

**ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM**  
**JUNE 21 – 23, 2012**

**Realizing Russia's Potential**  
**THE RUSSIAN DIRECT INVESTMENT FUND GAUGES ITS TARGETS**

**JUNE 21, 2012 — 11:45 – 13:00, Pavilion 4, Hall 4.1, Arena**

**St. Petersburg, Russia**  
**2012**

**Moderator:**

**Joshua Lerner**, Jacob H. Schiff Professor of Investment Banking, Harvard Business School

**Panelists:**

**Leon Black**, Chairman of the Board, Chief Executive Officer, Apollo Global Management LLC; Managing Partner, Apollo Management, L.P.

**David Bonderman**, Founding Partner, TPG

**Chong-Suk Choi**, President, Chief Executive Officer, Korea Investment Corporation (KIC)

**Kirill Dmitriev**, Chief Executive Officer, Russian Direct Investment Fund (RDIF)

**Lou Jiwei**, Chairman, Chief Executive Officer, China Investment Corporation (CIC)

**Elvira Nabiullina**, Aide to the President of the Russian Federation

**Joseph Schull**, Managing Director, Head of Europe, Warburg Pincus

**Front row participants:**

**Bader M. Al-Sa'ad**, Member of the Board of Directors, Kuwait Investment Authority (KIA)

**Kurt Björklund**, Co-Managing Partner, Permira

**Vladimir Dmitriev**, Chairman, Bank for Development and Foreign Economic Affairs (Vnesheconombank) state corporation

**Michael Phillips**, Partner and member of the Executive, International Investment, Approval, Portfolio Review and Exit Committees, Apax Partners

**Laurent Vigier**, Director of European and International Affairs, Caisse des Dépôts Group

**J. Lerner:**

Hello and welcome. My name is Josh Lerner. I am the Jacob H. Schiff Professor at Harvard Business School, and today we are going to be dealing with a question that governments around the world are thinking about addressing, namely, how to move a country from the 20th century to the 21st century. I think that when we look at almost every corner of the globe we see a wide variety of efforts to try to encourage the development of entrepreneurial companies; of improving the operations of existing, more mature companies; and trying to introduce a kind of creativity and vitality into the economy. I think when we look around the world at the programmes that are there, one of the most creative and interesting efforts that has taken place is right here in Russia, in particular, the Russian Direct Investment Fund.

What we are going to do for the next hour and fifteen minutes is to explore a number of questions. Firstly, we are going to look at how investors are looking at the world, what kind of choices they are making, and what kind of constraints they are facing as they think about where to put their capital. Secondly, we are going to ask how these investors view Russia in particular. And thirdly, we are going to try to understand what the RDIF programme is, what its unique features are, and what really makes it special and different.

This is an ambitious agenda, but we are fortunate to have what is very much an all-star panel, including some of the most significant players within Russia, as well as some of the most important global investors here to share their perspectives. And I think we will have a very interesting and exciting discussion.

Before we begin with the formal programme and discussions, we have a short video which will come on the screen to give a bit of an overview of the efforts that are here and, having done that, we will turn to our distinguished panelists. Thank you.

**<Video>****Voice-over:**

Russia. Centuries of history. Great traditions. An admirable present. A promising future. According to International Monetary Fund forecasts, Russia's GDP will

double by 2017. Average income has doubled compared with 2005, and in 2011 it was USD 8,446. Research done by Ernst & Young demonstrates that in October 2011, only 25% of 150 international funds were willing to invest in Russia. In April 2012, this figure had already reached 48%.

The Russian Direct Investment Fund began operations on June 17, 2011. The Fund's mission is to attract investment, personnel, and technology to the Russian economy and to maximize the return on capital invested, using the unique principle of co-investment. A team of top-grade, international-calibre professionals works in the Russian Direct Investment Fund (RDIF). The Supervisory Board of the Fund plays a key role in determining the investment strategy of the Fund and approval of transactions. The International Advisory Council of the RDIF is comprised of leaders in global investment. The RDIF's first transaction in January of this year was the acquisition of shares in the Russian MICEX-RTS together with the European Bank for Reconstruction and Development.

**R. Aganbegyan, President of MICEX-RTS:**

The concept upon which the Fund is built, namely the concept of co-investment with major Western funds, is very important to us, and therefore, by attracting such investors as the RDIF, we de facto attracted together with it a number of Western investors.

**Voice-over:**

In May 2012, the RDIF, in conjunction with leading international investors such as Macquarie Renaissance, XENON Capital Partners and AGC Equity Partners, completed a transaction to purchase shares of Enel OGK-5, which is Russia's leading energy producer.

**A. Viale, General Director of Enel OGK-5:**

Russia is a very promising market, which remains one of the key markets for Enel. We expect significant growth and further expansion of the Russian economy.

**Voice-over:**

In early June 2012, in the presence of Russian President Vladimir Putin and Chinese President Hu Jintao, documents were signed that finalized the establishment of the Russian–Chinese Investment Fund. Its main objective will be to ensure a high return on investment, including in projects for developing the potential of Russian–Chinese relations.

