

“What is positive is the broadening of the investor base”



With over 200,000 retail clients all over Europe, Peter Elam Hekansson, Chairman, East Capital, has observed the growing interest in Russia from hedge funds first hand

Why are the more opportunistic hedge funds increasing their exposure to Russia?

The trend is that they have been increasing their exposure all over the region and Eastern Europe. From Budapest to Moscow, you see a lot of new faces and it is clear that they are looking to come into what they perceive as ‘riskier’ markets. They have had a fantastic run in Eastern Europe and have been investing in convergence plays in Poland, the Czech Republic and Hungary, and I think that they are starting to realise that you can make money in these markets and that they are now not as dangerous as they may have been perceived previously.

The situation is that there are strong natural resources prices all around the world, yet the Russian stock market has, for a long time, not been performing. In other countries that have exposure to natural resources, the stock markets have been going through the roof. For fund managers, investing in Russia is therefore the natural next step. After making money all over Eastern Europe, they have this great economy with natural resources which hasn’t been performing and which has some very good relative values.

Therefore, the expectation is that the stock market will start to perform after being in the doldrums for so long?

Yes – it hasn’t really performed at all for nearly one and a half years now and what we are trying to tell people all the time is that the perceived risk is higher than the real risk, that common perception about Russia is really wrong.

What impact do you think the ‘hot money’ of hedge funds will have on Russia’s financial markets?

There will be an increase in volatility

and there will be a lot of people who are not really used to this market coming in for the first time. They will react when something looks a bit negative. But, what is positive is the broadening of the investor base. We have seen this with the new IPOs and money coming into Sistema, for example. What I like about these placings – and which is indicative of the trend – is that they are not in the classic sectors of the Russian economy. The new generation of entrepreneurs is one of our big themes. The view of Russian managers will change this year as they see the IPOs coming through. There are going to be dynamic companies - not in the commodities sectors - which have growth at rates among the fastest in the world. Therefore, there are going to be investors coming to Russia for the first time and meeting those companies.

What institutions invest in your fund and what does the institutional base indicate about interest in investing in Russia?

We have a very good mix, with everything from one of the largest foundations in the world, which is US-based (we run a European portfolio for them as a separate mandate) to the Norwegian pension funds, Dutch pension funds, insurance companies in Sweden and lots of private banks. We also have more and more interest coming from the Middle East. They are really discovering the region and haven’t been used to investing in the area before. The interest is coming especially from Dubai.

And interest from US investors?

They have been very slow moving into Eastern Europe overall, however EU enlargement has made Americans a lot more aware. When it comes to Russia, unfortunately, a lot of them held Yukos –

it was their first investment and it wasn’t a very good start. Many burnt their fingers and there are a lot of unhappy people out there. But, again, looking at the valuations and what is happening, it is hard to resist.

From our clients, we have a very broad retail base – with over 200,000 retail clients all over Europe for our funds. And most of that is pension money.

Also, many of our clients are actually expats. They have been to Russia and have seen it working and understood that the growth story is really happening now and that it is an exciting place to put your money.

There are still many critics who are publicly disdainful about Russia’s prospects and the investment case. How do you respond to such critics?

The problem is if you don’t really see what is happening then you miss out on a lot of the positive aspects. It comes back to perceived risk being higher than the real risk. If you are not there, in Russia, on a regular basis, you miss out on the opportunities and rely on outdated views of the country. For example, when you go to Russia today, you see shopping centres that are being created all over the country – IKEA is not opening one store at the moment, but five simultaneously, which demonstrates strong demand. At the same time, you have seen the penetration rate for mobile telephones, which was one per cent five years ago and is now over 55%. Why? Because the regions are growing and it is the regional expansion that has changed the picture dramatically over the last few years. There are 12 cities with over a million inhabitants, and 33 cities with over 500,000 people. Those million-plus cities are going to see a lot of investment and grow very fast. 