategy implies dealing with distressed debt, which means investing in debt securities that have become «problematic» and which have downside or upside potential. Such debt is usually traded at a significant discount from the par amount and should the issuer manage to mend its fortunes its value may multiply.
- This strategy's yields characteristics are essentially equity-like with the downside potential comparable to the value of investment and the long term upside potential exceeding it many times over.
- The strategy is designed for investors seeking a substantial augmentation of their capital and able to tolerate high portfolio volatility.

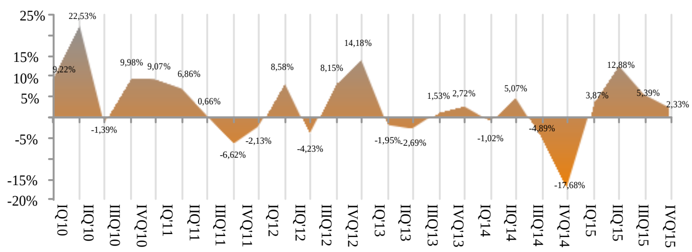
Market outlook

1. Presence of a large number of distressed issuers to choose

Currently, in this category there is no shortage of supply – many emerging markets were hard hit last year (Ukraine, Argentina, Venezuela, Mongolia, and Turkey). For the first time in the last 2-3 years there is a large number of distressed issuers to choose from;

2. General mood on the credit market – the market starts looking at promising issuers in the "special situations' segment once ideas in the high-yield segment have been largely exhausted. We expect this period to arrive towards the end of this year, possibly early next year.

Quarterly returns



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General information

Benchmark	Bank of America Merrill Lynch Distressed Emerging Markets Corporate	Derivatives position	no more then 100% of portfolio market value to hedge the currency risk
Instruments	Fixed income, currency derivatives	Liquidity	30 days
Base currency	on clients decision	Minimum amount invested on discretional account	$1 mln
Leverage	-	Portfolio manager	Alexander Varyushkin
Shorts	-		

Current portfolio VS benchmark

	Portfolio	Benchmark
Weighted average yield to maturity	**23**	**16,5**
Duration	**1,02**	**2,9**
Weighted average credit rating	-	**B-**
Number of holdings	**15**	**103**
10 biggest holdings	**50%**	-

Absolute statistics (1 year)

	Portfolio	Benchmark
Sharpe ratio	**0,34**	**-0,72**
Sortino ratio	**0,32**	**-0,56**
Volatility	**16,54%**	**15,24%**
Semi variance	**17,87%**	**19,53%**
% periods up	**67%**	**65%**
% periods down	**33%**	**35%**
Skewness	**-0,99**	**0,006**
Kurtosis	**0,65**	**0,20**

Relative statistics (1 year)

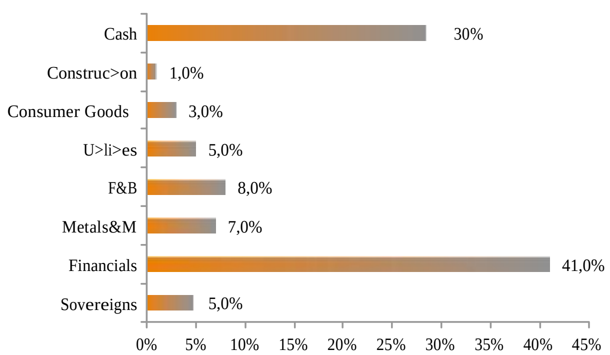
	Portfolio
Excess return	**16,63%**
Tracking error	**21,67%**
Information ratio	**0,767**
Alpha	**13,42%**
Beta	**0,707**
Correllation	**65%**

Top picks

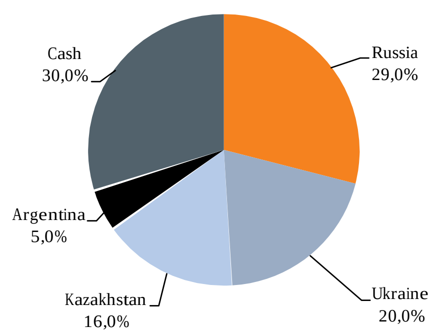
	YTM	Duration
EXIM Bank Ukraine 22	**22**	**1,47**
ATF Bank perpetual	**13,5 (21% YTC)**	**2,8**

You will find portfolio manager's comments on top picks at the end of the report.