**<End of video>**

**J. Lerner:**

We will begin by asking our host to say a few words of welcome. We will begin with Sergei Ivanov who is the head of the Presidential Administration.

**S. Ivanov:**

Ladies and gentlemen, participants and guests of the Forum: on behalf of the Administration of the President of the Russian Federation and myself, I want to welcome you to the St. Petersburg International Economic Forum, which has become a tradition and attracts the attention of participants from literally the entire world. It seems to me that the St. Petersburg Forum has become, and I am not afraid of using the term, an international brand.

Before coming to this panel discussion, my colleagues and I participated in a meeting of the Supervisory Council of the Russian Direct Investment Fund. I should note that in the intervening period, the Fund has carried out large-scale and painstaking work, which took place at the most crucial and important stage in the life of the RDIF, the stage of founding and developing the organization, implementing strategies, and achieving the first significant results. The first results have recently been clearly demonstrated. Without getting ahead of myself, I would like to point out that today, a little later, very significant agreements will be announced that our foreign partners – the world's largest investment funds – will invest in the development, and in particular, the diversification of our economy.

The first success of the Fund is down to the achievements of the professional team, as well as to a great degree a result of your efforts aimed at developing and implementing best management practices, and advice that was based on unique management and investment experience.

As head of the Administration of the President, I am very pleased that a number of participants in our discussion will have a separate meeting with Russian President Vladimir Putin today. These negotiations will be a logical continuation of the meeting that took place in May 2011, when the Government of the Russian Federation worked actively to create the Fund with the direct support of the expert community and the Russian business community. Over such a short period of time, it has attracted, or is attracting, I should say, investment of roughly USD 1 trillion. During that meeting, Mr. Putin emphasized that Russia is interested in close cooperation and partnership with foreign companies. We are open for discussing and implementing major investment projects. That meeting, of course, has become a very powerful catalyst for all subsequent developments.

Now, a year later, the government and the President of the Russian Federation, of course, remain committed to policies aimed at building long-term relations with all foreign investors. We fully understand the importance of long-term investment, the so-called 'smart money' that can not only attract capital but also, most importantly, qualitatively improve our companies and our industries with the introduction of technology, skills, and its own administrative experience.

In the Supervisory Board today, discussing the prospects of further cooperation between the Fund and the world's largest investors, we are primarily focused on projects that aim to develop not the raw material sectors of the Russian economy, but high-tech sectors in which Russia, quite frankly, is far behind the world's best practices. This permits, on the one hand, development of these industries, and on the other hand, expectation of a very good profit.

We will continue to consistently do everything to improve the country's investment climate so that investing in the Russian economy is convenient and, of course, safe. In this somewhat unpredictable environment in terms of the international financial

system in which we operate, we understand that consistency, predictability, stability – and not making decisions that could negatively affect the investment climate, or the adoption of decisions that may have a retroactive effect – are important. We understand this perfectly, and in this work, we believe that the opinions of distinguished experts and investors who manage vast sums of money are very important. In the Advisory Council, as far as I know, there are managers handling about USD 4–5 trillion. These are the best experts in the world, and we are ready to cooperate with them. Thank you very much for your attention and I wish you every success.

**J. Lerner:**

Mr. Andrei Belousov, Minister of Economic Development. Thank you very much for joining us.

**A. Belousov:**

Ladies and gentlemen, there is a widespread belief that Russia's economy is driven by two key resources – oil and a highly skilled workforce. Without casting doubt on this, I would like to say that, in my opinion, one of the key resources of the Russian economy is large-scale markets, which are rapidly growing.

Today, Russia's GDP is USD 2.4 trillion a year. The consumer market is USD 700 billion. The market for investment goods is about USD 400 billion. The market for paid services is USD 200 billion. The unique nature of Russia lies in the fact that the markets are growing rapidly. Even today, against the backdrop of the stagnation that is sweeping Europe, the growth of markets is 6–7% per year, so it is not a coincidence we are seeing quite tough competition amongst investors to position companies in these markets, including foreign companies, with foreign participation, and so on.

The second unique feature of the Russian economy is that this is an economy of undervalued assets. In just the past 10 years, we have seen investments in a number of sectors that started from practically nothing, and have reached tens of

billions of dollars. One example is residential construction. It began from nothing, and the volume of investments was two, three, five billion. Today, it is USD 53 billion. Over the past decade, investment has doubled.

Another example is agriculture, which we have traditionally considered to be a backward sector, not able to generate added value and not capable of anything. Many believed that the consumer market should be given up to imports, and that we have no prospects here. Today, it is a real sector into which USD 13 billion is invested. The sector is growing sufficiently quickly: it is growing at a rate of 4% per year.

Another example is telecommunications. We have always believed that Russia is a backward country in this regard and that we have no opportunities. Today we have become one of the best places in the world for the development of mobile communications. Each year, USD 11 billion is invested in this sector, and over the past 10 years that figure has tripled.

