



# **Investment Opportunities for Management Companies: Growth with the Pension Reform**

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## **PIOGLOBAL**

### **Proven Performance in the Russian Market**

- Established financial Services and Real Estate operations since 1992
- More than \$130 million in assets under management
- Provides a full range of services
  - PIOGLOBAL Investment Fund - the largest privatization fund
  - Five mutual funds - about 20% of the open-end mutual fund industry
  - Private wealth management - extensive network of contacts
  - Real estate operations - Meridian Commercial Tower
- Client base - more than 2 million Russian investors
- Rated Number One Asset Management Company in 2002 in the RBC, Business Open and Euromoney survey
- Passed the tender to manage pension money in 2003



## Russian economic and political landscape

### Positive developments

- The second-fastest growing economy
- Impressive macro and fiscal fundamentals
- Growing domestic and foreign investment, capital flight curtailed
- Growth in real earnings and increased consumer confidence
- Decline in public debt, foreign debt repaid ahead of schedule

### Possible concerns

- Dependence on commodities price is a major and often-cited risk
- Weak banking system does not allow for efficient flow of funds in the economy
- Low pace of structural reforms
- Politics ahead of elections might slow capital inflows



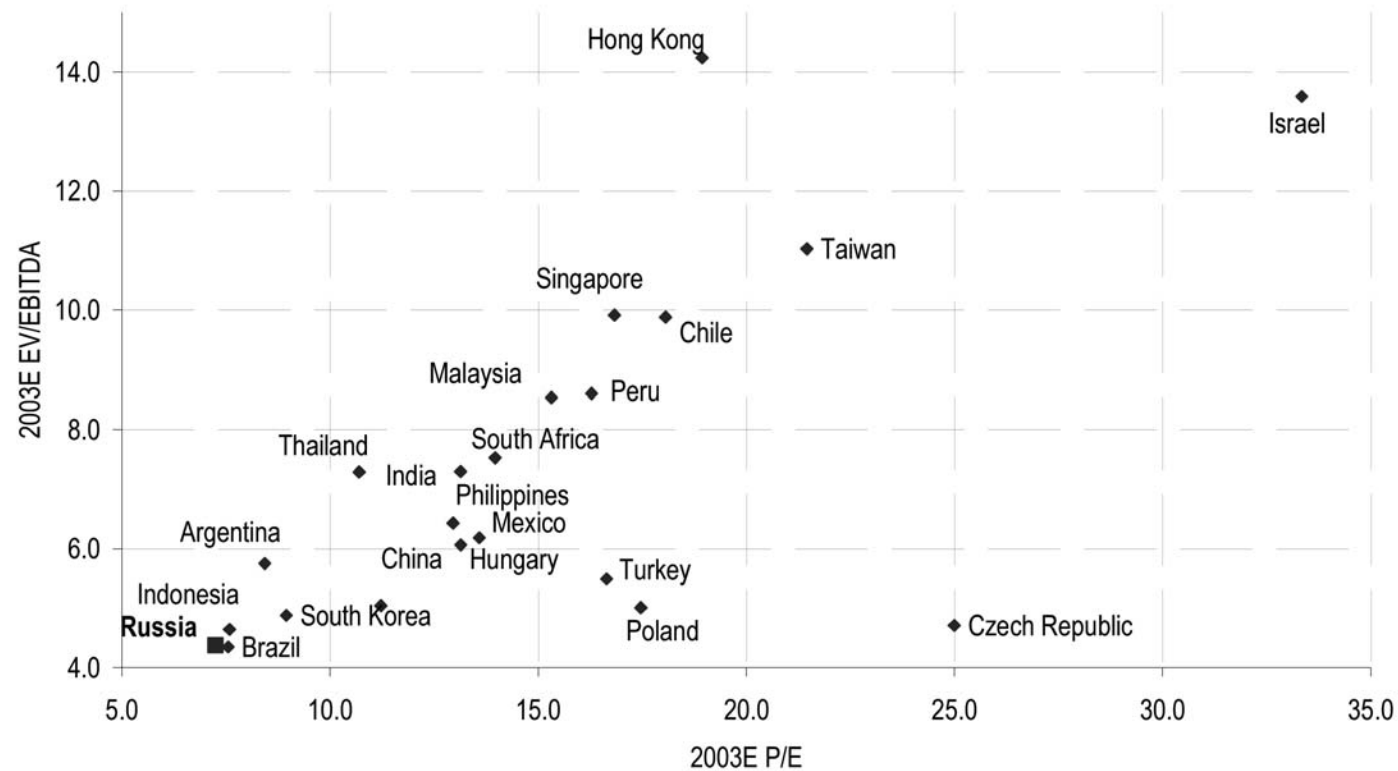
## Russia Stands Tall Selected GEM Indicators

