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# Plamen Monovski

CIO, Renaissance Asset Managers

**Investment Opportunity**

**Cut the ice**

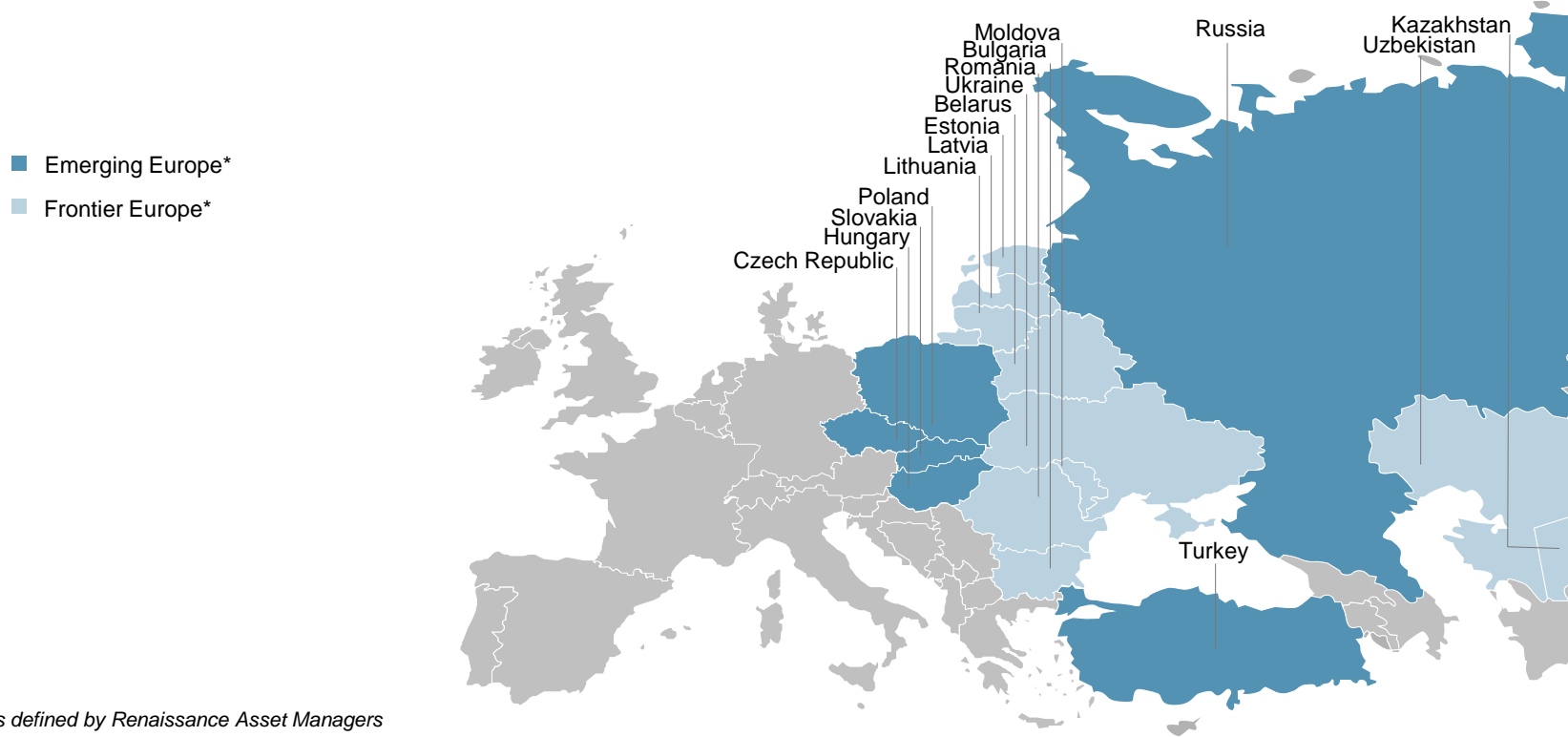
## Emerging Europe

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# Our market: Emerging & Frontier Europe

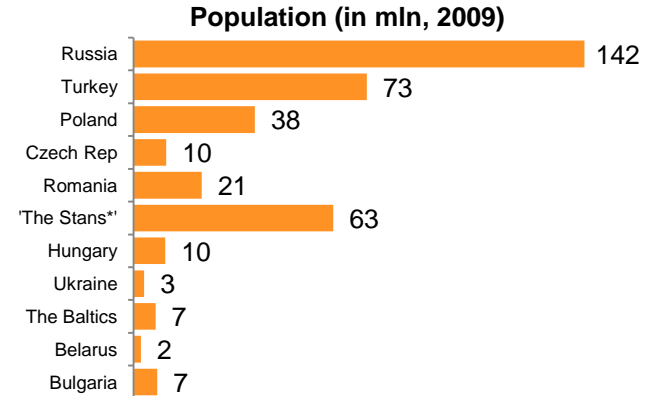
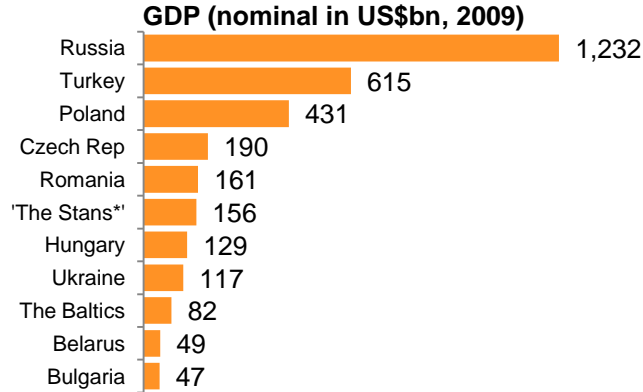
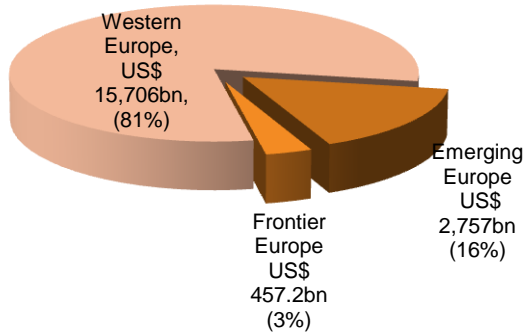