I can cite one last example, simply because for us it is very characteristic: the automotive industry. I remember the discussion in the late 1990s when it was believed that the automotive industry in Russia was a dying industry, and the only question was how long the stagnation was going to continue. Some said five years, some said seven years. Today, car manufacturing in Russia is an industry in which USD 4 billion has been invested. From an annual production of two million cars a year, the Russian car market is estimated to increase to four million cars a year. Of the two million cars produced, 800,000 are accounted for by 26 foreign companies that have local manufacturers in Russia. Almost all representatives of car manufacturing in the world are in Russia today. It is also a very quickly expanding market.

There is one thing that forces (I deliberately use this word) the Government of the Russian Federation to give investment top priority in the new agenda for activity. It is due to the fact that in the foreseeable future – as opposed to what existed before the crisis – the Russian economy is entering a period of stabilization in oil production. Approximately 510 million tonnes – this is the level at which we are



likely to remain for the next few years. Given the fact that domestic consumption of oil and petroleum products continues to grow, export of oil will gradually decrease. These are the forecasts, and there are sufficiently serious grounds for making these forecasts. But this means that, in contrast to the situation prior to the crisis, prior to 2007, exports of oil and petroleum products will cease to be a driver of economic growth. The key question for us is this: what will be the driver in the near future? To answer it very simply, it is investment.

Today, Russia is one of the leading countries in terms of gross national savings; their share is about 30% of GDP, two-thirds of which goes towards investments. In the last two quarters, there was a very large outflow of capital: in the fourth quarter of last year and for the first quarter of this year, it averaged USD 13 billion a month. However, now it has decreased to about USD 7 billion in April, and in May, according to estimates, less than USD 6 billion. Nevertheless, it is quite a large amount.

Thus, the focus now is again the question of a radical improvement of the business climate and protection of investments – protection of the interests of the investor. An ombudsman position is being created for investment. It will be created under the President of the Russian Federation. I think it will be a matter of few days, if not hours. An initiative of President Putin is being implemented which was formulated in December and was named the 'National Business Initiative'. This is a systemic improvement in the institutions that regulate business in Russia, which has a unique feature in that for the first time businesses and the business community are directly involved in decision making. This is done in a project format, in the format of the development of road maps, in which one of the largest consulting companies in the world, BCG, Boston Consulting Group, is involved.

Five road maps have already been prepared and launched for the most problematic issues: they concern the investment climate in the regions, customs administration, connecting new manufacturers to electricity, export support, and the improvement of all regulators in the construction industry - this is one of the sectors that is the most backward in terms of business conditions.

An ambitious goal has been set: by 2020, to move up in the 'Doing Business' ranking from 120th place (which is a disgrace for Russia), to 20th place, that is, to enter the top twenty. This is not just a wish: technologies are being launched for this, and we understand how we will achieve this.

This was an outline of what I wanted to describe. I would like to thank you for the fact that you have made your choice in favour of Russia, and to assure you that the Government and the Ministry of Economic Development will do everything to support the interests of both Russian and foreign investors in our territory. Thank you.

**J. Lerner:**

Thank you, Mr. Belousov. Next we will turn to Vladimir Dmitriev, who the Head of the Russian Development Organization, Vnesheconombank.

**V. Dmitriev:**

Ladies and gentlemen, colleagues, distinguished participants of the panel discussion: thank you for the opportunity to speak to you today. Being involved in the creation of the Russian Direct Investment Fund and working with foreign investors, I would like to share some thoughts with you.

First of all, I would like to begin by thanking Andrei Belousov. I admit, he was not very available during the eighteen months of our efforts, during our visits abroad and meetings with major direct investment funds, with sovereign funds, and with global investors – whether in the United States, Europe, the Gulf countries, and South-East Asia. From officials, we did not hear enough very confident words about the fact that it is not so bad in Russia and that Russia is a country of underestimated opportunities. Most often, even from official Russian representatives and representatives of the business banking community, we still end up hearing that we have serious administrative barriers, a highly corrupt society, a weak investment climate, and inept local administration. All this, of course, exists, but I think the

emphasis needs to be on what the distinguished Minister of Economic Development focused on in his speech.

Indeed, we have a country of enormous potential. We understand this and, fortunately, it is understood by our partners in the form of direct investment funds and sovereign wealth funds, and by our partners from large development institutions that see that we have serious intentions to invest in Russia. Of course, an important factor is the physical presence in the form of the Russian Development Bank, and in the form of our very own Russian Direct Investment Fund. But this factor is important only to the extent that there are still uncertainties and ignorance of the situation in Russia. In this sense, we, of course, offer help.

But most importantly, over the past 18 months, we have noted the efforts to create the Direct Investment Fund and to attract foreign investment (strategic, rather than speculative) into the Russian economy – this is an understanding of the opportunities that exist in our country.

In addition to what Mr. Belousov said, I would like to add something. I will tell you what foreign investors coming to Russia intending to invest in certain sectors of the Russian economy along with direct investment funds are paying attention to. These are sectors that have lately seemed unpromising and dubious even to Russians in terms of attracting foreign investment. I am referring to retail, medical services, health care, social services, and municipal infrastructure. All of this is due to the fast-growing middle class in Russia. It is growing at a much faster rate than in countries with developing economies. A growing middle class means rising incomes and a growing demand for quality of life, such as health care and so on. Foreign investors with whom we work and who are willing to invest in the Russian economy together with direct investment funds are well aware of this.

