

The Russian Investment Adventure – A Personal Account

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THE SOVIETS ARE COMING

There are events that occur early in life that later come to symbolize important changes in direction. They are the hidden road signs of a career, impossible to spot at the time, disguised as they are by a combination of youth and the murky prism of history. But in retrospect, they emerge as clear pointers toward the way one's life will develop. For me, I believe one such moment came on October 29, 1981. The Soviet submarine *U-137*, a Whisky class submarine of the Baltic Fleet, ran aground on the east coast of Sweden, approximately 10 km from the Karlskrona naval base, and was forced to surface inside Swedish territorial waters. I was 19 years old, serving my time in the Swedish marines and part of a group of soldiers sent out to guard the submarine.

This was not a minor incident. The Soviet Navy sent a rescue task force to the site comprising destroyers and tugs. Sweden's government was understandably determined to safeguard Sweden's territorial integrity. As the Soviet recovery fleet appeared off the coast on the first day, Swedish coastal artillery guns locked onto the ships, indicating to the Soviets that there were active coastal batteries on the islands. Despite the threat, the fleet did not reverse course immediately, and as they came closer to the 12-mile territorial limit the battery was ordered to go to war mode. Finally, the Soviet fleet reacted and the vessels reversed course to remain in international waters.

The Soviet submarine captain, after a guarantee of immunity, was taken off the boat and interrogated in the presence of Soviet officials. The submarine was held in Sweden for nearly ten days, during which period nuclear arms were discovered on board. Eventually, on November 5, the submarine was hauled off by Swedish tugs and escorted to

international waters, where it was handed over to the Soviet fleet. These were exhilarating events for a 19-year-old marine.

Here, in one incident, was a metaphor for the Cold War – the suspicion, the fear, the imminent threat, the lack of trust, the rapid escalation, the horrendous consequences of a mistake, the need for understanding and, perhaps most tellingly, the tragedy and the farce. Here were two neighboring European nations that should be trading with each other and engaged in developing mutual prosperity instead locked in an ideological battle that had spiralled out of control. With all other options eradicated, they were left to glare at each other across the narrow waters of the Baltic Sea. This pencil thin submarine was in fact a stiletto knife, carefully inserted and moved back and forth to widen the gap between the Soviet Union and the West. What better way was there to illustrate how far away we were from each other?

For me, the messages were conflicting. On one side, I spent two years in the Marines and the Naval Academy, where we were taught about the tactics of the Soviet Union and NATO. We participated in war games to practice methods for thwarting the Soviets. At that time, Sweden had one of the largest air forces in the world and we wanted to make sure that the Soviets would never hit Swedish shores with boats and planes. The tactic was to hit them in the Baltic Sea. In short, I thought the Soviet Union was evil. On the other hand, my grandfather was Swedish but volunteered to fight with the “Whites” against the “Reds” in the former Russian empire in Finland and Estonia. This was in 1918–19, following the Russian revolution. I grew up hearing about a country called Estonia, which no longer existed when I was young. I never met my grandfather, but as a result of his experiences I was always fascinated by what lay on the other side of the Baltic Sea. But, oddly, no one talked about what was happening. In the classroom, the map we had of the Nordic region always had the key printed exactly over the Baltic States. The Soviet Union was another world, almost completely isolated both physically and intellectually. It was known but unknown, ever present but rarely talked about, there and not there. But I did know I was deeply fascinated by that mysterious, enormous and looming land to the east. The ensuing 30 years have no doubt simplified my impressions of that time, but it seems logical to conclude that such a rich experience contributed in ways that are impossible to define to my later decision to set up East Capital. It posed questions that I needed to answer. All I needed was for history to step in

and make this possible. Fortunately, in 1989, that is exactly what it did, in one of the most mysterious events of recent history.

