

**ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM**

**JUNE 16–18, 2011**

**EXPLORING STRATEGIC DIRECTIONS FOR THE NEW RUSSIAN  
DIRECT INVESTMENT FUND (RDIF)**

**Building Russia's Creative Capital**

**JUNE 17, 2011 — 15:45–17:00, Pavilion 4, Conference Hall 4.1  
Arena**

**St. Petersburg, Russia**

**2011**

The Russian President recently announced the establishment of a sovereign direct investment fund to jump-start large-scale foreign direct investment into Russia through risk sharing with international institutional investors and providing access to attractive investment opportunities.

**Moderator:**

**Vyacheslav Pivovarov**, Managing Partner, Altera Capital

**Panelists:**

**Nicolas Berggruen**, Chairman, Berggruen Holdings Inc.; Chairman, Nicolas Berggruen Institute

**David Bonderman**, Founding Partner, TPG

**Janet Cowell**, State Treasurer, North Carolina

**Kirill Dmitriev**, General Director, Russian Direct Investment Fund

**Edward Eisler**, Co-head of the Global Securities Division, Member of the Management Committee, Goldman Sachs

**Lord Green**, Minister of State for Trade and Investment, UK

**Badr Jafar**, President, Crescent Petroleum Group of Companies

**Erland Karlsson**, Chief Executive Officer, Eton Park

**Klaus Kleinfeld**, Chairman, Chief Executive Officer, Alcoa Inc.

**Don Lee**, Head of Private Investments, Korea Investment Corporation

**Vikram Pandit**, Chief Executive Officer, Citigroup

**Michael Philips**, Partner, Apax

**Stephen Schwarzman**, Chairman, Chief Executive Officer and Co-Founder, Blackstone; Chairman of the Board of Directors, Blackstone Group Management L.L.C.

**Dominic Silva**, Investments Executive Director, Khazanah Nasional

**Robert Thomson**, Editor-in-Chief, Dow Jones & Company; Managing Editor, The Wall Street Journal

**James Turley**, Chairman and Chief Executive, Ernst & Young

## **V. Pivovarov:**

Okay, it feels like everybody is here. Well, let us get our session started now. There will be a brief video. I will moderate in English, since we have only two Russian speakers here at the table.

### **Video:**

The challenge: modernizing Russia's economy. The solution: attracting foreign capital. But how? For the Kremlin, the answer is the Russian Direct Investment Fund, which is meant to be a key partner for foreign investors, attracting technology, capital, and helping Russia and its reliance on oil and natural gas exports.

The structure of the Fund has already been finalized. It will have a capital of USD 10 billion, and it will be a subsidiary of Russia's Development Bank, VEB. The Fund will be managed by experienced investment professionals and will be able to allocate up to 20% of capital and investments abroad. Analysts believe the pool could attract up to USD 50 billion of foreign investment within five years.

Investors will get the opportunity to co-invest along with the fund in high-return sectors. Among them: infrastructure and other key industries aimed at targeting Russia's growing middle class. Russia wants to use the fund to prove itself as an investment-friendly destination. The President made it clear: he wants to keep the "R" of the BRIC acronym and keeping the "R" will also involve transforming Moscow into a regional financial centre.

The Kremlin is keen for Russian capital to become a magnet for the CIS republics. The plan could be achieved with a number of measures, including easy access to rouble-denominated loans for foreign companies and a special fiscal regime for financial firms. The challenges ahead include fighting corruption and slashing bureaucracy, but which sectors are best targeted first? And what are the risks and opportunities for potential business partners?

Let the conversation begin.

**V. Pivovarov:**

Thanks again, everyone, for coming. We are very fortunate today, not only because it is finally sunny in St. Petersburg, but also because we have this great panel of global financial leaders all in one room at this round table to discuss the future of the Russian Direct Investment Fund. I will briefly introduce the panellists when they start speaking, but for our audience, on the left side, we have primarily founders of global private equity powerhouses: Blackstone, TPG, Apax, North Carolina Pension Fund, and sovereign wealth funds from Malaysia and Korea.

We have private investors, strategic investors from the UAE and the US, and the leaders of the global financial service firms, Citigroup, Goldman Sachs, and Ernst & Young. My co-moderator today is Robert Thomson, the Chief Editor of *The Wall Street Journal Dow Jones*. And I am Vyacheslav Pivovarov, Managing Partner of Altera Capital, Russia Direct Investment Fund.

A number of years ago, I was running institutional capital out of New York, and there are three people here at the table who were investors in our funds. And at that time, we started to think about how to direct foreign direct investment into Russia, and that was when discussions began that lead the way to where we are today. And I would like to introduce Kirill Dmitriev, the newly appointed head of the management company of the Russian Direct Investment Fund, who will give us a brief introduction to the fund, so everyone is on the same page.

After which, given the large number of participants we have here and the fairly limited amount of time that we have, we will try to conduct a very challenging (for the moderator) but very interactive session that I would like to be a brainstorming session about what investment strategies it should have, what management and corporate governance practices it should have in order to meet all the best world standards,

and how the co-investment process should work, which is probably the most interesting part for the investors here at this table. So without further ado, Kirill, the floor is yours.

**K. Dmitriev:**

Thank you, Slava. It is not surprising that Slava is moderating this panel. He is actually the one who came up with this whole idea. He has been working very closely with the Minister of Economics, primarily, to I think what we have here is really a team effort. So we are very thankful also to Minister Nabiullina, who has been pushing this forward, to the First Vice-President, Mr. Shuvalov, and the Minister of Finance. Obviously, President Medvedev and Prime Minister Putin have been very much pushing this forward. Also, it is a joint effort with investors because, for the last nine months, we have been travelling around the world and basically asking investors a very simple and difficult question at the same time, which is: what can we do to dramatically increase the amount of investment in the Russian economy?