I think your attention was directed to the figures 25% and 48%. In just one year, there was quite an impressive change in the attitudes of direct investment funds with respect to Russia. Almost half of respondents believe that they should go to Russia, that there are opportunities for investment in Russia, and that Russia is a country of untapped potential. Of course, it is important that we ourselves work with

foreign investors, with an emphasis on optimistic assessments of the Russian market. In my opinion, to the credit of the Russian Direct Investment Fund, it must be said that its leadership, being aware of this, is making tremendous efforts to introduce investors to the Russian economy. We see confirmation of this in large investment funds' numerous trips around the country, and in the fact that large sovereign wealth funds, relying on the Russian Direct Investment Fund, are ready to invest specific amounts as co-investors in projects to be approved by bodies of corporate governance of the Russian Direct Investment Fund.

There is another consideration to make. This idea had already been raised today, but I would like to emphasize it. When we talk about attracting foreign direct investment, we are talking about investments in general, but every investment is an entirely specific type of activity of the investors. It is not just the money that goes into real sectors of the economy and to real companies. This is money that is associated with significant improvement in corporate governance in companies, with the attraction of new technologies and creation of new industries based on intelligence and the release of products with high added value. This is a discovery of the export potential of Russia, which, if we talk about the Russian Development Bank, is essential when taking into account the creation of a complete support system for Russian industrial exports, followed by the creation of the Russian Export Credit and Investment Insurance Agency. In other words, our partners, large investment funds, represent not just the money coming into Russia, but partners in a broad sense: they are willing to share with us their professionalism, technology, corporate governance and, therefore, embark on capitalization of those industries and those companies in which they invest, which is the purpose of investment. So, as I conclude my speech, I would like to thank all of our partners and friends for their trust. I think we are in total agreement with your interests and intentions for actively working in Russia, and I encourage you to further expand business in our country. Thank you.

**J. Lerner:**

Thank you very much. We shall hear a few final comments from our hosts before we turn to the investors. Kirill Dmitriev, Head of the RDIF, please.

**K. Dmitriev:**

Ladies and gentlemen: thank you very much for joining us today. I see many familiar faces. We met in this room a year ago, when the RDIF was still just an idea. There was practically nothing except ideas and kind words about the concept: no team, no office, no transaction, and no partnerships had been mentioned. We actually managed to do a lot in one year, thanks to the support of the President, the Government, our Supervisory Board, the Advisory Board, and many of you who are present here, because from the very beginning, the RDIF has focused on how to develop a proper concept, how to hear the opinions of investors, and create exactly the right tool that is useful to them, according to principles that are clear and important to them.

We really worked quickly and created a good team and clear rules of corporate governance, and we concluded a number of important transactions and built a series of alliances with other sovereign funds. We understand that we are only beginning. We have concluded a couple of transactions and partnerships. This is only the beginning; we need to prove our success with good profitable trades, and we will do this in the next three to four years.

I would like to express my agreement with what Sergei Ivanov, Andrei, and Vladimir said: interest in Russia on the part of investors is, of course growing. This is because in Russia there are growth prospects that do not exist in many other countries, and so today we think it is very important to hear the views of such respected people as leaders of the investment community: the head of China Investment Corporation Lou Jiwei, who is here; the head of the Apollo Fund, Leon Black, whom everyone knows as one of the most successful investors the world; Michael Phillips, who is one of the key partners in the company Apax; David Bonderman, who heads TPG; Joseph Schull, head of Warburg Pincus in Europe, and Mr. Choi, the head of Korea Investment Corporation. Today we have a unique

opportunity to hear from these leading investors – who see the entire world and who can choose where to invest – about what they think about Russia and about the Russian Direct Investment Fund, and listen to the advice they are willing to give us and discuss with us. Thank you:

**J. Lerner:**

As Kirill suggested, we have here a really extraordinary array of investment talent and power in the form of the six investors, and I am eager to hear from each of them in terms of their perspectives on the issues that we have to discuss. What I thought we would do is to begin with the two leading and very distinguished sovereign funds who are represented, and then we will turn to the representatives of the four key private equity groups that we have among us.

I was wondering, Chairman Lou – as Chairman and CEO of China Investment Corporation, in many respects a truly world-leading sovereign fund – if you could share your perspectives?