SPOTTING THE OPPORTUNITY OF A LIFETIME

While the benefit of time has served to clarify my personal fascination with Russia, it has been less generous in helping to explain why the Soviet Union collapsed. The finger of blame is often pointed at the drop in oil prices from \$66 in 1980 to \$20 in 1986, the financial implications of the Afghanistan invasion, the effects of Ronald Reagan's "Star Wars" program, the independence movements in Poland under Solidarity, and the personal political belief system of Mikhail Gorbachev. But it is telling that over two decades later, no less a person than George Kennan, one of the prime architects of US strategy in the Cold War and author of the famous "Long Telegram" in 1946 recommending the US policy of containment known as the "Truman Doctrine", wrote that he found it "hard to think of any event more strange and startling and at first glance inexplicable than the sudden and total disintegration and disappearance of the great power known as the Russian Empire and then as the Soviet Union."

As has been pointed out in more recent analysis, and contrary to common opinion, there were few economic clues to suggest a coming collapse. From 1981 to 1985, GDP growth was certainly slowing, but still averaged 1.9% a year. The budget deficit was less than 2% of GDP in 1985. It did rise rapidly, but only to a quite manageable 9% in 1989, well within the range of the tolerable, especially by today's standards. The sharp drop in oil prices undermined Soviet finances, but adjusted for inflation oil was more expensive in 1985 than it was in 1972. Soviet incomes increased by more than 2% in 1985, and inflation-adjusted wages continued to rise over the next five years through 1990 at an average of more than 7%. Afghanistan was also a drain on state finances, but the cost of the war, estimated at between USD 4bn and USD 5bn in 1985, was an insignificant slice of Soviet GDP. One could go on, but suffice to say that the collapse of the Soviet Union remains one of the most intriguing questions of history. As Leon Aron wrote in a recent issue of *Foreign Affairs*, "There were plenty of structural reasons - economic, political, social - *why* the Soviet Union should have collapsed as it did, yet they fail to explain fully *how* it happened *when* it happened. How, that is, between 1985 and 1989, in the absence of sharply worsening economic, political,

demographic, and other structural conditions, did the state and its economic system suddenly begin to be seen as shameful, illegitimate, and intolerable by enough men and women to become doomed?”

This is a heady question, and while I am not seeking to answer it in its entirety, it has always been my strong conviction that one of the fundamental problems with Communism is that it does not give the individual sufficient incentive to do anything beyond the bare minimum. It doesn't offer rewards for any kind of initiative. This was an issue that played strongly on my mind at the time. I was living in Paris after the Berlin Wall came down on November 9, 1989, and I took many weekend trips into Eastern Europe to see what was happening. What I saw was great potential. In St. Petersburg, for example, there is an old shopping center, or more precisely a shopping arcade, built in the early part of the nineteenth century called Bolshoi Gostiny Dvor. What struck me was that similar shopping arcades built during the same period in London and Paris were tiny compared with this one. Even by today's standards, it is huge. Just thinking about the fact that this arcade was built such a long time ago made me realize what wealth Russia could create if it was properly managed. It seemed to me that the Russia story was going to be about regaining the past as well as seizing the future.

It became clear to me that the Europe we knew during the Cold War existed within an abnormal situation. If you grew up at that time, as I did, then all we knew was that there was a West Germany and an East Germany, and a division between East and West. That seemed normal, but of course it was not normal at all. The Europe I saw around me was not how Europe should be. I could not understand how these people in the East could have been part of Europe all throughout history, but were part of it no longer. It was my strong conviction that this would change, and change for the better. I had an unrelenting impression of latent potential. I was also convinced, and I remain convinced to this day, that we were going to see a tremendous period of convergence between the Russia of old and the West. The question was what type of people would lead this convergence, and pretty soon I had the answer.