*As defined by Renaissance Asset Managers*

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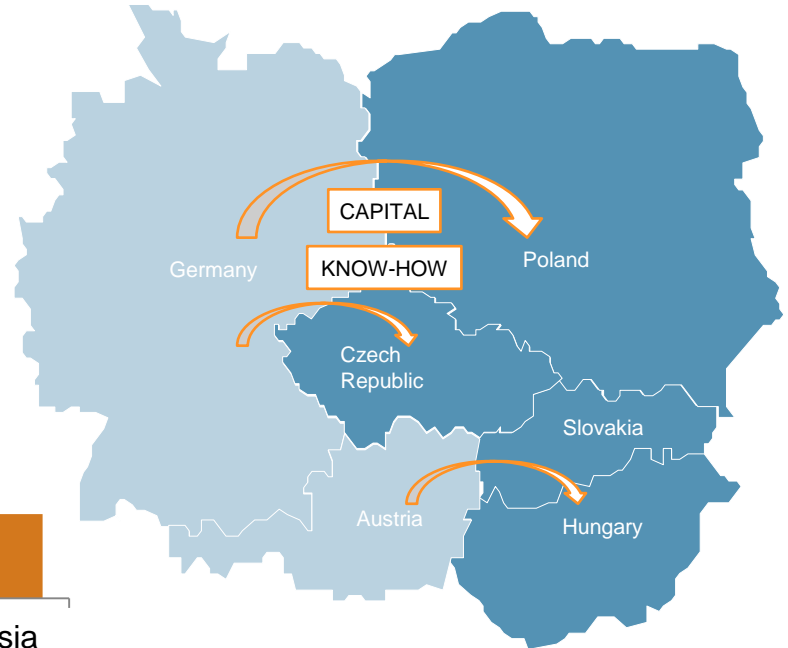
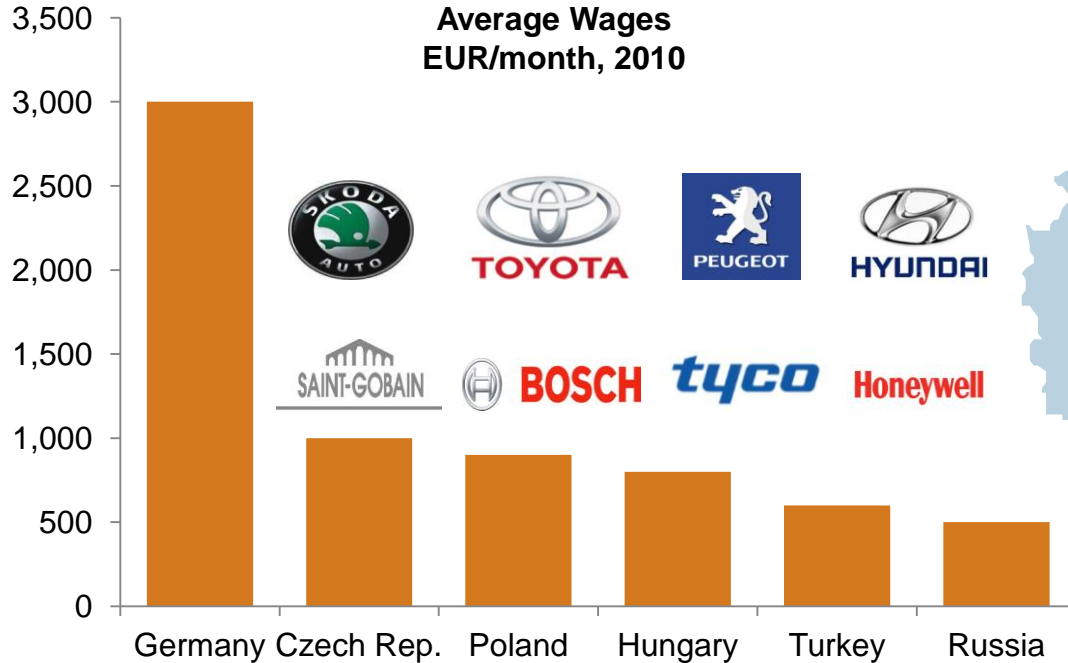
# Size: Surprisingly large



- ◆ The combined GDP of Eastern & Frontier Europe\*\* is ca. US\$3,2tn, 70% of which comprises Russia, Turkey and Poland, the main countries in Emerging Europe
- ◆ Economies the size of Germany, population half of EU, market cap 5% of Euroland

Source: RAM Research, Thomson Reuters Datastream.