Sector breakdown



Country breakdown



Small Caps Value Strategy

Actual portfolio creation date: 30.10.2009

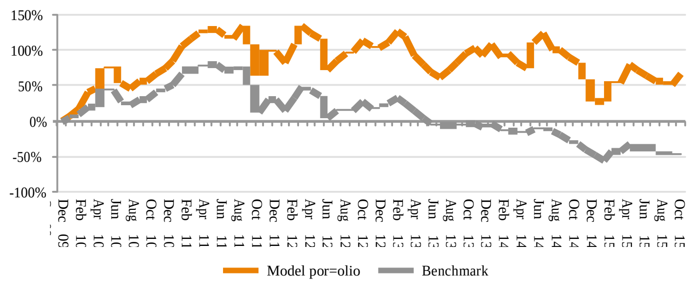
Risk level	Expected return (USD)	Target volatility (annual)	Investment horizon
High	**20%**	**25%**	**3-5 years**

Investment goal

Long-term asset growth

By betting on high-quality undervalued second-tier equities versus their overvalued peers and the broad market. The strategy is designed for clients aiming at long-term capital appreciation and preferring volatility levels lower than those of standard equity strategies but delivering comparable returns.

Strategy performance since inception



Gross figures

Performance

	October'15	YTD	1 year	3 years (annualized)	2014	2013	2012	Since inception (absolute)	Since inception (annualized)
portfolio	**9,33%**	**31,15%**	**-9,38%**	**-7,15%**	**-39,67%**	**-6,26%**	**16,65%**	**65,66%**	**8,78%**
benchmark	**4,70%**	**6,32%**	**-17,75%**	**-21,59%**	**-47,00%**	**-20,76%**	**3,23%**	**-45,53%**	**-9,63%**

Gross figures

Product management

Picking quality stocks based on in-depth study of their operational activity and financial performance.

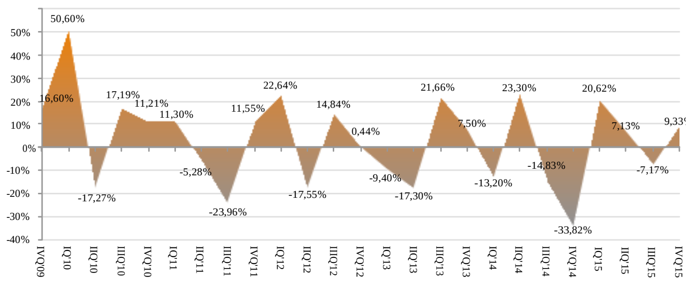
The manager looks into investment ideas across the world but puts the main emphasis on companies with core operations in Russia and the CIS.

The strategy is aimed at unlocking the ideas' long-term potential.

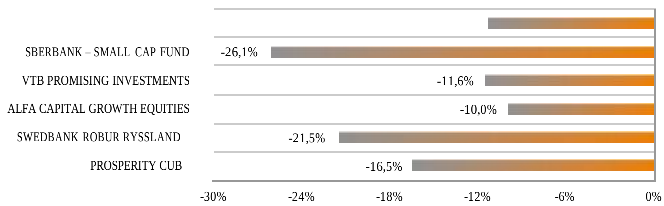
Product benefits

- **The strategy aims to deliver absolute returns** – it is much less cyclical as it targets undervalued securities and utilises hedging opportunities.
- **Picking high-quality ideas substantially undervalued by the market** – higher returns delivered by focusing on uncovered stories outside the well-explored blue chip universe.

Quarterly returns



Small Cap Equities' performance (1 year)



Net performance

Market outlook

Shares are substantially undervalued compared to all other asset classes. Russia is one of the most undervalued markets in terms of return on investment and the value of assets on the balance sheet. The deciding factor over the next couple of months is going to be investors' overall attitude to risk – in the last two months funds have been flowing back to the more secure markets of the developed economies.

Dividend-paying stocks remain the most attractive theme for us as they offer not only good price growth prospects but also distribution of free cash flow to shareholders. We maintain substantial positions in oversold quality stocks and monitor corporate stories for medium-term investments.