It is of course difficult to summarize the entire range of changes that occurred at that time, so my recollections are more in the form of vignettes. For example, from 1994 to 1998 I was working as the Global Head of Research for Enskilda Securities, part of the Swedish bank SEB, and I remember being called from reception one day during my first year

there to be told that the Vice Chairman of Hansa Bank, the Baltic institution, was downstairs and wished to meet me. He had been placed in one of our wood-paneled conference rooms. I was of course interested to see him, and expected a gray-haired, middle-aged banker. But he turned out to be a guy slightly more than 20 years old, frankly looking a bit out of place in the old-fashioned paneled room. However, I soon discovered that the young man named Rain Lohmus was a very smart young man indeed. Rain said he needed to raise some capital in order to develop a modern bank. We had a talk, went to visit the bank in Tallinn, and soon Enskilda helped them to raise funds. It seems obvious to say so now, but this incident made it clear to me that the former Soviet states were loaded with young, talented and credible executives eager to re-create the economic success of the West. Casting my mind back to my grandfather who fought the Russians and to the younger version of myself standing guard over that grounded Russian submarine when I was 19, I knew I wanted to be a part of this transformation. Subsequently, it has always been a strong motivation for us at East Capital to participate in Eastern Europe's transformation to a capitalistic society.

THE BIRTH OF EAST CAPITAL

At this time, in the mid to late 1990s, the narrative surrounding Russia's transformation began to change markedly with talk of a huge privatization program. My friends in Moscow were talking about privatization, but the message did not really sink in until the summer of 1997 when I was contributing to an article in the Swedish monthly *Aktiespararen* about the best investment ideas. I wrote that Russia was "the buying opportunity of the century" and recommended buying a Russian Equity Fund. No sooner had I done so than I began to be deluged with phone calls from people all over Sweden who wanted to buy into Russia. I saw there was massive interest in the retail side, but of course when they heard it was a \$100,000 minimum investment in that particular fund, they were somewhat less motivated. I realized that people do see Russia as a great opportunity, but were only willing to risk about \$100, not \$100,000. There was a huge mismatch between the nature of investor interest and the products available. At this point, I started thinking about setting up East Capital to tap into this huge groundswell of retail investor interest in Russia and Eastern Europe. The minimum investment at East Capital was, and still is, \$30.

Thinking up East Capital was the easy part. Pretty soon more pressing challenges started to present themselves, not the least of which were related to the timing of our launch, which was on November 9, 1997, smack in the middle of the Asian economic crisis and, by coincidence, on the eighth anniversary of the fall of the Berlin Wall. We then compounded our bad timing and launched the first Russia fund on May 18, 1998. Three months later, in August 1998, Russia defaulted. Perhaps this is a classic case of post-event rationalization, but I firmly believe that these events really helped crystallize and create East Capital's individual investment philosophy, and also gave us a clear vision of how we could differentiate ourselves from our competitors. Necessity is indeed the mother of invention. So, what did we learn?

We realized very early on that traditional ways of conducting corporate analysis were basically useless in Russia at the time. Some of the investment banks operating in the region were desperately trying to apply their tried and tested method of working out a price/earnings ratio, which even if you could come up with one was not very useful as the available numbers meant absolutely nothing. We knew we needed to come up with a way to assess the potential of companies that would do more than look at their current profitability. You simply could not trust the accounts. You could have a factory that was running at full capacity with money flowing out left and right, but the accounts were not done properly so the figures did not add up. Nonetheless, you could see the potential that was there.

During the first years when East Capital was investing in Russia, there was also the issue of physical barter going on between companies, which meant that the accounts did not say anything at all. In such a situation, the question was how much you should actually pay. We decided there and then that the only way to make this determination was to actually go and see the companies. We also learned that the best time to see companies was in the winter. Why? If the offices were not heated, the company did not have any cash. If it was warm, they had money. A simple analysis, yes, but nonetheless very efficient. We had many meetings in cold conference rooms that allowed us to avoid some bad investments. Many times after company visits, I would read research reports from other investment banks on a company I had visited. Often, I was unable to recognize anything I was reading. At this very early stage in East Capital's life, we realized that most of the research being conducted on Russia or

Eastern Europe during this period was not really worth the name. This information arbitrage spelled one thing for us – opportunity.