We heard two things: first of all, people believe that you can make very good returns in Russia, and many believe that. But, secondly, is that you really need to have a good partner to make investments in Russia. So we are trying to create and shape this partner for international investors so that they can co-invest in the Russian economy and dramatically increase their investments.

Now, the basic setup of the Fund is pretty straightforward. We are not asking investors to come in, into the Fund itself; we enable investors to invest directly in the Fund's transactions, so those could be the transactions that those funds bring to us or transactions we can bring to those funds. But, basically, they make sure, with their own due diligence, with their own analysis, that they like those transactions. So it is not a blind pool investment; it is investment specifically in the companies.

On our part, we cannot invest unless at least the same amount of money is co-invested by leading international players. So we always keep two pairs of eyes looking over our shoulder, making sure we are also doing the right job. And also, this causes additional money to come into the Russian economy.

I am not going to go into too much detail. You have a package that was given to you that goes through all of the details. We will basically have a minimum investment size of USD 50 million to 500 million. We will not be taking controlling positions. The investment themes are infrastructure, the growing middle class in Russia, and import substitution. So there will be lots of opportunities to focus on return. And return is really the key theme of the Fund.

Some of you were in the Prime Minister's meeting, and actually some of you were very forceful in asking Prime Minister Putin, is it about other things, is it about return? He was very specific. It is about generating good return together with investors.

So we are actually getting lots of interest from international investors. The Chairman of the Chinese Investment Corporation, which manages USD 300 billion, publicly went on the record to say that he is very interested in co-investing with the Fund, as well as some other key investors.

And also as part of this initiative, we are going to be sharing some facts about Russia. Today, we opened our website, which is [www.rdif.ru](http://www.rdif.ru). That site, in addition to information about the Fund, also has statistics that the middle class in Russia, defined as households with an income of over USD 10,000, has tripled in the last five years.

Russia is the sixth-largest economy in the world. It is the eighth-largest addressable market. It has the third-largest reserves in the world. It has one of the lowest unemployment rates in the world. And we want to make sure that that story gets across, because sometimes it does not.

So we not only want to be a vehicle for co-investment, but we also want to be a vehicle for talking about some facts and some ideas about the fact that Russia is, indeed, a very good and attractive destination for investment.

So with that, I am finished with my comments, and I am definitely happy to answer any questions down the line. It is really a great honour to have such great investors and leaders with us today, to get their views and their ideas and their thoughts about the Russian Direct Investment Fund. Thank you.

**V. Pivovarov:**

Thank you, Kirill. I hope that was helpful to put everyone on the same page. And what I propose right now is actually to get engaged in a discussion on a number of subjects, the ones I outlined before. And I would suggest kicking it off with presenting Bonderman, who is the founder of Texas Pacific Group, one of the world's largest private equity firms, with over USD 40 billion in assets under management.

TPG has already completed a number of successful transactions in Russia. There has been a USD 100 million investment in VTB, an investment in the St. Petersburg department store Lenta, and if I may, I will announce the third transaction that he has just recently completed. I don't know the details yet, but it was apparently done yesterday.

It's a multibillion-dollar transaction, probably the largest in the real estate sector in Russia, where TPG bought out Kohala Coast's real estate assets, if I'm correct. David, may I ask you: what's your take on the proposed vehicle, the Russian Direct Investment Fund, as a potential co-investment partner for TPG in Russia? What are the advantages or areas of concern that you might see?

**D. Bonderman:**

Well, let me be brief, Slava, because you've got a lot of distinguished panellists, who I'm sure all have their own views, but our experience has been exactly what you and Kirill mentioned, which is that to invest in Russia—which we think has a lot of attractive opportunities—you really want to have a local partner.

This is true in many emerging economies, but it's definitely true here, given the issues raised by the President in his speech today. And we have found in our case, we have used VTB as a partner of choice, and they have been very helpful. And I think that this fund obviously has the same kind of ability to be helpful, and I think the caution is that this fund should do exactly what Kirill said, which is to be a kind of co-investor and partner of choice and to be transparent and make commercial decisions and not political decisions.

And again, I worry about, a little bit, about targeting sectors. Infrastructure may or may not turn out to be a good sector for people. Historically it's been a low return sector in most countries, and I would worry that the government is setting this fund up because they want infrastructure investments made, as opposed to setting it up because they want returns.

I think the Prime Minister gave the right answer, but whether that turns out to be the case... I think you have to be very careful about it.

**K. Dmitriev:**

Very quick answer. That is actually precisely why we have no limitations on the industries. And because we talked to lots of investors, and the concern was if you just promote a particular industry, obviously it doesn't go well for returns.

So that is specifically why the fund can pretty much invest in any industry, but we hear you, and you know, it has been lots of work with the government to convince them that this is the right approach.

**V. Pivovarov:**

Thank you. Let me introduce our next participant, Vikram Pandit. He is the CEO of Citigroup. He joined the group in the midst of the crisis and is credited for his swift turnaround of the group.

He is also well-known as a big Russia enthusiast and recently joined the President's international advisory council. Vikram is in a very interesting position, because Citibank is one of the larger foreign investors in Russia, and at the same time, it is a global financial services firm catering to the people who are sitting at this table.

So in this position, Vikram, what are your thoughts? How do you think this new Russian Direct Investment Fund could best contribute to your clients to meet their investment and business objectives in Russia?

**V. Pandit:**

Slava, let me echo what you said. I am a Russia enthusiast, and let me add one more thing to what Kirill said. I've been coming to this Forum for a number of years, and I get to travel to a lot of emerging markets, and this time around I've been here almost a week in Moscow and St. Petersburg.