# The manufacturing backyard of Europe



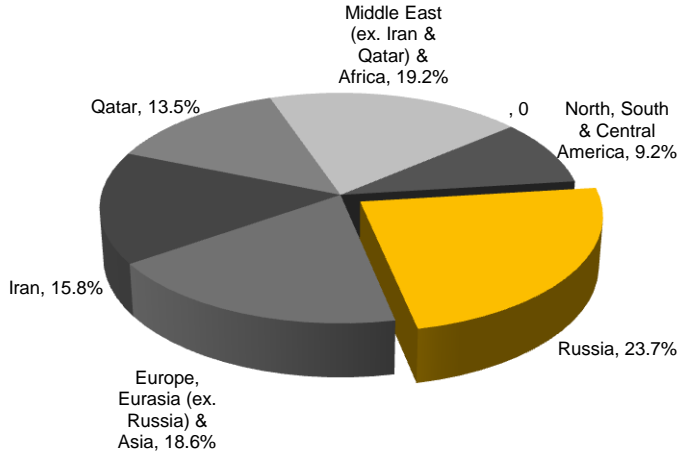
Source: Eurostat

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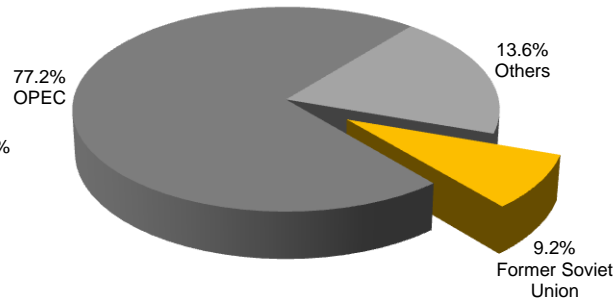
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# Russia: the commodity powerhouse of the world

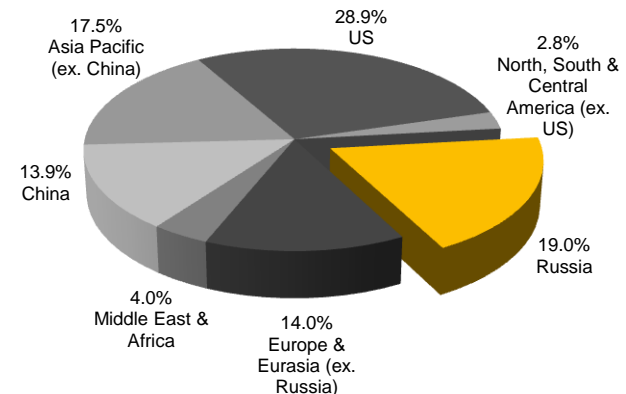
Share of proven gas reserves, 2009



Share of proven oil reserves, 2009



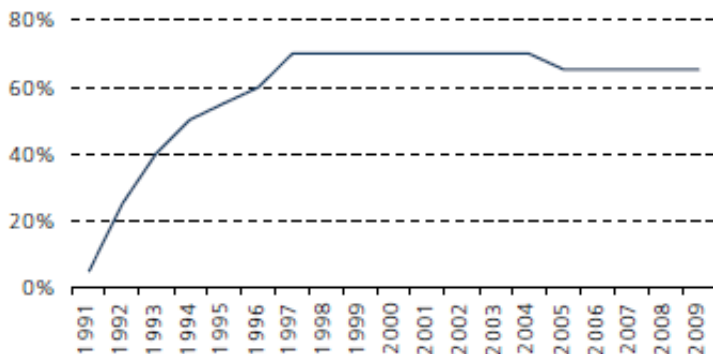
Share of proven coal reserves, 2009



Source: BP Statistical Review, Energy.eu

# Growth through privatisation: the productivity miracle

## Share of private sector in GDP



**“Russia plans to raise at least  
US\$50 billion over the next 5 years from  
selling stakes in state enterprises”**

*Clifford Chance, March 2011*

- ◆ 8 fold increase in trade
- ◆ Government debt 8% of GDP
- ◆ FX reserves \$ 500 bn