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General information

Benchmark	RTS-2	Derivatives position	up to 100% NAV to hedge the equity risk
Instruments	Equities of small and middle cap, equity-based derivatives	Expected turnover	100-200% NAV
Basic currency	USD (in case of other currency client takes the currency risk)	Liquidity	30 days
Leverage	no	Minimum amount invested on discretional account	$500 000
Shorting	no more than 100% NAV for the purpose of hedging; no net short position	Portfolio manager	Alexey Debelov

Current portfolio VS benchmark

	Portfolio	Benchmark
P/E 2015 E	**8,1**	**N/A**
P/E 2016 E	**6,9**	**N/A**
Number of holdings	**20**	**30**
10 largest holdings	**80%**	**72%**

Absolute statistics (1 year)

	Portfolio	Benchmark
Sharpe ratio	**-0,28**	**-0,41**
Sortino ratio	**-0,24**	**-0,35**
Volatility	**36,06%**	**44,95%**
Semi variance	**42,30%**	**53,44%**
% periods up	**51%**	**49%**
% periods down	**49%**	**51%**
Skewness	**0,51**	**0,24**
Kurtosis	**9,47**	**22,47**

Relative statistics (1 year)

	Portfolio
Excess return	**8,37%**
Tracking error	**24,98%**
Information ratio	**0,335**
Alpha	**2,18%**
Beta	**0,667**
Correlation	**83%**
Percentile rank*	**62%**

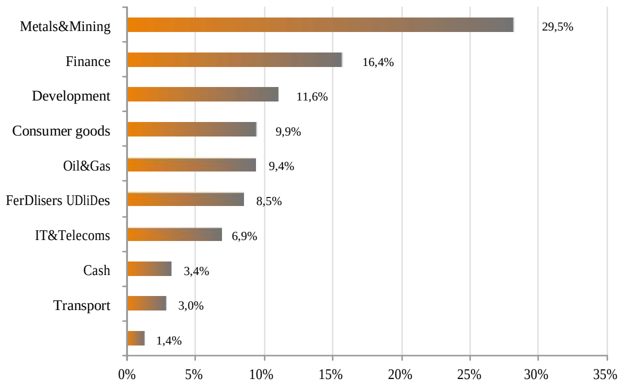
**Percentile rank is evaluated across 22 funds with IPS focusing on Russian second-tier stocks.*

Top picks

	Upside	Duration
Novolipetsk Steel (NLMK)	**20%**	**12 months**
Alrosa	**35%**	**12 months**
Magnit local shares	**25%**	**24 months**
Etalon	**80%**	**24 months**
E.ON Russia	**20%**	**24 months**

You will find portfolio manager's comments on top picks at the end of the report.

Sector breakdown



Third Rome asset allocation for core portfolios

Single-class strategies aimed at outperforming benchmark risk/returns offer no asset allocation solutions.

Hedge fund strategies offering asset allocation solutions are in the segment of moderate and high risk and therefore would not fit with any client risk profile.

Third Rome offers three core portfolios, each corresponding to a specific client risk profile:

Capital Preservation Portfolio

Current Income Portfolio

Capital Gains Portfolio

These portfolios are allocations recommended by the company's Investment Committee. The goal of investing in these portfolios is to secure higher return per risk unit as compared to investment in a one-asset-class strategy with the same level of risk.

Capital Preservation – Portfolio

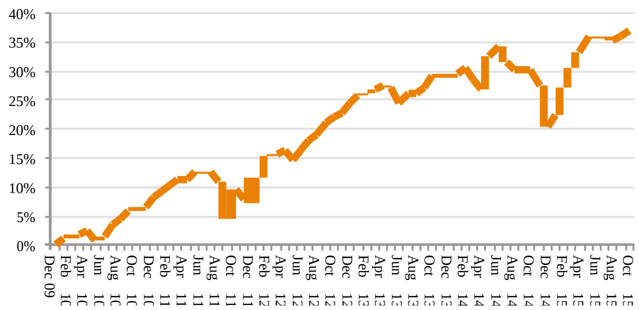
Investment idea

The portfolio is designed for clients seeking stable returns on their medium-term investment that keep up with inflation or marginally beat it while providing very low volatility. The result is achieved through diversification across several strategies with low mutual and market correlation and pursuit of mostly conservative strategies.