Let me tell you what is almost unique about Russia at this time. And I don't think there are too many countries that I can think of that come close to it. One is that it has hardly any public debt and two, it has hardly any private debt.

So the fact that it's so unleveraged is clearly unusual compared to the Western economies, but frankly, some of these numbers are even below a lot of the emerging markets.

But the second thing that's really interesting is while Russia's getting foreign direct investment, it is not getting the onslaught of the money that's going into all the other emerging markets.

So it's probably a little bit helpful to be a central banker in Russia compared to some of the other emerging markets, but put the two

together, it's a very unique place in the sense that the financials are pretty sound. And therefore the real need is investment.

And Kirill, you're right. People think the returns are great and you could get adequate returns here; we agree with that. But the point you're most right on is that people want to co-invest, and David said that as well, because they want to invest with people who can get things done and get them done right. And I think that is the biggest, biggest proposition this fund offers.

But let me talk to you about what the specifics are. One is access. The President talked this morning about privatization almost 50% of, close to 50% of the Russian economy is government-controlled. There are lots of prospects that are going to come out of there, infrastructure you talked about.

I think access is a very big point. And if there is transparency, they can gain access to be able to compete for those transactions. And it's a good thing. That would be really attractive to investors in the Fund.

The second is competing on a level playing field. And that, to me, is about agreed rules of the game, transparency in the process, how you set standards that may actually create a race to the top for all other investing that could happen.

And third, to me, is what is so common in almost all emerging markets is that it is hard to ascertain property rights in many cases, and to have government co-invest and have the ability to therefore allay those concerns, I think, is very important.

The development of Moscow as a financial centre and the progress they are making is important, because having the ability to invest these things and then having the ability to exit on a local stock exchange that's liquid and vibrant and that can allow ownership by Russian people to share in the growth of the company—I think that's important.

That also is going to be attractive to investors who see not only a way to invest, but an exit on what could be really a very strong financial centre

in the world, and certainly the primary financial centre for exit on a lot of these investments.

So those are, sort of, some thoughts, and I think, from the perspective of all the people we talked to and investors I've been in touch with, this is something, especially given your feature, that co-investment opportunity feature.

And it's coming quite popular, and the issue here to me is not going to be so much people's interest in being part of this today. The issue is going to be what you do, which is how you execute on these three points.

**V. Pivovarov:**

Vikram, thank you very much. That was very encouraging. Let me turn to our co-moderator, Mr. Thompson, because I have heard he might potentially need to leave soon today.

Robert, you are in permanent contact with the business audience globally, and among many other things, you are involved in shaping images of corporations and even countries. So you would be the best expert, probably, to tell us what the Russian Direct Investment Fund can do to improve the image of Russia globally and attract more capital to the country.

**R. Thompson:**

Well, it is Vikram's job to be encouraging, and it is my job to be discouraging. It would be interesting, actually, if the Fund would choose to invest in the media sector in Russia. I mean, our experience in the media sector is quite an interesting one. If you would like to talk to me after, I can tell you about it.

We own a third of Vedomosti, and more broadly, News Corp has investments in this and that, including billboards. You might have noticed the News Corp logo as you drive by ads for Russian TV

programs. But it seems odd to ask a journalist to have an opinion on raising money and investing, because journalists are sort of best at spending money. We are on the cost side of the balance sheet, which is very good, because I would not know how to raise money. I certainly do know how to spend it.

But I think Vikram made a couple of important points. For somebody who has lived in China or in Japan for much of my life, I think back to what the Chinese did with CITIC in the mid-1990s and late 1990s. And obviously, quite a lot of people do not know what CITIC is, which is appropriate, but it was set up as a beacon in Beijing for Chinese investment, but also for foreign companies to do business in China.

Now, obviously, the countries are in different stages of their economic development. But I do think it is a very relevant example, because it set standards, and it was run professionally. It was not quite transparent—there is still no transparency in China—but it changed the way business was done.

And clearly, if the Fund can do that, it will attract more investment—not just for itself, but for Russia more generally; because Russia does have an image problem. There is no doubt about that. We should be frank about that. And yet, as Vikram said, and as David himself personally discovered, there are great opportunities here.

I mean, I guess, it is in David's interest there is less competition, but on the other hand, it is in Russia's interest that there is more competition. And it is in Russia's interest that the world knows more about Russia and that Russia knows more about the world.

But China is also an example in a different way, which is that people had been fascinated by Chinese companies. But just the loss of reputation of Chinese companies coming to market in the last three months is remarkable. And that in and of itself is a lesson, because it is hard to win back reputation after you have forfeited it.

And some of the coverage might be a little harsh, but there is no doubt that some of the companies were not transparent – the word that Vikram used – that they were not open to proper auditing. In a couple of cases, the auditors farewelled the company before they listed. There is a positive high-level effect when things are done well and a negative high-level effect when things are done badly.

I was chatting to Jack Ma of Alibaba, a phenomenally successful company, a remarkable internet impresario. This was two weeks ago. Jack still gives the impression, at least, that he is not ready for an immediate listing, which should be a big event globally, not just in China. But he recognizes the smaller Chinese companies have hurt the reputation of a large Chinese company, Alibaba. And so money is important, but reputation is priceless.

**V. Pivovarov:**

Very good point. Kirill?

**K. Dmitriev:**

Maybe 30 seconds to Robert. I think we understand that transparency is very important, and we will have a supervisory board which will consist of some Russians and some internationals. And you will actually be impressed that the initial government idea was to have a majority of international people on the supervisory board, which is really unheard of. You have a state government fund, and the original idea was let us have a majority of foreign participants on it. I think now it will be pretty much about the same number, but we will also have an international advisory board, to which we will invite all of the key players on the market, in the world of investments. So we definitely understand: if we cannot make this transparent, and we cannot make this easily understood and very, very clean, it will not work.

