

# 'Cheapness' Gap Closing as Russia Attracts Cash Inflow

By [The Moscow Times](#)

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Fund managers are abandoning their bearish outlook and "rerisking" capital in Russia and other emerging markets where stocks are cheaper than in developed nations, said Richard Lacaille, chief investment officer at State Street Global Advisors.

Russia-focused equity funds attracted \$414 million in the week to Feb. 1, Troika Dialog reported, citing EPFR Global data.

"In terms of Russia, the valuations look cheap, and we have been overweight in our exposure because of the cheapness," Lacaille said last week. "We are very aware of the risks and the fact that the cheapness stems from a number of things."

Lacaille said State Street Global Advisors, which oversees \$2.1 trillion as a unit of Boston-based State Street, has "several billion" dollars of client funds invested in Russian equities through "active and passive" investing strategies.

"The Russian benchmark index has gained 10 percent this year compared with a 14 percent return for the MSCI Emerging Markets Index.

"This is the biggest allocation since mid-April," said Chris Weafer, chief strategist at Troika Dialog. "Investors have finally responded to the strong relative start for Russian equities and boosted investment into Russia-dedicated country funds."

Russia can close the "cheapness" gap faster if it takes more aggressive measures to address investor complaints on issues such as corruption and excessive bureaucracy, Lacaille said. The government should overhaul the pension system, corporate governance rules and improve markets institutions "simultaneously" if it wants to transform Moscow into a financial center, he said.

Addressing the "perception and the reality of corruption," as Prime Minister Vladimir Putin has been doing in his campaign to return to the presidency, are "very important" for closing the valuation gap between Russia and other emerging markets, Lacaille said.

State Street had a Russia joint venture with Pallada Asset Management from 1998 until its dissolution in 2005. Lacaille, who was previously involved in discussions on pension reform with Russian policy makers, said Russia would not be on "the top of the list" for State Street to build a local domestic capital business for domestic investors.

"There are a lot of steps to educate not just the public but those in policy-making positions about the risks and benefits of pension reform," he said. "The risks being that you have a longer-term time horizon, but you will have periods where you might face large absolute losses."

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