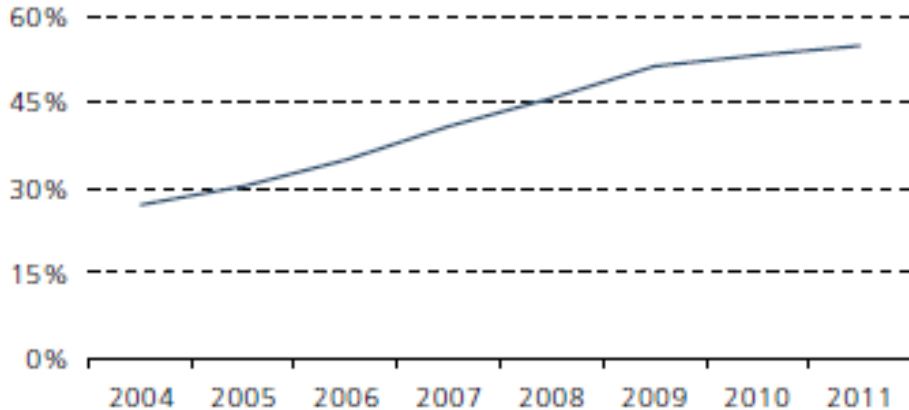
Company	Sector	Stake to be sold	Timing
Rushydro	Utilities	7.97% - 1 share	till 2013
Federal Grid	Utilities	4.11%	
Rosneft	Energy	up to 15%	2012-15
Sberbank	Financials	7.6%	
VTB	Financials	10-15%	2012
Russian Agricultural Bank	Financials	25%	till 2015
Sovcomflot	Transport	50% - 1 share	
Aeroflot	Transport		
Russian Railways	Transport	25% - 1 share	2013-15
Rosagroleasing	Financials	50% - 1 share	
OZK (United Grain Company)	Consumer	100%	

Source: Troika Dialog, EBRD, State Statistics Service, Clifford Chance

# Consequence of growth: creation of the middle class



Proportion of the population earning over \$6,000  
in PPP terms per annum



Beer sales up **6x**

Retail space up **20x**

Loans up **12x**

Credit cards up **15x**

Equity markets up **18x**

Trading volume up **50%**

Over **1000** investable companies

50% of them **un-researched**

Source: Troika Dialog estimates, State Statistics Service

# Consumerism in Russia

## BMW advert in Russia



*“Jaguar Land Rover sales are up 30% this year”  
up to March 2011*

## IKEA in Russia



*“Bentley sales in Russia are now back to pre-recession levels”  
2011*

Source: manufacturing advisory service, [russiaenglish.com](http://russiaenglish.com)

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# Consumerism in Russia

Yaposhka in Moscow



Euroset in Russia



Source: [newspepper.se](http://newspepper.se); [picasaweb.google.com](http://picasaweb.google.com)

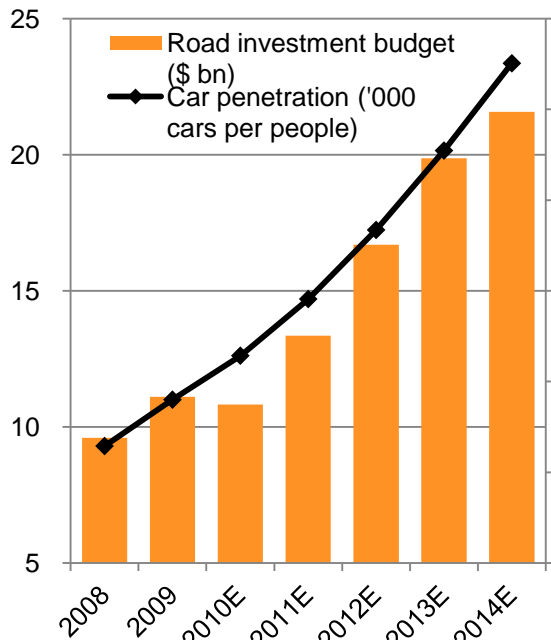
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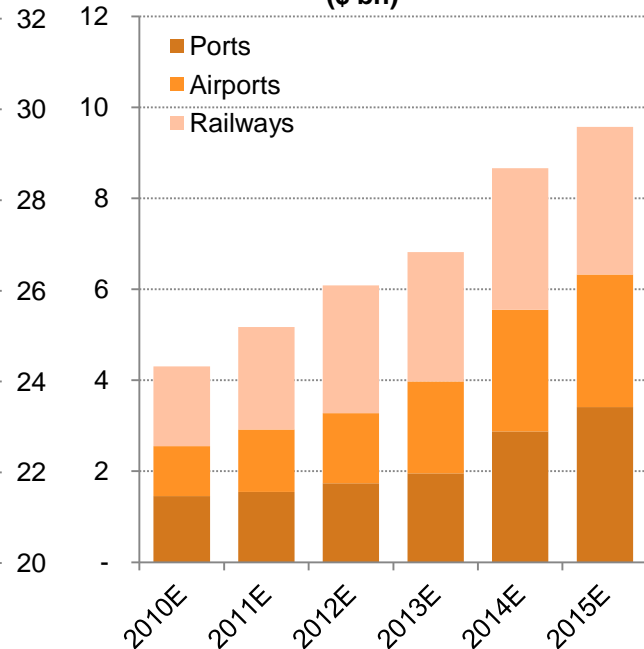
# Russia: the future is infrastructure

- ◆ Underdeveloped infrastructure costs Russia up to 2% of GDP every year
- ◆ The government has announced plans to set up a Federal Roads Fund of c.\$15bn p.a. by 2013. It will create an entire new value chain of companies that will benefit from the fund and increase economic activity, both nationally and internationally
- ◆ Infrastructure momentum will be changing the profile of Russia's GDP

Road construction spending



Infrastructure construction (\$ bn)



Road investment budget (USD bn); Car penetration ('000 cars person)

