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INDEPENDENT NEWS FROM RUSSIA

RDIF Toddling Along With $620M Invested

By Guennadi Moukine

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Two years after being born during the 2011 St. Petersburg International Economic Forum, Russia's state owned fund for attracting foreign investment has hammered out five key partnership agreements with both private and government run global peers.

It has put $620 million of its own funds into key projects and convinced partners to cough up another $2 billion.

A brainchild of then-President Dmitry Medvedev, the Russia Direct Investment Fund, or RDIF, operates as a subsidiary of Vneshekonombank and has been allocated $10 billion of government money. The fund is designed to improve the investment climate and boost Moscow's potential as an international financial center by co-funding projects with foreign investors, acting as an incarnation of the Russian government.

The RDIF policy is to invest $50 million to $500 million in each project, while a co-investor

must put up at least the same amount.

To qualify as a partner, a co-investor must have either $1 billion of assets under management or $1 billion of revenues. The fund, whose role in a given project is expected to last for up to seven years, will limit its stake to a maximum of 49 percent, but expects its average share to be about 25 percent.

While not limiting itself to any particular sector or industry, preference is given to the sectors requiring modernization and innovation, outlined by the President, including advanced processing of natural resources, agriculture, value-added mining, housing, transport, aerospace, alternative energy, nuclear power, heath and IT.

The fund, as a part of a pre-IPO consortium with other partners, has a standard offering of up to $100 million to Russian companies preparing to be listed on the Moscow Exchange.

Kirill Dmitriyev, CEO of RDIF and a former head of $1 billion Icon Private Equity fund, said that "unlike the developed countries of Western Europe, where private investors fund most infrastructure projects, the appetite for such transactions in only beginning to develop in emerging markets. To accelerate this process, we must minimize the risks for long-term investors. This can be done by removing restriction on foreign investment and implementing global best practice for investments in infrastructure projects."

Some analysts think that RDIF could be more focused.

"RDIF should focus on the task of attracting investments to infrastructure to be true to its name, rather than IPOs of already interesting and strong companies. Having said that, the fund could support smaller companies, to inject additional liquidity to the market," Investcafe analyst Darya Pichugina said.

RDIF touts Russia's economic statistics as key selling points. It is the world's 6th largest economy by GDP and has a positive growth outlook from $2 trillion in 2011 to $3.2 trillion in 2017, the fund said.

The country's middle class has tripled in the last five years and people's disposable income has grown 53 percent from $4,850 per head in 2008 to $7,430 per head in last year.

Providing local expertise on how to invest in Russia to companies that have no local presence is one of the RDIF's most crucial roles, which makes it "enormously effective," Ernst & Young chief executive James Turley said earlier.

One of RDIF's strategies has been to sign joint agreements with a number of international financial institutions, creating mechanisms to attract large-scale private investments into joint infrastructure projects by both Russian investors and those from the home countries of the international partners. Such partnerships attracted $3 billion of foreign capital for potential use in the Russian economy.

RDIF Partnerships		
Partnership	Conditions	Amount

China Investment Corporation (CIC)	70 percent of funds must be invested in Russia	$2 billion, with additional $1 billion to $2 billion is expected to be raised from Chinese institutional investors
Kuwait Investment Authority	Automatic co-investment mechanism; Access to all RDIF projects	$500 million
Pre-IPO Consortium, including BlackRock, Franklin Templeton, Goldman Sachs	Invest in Russian companies preparing for IPO on the Moscow Stock Exchange	$100 million offered to companies with $500 million annual revenue, planning an IPO
Japan Bank for International Cooperation (JBIC).	Financing of a new platform to drive economic cooperation, trade and investment between Russia and Japan	$1 billion — $500 million from RDIF and $500 million from JBIC
State Bank of India (SBI)	To promote trade and economic cooperation projects between the countries	$2 billion — $1 billion from RDIF and $1 billion from SBI

— Source: RDIF "Invest in Russia!"

Earlier this month, Prime Minister Dmitry Medvedev said he was pleased with what the fund achieved in the last two years. "Existence of a reliable partner, a so called anchor investor, received positive feedback from most of our colleagues," he said.

More than $2.6 billion has been invested in Russian companies, of which $620 million came from the RDIF and $2 billion came from co-investors.

"The idea of RDIF is unique," said the managing director of the Kuwait Investment Authority, Bader Mohammad Al Sa'ad. "Many private equity funds are established every day, but there is only one fund in the world where a country says: "I'm sending $10 billion and welcome anyone who would like to partner with me on good terms" — this is the only fund we have seen on these terms," he added, in a statement by the RDIF press service.

Currently the RDIF is considering financing more than 50 projects with a total investment cost of $10 billion.

The latest project was announced on Tuesday. During the forum this week the fund will sign a Memorandum of Understanding with General Electric to create a joint venture for the construction of mini power plans for factories across the country.

Recent Transactions		
Company / Project	Co-Investors	Amount
Moscow Exchange / IPO	China Investment Corporation (CIC), BlackRock, the European Bank for Reconstruction and Development (EBRD) and Cartesian Capital	Over $830 million invested with partners, of which $650 million before the IPO RDIF has 4.5 percent stake in the Exchange

Enel OGK-5, a power generating company in Russia / equity investment	Macquarie Renaissance Infrastructure Fund (MRIF), AGC Equity Partners and Xenon Capital Partners	$137.5 from RDIF and $487.5 million from co-investors for a 26 percent stake
MD Medical Group (MDMG), a network of commercial medical clinics / IPO	BlackRock, Russia Partners, Investment and other qualified investors	$50 million from RDIF for 15 percent shareholding and $240 million from co-investors
Russia Forest Products, the country's second-largest forestry company / equity investment	Russia-China Investment Fund	$200 million — $100 million from RDIF and $100 million from China Investment Corporation
Karo Film, cinema chain / equity investment	Baring Vostok Capital Partners, UFG and media entrepreneur Paul Heath	$100 million over three years for a majority stake
MAYKOR, a Russian IT servicing and outsourcing market	EBRD, CapMan	$100 million
Voltyre-Prom, the largest producer of agriculture and industrial tires in CIS.	One Equity Partners, Titan International Inc.	Amount not known. Reached an agreement in principle

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