BOOTS ON THE GROUND

There were other lessons to be learned from having boots on the ground. We were badly hit by the Russian crisis. Assets under management fell. But I remember we went on a business trip to St. Petersburg shortly after the crisis to visit the largest dairy there, a company called Petmol. Frankly, we arrived quite depressed. Much to our surprise, the management was excited. They were delighted because their main competitor was from Finland and no longer able to do business in Russia because of the ruble devaluation. Despite their old-fashioned Russian packaging, people were finally buying their products because there was nothing else to buy. This injected cash into the system and they were able to start investing in new machinery and packaging technology.

This was a very telling example of what was happening at the time. Crisis creates opportunity. We came back from that trip feeling very positive about Russia's potential, whereas our competitors were quite negative. One competing Russian fund manager I met shortly after that trip said that EU rules stated they could not run an equity fund with more than 25% cash, and they were considering going to the local financial authorities to ask for an exemption because things were so bad in Russia. We thought the opposite. We knew it was a time to be fully invested. The confidence to be contra-cyclical can sometimes pay significant dividends in a market like Russia.

What was particularly interesting as a result of the crisis was that we started to see the development of a Russian domestic sector. A lot of the very strong consumer companies that exist now, such as Wimm-Bill-Dann, the juice maker that was sold to Pepsi earlier this year for USD 5.8bn, really made it big because of the crisis, mainly because all of the competing imports in their sector were gone. The crisis created – for the first time since Russia opened up – a level playing field which allowed Russian companies to develop. The crisis forced Russian companies to rely on themselves. We saw this. Others did not. That is the value of being on the ground.

If I could isolate one core requirement for investing in Russia, it would be having a local presence. If you are not traveling around the country, you are not seeing it. And unfortunately even local analysts in Moscow

have not been traveling as much as we do. I can remember many discussions with analysts about a factory somewhere far away, such as in the Urals, and we had been there and they had not. It is impossible to underestimate the value of this type of engagement with local Russian managers, bankers and policy makers across the entire economy. You can derive a completely different viewpoint of the strength and direction of the Russian economy simply by asking the right person the right question in the right place.

Following the consensus view is of little use when investing in complicated emerging markets. You need to develop a methodology that allows you to take an individual view that can be backed up with hard evidence. One way in which we have been able to do that was by becoming a private equity investor. While 80% of our money is in public equity, taking direct stakes in Russian companies taught us a lot about the daily life of running a business and this knowledge fed directly into the asset allocation decisions we made on the fund management side. Having sat in board meetings now for a number of years, I understand that many of these meetings are not just strategy discussions, but are dedicated to ensuring that the multitudinous reports that have to be created for the Russian authorities are done on time. The amount of bureaucracy is stunning. Just knowing this allows one to empathize more effectively with the management of the companies in which you are invested.

There are also unquantifiable benefits to be derived from visiting the company and staying in the company hotel and eating in the canteen with the workers. Such experiences, and we have had many, offer an entirely fresh insight into how a Russian company works from the inside. We also realized that managers were not just managing a company, but in some cases an entire community. Such realizations bring with them a very strong sense of our responsibility as an investor. We are able to demonstrate that owning direct stakes in companies means that we are, quite literally, on board together with the Russians. That has boosted our name and due to our strong track record, the size of the company, and our long-term commitment, we are seen as a credible shareholder by companies that are looking for investment. Hard corporate analysis is one thing, but soft factors such as these play an enormously important role when investing in Russia. It is not an exact science.