Source: PMR

# Turkey: vibrant equity market

technology	utilities	consumer goods	basic materials	consumer services	financials	industrials	oil & gas	healthcare
10	5	65	25	25	50	60	5	5

KEY =  
number of  
companies



auto & parts	Commercial banksgoods	Beverages	Chemicals	construction & materials	real estate	retail
10	20	5	10	30	15	10
food producers	financial services	general industrials	travel & leisure	IT software hardware	personal goods	household goods
15	15	10	10	10	20	15

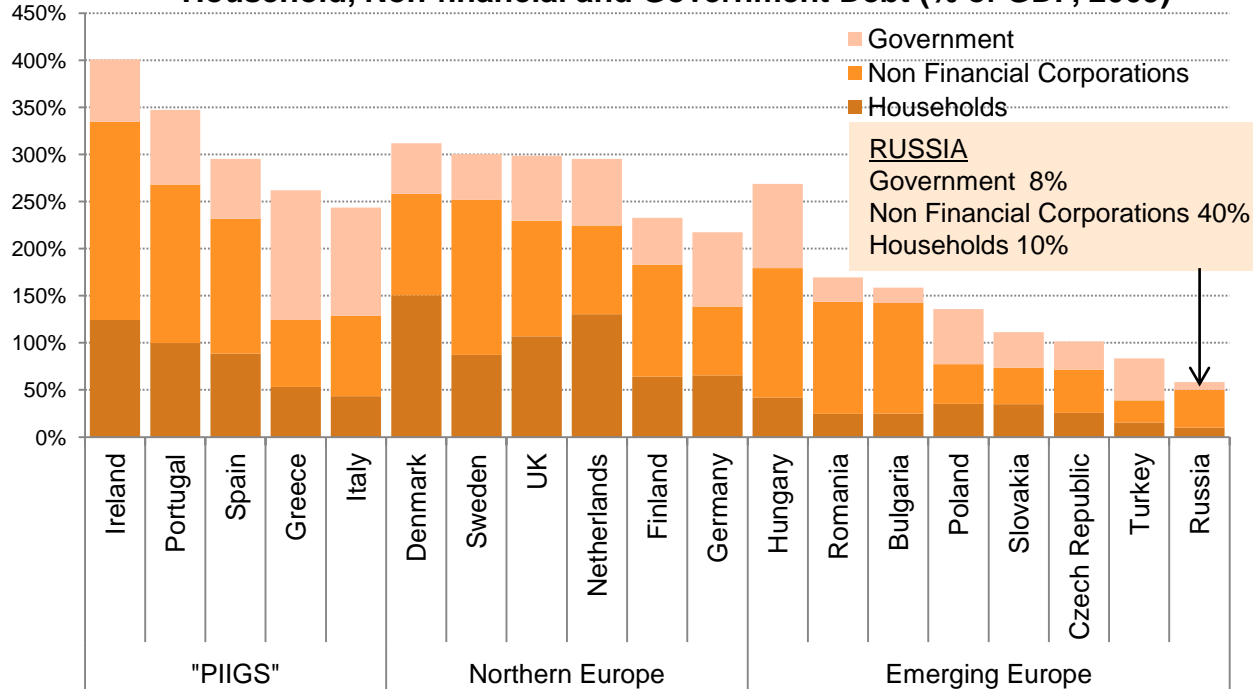
◆ Over 250 companies representing every sector of the local economy

