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Cartesian Capital Buys Into Moscow Exchange

By Irina Filatova

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Major private equity firm Cartesian Capital Group has joined the Russian Direct Investment Fund to buy into Moscow Exchange MICEX-RTS, in yet another move aimed at increasing the attractiveness of the domestic capital market globally.

The move was announced by the funds Friday

As a result of the transaction, the direct investment fund, the government's $10 billion investment vehicle, increased its stake in the bourse from 1.25 perecnt to 2.7 percent, while New York-based Cartesian Capital now holds approximately 2.5 percent, according to a joint statement.

The shares were acquired from UniCredit bank, which saw its stake reduced to 6.2 percent, the statement said.

The deal was the first one by the RDIF involving a U.S. private equity fund, said the RDIF's chief executive, Kirill Dmitriev.

Attracting investors through a good financial market experience will allow for a "significant increase" of the stock exchange's value ahead of its initial public offering, scheduled for next year, Dmitriev said.

"This deal confirms the interest of international investors in the Russian financial market," he said in e-mailed comments.

Cartesian Capital is a global private equity firm that focuses on emerging markets and has more than $2 billion in commitments under management.

The sides didn't disclose the size of the deal, but a source familiar with the situation said the mutual investment by the RDIF and Cartesian Capital exceeded $100 million.

The parties acquired the stakes at a small discount compared with their value when the MICEX and RTS merged late last year, said the source, who declined to be identified because the information is confidential.

The joint bourse's estimated capitalization at the time stood at $4.5 billion, and at that value the investment by the RDIF and Cartesian would be approximately $65 million and $113 million, respectively.

Moscow Exchange is an attractive investment due to its "dominant position in the Russian market and strong management team," Peter Yu, a partner and founder of Cartesian, said in e-mailed comments. "We believe that MICEX will play an increasingly important role in the development of Moscow as a global financial center and benefit from the continued growth of an equity culture in Russia."

The deal followed a joint investment by the RDIF and the European Bank for Reconstruction and Development, which earlier this year acquired 1.25 percent and 6.29 percent of the stock exchange, respectively.

If the financial market remains stable, Moscow Exchange has good potential for growth compared with other international bourses, as it is likely to offer new products in the future to meet the demand from new companies that might choose it to list shares, said Leonid Slipchenko, an analyst at UralSib Capital.

Dmitriev said his fund might co-invest in Moscow Exchange in the near future alongside one of the international investors that formed a consortium with the RDIF last month.

"After that, we don't plan to increase our stake and will wait for the IPO," he said.

The consortium, which includes BlackRock, Templeton Asset Management and Goldman Sachs, with a total of $5 trillion under joint management, will invest in companies that plan to go public in Russia and do so ahead of their listings.

UniCredit, a Russian subsidiary of Italy's UniCredit Group, intends "to remain one of the largest shareholders in MICEX-RTS, and we are committed, together with other shareholders,

including those to whom we sold part of our stake, to foster its development and support the company on its way to the IPO," the bank's chief executive, Mikhail Alexeyev, said in the statement.

Moscow Exchange's other biggest shareholders as of May 21 included the Central Bank, which held 24.3 percent; Sberbank, with 10.4 percent; Vnesheknombank, with 8.7 percent; and VTB and Gazprombank, which held 6 percent and 5.4 percent, respectively, according to the bourse's figures.

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