So that is the key point, I think, you touched on that which is fundamental to what we will have to do, or it will not work. I agree.

**V. Pivovarov:**

Thank you, gentlemen. Let me turn to Mr. Schwarzman. Stephen is the co-founder of the world's largest alternative investment fund, with USD 124 billion under management.

Having invested globally – to my knowledge, you have not done anything in Russia yet – would the Russian Direct Investment Fund help you jump-start investing here and maybe address concerns that have prevented you from making investments in Russia so far?

**S. Schwarzman:**

Well, like many investors in the West, we were very concerned about the issues of rule of law and corruption in Russia, which made us – probably predictably and perhaps appropriately – concerned about investing here.

We have had good experience around the world when we get involved with governments in emerging market countries, and the Russian Direct Investment Fund was a good phone call, if you will, or a good email, because here you have the government basically saying, "We want to reach out and potentially invest with you." And in effect, it was saying that, one, we want to encourage foreign direct investment, but we want to be on the same footing with you.

So as an opening conceptual approach, that is pretty attractive compared to just sort of showing up and trying to make your own way in a highly complex environment that we did not see that we had any competitive advantage doing. That may have been an underestimation of ourselves, but that was our belief.

Now, I think what is nice about the Fund itself is this is strictly voluntary. Nobody here is investing in the Fund. The Fund exists. It gets USD 2

billion a year of new money—at least that is the expectation—and it's supposed to aggregate USD 10 billion over five years.

And the people around the table here and a bunch of the sovereign wealth funds who are involved with this from around the world can put up money on an individual deal. You can either do it or you can not do it.

If you are in the private equity business, you can do the full diligence on the company, and you get, in effect, the government as a partner. Not to be underestimated you can get terrific financing in roubles long term, which is not that easy to get. There are probably two other places you can get it, but this is a big stopping place.

So you can set up familiar-type structures with your own due diligence, with supplementary due diligence by the Fund, and you do not have to do anything.

So in a way, life always works well when you have free options. They are almost never free, but in a way it was a great opportunity to wake up people who were not engaged in the market and were concerned and cautious about it.

Now, what happened as a result of coming here several times is that it becomes quite clear, as everybody saw from the first session with President Medvedev, that there is some type of change of what appears to be a significant magnitude going on at the higher levels across the government to address a variety of issues that are troubling outsiders: how fast that gets resolved, what changes happen when, is still to be determined.

But when you get people openly talking about their issues and a desire on the part of all the senior people that we have been able to meet, who say, "We want to improve. We want to address this. We are going to do the following types of things", that is a change.

And what we have found around the world is whenever you get someplace, however you get there, at a time when something is starting

to change, a point of inflection, you have a better chance of being lucky than when change does not appear to be happening.

So there are a lot of good things about that. They have also been very flexible in terms of changing what they are doing in response to normal types of needs from people like us.

I do not think it is necessarily the only way to invest in Russia, as David has shown quite successfully, but it is a good way and a supplementary way. It is always good to have friends when you are going into a place that you are not as familiar with. So: a good thing.

**V. Pivovarov:**

Thank you, Stephen. So while Stephen is warming up to invest in Russia and David has already been racking up substantial IRRs, I would like to turn to Ed Eisler from Goldman. His global company has been following Russian operations very closely. Goldman has already deployed, I think, around USD 1 billion in Russia.

Could you share with us: what are the company's plans regarding Russia going forward, and where would the Russian Direct Investment Fund be within those?

**E. Eisler:**

Thank you, Slava. Well, as you said, we have been an active investor in the Russian economy and in many different companies over the last few years. I would probably broadly say that, across the board, we have had very good experiences working with the private sector in Russia, and also we have had good experiences working with different levels of the government.

And I think the experiences over the last four years really do matter, because they have occurred during an environment of extreme microeconomic volatility.

I do not want to provide a huge amount of sectoral specificity with respect to which areas we do find particularly attractive, other than, as Kirill pointed out, all the areas that, broadly speaking, do benefit from the growth of the middle class or that benefit from the ongoing productivity gains in the Russian economy and in the labour force, in particular.

I think as far as our involvement on the investing side, in cooperation with the Russian Direct Investment Fund, I think it is a very appealing proposition to us. As Mr. Schwarzman said, being able to align oneself with the government is certainly key.

I think the optional co-investment nature has many benefits, because I think it allows investors to de facto tailor the investment to their own specific risk return objectives. Certainly the notion of attractive leverage is very useful.

But I would probably say that what is additionally key is the notion of the large deal flow that we would expect to see that is generated both by the Fund itself and via all the other co-investors that see many opportunities. And I think from that perspective, we would envision us to be very much involved with the fund.

**V. Pivovarov:**

Thank you very much, Ed. We have pretty much covered the global private equity and financial investors. Right across from me are three people representing the sovereign pension funds or wealth funds from Korea, North Carolina, and Malaysia, and I guess I will have maybe one question for all three of you, or maybe two.

One is how would you, given that you're often a limited partner, from what I understand of the Blackstones and TPGs and Goldmans of the world, would you look into potential investments in Russia through those vehicles or in partnership with the co-investment Fund that we are trying

to set up to meet your investment needs here in Russia? Maybe Janet could take a lead on this?