	Brazil	South Africa	Poland	Russia
GDP growth	3.4	2.9	2.1	4.3
Domestic Investment (% growth)	4.6	7.0	3.0	14.9
Current account balance	-5.5	-0.4	-6.1	11.2
Reserves (% of Imports)	30.2	15.6	45.3	72.0
External Debt (% of GDP)	47.6	31.3	38.3	44.0
External Debt (% of exports)	351.9	89.0	158.3	132.0
Debt Service (% of GDP)	9.3	4.3	4.1	4.2
Debt Service (% of exports)	69.1	12.3	16.8	13.0
S&P Rating (November, 2002)	B+	BBB-	BBB+	BB

Source: S&P, Moody's Rating Agency



## Russia Still Remains Attractive in Comparison to other GEMs



Source: UBS estimates



## Market for Great Opportunities

- Russia continues to be among the world's best performing markets in 2001-1H03
- Stocks are still inexpensive compared to GEMs
- Growth is yet to be priced into the market
- Further re-rating to investment grade inevitable
- Russian sovereign debt is mature, corporate debt market is growing
- Corporate governance is improving
- Increasing flows into the funded portion of the state's pension system will provide extra liquidity



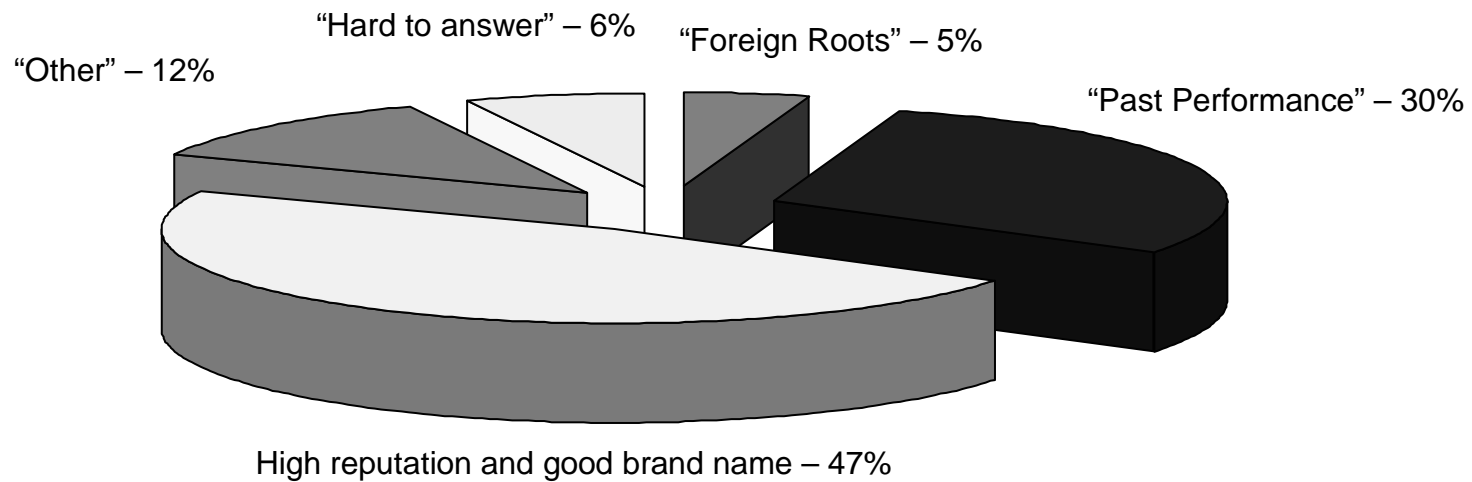
## Russian mutual funds in 2002-1H03: Important Vehicle for the Market Development

- Total assets under management - more than \$500 mn
- Of these 21% are in open-end funds, 2% in closed-end and 77% in interval funds
- Fragmented industry: out of 103 management companies in Russia 42 were registered in 2002 and 20 in 1H2003
- Low barriers to entry: 19 unit funds were registered in 2002 (3 closed, 4 interval, 12 open) – compared to 14 in 2001 and 11 in 2000
- Assets are highly concentrated: top 5 companies occupy 90% of assets, compared to even higher concentration of 95% in 2001
- Growing customer base: around 11,100 investors in all funds by the end of 2002 compared to around 6,300 at the end of 2001
- Short investment horizon: individual investors are still “trading funds”

