



**tera- (symbol: T)**

A prefix indicating 10 to the power of 12,  
often attached to bits and bytes

## **Tera's Global Innovation Fund**

### **Canada's #1 Innovation Fund**

#### **Quarterly Comment**

December 31, 2006

**The Tera Capital Global Innovation Fund** finished the 4th quarter of 2006 at \$217.33CDN, thereby establishing the 2006 YTD return of 47.4%. For the same period, the NASDAQ Composite and the Morgan Stanley High Tech Index had positive returns of 9.5% and 8.8% respectively. The NASDAQ Computer Index return was less at 6.2% for the year.

***The detailed stock selection performed by Tera Capital was able to add over 37% extra return over the various indices for all Global Innovation investors.***

The 3 year performance number is equally as impressive; the fund is up 53.4% compounded annually which is more than 5x the annualized (yearly) performance of all of the technology indices. The Nasdaq Composite 3 year compounded return is 6.4%.

*This once again clearly reaffirms the benefits and the value added to investors when exposed to the growth elements of the Innovation Economy. The combined experience and expertise of Tera Capital in providing these above average returns for investors can not be underestimated.*

The fund now holds the **#1 Best Performer** position in Canada, out of the 91 Science and Technology funds sold across the country for 2004, 2005 AND 2006.

As well, Globefund lists 7,371 different managed funds in Canada. Our fund, Tera Capital Global Innovation, was the #1 equity fund for the 3 year time frame in ALL categories.

Taking these returns into consideration, we must look at the role of risk and how it contributes to positive performance. A very relevant investment calculation for portfolio managers and investors, called the SHARPE RATIO, is often used to evaluate this balance and illustrate the amount of risk that a portfolio manager incurs in attaining performance returns.

Compared to all of the technology indices for a 3 year investment time frame, the Tera Capital Fund has a SHARPE RATIO that is 4x that of all the comparable indices ratios. That is, for an equal amount of risk, based on monthly returns over a 3 year period, investing in the Tera fund resulted in 4x the returns of a technology index for the same amount of risk. Since the fund's inception in 1998, the Tera Capital Global Innovation Fund's SHARPE RATIO has also outperformed the NASDAQ by over 50%.

*What does this mean? For investors this means that by simply exposing yourself to an expanding sector, you are getting better returns with no unnecessary risk.*

Many investors equate the Innovation Economy with a higher level of risk. Investors look back to their experience of 2000 and remember that the NASDAQ rose to unsustainable levels before coming back to reality. This experience has resulted in the fact that they believe this sector is very volatile and continues to be that way. It should be pointed out that there is a considerable difference between the Innovation companies and their securities prices. Irrational investors drove the price of these securities to untenable levels even though the companies continued to produce great products. It should be pointed out that at Tera Capital we invest in the best Innovation companies and stay away from securities that are driven by too much unfounded exuberance.

With this in mind, we are not only still very committed to our 16 positions and firmly believe in their continued growth, but in the portfolio approach of investing in the Innovation Economy as well.

It is common knowledge that small capitalization stocks which have outstanding upside potential can also be quite volatile, which is why when managed as a pool, volatility can be substantially reduced.

Q4 also produced very significant positive returns. Icron's value increased 75% in the quarter resulting from the stabilization of their business following the shut down of the Freescale project. Neptune Biotech increased by 55% following Pfizer's discontinuation of its HDL increasing drug Torcetrapib. Triant Technologies increased 181% following news that its prime competitor SI Automation was acquired at an equivalent value of \$10 per share. With Triant trading at \$0.59 at the end of 3Q 2006, we were correct in assuming this company was being significantly undervalued by Canadian investors!

Embotics Corporation, our private holding, completed a private placement in the 4<sup>th</sup> quarter at a value of \$6.00 per share. This sets the company up for a larger round of financing in the 1<sup>st</sup> quarter of 2007. Working closely with Advanced Micro Devices, IBM, and others, Embotics continues to work towards the holy grail of "self healing" computers. We look forward to an exciting 2007 working with this company.

For 2007, we do not anticipate greatly changing what has already proven to be very effective. As long as our companies keep executing, we will keep supporting these great growth stories. It should be noted that since the overall technology market is showing some volatility, we will take advantage by employing strategic shorting opportunities to add value for investors.

New subscriptions are now flowing into the fund. As of the date of writing this comment, the fund has crossed the \$12M level. The target for the fund is to reach a level of \$25M by end of 2007. New subscriptions are welcome with information available at [www.teracap.com](http://www.teracap.com) and please feel free to e-mail any inquiries to [info@teracap.com](mailto:info@teracap.com).

The next comment will be for first of 2007 and will appear at the beginning of April 2007.

Happy Skiing.....out west!!

Howard Sutton