**J. Collin:**

Sure. So I'm Janet Collin. As part of being treasurer of a state-managed USD 75 billion pension fund, we do business with both Mr. Schwarzman and Mr. Bonderman, so certainly that would be good. Our private equity portfolio is about 25% international now, but certainly as we globalize – and I think that is pretty typical for U.S. pension funds these days and that the U.S. economy is growing a little slower – so we definitely want to diversify globally, and one of the challenges is how to gain access, and this meets that need.

It also has low fees. Also a plus. And the international law. So I think this fits in with a more global strategy in trying to collaborate with other funds; LP partnerships, for access, low fees, and the other benefits that come with that.

**V. Pivovarov:**

Great. Kirill, you heard that?

Dominic. How would this process work for you if you find something interesting and they're kept in Russia? Which I think should be the case, given it is your second time in Moscow in the past month.

**D. Silva:**

That is right, Slava; I like coming to see you. No, we typically do not direct our investments through funds; but we are a more direct strategic investor. And this whole notion about co-investing resonates very well with us. We are a big fan of co-investment, and for the most part, it has always resulted in very good outcomes for us.

So the RDIF for us is a great medium for co-investing in a smart collaboration with a reputable partner in a market which is perceived to

be complex but potentially rewarding. So we see this as a means for us to jump-start our potential investment into this market. So we view the co-investment approach favourably.

**V. Pivovarov:**

Thank you. What about the Korean Investment Corp?

**D. Lee:**

I'm Don Lee from the Korean Investment Corporation. OK, I think, case in point, I think they're not much different from other groups on this table, but different maybe not like other, you know, Blackstone or TPG; funded two or three months ago, is still at a relatively new and primitive stage for us to kind of digest.

But anyway, in the case of our country, you know that a lot of industry players are present in Russia, but probably none from, actually, the financial investment, or especially the trade investment perspective.

So anyway, when we heard this or when we first went to the Moscow session we were kind of pleasantly surprised that you came up with a very commercial way of structuring, like a global piece structure, like forming independent GPs. So anyway, at the same time, through the meetings, through your top government officers, we saw and witnessed some very strong commitment and very strong support, which is a very positive prospect.

In our case, no, our job is actually to try to approach globally, especially in direct re-investment through either funds or direct deals. So global diversification is very important. Russia has many good stories to me, so like Mr. Pandit mentioned, I kind of noticed that Russia is a very, relatively speaking, healthily unlevered country, which is very positive and which means it could give some cushion in terms of financial stability.

So that is what we saw, but in our case, answering your question of how we are going to approach this, of course, we are open to any suggestions through a direct deal proposition or through our pre-existing relationship with global funds. So we have a variety of ways we can approach it. But one of the things I'd like to mention is that some gentleman mentioned some concern.

For example, I'd like to mention this kind of scheme, I think, for the interest of the GPs and incentives, how you are individually, I think, will be very important. It is not exactly your business, but how you are going to allocate. So you have to have enough incentives—actually make enough incentives—so therefore, you have to have a very strong commitment, not diversified with other groups.

And although we saw a strong commitment and support from the top senior government officials, the other question is the sustainability. How long will the life of the Fund be? Could be five, ten years. Or what if something changes; how can we guarantee this to sustain that kind of support? And in our case, we are pure finance investors, so we cannot be the strategic investor, although you are saying you aren't taking any more minority stakes.

So even in that case, we like to work with certain industry players to actually evaluate the industry, evaluate the project, because we do not know exactly—we are not experts in certain areas, like power or infrastructure or even some medical sector. So we have to think about that kind of thing very thoroughly.

#### **V. Pivovarov:**

Let me just follow up on this; that is a very good point. We saw in the recent past quite a few deals where financial investors paired, teamed up together with the strategic investors, and what we have here as well today is a large number of representatives of strategic investors. We

have Alcoa, we have Crescent Petroleum from the UAE. We also have the CEO of Ernst & Young, and Jim Turley is another Russia enthusiast. His company also administers the Foreign International Advisory Council, which combines the 30-something largest strategic investors in Russia. And I think it would be very interesting, first, to hear James' opinion on how these could best work together with FIAC; and then maybe turn to Klaus Kleinfeld, who is the CEO of Alcoa and has been operating a number of aluminium power plants in Russia for a while; and ask Badr Jafar, who has been working with two Russian state-owned corporations—from what I know, Rosneft and Rus Technology—about what the experience has been so far and how the RDIF can fit into those going forward.

**J. Turley:**

Well, thank you, Slava. As you said, Ernst & Young have the honour of co-leading the Foreign Investment Advisory Council with the Prime Minister going back now 15, 16, 17 years, and it does bring together great strategic investors who have been here for a long time, had great success here. And we sit down with the government of the Russian Federation and provide advice from these companies on what reforms would make the country even more attractive for investment.

Many of the issues have already been talked about: institutional reform, traditional reform, reduction of corruption, property rights, both tangible and intangible, visa issues, customs issues, the whole privatization that is under way, moving from a lot of great intentions to really execute that privatization, and building the SME sector. Shuvalov is an ombudsman who is helping deal with tough issues.

What is fascinating is that as we at the FIAC survey both the members of FIAC and others, we have tripped over—Slava, you talked about the image problem; Robert talked about it—but companies, strategic investors who are here, find Russia to be one of the most attractive

emerging markets they are in; highest returns, best gross potential. They know how to make it work here. They understand the hassle factor – and there is one – but they know how to make it work.

And what is startling is people and companies who have not invested here are scared. They just do not know how to come here. So my sense is that your fund would be enormously effective at helping provide the local knowledge that I think that Bonderman spoke about first in helping companies that have not gotten on the ground to figure out how to invest in strategic deals alongside a locally knowledgeable partner and group of partners. And so I think it will be enormously positive.