**Lou Jiwei:**

I, like all of you, participated yesterday in the first meeting of the RDIF. First, I must congratulate you on your efficient work. The RDIF was established in a year, and the skill level of your team is very high. Second, I got the impression from the speech that your entire management is very suitable for making the right investment decisions. I think we should congratulate both of the Dmitrievs on conducting such efficient and dynamic management that meets the needs of investors. I would also like to thank the Ministry of Economic Development and its Minister for the objective presentation on the Russian economy. Thanks to him we are more confident in our investment opportunities. We also participate in the cooperation of the RDIF and Warburg, and with the help of these organizations have established the China–Russia Investment Fund. You have just seen in the video about how two weeks ago, during President Putin’s visit to Beijing, a memorandum was signed. This marked the beginning of the full-scale operation of the Fund. The Russian and

Chinese sides have invested a billion each, and in total it will be four billion. But I do not think that the investment will be limited to two to four billion. I think an opportunity for other parties to invest will be presented. Four billion will be invested in the purchase of equity, so we are talking about large amounts of investment. Seventy percent of the investments will be in Russia and the CIS countries, and the rest in China.

Before coming to St. Petersburg, I visited Heilongjiang Province, the province that borders Russia on the north-east of China and Inner Mongolia, and found that many Chinese enterprises are interested in investment opportunities in Russia. They are willing to invest in Russia, but, as we said, they want Russia to have an improved investment climate. They are concerned about its condition, and would like to see Russian investments come to China through our Fund. The issue now is not that we cannot find targets for Russian investments. We are ready to provide them, but we have to find targets for investments that meet the interests of both parties.

During my visit, I heard a story about the Russian economy from the Minister. Prior to my arrival in St. Petersburg, I briefly stopped in Kazakhstan, and found that many things are changing in the CIS and in Russia. Russia is moving away from a petroleum-based economy, and is developing its manufacturing industry, and scientific parks. This is a new trend that is progressing rapidly: it is very useful for attracting investment. We have seen that there are many opportunities for investment.

If we talk about the Chinese investment company, we are a sovereign investment company and work on a global scale in the long term. We work extensively in structural projects, direct investment and real estate. We very carefully monitor opportunities in neighbouring countries, since China has been growing very rapidly for a long time. We would like to see driving forces of economic development in neighbouring countries also, including Russia. We hope that thanks to a new platform for cooperation – the new Fund – we will mutually improve our investment climate. The creation of such a fund as the RDIF for us, as foreign investors, is already a very important sign of improvement the investment climate in Russia. We

hope that through these mechanisms, we will become an example of cooperation – we will set an example worldwide. Thank you.

**J. Lerner:**

Thank you very much. We will now hear from Chong-Suk Choi, President of the Korea Investment Corporation.

**Chong-Suk Choi:**

Thank you very much, Professor Lerner, distinguished members of the panel, and ladies and gentlemen of the floor. Although it attended the RDIF Advisory Meeting which was held yesterday for the first time, the Korean Investment Corporation has been in contact with the RDIF from the initial stages of its foundation, and even before it was officially established back in June of last year.

When I learned of the objectives of the RDIF and our association with the organization in more detail, I was pleased, since personally I have always had a great interest in the potential of the Russian economy and have paid close attention to its relatively robust growth. However, due to several reasons, investment eventually made in Russia and CIS countries by Korean investors including KIC were limited compared to the wide spectrum of investment opportunities that it seemed to offer. I believe that this has started to change with the progress of the RDIF and, through its active operations, I feel confident that investments made by global investors around the world, including Korean investors, will increase in the future, the trends of which have already been shown through several meaningful transactions that were concluded with its partners over a relatively short period of time.

Actually, I do not even have to look far back to see this change in investment attitude. Over the past years, the KIC has been working with RDIF in search of investment opportunities and is currently in the middle of a project as we speak. This would have been difficult if the on-site knowledge and local network provided



by RDIF and the support of the Russian government, through RDIF, was not available to the KIC.

Now, based on the current involvement of the RDIF and our experience with the RDIF which I mentioned previously, I believe that the RDIF is achieving its objectives effectively and will continue to attract international investors in the future. Although Russia may experience some difficulties, as have many other countries around the world, due to the ongoing eurozone crisis, it is still, along with other emerging markets, making its contribution in sustaining the growth of the world economy. For this reason, many investors, including ourselves, the KIC, have great interest in this market and pursue the abundant opportunities based on its robust economic growth and large domestic markets, having a lot of potential for further project infrastructure. I think it is quite fortunate to have the RDIF working as a catalyst for Russian investment, especially in the current economic environment. As I mentioned before, it has successfully fulfilled its agenda during its first year, and I have no doubt that it will continue to do so in future years.

In terms of the KIC's future investment objectives in Russia, I just want to mention that Russia is a highly attractive investment destination for South Korea for many reasons. I shall mention just a few: Russia has abundant natural resources, low public debt, and a well-managed economy with a vast domestic market. That comes immediately to mind. The sectors that are of special interest to the KIC are those that I think could be achieved if the two countries work together with the RDIF: the development of infrastructure projects, especially in far-eastern Siberia. This is an emerging economy that continues to grow to fully reach its potential. The infrastructure development needs to be put in place to support it. Secondly, the privatization of twenty public companies over the next five years, as has been announced by the present administration. And thirdly, high technological industries such as healthcare, chemicals, IT, and nanotechnology.

Ladies and gentlemen, over the last 12 months I believe that the RDIF has proved to the world investment community that it is fully capable of achieving what it set out

to do, and has the potential to do much more with the appropriate support of corporate efforts and international advisory boards. Thank you very much.

