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High-Tech Investment Funds Getting Fashionable

By Irina Filatova

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A new equity fund was launched on Friday, enabling local retail investors to buy shares of domestic and foreign Internet companies amid growing interest in the sector.

The fund created by investment company Troika Dialog will invest in global Internet leaders like Google and Yahoo, as well as in companies developing new hardware technologies, like Apple and Akamai, said Yury Karavan, a portfolio manager at Troika Dialog.

Local companies Yandex and Mail.ru, which recently had successful initial public offerings, are also under consideration for inclusion in the fund, he said by telephone.

The new fund will buy equity directly, as well as shares of publicly traded investment funds holding assets of companies working in the Internet sector.

The minimum first-time buy-in to the Troika fund is 30,000 rubles ($1,071).

Karavan said Troika Dialog hopes that its new fund will help raise at least $10 million in the first year, as the Internet sector is demonstrating "impetuous growth."

The fund was launched in response to high demand from local investors, who began to focus on international companies after the economic crisis.

"The interest of local investors in international companies has increased after the Russian stock market slumped more than in other BRIC countries during the financial crisis," Karavan said.

The equity fund targets retail investors who want to diversify their portfolios and "are prepared to tolerate high volatility typical for stock prices of Internet companies," he said.

Investment company Alfa Capital also announced last week a rebranding of its telecom equity fund, to focus on the broader high-tech sector.

Alfa's fund will invest in local companies like AFK Sistema, Mobile TeleSystems and VimpelCom, and international market players including IBM, Apple, Google and Dell, the investment company said on its web site.

Interest in Internet companies is growing because investing in this sector is "a new theme" for the domestic market and "there's always interest in something new," said Konstantin Chernyshyov, an analyst at UralSib Capital.

There are not many public companies in the sector, but more listings are expected in the middle term, Chernyshyov said, adding that investors are looking forward to an IPO by social networking giant Facebook and "are afraid to miss the possible market rally."

Facebook, which is partly owned by Russian Internet company Mail.ru Group, is widely expected to go public next year.

Mail.ru raised $1 billion in an IPO in London late last year, followed by search engine Yandex, which raised a record $1.4 billion in its IPO on NASDAQ in May.

Investing in Internet companies, however, bears some risks, Chernyshyov said, because the current major players face competition from the newcomers.

"The startup costs in the market are rather low. Having invested a relatively small amount of money, a new player can push back the current ones," Chernyshyov said.

Another possible danger is a repeat of the bubble burst of 2000, when NASDAQ slumped dramatically after peaking amid increasing investor enthusiasm, he said.

But Karavan of Troika Dialog is confident about the market's future.

"The sector has reached a more advanced and mature stage of development," he said. "And although a degree of excessive enthusiasm may have been observed surrounding recent IPOs in the Internet sector, on the whole, fundamental valuations of firms in this sector appear quite realistic given widely held expectations for strong sector growth."

Microblog Twitter is attracting a new round of investment to the tune of $400 million, considering a total company valuation of $8 billion, with DST Global —owned by Yury Milner and Alisher Usmanov — expected to participate, according to The New York Times, which got the information from two unidentified sources, Vedomosti reported.
The Kleiner Perkins Caufield & Buyers fund, which is already a Twitter investor, is also expected to take part in the new round.

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