**K. Kleinfeld:**

Slava, when you came over to see me in New York, I mean we went through and I'm impressed that this is less than two years ago, and here we are, and we got 10 billion. I mean that's a great success, you know.

So no, honestly I think it is a great success, and let me follow up on what Jim said. There's this oddity. When Jim and I talk about Russia, we are very clear in seeing the opportunities here, and also we see the room for improvement, what there still needs to be done.

But then when we have people joining the conversation from the business world, those who are not invested here, we are confronted with prejudice and views on Russia that have very little to do with Russia, but rather remind me of good Soviet movies, those that were made in the West. And that is not very comfortable, and certainly is not making people very willing to invest here, right? So the question is: what can you put up against it?

The best you can put up against it is not words, but deeds. Then how do you reduce the investment risk? And I think that's where the Fund comes in. For a strategic investor, it's not about the money. I mean, the money, they all have; they can raise it in other ways. It is about the given knowledge, and it's not actually about the strategic knowledge,

but it's about the local knowledge. And it is really about helping to navigate the waters in the region.

What people always forget, even in the US, that Russia is big. Russia is two and a half times the size of the US. It's big and it's not the case that when the federal government says, "We want this", that this will get implemented right away everywhere where we invest. And that is one of the big critical things.

When we heard the speech of the President this morning, I saw all of the heads were nodding heavily and everybody says yes, please go do it. And we all know, I mean, there is a will and there is something that needs to be done, right? And that's where the Fund comes in.

And I assume that you are realistic in that very often, I think, you will then have to take strategic investors by the hand and walk into the specific region and help them to understand: how do I navigate through here? If I import something to get built there, how do I avoid getting stopped by some local customs guy who has some idea about what to do with that investment which is not in line with what I want to do?

Those are the types of things where I think the Fund is, can be, exceptionally good.

**J. Turley:**

Slava, just to add, the issue on the regions of Russia is really important, because, you know, many people who have not invested in Russia think about Moscow, they think about St. Petersburg. They don't think about the regions that you've been speaking about, Klaus. And so that's a piece of where I think the Fund can actually help expand the perspectives.

**V. Pivovarov:**

Thank you, gentlemen. Badr?

**B. Jafar:**

Thank you, Slava. You know for the two mega-energy regions of the world, the current trade between the Middle East and North Africa and Russia is startlingly low. To put it into perspective, I believe that last year the trade turnover between the EU and Russia was around USD 300 billion. For the whole Middle East and North Africa with Russia, it was USD 7 billion.

So there's a long way to go, and I think there are a number of well-documented fears by Russians investing in the Middle East and vice versa. But I do think that the RDIF addresses certain key features, which I think would accelerate our involvement and interest in Russia.

Firstly, obviously, is the risk sharing. The fact that of course, you know, there are risks associated with investing in Russia and in any emerging market, and I think that is something which is dealt with by the RDIF.

The second, which I touched upon now, is finding the ideal partner. Not just with the Russian government, but the RDIF, I believe will also help and assist international investors find the right local partners here.

Now we've been fortunate enough to invest alongside Russian entities such as Rosneft Oil Company, where we have joint gas operations now, and with RUS Technology, where we set up a USD 500 million ports and logistics fund actually to invest in Russia.

But the small and medium-sized enterprises are really the backbone of any economy, and I believe there's a lack of knowledge for these small businesses here about the potential investors that might be interested in them and vice versa. So I would hope to see that the RDIF would really channel those investments into small and medium-size enterprises in Russia.

And the third is really a solid platform and the fact that it's recognized that international investors would want to see really internationally recognized legal structures including, of course, internationally binding legal structures.

In our discussions with Russian entities, our Russian partners now, it took some time for them to appreciate that we needed internationally binding agreements. So we, you know, to some extent we're happy, of course, with Russian law, but there needs to be international arbitration, and it took time to get that though.

So I think leading the example with the RDIF, which I understand is going to implement those measures, is something very important. So from my perspective and from the Middle East, I think it is a very positive step, and I look forward to going and investing with the RDIF.

**V. Pivovarov:**

Great, thank you. Gentlemen, we have about 16 minutes left, and we still have four people at the table. I would like to ask some of our people in the audience to ask questions. Let's try to just shorten our responses a little bit. And I would like to introduce Nicolas Berggruen, who is an individual investor. He runs a charitable trust, his family charitable trust, Berggruen Holdings.

It's a different type of investment. They recently acquired Karstadt in Germany, and Nicolas been in Russia a number of times. How do you think having a state as a partner would help you also to look into Russia and invest here, or what will drive your investment decisions here?

**N. Berggruen:**

I'm really only here for you, Slava. I mean, everybody here around the table has choices in terms of investments, and I made a choice a while ago to invest in places that are not necessarily the easiest to invest in if I have the wrong, I mean the right partners. And in Russia, historically, I felt that it was a quasi-state-sponsored kind of capitalism.

And I was lucky enough to invest years ago in businesses that were really quasi-state like Sberbank or Gazprom. And the opportunity that's given today to this group—which is a very sophisticated group—is really

the same thing again, but in a more direct way. And it allows me not to have to set up a big operation here but really to benefit from the knowledge, and frankly this is sort of moral guarantee to do it again with the state.

I think it is a good experience with this group. It'll encourage others.

**V. Pivovarov:**

Hopefully we'll see an addition to your investments in India and Turkey: soon an investment in Russia. Maybe Karstadt expansion.

Erland Karlsson, Eton Park has been a very large investor, but I think on the public market side in Russia. Would the Russian Direct Investment Fund, being a private equity vehicle, be of interest to your firm, and how would that work?