**J. Lerner:**

Thank you very much. We now have 20 minutes left and we have four of the world's most interesting private equity groups and four of the world's most thoughtful private equity investors here among us, and I have asked them to put a little thought into both thinking about how they generally think about Russia in terms of the investment climate, as well as anything more specific that they would like to delve into. So let us begin with Leon Black, who is Chairman and CEO of Apollo Global Management.

**L. Black:**

Thank you. First I would like to express my pleasure to be here with such a great group and to thank you for inviting me to this. It is also something to give thanks for, the beautiful day in this magnificent city, St. Petersburg, where you are hosting this forum. First of all, for the audience, Apollo is an alternative asset management group. We manage about USD 100 billion of assets, about 40% of that is in private equity, where for over 22 years we have owned about 150 companies. About 50% of what we do at Apollo is managing a group of credit funds. The last 10% is in real estate. We manage this capital, most of which is long term in nature – private equity is 10 years, and credit is anywhere from three to ten years – and we do this on behalf of a broad spectrum of investors. We, like the other private equity groups here, represent sovereign funds among our investors as well as many pension funds, and they represent government workers, teachers, firemen, policemen, and therefore we really have to take that responsibility very seriously as fiduciaries. What we do as fiduciaries is assess risk and reward. And when we have done that at Apollo, our particular approach has always been one that, at our core, makes us value investors. We look at situations from a bottom-up approach involving a lot of due diligence, and we try to assess risk and reward in a way that hopefully we are

able to tilt the odds in our favour in terms of the returns that we can garner for our investors.

Much of what we have done has been in the United States over the past 22 years, but over the past ten years we have branched out more in Europe, and more recently we have been looking in other parts of the world, especially in Asia, and I have to say, Russia is an area that has come on our radar screen more recently. We did have one successful investment here back in the 1990s, but since then we have not done much here. And we look at Russia with a list of pluses, but there are also some negatives. On the plus side, we see that Russia is blessed with unbelievable natural resources. We also see the low level of debt as a blessing. They have relatively low unemployment and also have very nice growth. It may not be at 7% now, but 4% is a lot better than what we are seeing in Europe and in the United States, in fact. You may have seen that the Federal Reserve in America downwardly reassessed the growth rate by another half of a point yesterday, so we are sitting at a tepid 2%. And lastly, I think that I would say that Russia is blessed with strong leadership.

On the negative side are some of the things already mentioned by the ministers here: there are areas of antiquated infrastructure, a certain amount of bureaucracy, and the whole question of rule of law, of the judicial process. I must say that I was very fortunate to speak at a conference with President Putin last October in Sochi and, when he gave his address, he was the first to acknowledge this area of judicial reform and rule of law as really being at the top of the list of things that needed to be addressed, which personally gave me a lot of encouragement. The way that we at Apollo view the RDIF is really as a distinct piece in the puzzle in terms of Russia addressing the issues, both in terms of trying to take advantage of the blessings that they are endowed with, and addressing the problems that they recognize they have. Indeed, when you look at the RDIF, what is it really? It is the Russian government saying, "Be our partner. We will look at risk and reward with you, not with a Potemkin village approach, but in an open and transparent manner, and you can come to us with your expertise in your industries (in our case that is in chemicals, in

natural resources, in telecommunication, and in hospitality), and see if there is a fit with companies within Russia. And not only will we help you look at them and meet the right people and do your due diligence, but we will be your partner in terms of taking that risk and reward approach ourselves.” Well, to us this is a very sensible and reasonable approach, and one where we do not yet know what the results will be. As they say, the proof is in the pudding. But I have to say, under the able leadership of Kirill Dmitriev, the RDIF is already off to a very impressive start. The team that has been put together is first rate, professional, and has been very responsive to the approaches and pathways that we at Apollo have been trying to go down. So I look forward to a win-win partnership together with the RDIF. Thank you.

**J. Lerner:**

Thank you, Leon. Next we will hear the views of David Bonderman, Managing Partner of TPG. I think it is worth noting that TPG was certainly well head of the curve in terms of leading buyout groups in terms of exploring many of the markets that are only much later joined by others. So we very much look forward to hearing your views.

**D. Bonderman:**

Thank you, Josh. Thanks to Ministers Ivanov and Belousov and thanks to Kirill Dmitriev for organizing this panel today. Leon gave us a tutorial on what private equity is. For those of us who stumbled into the wrong room, everyone now understands the strengths and weaknesses of that kind of investment platform. I happen to agree with most of what Leon said. We at TPG have been the only major global firm with an office in Russia that has actually done any deals in Russia in the past decade. We have done a handful of deals and they have all turned out well. We have done them in partnership with Russians, primarily with VTB, but not always, and we have found that doing business here is easier than you would think from the press reports. We, like Apollo, are in the private equity business, the debt

business, and the real estate business. We are a little bit larger in the private equity business and a bit smaller in the debt and real estate business, but use some of the same parameters.