This commitment to being local was not just one of philosophy. We also put our money where our mouth is by investing in so-called local

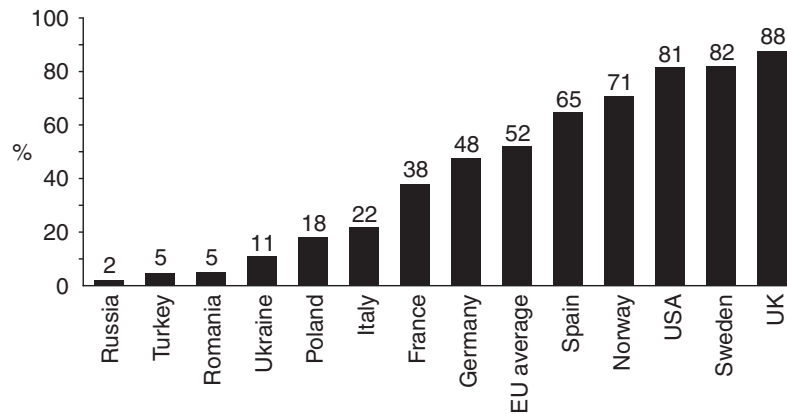
shares, which trade only in Russia and which at the time were trading at a discount of up to 40% compared with the same shares trading in other markets such as London, mainly due to the risks associated with reduced liquidity. This was a risk we were willing to take, as our close analysis of the companies involved meant that we could be as confident in the investments as in investments in any market. We also reasoned that at some point the split between local and international shares would have to disappear, and that this would mean any discount would shrink. This is exactly what is happening, with average discounts now of around 8%. In short, being committed to the local story allows us to position ourselves for change.

BANKING ON RUSSIA

Generating local knowledge and making room for a high level of elasticity in our decision making process has led us into some extremely interesting areas, such as our direct participation in Russia's banking sector. We tried very early on to buy into Russian banks as we were completely convinced that this was going to be a very attractive sector for investment. The problem was that if you wanted to buy even one share in a Russian bank, you needed to get permission from the Central Bank of Russia. Of course, the central bank followed the law, and the law said you need to know the ultimate owner of the bank. If you are a UCITS regulated fund, as we are, with about 450,000 unit holders, most of whom buy through a bank, we cannot tell the central bank who the ultimate owner is. As a workaround, we set up a Swedish AB (a limited company with a shareholder register run by the Swedish Central Depository) and attracted EUR500mn from large investors all over the world to invest in Russian banks. Using this type of structure, we were able to provide enough information to the central bank to receive permission to invest. We then started buying up stakes in banks all over Russia, usually of between 5 and 20%.

What did we learn from this process? Obviously, it demonstrated the benefits of flexibility and creative thinking. But in addition, we have been on the boards of these banks all over Russia, Ukraine and Georgia since 2006, and it has been a fantastic source of information about the real state of the Russian economy. We have been able to see where the demand for credit is coming from, and which sectors in which regions are performing well. If anyone knows what the real situation is, it is the

Figure 7.1. Residential debt to GDP ratio.



Source: European Mortgage Federation.

banks. We also learned a very valuable lesson about perceived risk in Russia compared with actual risk. When you say you are launching a fund to invest 500mn euros into Russian banks, quite a few people tell you that you are completely mad. But we saw very quickly that the Russian central bank is doing a very good job of getting banks to report. We knew that this process was working very well indeed, and we had a strong conviction that investing in this allegedly highly risky sector was in many ways less risky than buying so called normal companies that are not under the same kind of supervision. Today, banks comprise 16% of the assets under management in our Russia fund, and we continue to leverage the insights we gain from the banks to understand the true state of the development of the Russian economy more deeply.