Target return and risk levels

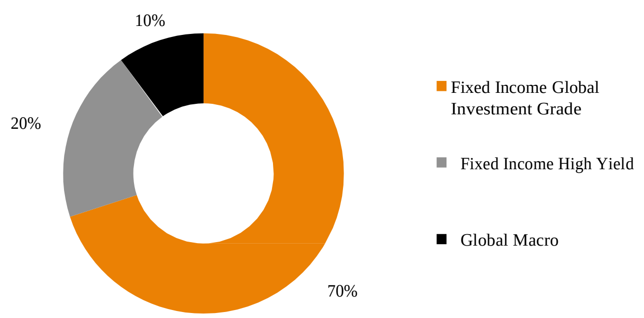
Average expected return (net, 1-3 year horizon)	**5-6%**
Expected volatility (annual)	**3-4%**
95% confidence interval (annual)	**-2%; +14%**
Investment horizon	**2-4 years**

Strategy performance since inception



Actual statistics

Performance	IVQ'15	1 year	since inception (annualized)
portfolio	**0,93%**	**13,95%**	**5,55%**
Performance volatility			
portfolio	**1,39%**	**4,26%**	**4,22%**
Sharpe ratio			
portfolio	**2,29**	**3,56**	**3,52**



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Current Income – Portfolio

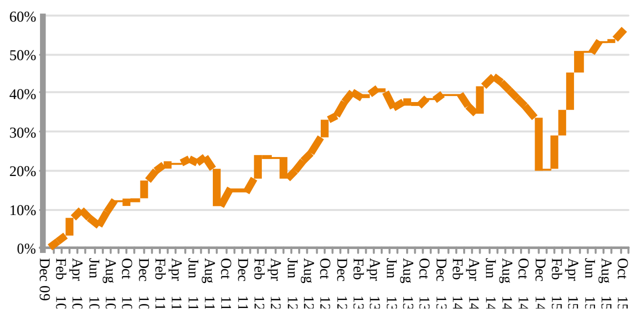
Investment idea

The portfolio is designed for clients seeking to secure returns that substantially outpace inflation but tolerate volatility of investment outcomes in the medium term. The result is achieved through diversification across several strategies with low mutual correlation and emphasis on medium-risk strategies.

Target return and risk levels

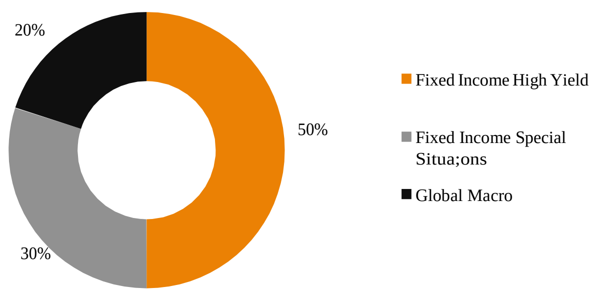
Average expected return (net, 1-3 year horizon), USD	**10-12%**
Expected volatility (annual)	**8-10%**
95% confidence interval (annual)	**-12%; +27%**
Investment horizon	**2-4 years**

Strategy performance since inception



Actual statistics

Performance	IVQ'15	1 year	since inception (annualized)
portfolio	**1,61%**	**30,39%**	**7,98%**
Performance volatility			
portfolio	**2,02%**	**6,63%**	**6,19%**
Sharpe ratio			
portfolio	**2,74**	**5,00**	**3,70**



Capital Gains – Portfolio

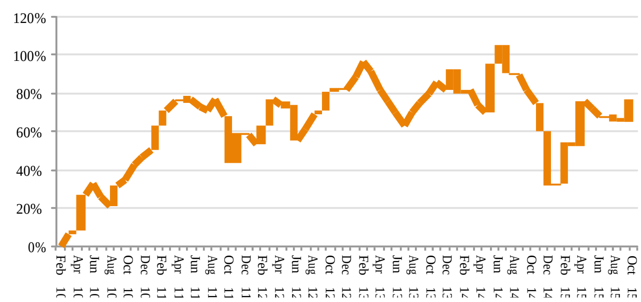
Investment idea

The portfolio is designed for clients pursuing high returns, prepared to tolerate high volatility of investment outcomes and not seeking to mitigate the overall portfolio risk through diversification. The result is achieved by means of diversification across several strategies with low mutual correlation and emphasis on high-risk strategies.