Russia has a few issues to deal with. There are many good things happening in the economy, most of which does not get reported in the press. There are some delicate issues that President Putin has himself addressed in Sochi. At least twice I was in Sochi with the President two years ago and he was, as Leon said just now, quite forthright in what he saw as holding back the business development of Russia. Several things have happened since. One is that people have begun to recognize that there is more to the economy here than just oil. While oil prices are very important to the country, they are not the sole factor, and there are other interesting things going on. For ourselves, we have been investing here in consumer businesses which have been doing very well, and I think this is a reflection of what is going on in the economy. The President also recognizes, as Leon says, that the company has not just an image problem but a genuine problem with transparency, as it is sometimes more gently put, and also around the court system, the rule of law. These are things that Leon mentioned and have been improving, but are not perfect. One of the strongest things that the RDIF was conceived to deal with, and has been quite successful at, is providing a local representation to investors to allow them to not worry about some of these perceived Russian risks and accordingly become more competitive. I think you see that in the fall of capital flight. As Minister Belousov pointed out, it is still a problem, but less of a problem than it has been over the past decade. That is very important because if local people will not invest in the economy, then why should foreigners? So I think we are seeing a greater interest in the past decade, as we have an office here and have done a few deals. Most of them have been without any other private equity firms even looking, and now I think Kirill is seeing interest from a number of private equity firms which are beginning to think about coming here. So I think the creation of the RDIF was an imaginative and very interesting step, and Kirill and his team have done a very good

job of putting together a strong team with a solid platform. We at TBG look forward to working with them.

**J. Lerner:**

Thank you very much, David. Next we will have the views from Apax Partners, in particular Michael Phillips, who is one of the senior partners there, and is responsible for many of the key aspects of the firm.

**M. Phillips:**

Thank you very much. Kirill, thank you very much for the invitation and for being part of the conference. Apax Partners, similar to other organizations represented here at the table, are alternative investment managers, but we only do private equity, we have one single platform. We have about USD 30 billion of assets, and we are only looking at investing in technology in service-based companies with a growth aspect. Up until recently, it was a decision based on the visibility of the market and the growth aspects. We have one fund, and it was often very easy to avoid investigating emerging markets for resource allocation and making decisions up until 2007 and 2008. Things have changed over the last five years. In the West we view it as a market of low visibility and questionable growth, and volatility is not a great prerequisite for private equity. In that same period, Russia has made a few developments. Growth is clearly exceptional and the stability both in the government and reforms are a necessary prerequisite, as is, more importantly, the visibility. There is a visible path now with the RDIF for how we enter Russia, and I think that the team that Kirill has created is exceptional in talent and breadth, and for us is an indispensable link for our funds to come to Russia, to interact with Russian entrepreneurs, Russian companies. It is the platform that is solving the three prerequisites that we have: transparency, stability, and trust. There is no doubt that we trust Kirill's team – we have done for the past seven years now. We have looked at many transactions together. The ability of the RDIF to help us dig deep, do research, and find the transparency we need is not something that we could achieve

alone. So, they are actually providing more than just support, they provide a valuable service that allows us to begin our investment process.

From our point of view we must bring two things, and it is not capital; the world has more capital than it needs. It is experience, governance, and knowledge of our sectors. If we can focus on things like digital media, healthcare, business services, and technology, and take the experiences that we have gained from investing around the world for 30 years, we can help Russian companies grow. Another aspect we largely focus on is sustainability, so we will invest. Our investors, who are at the table, demand from us governance, proper social rights, human rights, and a constant focus on energy efficiency. Those are all of the other aspects that we hope to bring as we come to Russia to invest. So, we are looking forward and are quite optimistic that with the creation of the RDIF there is a platform to allow long-term development, because private equity is a marathon, not a sprint. The decision to come and invest in Russia is one we should take with a multi-decade perspective. Thank you.

**J. Lerner:**

Thank you very much, Michael. The last but certainly not least private equity group we will hear from is Warburg Pincus, and for that we have Joe Schull, who is the Managing Director responsible for Europe.

**J. Schull:**

Thank you Josh, and thank you to Kirill Dmitriev and the RDIF team for having us here. I do not want to repeat most of what has been said, most of which I agree with, but I do want to say that I think it is quite impressive what the RDIF has achieved in a short period of time. A year ago this was a concept about to be launched and, in a very short period of time, it has become a viable operation with very professional staff, and has managed to put a few deals on the books and has managed to establish a good working relationship with entities like ourselves that it seeks to cooperate with. So, I think a lot has been done, and this is promising for

the future. I also think it is ironic and interesting that private equity investors are being asked to give advice to a government because generally, in Europe and the United States, private equity investors have to leave the country in order to be asked by public officials for any advice. Generally, governments at the moment do not see it as politically opportune to be associated with financiers and investors. I think that is a huge mistake and one of the reasons why Western economies are struggling the way they have been. I think the Russian government is to be commended for the level of understanding it has achieved, both for the importance of investment, and the importance of providing a stable and predictable environment for entrepreneurs and businesses to make investment decisions in.