◆ Unmatched access with well over US\$1bn daily trading volume

We are able to invest in many growth businesses

# Challenging the myths – leverage!

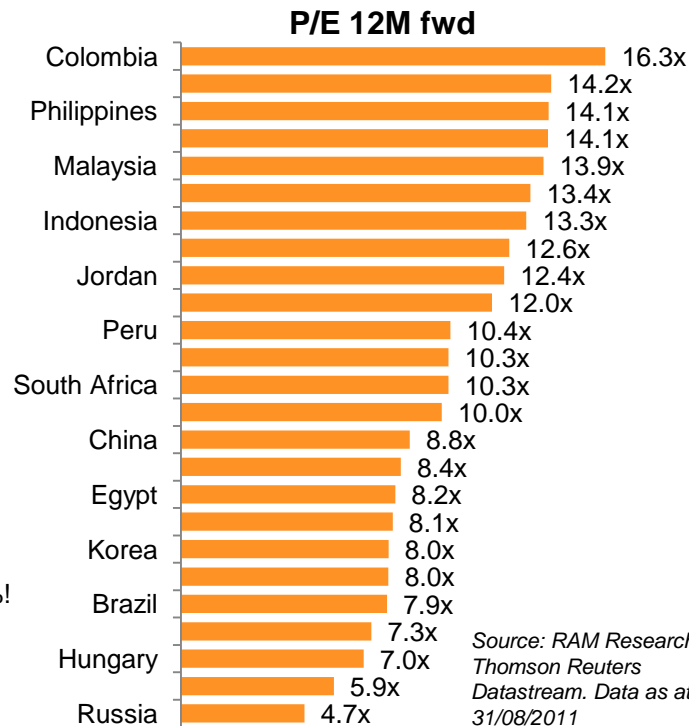
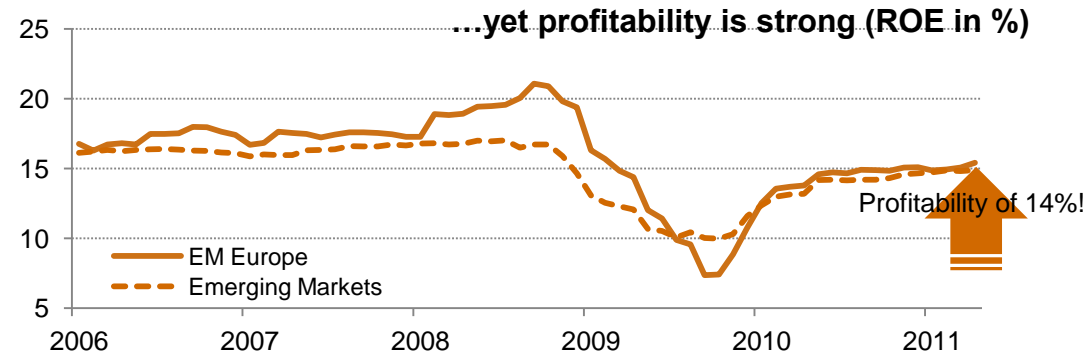
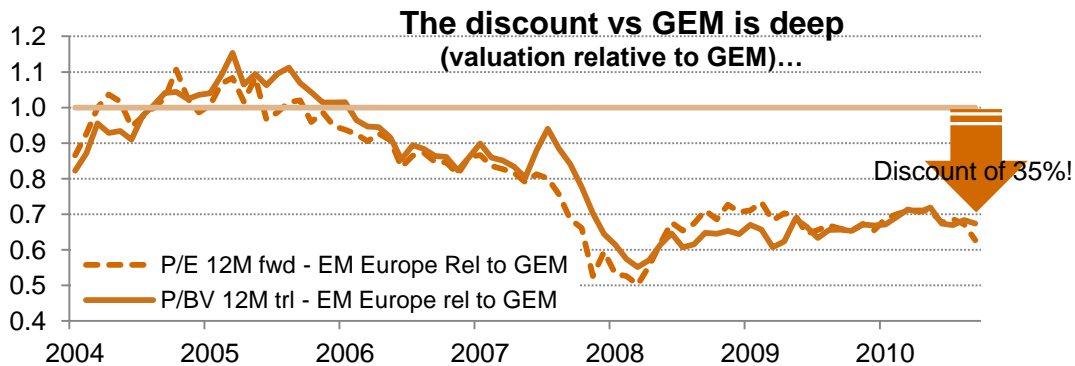
Household, Non-financial and Government Debt (% of GDP, 2009)



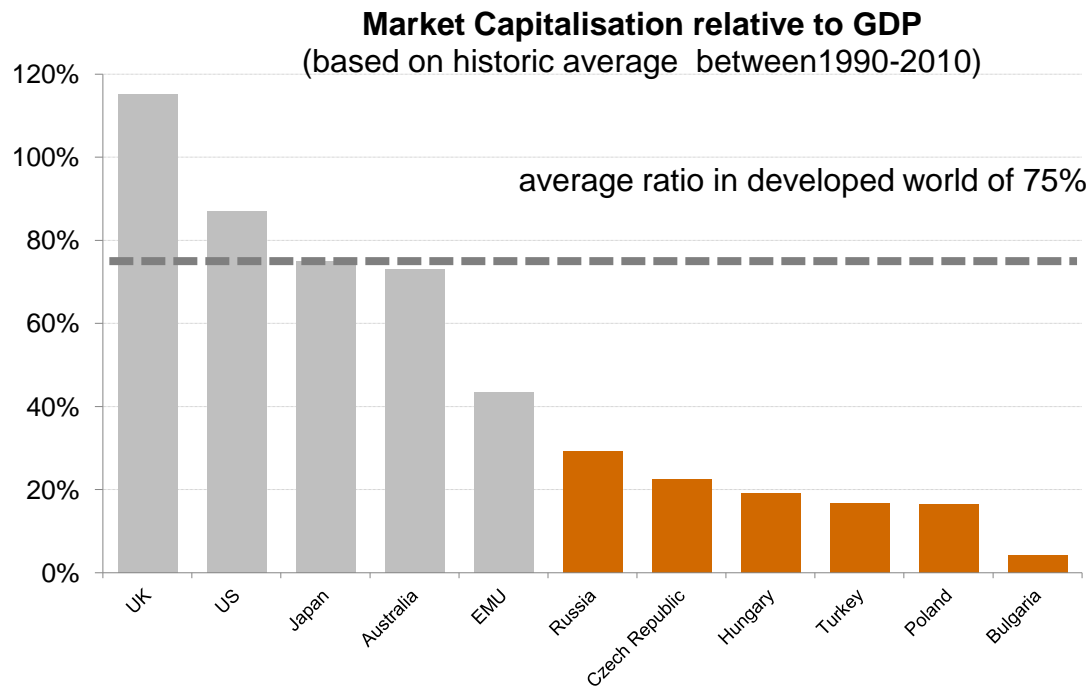
Source: RAM Research, Eurostat, Wold Bank, Central Bank of Turkey, Global Finance, Thomson Reuters Datastream.

