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PERCEPTION OF RUSSIA AND CIS MARKETS BY LP'S FROM WESTERN EUROPE

Private equity in Russia and in the Commonwealth of Independent States (CIS) is related to the emerging markets pocket of the Limited Partners (LP's) from Western Europe. For those LP's who have significant amounts to invest, it is a geographical diversification of private equity investments.

Private equity in Russia and/or CIS is compared to other major regions of emerging countries: China, India, Latin America, Emerging Asia (excluding China and India), Developed Asia (Japan, Australia, New Zealand and Korea), South Africa and MENA (Middle East and North Africa).

In terms of appeal of regions to invest in, Russia is well perceived from the macroeconomic perspective. It is the eighth country of the world by the Gross Domestic Product (GDP), representing 2.9% of global GDP in 2010, followed by Spain, Brazil, Canada or Australia. The Russian anticipated real GDP growth 2011-2015 is expected at 4.5% per annum, with a GDP per capita growth 2006-2015 expected at near 20%. This is one of the highest level of GDP per capita growth in the world. It is twice the expected growth in Brazil or China. And last but not the least, Russia has a very low government debt in percentage of GDP with less than 20% of GDP 2011-2015. This government debt is one of the lowest in the world.

Country	% worldwide GDP 2010
USA	24,6
Japan	8,5
China	7,5
Germany	6,3
France	4,9
United Kingdom	4,6

Country	% worldwide GDP 2010
Italia	4
CIS including Russia	3,7
Russia	2,9
Spain	2,8
Brazil	2,7
Canada	2,6
Australia	1,7

Conversely, in terms of appeal of the private equity environment, Russia is often misjudged (badly valued) with a small number of quality local teams and some complicated investment opportunities. Corruption, money laundering and embezzlement of funds are still associated with this zone by some LPs. In fact, the size of the Russian private equity market is limited in amount invested.

Thus, among the four countries composing the BRIC (Brazil, Russia, India and China), Russia is the country the least well perceived by LP's for private equity - Brazil is currently well perceived. The CIS countries - excluding Russia - Belarus, Kazakhstan, Armenia, Uzbekistan, Tajikistan, Kyrgyzstan, Moldova, Azerbaijan, Ukraine, Turkmenistan and Mongolia, are perceived more homogeneously by the Western LPs, in terms of attracting macroeconomic environment and private equity environment. So the CIS countries (excluding Russia) are more attractive than the Middle East and North Africa countries from the private equity environment point of view and more attractive than Developed Asia or South Africa from the macroeconomic point of view.

Indeed, the CIS represents nearly 300 million people with an average age of about 30 years, a GDP above US \$2,200 billion, and GDP per capita exceeds US \$ 7,000, what makes it an economically attractive zone.

Around one hundred teams of private equity are investing in Russia and CIS. Most of those teams are based in Moscow (Russia), Ukraine or Central and Eastern Europe like Poland or the Baltic countries. Some of them

are based in London.

A certain number of the teams are sponsored by financial institutions such as banks, or are associated with Western private equity teams, which may reassure some of Western LP's.

General Partners (GP's) that invest in new technologies in CIS, such as new uses of the web, with deals like Vkontakte, Yandex, Mail.ru are rather well appreciated.

The private equity activity is recent in CIS and the selection of GP's is very important for a Western LP's. In this context, one of the key issues is to show a track record that can be audited associated with a stable management team. Some of them begin to have attractive track records. These teams should continue to have such high levels of performance in order to perpetuate the ecosystem and the image of private equity in CIS.

Beyond matters of team and track record, the alignment of interest between LP's and GP's is essential: the amount invested in the fund by the management team, the level of management fees, the carried interest mechanism including the calculation method, the breakdown in the team, the level of the hurdle rate and the vesting contract.

The governance of the fund is also important: committees where LP's participate which the designation rule and given power, key person clause, clauses of divorce, clause of change of the management company shareholders, etc.

The LP's that invest in Russia and CIS are essentially funds of funds as part of their geographical diversification of their emerging markets pocket and some of major institutional investors. The European Bank for Reconstruction and Development (EBRD) is very active to seed funds in Russia and CIS. Moreover Americans LP's invest in funds denominated in dollars and the Europeans in funds denominated in euros in order to avoid currency risks.

Major institutional investors, including pension funds or insurance companies, entrust to gatekeepers or investment advisors as Jasmin Capital, the selection of the right GP's teams in this unfamiliar area for them. They expect high IRR to offset higher risk taking relative to investments that they are more familiar from geographical point of view.

Only a few European family offices invest in Russia and CIS, except those with very high amounts invested in private equity.

Investments in infrastructure are also important topics for this area, where there are strong needs for renovation and/or construction of infrastructure (highways, bridges, tunnels, water distribution networks, gas, oil, telecom networks, etc.).

Investments in agriculture are growing strongly and Ukraine is very active in this domain.

The exploitation of natural resources in CIS is a global issue and many actors are showing a growing interest.

To conclude, private equity and private markets generally in Russia and CIS are expected to interest more and more Western LP's due to increasing recognition of the teams involved and the macroeconomic market bearer.