Our firm is a pure private equity firm, more like Apax than Apollo and TPG; we are growth-oriented investors and only do private equity. We manage about USD 35 billion of capital, and currently have made investments in 700 companies in a 40+ year period, all with a growth orientation both in developed and – significantly – in emerging markets. We have been investing in emerging markets including Russia over the past 20 years.

Our experience in Russia is both with a limited number of direct investments, but also indirect investments through portfolio companies that have invested here and built businesses here in sectors like healthcare, services, pharmaceuticals, consumer, and the media. That experience, although it is limited to date, has been positive. This is a very attractive market, as the minister of economy mentioned. It is a very attractive consumer economy, and it has been a very rapidly growing consumer economy, and I think the explanation for why we and others have not done more here is quite well understood by those in this room. Some factors have already been explained, but I think we are in the process of moving in a positive direction. I think the environment is becoming more attractive, and I have one thing in particular to say about that: when we invest, we want not just to bring capital, but also to bring value in terms of our understanding of an industry sector and sector dynamics, and how to more rapidly grow a business within that sector. We also bring general company building experience that we have from investing in hundreds



of companies in many markets in many different geographical areas around the world. What we need, in order to be successful in bringing that value to the table, is a partner on the other side of the table who wants us to play that role. One thing I would note about the environment in Russia is that there are more businesses and entrepreneurs who actually recognize that private equity firms can add value beyond the money that they bring to the table, and that if anything will be the single most catalytic ingredient for bringing more capital into this country. When we sit down with a company and try to make a decision about whether to invest, we obviously conduct due diligence to understand what we are investing in, but we also try to establish a relationship of trust with the managers and owners of that business, and we try to develop an understanding and a common long-term strategy for the development of that business. If you think of the amount of change and development that Russia has gone through for the last 20 years, for much of that period, the level of dynamism – but also the level of volatility and unpredictability in the economy – has meant that for many businesses, planning five years ahead made no sense at all. Somebody who wanted to talk to them about what the business would look like in five to seven years just did not understand what we were talking about, because it was not relevant or applicable to their reality or experience. Today the environment in Russia has become much more stable, predictable, although not perfect by any means – there are a lot of issues. However, the macroeconomic fundamentals are quite sound, macroeconomic policy is very sound. The Russian government understands the need for investment, both domestic and foreign, for its economy. The issues are all at a micro-level, but the environment is definitely more stable and we find that an increasing number of businesses and entrepreneurs are both able to think and plan long term, and want to do so. They also want a partner who will help them to do that better.

The other factor that is positive is that when an economy is no longer growing at 8% a year, but at 4% a year, in order to create the returns that a private equity investment requires, you need to not only grow with your sector, but to grow ahead of your competitors. You need to be a market leader and gain market share. In

order to gain market share, you need a better mousetrap, a better strategy, and better execution than your competitors, and having the assistance of an experienced investor that understands your industry can definitely contribute to that. So, personally, I think there are a variety of factors that should make this a more attractive investment environment over the coming years, and I think the initiative of the RDIF can definitely be helpful in stimulating that. It is, as Mike Phillips said, a long-term project. Generally when countries, including Russia, have tried to do too much too quickly with a lot of frenetic activity in a short period of time, things have not turned out as people would have liked. So this is a long-term project. Given the RDIF's initial success, my concern would be that the expectations are set too high for what it can achieve. I think it can achieve a lot, but it can take years and decades to achieve its full potential and we must all realize that. But the direction is definitely a positive one.

**J. Lerner:**

Thank you so much, Joe. I think we have had an excellent conversation here in the sense that we have highlighted much of the opportunity, some specific steps being taken to capture that opportunity, as well as the final note in understanding that this is a long-term process and not something that can be done in a day. I would just like to ask for the final word to conclude our session from Mr. Ivanov to share his views. Thank you.

**I. Ivanov:**

Thank you gentlemen for coming here, and for your comments. The first point I would like to make is that Russia is not anymore the country that Winston Churchill described as "a mystery wrapped in a riddle inside an enigma". I hope you agree. Of course there are some positive and a lot of negative aspects in our economy and political system, which Kirill rightly mentioned. There are many pros and cons, but what is most important, as some of you mentioned, is that we need a stable environment. We need a stable, predictable policy, and I would like to assure you

that we will pursue that course. Of course we are not perfect, but what is perfect in this world? Generally I think we are on the right track, except for some negative points, like the legal system, corruption, and bureaucracy, but more so at the regional level than the federal one. Although Russia is no longer a riddle, it is still a blanket. There are different regions. I am sure you visited some of them where there is no bureaucracy and other regions where bureaucracy is still blossoming – it all depends. We evaluate regional authorities by the merit of their attitude to attracting foreign investments. It is one of the biggest indicators used in assessing regional success or failure. Finally, you cannot expect miracles, especially in Russia, although it is a national characteristic to believe in miracles and put such high standards of achievement in place, which are to be implemented as quickly as possible, that sometimes we are not realistic. But stable step-by-step growth is the best option. Thank you again. Hope to see you all again soon in other parts of Russia.

**J. Lerner:**

Thank you very much to all of the panelists for sharing their views. I very much enjoyed the session.