- ◆ Emerging European economies have the lowest levels of debt in Europe - the region's total indebtedness is less than 100% of GDP.
- ◆ Following years of restraint spending Eastern Europe's state budgets have consolidated to now be better geared for growth than even most of the 'healthier looking' countries in Northern Europe.
- ◆ Russia, because of its low debt levels across all sectors, has potential to significantly leverage-up public and private balance sheets and spur investment-led growth.

# The cheapest, deep value play on global normalisation



# Emerging European equity markets: still at an early stage

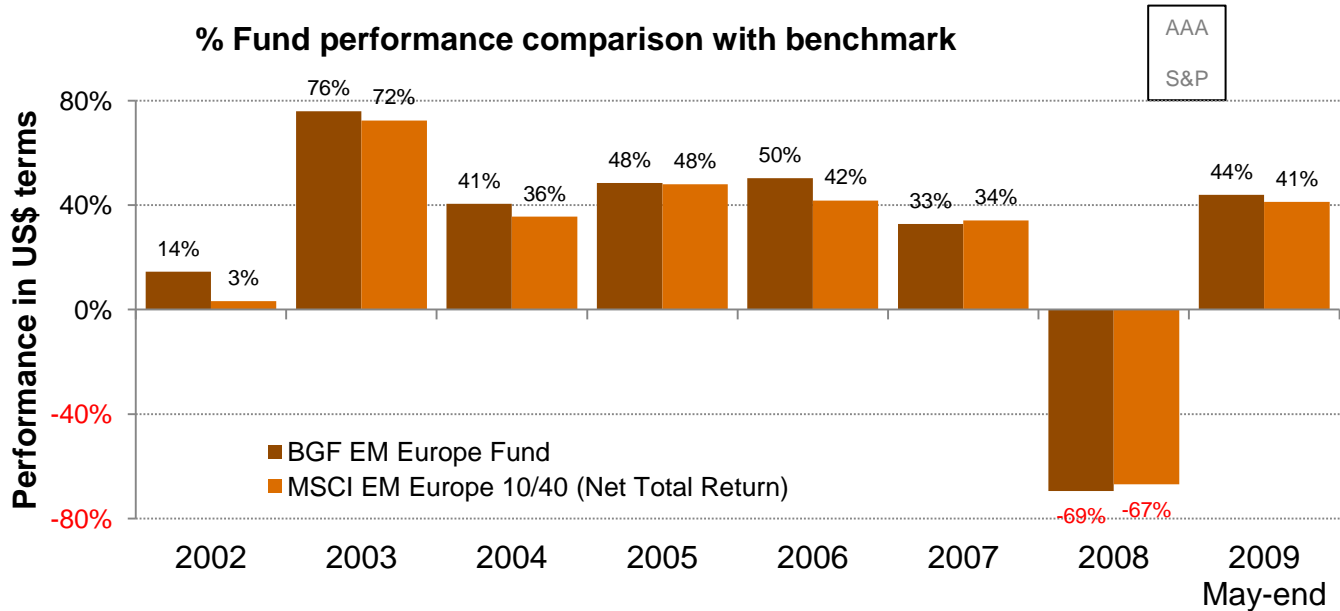


- ◆ The transformation of Eastern Europe is still at an early stage given the degree of undercapitalisation in the region relative to the developed world
- ◆ Targeting a 75% equity market capitalisation of GDP in the developed world, most Eastern European equity markets are still 2 to 3x too small. The structural growth implied in Eastern Europe's equity markets is thereby enormous

Source: RAM Research, Thomson Reuters Datastream.

# Our record vs the market

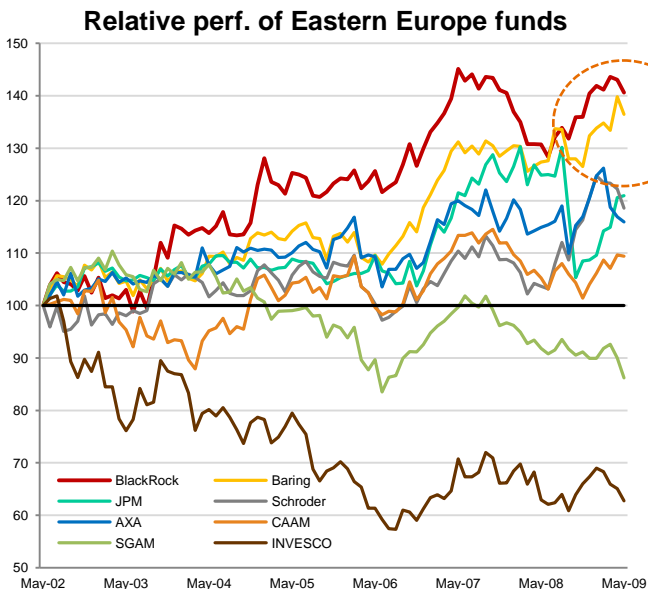
BGF\* Emerging Europe Fund, co-run by Plamen Monovski from 2002 to May end 2009 period whilst employed at BlackRock



\*BGF=Blackrock Global Funds. Source: Bloomberg. Past performance is not indicative of future returns.