**E. Karlsson:**

Absolutely, thank you. But just as a context, we're a multistrategy investment firm investing in public and private securities. We have USD 14 billion under management. We have invested about USD 2 billion in private investments across emerging markets.

We currently have on portfolio USD 700 million, predominantly in public investments in Russia. We are really attracted to Russia by the transition the country has gone through over the last ten years and the commitment from the government to sustain economic development here.

Our investments have been across, yes, as you say, new underpenetrated areas, you know, such as financial services and in the retail sector, but also infrastructure and the power sector have been big areas of focus for us.

Though we met several challenges in Russia, I think, in sectors where government regulation is an important factor, we have frequently found that there have been surprises down the road. And also the topic

everyone around the table has mentioned in terms of finding a good local partner to team up with, was in literally all of our investments across emerging markets.

In private investments, we have partnered up with strong local partners, and in Russia, it has been very difficult to establish that network. But we do think that this initiative is a really good sign that the government has understood the difficulty for foreign investors in Russia and is trying to deal with them through this initiative.

So we hope the Fund can be the answer to the challenges that investors like ourselves feel or come across. And we do look forward to engaging more with the Russian Direct Investment Fund as different investment opportunities present themselves.

**V. Pivovarov:**

Thank you. Lord Green doesn't need to be introduced, but he's the UK Minister of Trade and Investment. I would say that cross-border investment and the level of economic ties between Russia and the UK still have a lot of potential, especially given the cultural background of the relationship between our two countries.

What do you think are the key steps that the Russian Direct Investment Fund actually could implement maybe to boost this cross-border investment between our two countries?

**Lord Green:**

Well, thank you, Slava. First of all, I think there's obviously a wide area of furious agreement around this table. And I'm happy to contribute to that, because I think that the Direct Investment Fund is a good concept. I think it will encourage more direct investment into the economy. I think the fact that it's direct investment and not portfolio co-investing in individual projects is clearly helpful. And it directs the decision from that point of view, whether it's a financial investor or a strategic investor.

It's just worth reminding ourselves why we're having the conversation at all. Why is it that foreign direct investment is important to an economy? It is plainly not only because it brings capital. Russia of all countries needs that rather less than many countries, at least less than my country.

But what it brings, apart from the capital, is, of course, expertise, whether it's financial expertise that has to do with the business model and its viability, governance and so forth or whether it's the technical product expertise that comes from a strategic investor.

And one way or another, it helps set standards of international competitiveness that are important far beyond the particular project, but for the whole economy, and the more that you can get direct investment broadly spreading through the economy, the stronger the Russian economy will become.

And the evidence is that it works for foreign investors, for foreign partners, when they have got the right partner. In the case of Britain, we have some 600 British firms invested in this country.

So although I think I share your views, it's a good deal more that we can do to develop the relationship, I think there's a good base to build on. And the problem that we need to wrestle with is the one that's been mentioned one or two times already: namely, that there's an image problem. For those who are here and have got their partners right, they know that this is a good market. We have got growth in it, and there is a good deal of profitability to be had.

For those who are not here, there's an image issue to address. I think that the Direct Investment Fund can play a very helpful role in that. I think it's worth reminding ourselves that the Direct Investment Fund is not an alternative to addressing the wider issues of governance, transparency, bureaucracy, etc., that President Medvedev was referring to in his address this morning.

And I finally think that the more we can see this as part of a set of measures to open up the economy, the more successful the totality will be, and indeed, the better the value of the investments that you will get in the Direct Investment Fund.

And one of the keys to this again has already been mentioned, which is the development of the financial centre as—one way of looking at it is, it provides good exit opportunities. I think that's a way that a private equity firm legitimately looks at this. But actually, more generally, to have Moscow develop into a sophisticated, open broad-based financial centre is clearly in the interest of the broad-based development of the economy.

So within that wider agenda, I think the Direct Investment Fund plays a very important role. Thank you.

**V. Pivovarov:**

Thank you. Now, Kirill, it's up to you to get them meet all those objectives over the lifetime of the Fund.

**K. Dmitriev:**

Yes, but I'll make just one very brief comment. Obviously the Fund, as Lord Green mentioned, is not a substitute for all sorts of institutional measures that are being taken by the President and by the government, and that's very important, because we cannot just say, "Oh, everything is perfect; there's a fund that will do it", and then nothing gets done.

So I think that's a very important point, and obviously it is great to hear so many positive things. I think it is precisely because of the response of investors that President Medvedev and Prime Minister Putin very much support this idea. And we believe that it's very important to tailor it to your needs, and you've been very helpful in giving lots of very specific questions. And as Stephen mentioned, we have sort of taken

notes on them and changed things based on them. So this has been profoundly helpful.

**V. Pivovarov:**

Michael, we still have one more question for you. Apax, from what I understood, traditionally was a substantial investor in the technology sector, primarily. We saw a lot of private equity interest in retail, in more traditional sectors of the economy.

Where would Apax's interest potentially lie in investing in Russia, industry-wise?

**M. Philips:**

Globally, we only do five industries. We invest in technology and telecoms, in online media, and when I see the Yandex IPO, it makes us very encouraged. In healthcare, we are the largest hospital operator in Europe and India, for example. We do financial services. And we do retail consumer. They are all very non-critical sectors with the growth of the GDP.

One more comment about success, I think we are all equally excited about the Fund, and what it can do for us, but each of us should also make a commitment to you. We are glad to support you, Kirill, in your development, because this fund is only going to be successful if three things happen. The first is that all of us commit should for ten-year cooperation plus, because this fund is based on trust.

The second is going to be that we measure our success over many cycles and many periods. And it is not just a one-time quick in-and-out. This is a marathon, not a sprint. And lastly, is that we exchange resources and support you in building your team. And so if you need any support or help training people or recruiting, just let us know.