RUSSIAN RISK: A MISCONCEPTION

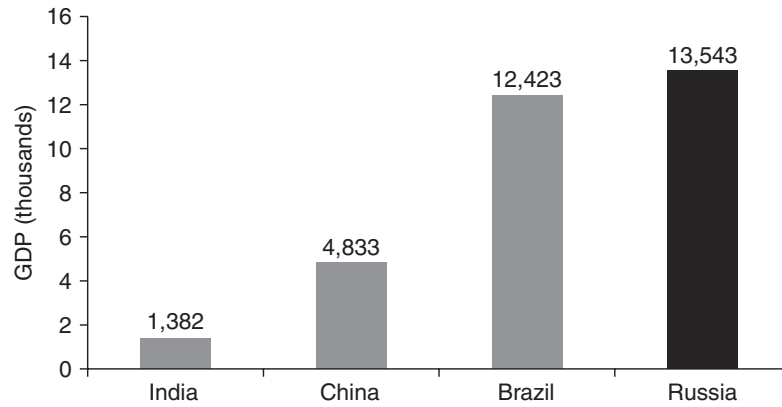
I have just mentioned the misperception of the risks involved in investing in the Russian banking sector, and would like to add that this reality contains a deeper lesson about investing in Russia itself. What I am referring to here is the vexing – or should I say downright mysterious – subject of the risk premium attributed to Russia compared with other large emerging markets. I sometimes wonder whether investors have realized that Russia has changed dramatically. It is a very different country today than it was when we started East Capital in 1997, and yet the PE ratio, and hence the risk premium, remains at the same level as in 1999, directly

after the Russian crisis of 1998. You should never be naive when you are investing in any market and especially in emerging markets, but many of the risks and worries people have when considering investing in Russia are attributable to other countries as well, but investors are strangely willing to accept much higher valuations, and hence a much lower risk premium, in other countries compared with Russia. It is always mentioned that the reason is corruption. Yes, there is corruption in Russia, but there is also a high level of corruption in other large emerging markets around the world. Another alleged explanation for the risk premium is the oft repeated allegation that Russia does not produce anything, but is basically an oil and gas play. One thing we hear constantly is the question: "What does Russia produce?" I believe this is the wrong question – and it is being asked because Russia is to some extent wrongly included in this well-known grouping known as the BRIC economies.

It has of course always been fashionable in the investment world to find and use catchy acronyms for certain investment trends. Such things register well with investors. One such example is the BRIC phenomenon. Certainly there have been some benefits for Russia in being placed alongside other BRIC economies, but there have also been disadvantages. People take a look at the BRICs, especially China, and like to find similarities. But I think it is to some extent unfair as Russia is at a completely different stage in its development than the other BRICs. In terms of GDP per capita, Russia is at around 10,500. When you reach this level, you have reached a level where you can consume much more. This makes the Russian economy much more like that of Western Europe than the other BRIC economies in terms of domestic consumption. Rolling Russia in with the other BRICs and expecting it to be comparable in terms of production gives a completely misleading impression.

In my opinion, it is completely ridiculous for Russia to be carrying the same sort of risk premium today as it did a year after its default in 1998. Russia is trading much lower than other comparable emerging markets as a result of the difference between the perceived risk of doing business here and the actual risk. In my view, this gap must close. Let us remember that the Wall came down in 1989. We had a strong conviction then that there was going to be convergence with the West. It will take time before Russia catches up, but it is clear that the growth is going to be tremendous. And yet we are still getting the same questions today as we did when we started going out and doing marketing in 1997. We are

Figure 7.2. BRIC's GDP per capita.



Source: IMF.

still asked about political risk, corruption, oil and gas, and what Russia produces. Many people still believe Russia has significant debt problems. They have completely missed the whole transformation of the Russian economy.

A THRIVING MIDDLE CLASS

So, having excoriated these false perceptions of investing in Russia, what in my opinion is the right perception? I have already mentioned that we have been offered extraordinary insight into the actual dynamics of the Russian economy as a result of our investments in a number of Russian banks. One of the direct consequences of this insight has been to reinforce our conviction that investing Russia is about three words: consumer, consumer, and consumer. It did not take us long to stop looking at Russia as an oil and gas economy and start realizing that it was a consumption play. Our top-down view is that *the* big thing in Russia is the development of a middle class. There is a very strong catch-up effect because people naturally want to reach a standard of living comparable with that in the West. If you add to that the fact that Russians typically do not have mortgages to service and a 13% flat tax rate, you have a level of disposable income that is just amazing. When we started to do calculations in the early days and looked at people making between one and two thousand dollars a month, you actually saw a higher disposable income for a married couple living in Moscow than for most Swedish

people living in Stockholm, who are servicing their mortgages and paying very high taxes. People may look rich on paper, but what really counts is disposable income.