Target return and risk levels

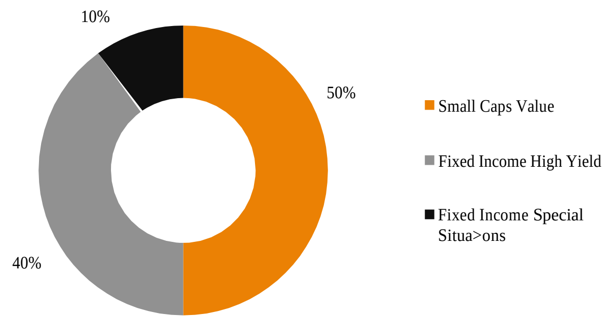
Average expected return (net, 1-3 year horizon), USD	**15-20%**
Expected volatility (annual)	**25-30%**
95% confidence interval (annual)	**-37%; +61%**
Investment horizon	**3-5 years**

Strategy performance since inception



Actual statistics

Performance	IVQ'15	1 year	since inception (annualized)
portfolio	**7,27%**	**34,36%**	**10,25%**
Performance volatility			
portfolio	**21,10%**	**21,02%**	**16,32%**
Sharpe ratio			
portfolio	**1,19**	**1,78**	**1,91**



Third Rome's top picks comments

Fixed Income Global Investment Grade Strategy

	YTM	Duration	Comment
Akbank 18 (BBB-)	3,5	2,7	One of the largest Turkish private banks (stakeholders: 49% – Sabanci family, 9,9% – Citigroup, 41,1% – in the open market). The note (issued by a 100% subsidiary of the bank (leasing)) trades at a 70 bp premium to its own curve.
Doosan Infracore (A-)	2,5	2,3	Part of South Korean conglomerate Doosan Group's companies, producing construction equipment. Option execution in 2017 are guaranteed by Korea Development bank (A+), Woori Bank (A-), Hana Bank (A-).
China Orient Asset Management (A)	2	4	Asset management company Bank of China is fully controlled by the Ministry of Finance of China.
Israel Electric (BBB-)	2,5	3	Israel Electric is a state-owned company, which manages all generating and distributing networks in Israel (like RAO UES once did).

Fixed Income – High Yield Strategy

	YTM	Duration	Comment
Eastcomtrans 18	10	2,8	Kazakhstan's largest private railway operator, the key client of Tengizshevron-oil. The bond is guaranteed by the rolling stock owned by Eastcomtrans.
RenCredit 18 sub	21	2,27	Subordinated bond issued by the Renaissance Credit bank. Premium of about 100 bp versus a similar issue by TCS Bank. The best offer among Russian banks in the consumer credit segment. Tier-1 capital adequacy ratio is 19%, and TCAR is 23%.
Petrobras 18	8,6	2,2	The state-backed company's bonds took a big hit from the ongoing corruption scandal and Brazil's sovereign investment rating downgrade. It is our view (based on credit metrics) that the company's bonds have been considerably "oversold" and their valuations do not reflect the credit risks.
Kaspi Bank 16	9,8	1,4	Medium-size Kazakhstan bank that pioneered consumer lending on the Kazakh market. The bond – a relatively short-term senior debt security – offers a 100-150 bp premium over similar issues.
Banglalink Digital	9	3,3	Vimpelcom's subsidiary in Bangladesh. The premium over Vimpelcom LTD's performance curve is of about 150 bp, with fair 50 bp.

Global Macro Strategy

	Comment
Argentina GDP linked unit	The recovery note is essentially preferred stock issued by the state – holders are paid a portion of Argentina's GDP when its growth exceeds 3%. Under the moderate macroeconomic scenario the country's expected cash flow should translate into an annual yield of about 15-30%.
Emerging Markets High Yield Bonds	Emerging bond markets took a battering in 2014-2015, while some of them remain among the least leveraged sectors of the global economy. We believe that amidst the new reality of higher interest rates medium and long-term emerging market bonds carrying no excessive debt burden are the best risk/yield option.
US Long Bond Short	Short position in long US Treasuries at 2.5% yield for 10-year notes, expecting interest rates growth in 2015. The bet is explained by the limited downside potential, rather than by the expectations of interest rates increase.
CNY (Renminbi)	Long position in Chinese Yuan against US Dollar (buying bonds in Yuan). In our view, US foreign policy weakens Dollar as a reserve currency and (even though there is no real alternative at the moment) Chinese Yuan has the greatest potential to take its place. China's strong current account position and relative undervaluation of Yuan in terms of purchasing-power parity serve as additional supporting arguments.