# Our record vs peers

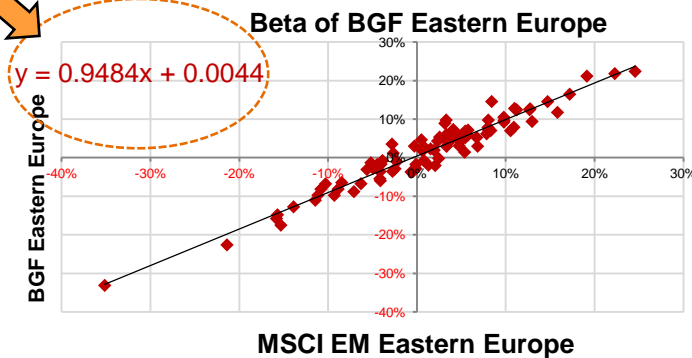
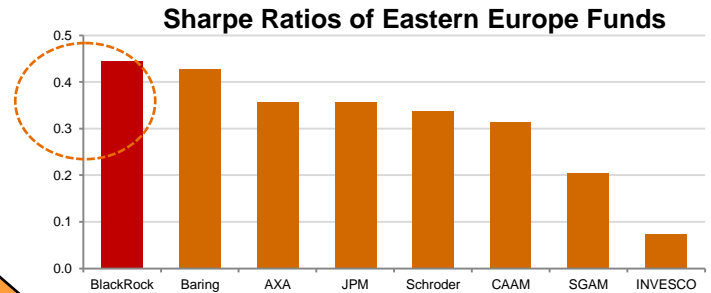
BGF\* Emerging Europe Fund, co-run by Plamen Monovski from 2002 to May end 2009, whilst employed at BlackRock



Source: RAM Research, Thomson Reuters Datastream; rebased to 100, as at 31-05-02 in US\$. \*BGF=Blackrock Global Funds. Past performance is not indicative of future returns.

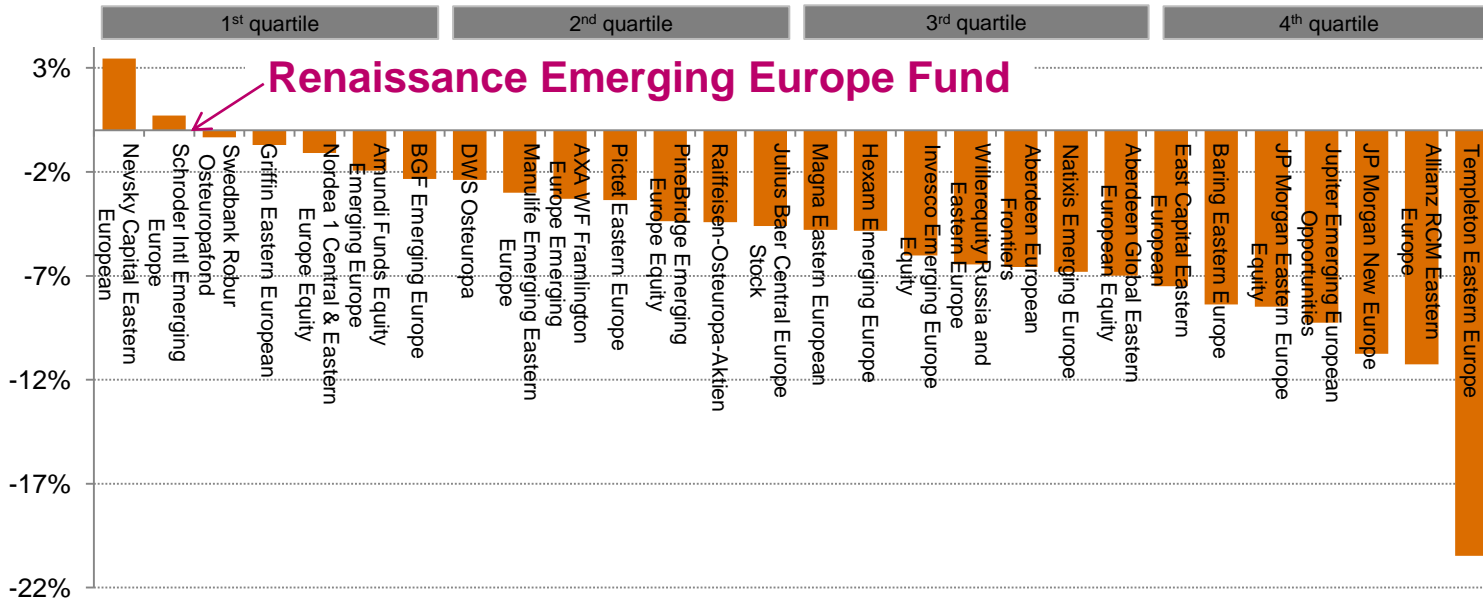
Outperformance relative to:

- Peers
- Risk
- Benchmark



# Our record at RAM

Renaissance Emerging Europe Fund - peer group comparison



Source: Bloomberg, year to 30-11-2011, showing under and out-performance of the Fund by peers Past performance is not indicative of future returns.

**Head office**

**Our  
Moscow  
Office**

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