*Source: National League of Fund Managers. 2003 update*



## Reputation and Performance are Important: Average Investor's View

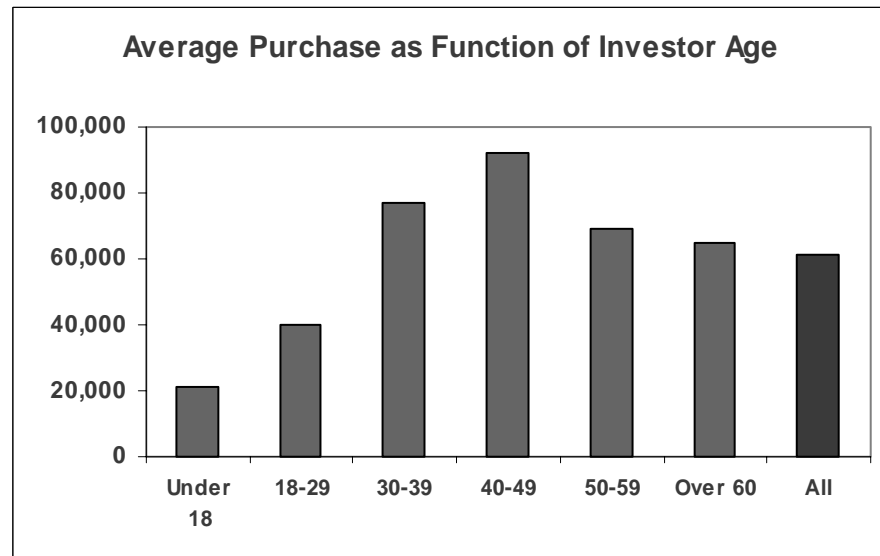
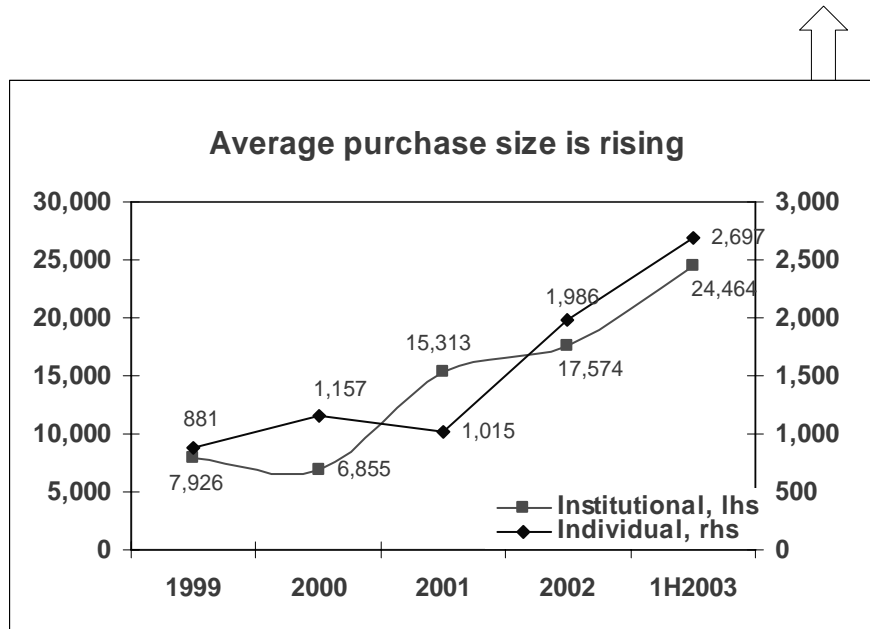


Source: PIOGLOBAL in-house survey based on polling 4052 respondents





## Average Investor Profile



Source: PIOGLOBAL in-house survey based on polling 4052 respondents



## Pension Reform in a Nutshell

- Switch from the current pay-as-you-go (PAYG) system, where today's worker pay today's pensions, to funded schemes, where they invest for their own futures
- Participants
  - Men born before 1952
  - Women born before 1956
- Employers pay according to the following plan:

<b>Pensioners</b>	<b>Base</b>	<b>Insurance</b>	<b>Funded</b>
Men 1953-1966. Women 1957-1966	14%	12%	2%
Men 1967+ Women 1967+	14%	8%	6%



## Challenges for the management companies

- Flexible requirements for the management companies
- The market is small and overcrowded - 55 management companies for an estimated \$300 mn of potential investment in 2004
- Absence of proven track record: out of these 55 companies, 26 were created in 2002 and 9 in 2003
- Pressure to show short-term outperformance
- Lack of information from the government, asymmetric information



## Securities Permitted for AMCs percentage in portfolio

- RF Federal bonds up to 100%
- RF Subfederal bonds up to 40%
- Municipal bonds up to 40%
- Corporate bonds up to 50% in 2004 and up to 80% in 2007
- Russian Equities up to 40% in 2004 and up to 65% in 2007
- Mortgage securities up to 40%
- Up to 20% may be kept in cash and on the bank deposits
- Investments in foreign index funds up to 5% will be permitted in 2005, maximum share in the portfolio may reach 20% in 2010



## **MICEX Index Fund the Most Suitable Product for a Pension Fund's Equity Portfolio**

- The first index-based interval mutual fund in Russia. Registered by FCSM on January 22, 2003
- A unique opportunity to enter and exit the market at a low cost
- High transparency and diversification
- Passive management, free of individual bias
- Low costs: management fee 0.5%, overall costs below 1%
- Expected dividend yield in the range of 2.0-3.5%
- The Fund is opened for purchases and redemptions 4 times a year
- Units are traded as individual stocks in the secondary market



## Steps for Further Growth

- Active participation in the pension reform
- Education of population, building trust with the new Russian investor
- Increasing horizon for individual and institutional investors
- Development of the national distribution network



# **PIOGLOBAL Asset Management**

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