Market Neutral Algorithmic Strategy

	Upside	Duration	Comment
ETF iShares Russel 2000	5-15%	1 month	Entering or closing of the position is executed several times a month according to a number of volatility criteria.
ETF PowerShares NASDAQ 100	5-15%	1 month	Entering or closing of the position is executed several times a month according to a number of volatility criteria.
ETF SPDR S&P500	5-15%	1 month	Entering or closing of the position is executed several times a month according to a number of volatility criteria.

Third Rome's top picks comments

Global Equity Strategy

	Upside	Duration	Comment
Hyundai	25%	24 months	Hyundai benefits from both higher demand in Asia and the United States (its key market) and the dollar strengthening against the Korean currency. The company is currently trading well below its peers.
PVH Corp.	35%	24 months	US clothing retailer, which owns such brands as Calvin Klein, Hilfiger, Heritage. After a recent correction its shares have been trading at multi-year p/e lows: 13.2 against a six-year average of 16.
United Airlines	30%	12 months	The company is benefiting from the US economic upswing and the more robust domestic demand it brings in its wake. Another favourable factor is the sharp fall in the price of oil and, consequently, jet kerosene, which accounts for over a half of airlines' operating costs. UA's debt burden is extremely low: the net debt is below the company's EBITDA. Yet its shares are trading at 5x 2015 earnings.

Fixed Income Special Situations Strategy

	YTM	Duration	Comment
EXIM Bank Ukraine 22	22	1,47	We believe that it is imperative for the shareholders to pay back this loan as it will serve as an indicator for lenders to other, much larger businesses (Avangard, UkrLandFarming), they are in a position to do it.
ATF Bank perpetual	13,5 (21% YTC)	2,8	The bond is currently offering a 13.5% yield to undated maturity and a yield of 21% to the anticipated call option. We believe that the arrival of the new shareholder will help the bank to increase the effectiveness of its efforts to redress the quality of its loan portfolio and possibly avoid recapitalisation.

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Small Caps Value Strategy

	Upside	Duration	Comment
Novolipetsk Steel (NLMK)	20%	12 months	NLMK exports more than 60% of its production and benefits from low ruble costs. The Company offers to wide extent a range of high-added value products that are more in demand. Debt load demonstrates its successful drop-down.
Alrosa	35%	12 months	The company benefits from the rouble's weakness and lower oil prices. The stock is trading at less than five times earnings with investors gaining immediate benefit from the low valuation through the share of profits the company distributes as dividends. Demand for the company's output is expected to rise on the back of recovering global economy, which means that the company's risk profile contrasts quite sharply with with that of the Russian market in general (with the exception of political risks), creating additional value for investors by way of diversification.
Magnit local shares	25%	24 months	Russia's largest discount retailer is in a position to weather the economic slowdown and the international sanctions with relative ease: the share of the banned products on its shelves is low and consumers tend to switch to discount options as incomes fall. Advanced logistics and low prices will help the company further win business over from individual retailers. Magnit's local shares are trading at a very high discount to the company's depositary receipts (23.5%) – over the past seven year the gap was wider only 6% of the time.
Etalon	80%	24 months	One of the leading real estate developers with operations centred on St Petersburg and Moscow. It is benefiting from a recovering housing market and plans to expand the city of Moscow. Since the company's key projects are located outside Moscow risks related to Moscow's strict construction regulation are negligible. Unlike many other companies in the sector, Etalon is not saddled with unfinished projects and a net cash position formed after its IPO in 2011 allows it to pick quality projects and properties on the cheap. The company's shares were oversold after investors' attitude towards the sector soured and currently trade at 7.2 2013 profits. The appointment of a new IR director should help improve the company's image among investors.
E.ON Russia	20%	24 months	Power generating company controlled by Germany's E.ON. The most efficient facilities in the industry help generate high returns, most of which are distributed to shareholders in the form of dividend: the expected yield is 12%. The company has met its obligations regarding construction of new facilities and will be investing profits into high-impact projects or increased dividends.

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