**V. Pivovarov:**

Do we have time for a couple of questions from the audience?

**K. Dmitriev:**

Yes. I think I will just make one quick comment. We are actually very aggressively hiring right now. So there are some very great people in this audience, any recommendations, any ideas, you know, the investors support it; they like it. We really need some strong people. And I think we will finalize a team by October, November, but we are definitely looking forward to getting good people with good track records.

**V. Pivovarov:**

There is a table right outside of this auditorium. So please drop your resumes. Are there any questions from the audience?

**From the audience:**

Thank you. I am with the Russian Centre for Business Ethics and Corporate Governance. It seems to me that the Russian Direct Investment Fund has a great opportunity, not only to attract smart foreign investment, but also to create local best practices and business conduct by using your market power. So I just want to know if you have developed a strategy to do that yet.

**K. Dmitriev:**

Thank you. I think it is very important for us to have the brain power that is at this table, and we will have brain power on our international advisory board to really make a change, not only as far as the Fund is concerned, but to share some ideas with the Russian government, with the President, to improve things.

So next week, or even earlier than that, we will be announcing some key members of our international advisory board, who will be really top-notch worldwide investors, very knowledgeable figures. They will have an opportunity to interact on a regular basis with government officials. And I think this one of the examples where we can really institutionalize the latest thinking on investment, on corporate governance, that will go beyond the Fund.

So I think the Fund will definitely focus on good corporate governance and working with strong partners, but I think it can even go beyond that. Thank you.

**Dr. C. Kline:**

Yes, hi. My name is Dr. Carlo Kline, from Australia. Just cutting to the chase: we have been looking at coking coal around the world now for about five years, for Japanese investors.

Russia has the best coking coal deposits, second to Australia. They are fabulous. If Russia ever gets its act together, I think Australia had better watch it. This Russia Fund, we have got a situation where these coking coal deposits in middle and eastern Russia are fabulous. They have huge export potential.

After exploring things and looking at the deposits, we found that the rail was a real issue that we are looking at. The Japanese said, "If the Russian government invests 10, 20 billion in rail, then we will invest a lot of money in getting up at least five, six, seven of these huge deposits."

We are looking at Udokan, which is massive copper. We are looking at coking coal which is huge: at least five deposits.

What will be the criteria for the Fund? Will you really look at the criteria so that you can say, "All right, I will put in so much money on a coal investment to get these coking coal deposits off the ground." Because if you do, you will have exports for a hundred years.

Australia in the Northwest, Australia in the Pilbara was barren 50 years ago. The Japanese were amazing; they invested over 50 years. Do you think the Russia Investment Fund will really look at helping the development of the massive resources for Russia? Thank you.

**K. Dmitriev:**

I definitely think we would, and we have yet to look at that. I think it is very important that we are not in a business or then going to the government and saying, "Let's use USD 10 billion of government money to provide railroads and then we benefit from it."

So we really want to be careful, and I think it is important to raise this issue that we do not want to have unfair advantages.

We want to invest in good businesses. We want to get good returns. I think government has also its own job of making sure that infrastructure is in place, and hopefully they will do those railroads.

But we are not in the business of finding opportunities and going to the government and let us say, "Let us subsidize it in many different ways to make sure we get good returns." But if the business itself is good, if the returns are good, of course we will be interested, and once again we cannot invest unless there is a co-investor. So if those Japanese investors want to invest, bring someone to us. Thanks.

**From the audience:**

We have an unprecedented task ahead of us: to reduce the power consumption of Russia's GDP by 40%. And we have to get it done by 2020. The more high-tech-oriented countries like Germany, Japan, and the USA took much longer to solve this problem. So what is the bottom line? The power consumption of Moscow's gross regional product is one tenth of the average for other regions of the country. That's just how our economy is structured: in one place, there is no manufacturing sector; in another, there is no financial or services sector, for instance.

So, we are facing a task of another order entirely: reducing energy consumption by 4% right now. We have Executive Order 579 to think about, which introduces a new system for evaluating the performance of regional administrators. One of the factors that plays a role in these performance evaluations is whether they have been able to reduce the power consumption of their gross regional product by 4%. This is a very different task for Moscow than it is for, let us say, the Irkutsk Region or Khakassia, which are places with a well-developed aluminium industry. With that in mind, I would like to report that Andrei Derenko and I are launching a pilot programme: the Golotvinskaya settlement. The concept is for an energy-efficient neighbourhood with zero carbon dioxide emissions, and we will make it a reality with the help of a Berlin-based fund that supports energy efficiency. I would like to stress that this programme, which is approved by the government, is based on the 8% philosophy: that is, approximately RUB 700 billion. This is the budget of an enlarged government. And RUB 8.8 trillion, or USD 300 billion, for ten years in the future, shall make up the extra-budgetary monetary sources, including energy service contracts. Therefore, I would like to invite all of you to take part in a groundbreaking pilot project: the creation of the first neighbourhood in Moscow designed with energy efficiency in mind. Thank you.

**V. Pivovarov:**

Thank you very much. I just want to say that this is just one example of the many investment projects and abstracts the Fund will be looking over in the very near future.

And that is just the beginning. Ladies and gentlemen, I think our time is up. I would like to thank you for this fantastic discussion. I would like to hope that this brainstorming session will move to the next level and we will find really interesting, attractive investment opportunities to make all of us returns in Russia.

And that is just the beginning.

**V. Pivovarov:**

Ladies and gentlemen, I think our time is up. I would like to thank you for this fantastic discussion. I would like to hope that this brainstorming session will move to the next level and we will find really interesting, attractive investment opportunities to make all of us returns in Russia.