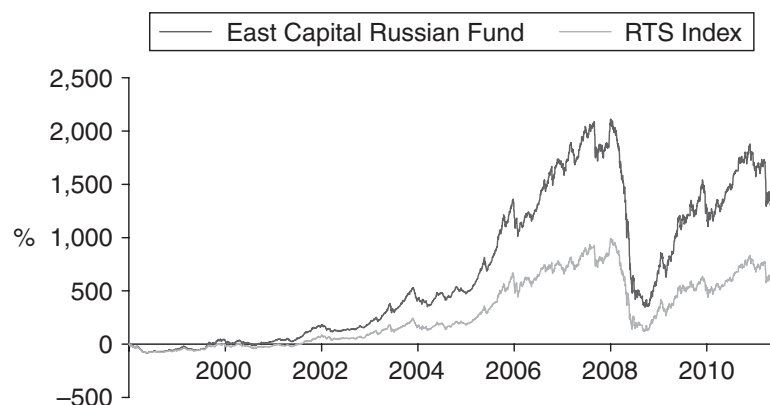
This belief in the rise of the Russian middle class has shaped the East Capital of today. For example, we have a significant investment in Melon Fashion Group. Of course, it is a well-known company these days with around 500 stores across Russia and Ukraine under the brands of Zarina, befree and Love Republic, as well as a team of in-house designers. But when we bought into the name, Melon had only a factory in St. Petersburg, 1,200 employees and about 10 stores. The management was, to some extent, thinking in an old-fashioned way by trying to locate their stores next to metro stations. We pointed out very quickly that they needed to be in shopping centers. We knew that shopping centers were the future. I fought hard over this and they eventually agreed.

But when we opened in the first shopping center it didn't do well at all. In fact, for various reasons, it bombed. I can still remember the looks in the managements' eyes when I came to the next board meeting and they showed me the figures. They were looking at me saying: "What have you done?" But we knew we wanted to build a strong brand and take a very strong market position all over Russia. It was an historic opportunity to do this is a major way in a very large market - and it would be completely impossible to do in a rival European market. I am delighted to say that the growth created by the strong management - including in that first shopping center - has been spectacular and Melon is today a company that is benchmarking itself against the best retailers in the world. Moreover, by making this investment we learned a huge amount about the kind of opportunities there were in Russia. We were, for example, a tenant, so we could see the returns available on the real estate side, for example, which led us to investments in shopping centers in both Ukraine and the Baltic States.

THE KEY TO SUCCESS

In my business, words will only get you so far. What really matters is performance. Since our inception date of May 18, 1998, until June 30, 2011, the East Capital Russia Fund is up 1,603% compared with 738% for the benchmark RTS Index (all returns in USD). The fund was also the top onshore fund in the world during the first decade of the new millennium with a rise of 1,565% compared with 1,380% for the closest competitor

Figure 7.3. East Capital Russia Fund: performance since inception.

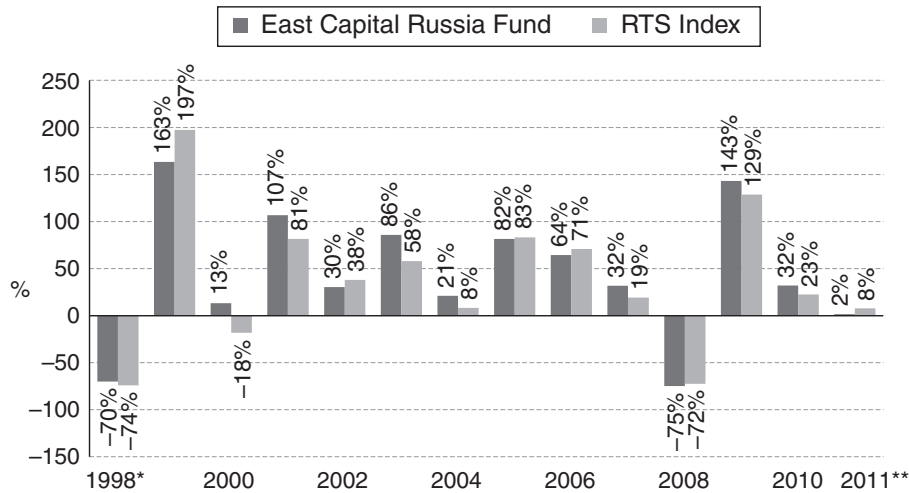


Source: East Capital, RTS.

(a precious metals fund) and 724% for the RTS Index. This is based on Morningstar data covering 94,000 funds worldwide (again all returns are in USD). We are convinced that this is attributable to our investment philosophy of specialization, which allows us to understand the market better and identify investment opportunities that are not always evident. We also believe in being long term, secure in our belief that emerging economies such as Russia will outperform developed economies over time. But most importantly, we believe in being local. We doubled the number of company visits we did in 2008 and 2009 from 600 to 1,200. Being on the ground allows us to spot investment opportunities others simply miss.

East Capital today is one of the largest investors in the world investing in Eastern Europe, with more than USD 8bn under management. It is a huge amount of money and with that amount of money come big responsibilities. We have a devoted team of 170 people representing more than 30 countries. We have about half a million clients from more than 60 countries. What has always been important for us is to make sure we can help rectify broadly held misconceptions and prejudice toward Russia and Eastern Europe. One way to do this is by making regular presentations to many thousands of investors and potential investors on how we think Eastern Europe is developing. We also bring many hundreds of people a year to Eastern Europe during our summits and investor trips to see things for themselves. Nothing beats being on the ground and seeing the changes yourself.

Figure 7.4. East Capital yearly performance.
 *Since inception. **Data for 2011 is for the 1H11.



Source: East Capital, RTS.

We also recognize that our size does bring responsibilities as an investor to work with our portfolio companies, whether helping them resolve the occasional conflicts that arise or aiding them in developing a more mature attitude to their own responsibilities as a company when it comes to issues included under the corporate social responsibility umbrella. For many large international institutional shareholders from outside Russia, CSR issues are becoming increasingly fundamental to their asset allocation decisions, and we will in future help our companies make themselves more attractive to the investment world by working with them in this area.

Our size helps us in this process. In Russia, East Capital runs USD 4bn in public equity and as a result of our size, we are granted the kind of meetings we want. During these meetings, we do not present East Capital as purely an investor, but also as a manager engaged in working for the benefit of investors in Russia in general, for example, by promoting good corporate governance and working toward higher levels of environmental awareness. More than once we have told management we might be forced to sell our shares unless they take action to deal with the issues that we highlight. This is not a threat, but rather a question of encouraging the standards that are demanded by the international investment community.

CONCLUDING REMARKS

Many of the driving forces that led us to Russia in the first place still remain. Although GDP per capita is quite high, it still has a long way to go in order to truly converge with more developed European markets. This convergence will be led by domestic consumption, which will become increasingly advanced as Russians develop a taste for more sophisticated financial products, international travel and fine dining, to name just three examples. There are also going to be opportunities in the Russian logistics sector as all these consumers are serviced. There remains huge under-penetration in these areas.

I started this chapter by recollecting my experiences as a 19-year-old soldier looking down at the hull of a Russian submarine stranded in Swedish territorial waters. At that time I - like many others - viewed Russia through the lens of the Cold War. Ours was a narrative of distrust, fear and opposition. The USSR was the enemy. It is frankly extraordinary to think of the changes that have occurred in Russia since that date in 1981. Today's narrative is one of engagement, opportunity, emancipation and development. It is a sobering reminder to any student of history that we only get to see the world as we perceive it at a particular time, and that to make absolute judgments based on those subjective perceptions is a fool's game. It is the beauty of history that it always surprises us.

EAST CAPITAL