



Renaissance Capital's Boris Jordan believes Russia is destined for economic rebirth, and the success of his mutual funds may be proof.

A Russian Bull's Eye

BY CRAIG MELLOW

"WHEN I FIRST WENT LOOKING FOR money to invest in Russia, people threw me out of their offices," Boris Jordan says. "They don't do that anymore."

The attitude shift is understandable: Jordan estimates that an investor who handed him \$1 million when he got off the plane to open CS First Boston's Moscow office in 1992 would have around \$10 million today. One secret of Jordan's success is a passion for Russia that goes beyond the financial. His great-great-grandfather Admiral Shishkov was Minister of Education under Czar Alexander I in the early 19th century. Another relative was the court physician of Russia's last monarch, Nikolai II, and was shot with the royal family in 1918. Jordan grew up in a tight-knit émigré enclave on the North Shore of Long Island, where Russian was spoken at home and the legend of the lost motherland generously embellished.

Jordan's zealotry eventually persuaded a few risk-loving capitalists to throw some cash at Russia's murky mass-privatization program. The bet paid off—big—last year. The Moscow stock market rose by a world-beating 165% once Boris Yeltsin started looking like a reelection winner, and yields on Russian short-term bonds, or GKOs, spent much of the year in the three digits.

Jordan had meanwhile launched his own firm, Renaissance Capital Group. But he's a far cry from the typical fund man-

ager. Some days he is a venture capitalist, raising startup money for the likes of VimpelCom, the cellular phone company that last November became the first Russian entity listed on the New York Stock Exchange. At other times he is a corporate raider, taking strategic stakes in muscle-bound giants like the Novolipetsk steelworks, and trying to force change upon encrusted management.

Jordan's partner in that business, Unexim Bank, Russia's largest commercial bank, is now a minority owner in his company. Renaissance's flagship fund, known as Sputnik, currently manages \$450 million of institutional money, with a minimum ante of \$25 million; George Soros and the Harvard University Endowment are among its shareholders. In a land of young millionaires, Jordan, 31, is younger than most.

No one believes the Russian stock market can keep doubling every year, especially since the country's real economy stubbornly refuses to grow at all. At the beginning of 1996, most macroeconomic wise men expected Russia's GDP, which has officially shrunk by 40% since 1991, to rebound during the year. Now the target date is 1998. But Jordan has no thought of cashing in his chips. "For me there is more than money concerned here," he says. "The longer I stay, the more Russian I feel, and the more I think I might stay forever."

Boris, if I'm a foreign investor, you know what I'm reading in the press about Russia. Why in God's name should I put money into this place?

Eastern Europe and Russia are some of the most highly industrialized countries in the world. But unlike the U.S., Japan, and Europe, they are expected to have 5% to 8% GDP growth for a period of five to 15 years. That's certainly one reason you would want to have a portion of your capital invested here.

The second reason is that the world's cheapest industrial assets are here, whether on a P/E or an asset basis. When you combine those two—cheap assets and high growth—and take a macro perspective, you would definitely want to allocate part of your funds here.

It's fine to talk about a potential 5% to 8% growth rate. But we're still waiting for Russia to come out of negative growth.

You have to consider Eastern Europe and Russia as a region, because there are enormous similarities between the countries. They are going through the same kind of reconstruction. Poland has 8% growth rates now, Hungary has 2% to 5% growth rates, the Czech Republic 4% to 5%. All the Baltic countries are in positive growth.

Russia is a much bigger country and much more difficult to reform. But unofficial numbers [that include the underground economy] show that it will have zero to 1% growth in 1997. Production numbers in the oil sector are up this year. Electricity usage started to increase as of the middle of last year, which means companies are producing. So we expect Russia

THE QUESTION IN RUSSIA IS, DO WE BELIEVE THAT THE PROCESS THAT HAS TAKEN PLACE IS IRREVERSIBLE? I DO.

to follow the growth pattern of Eastern Europe in the next year or two.

The only other part of the world where you see these kinds of growth rates is Asia. But Asian countries are just building their industries. And you can pick up those assets in Russia at a fraction of the price you would pay for the equivalent assets in Asia.

So if I give you a million dollars to invest in Russia, where would you put it?

About 45% of the money would go into a diversified pool of liquid stocks, which are mostly energy companies like **Lukoil** and **Gazprom**, utilities like **United Energy Systems**, and telecommunications firms like **Rostelecom**. Another 35% would go into direct investment, situations where a fundamental restructuring is taking place—such as paper companies like **Segezhabumprom** in Karelia and the **Volga** mill near Nizhny-Novgorod. The balance I would put into the government bond market, to give the portfolio some yield.

You were involved with VimpelCom, the cellular phone company. Are there other companies like that coming down the pike?

We do have other companies very similar to that. For instance, Russia's most successful mineral water company, **Saint Springs**.

The Russian Orthodox Church's company?

The church has an interest in it, but it's run by an entrepreneur. Consumers like the brand, though, because it has an image of being tied to the church—an excellent marketing system.

What else?

Two or three weeks ago we bought a 49% interest in a consortium that purchased the license to build a GSM cellular phone network in Ukraine. We're going to attempt to build a company very similar to VimpelCom. We are also investing in small steel-refining companies around Russia. Our other direct-investment transaction last year, besides the mineral water, was for **Rostik's Restaurants**, which is run by a guy I call the Ray Kroc of Russia. He has several different chains—Kombi's sandwiches, Rostik's fried chicken, Patio Pizza—and they're all very successful. His American Bar & Grill in Moscow is supposed to have the highest revenue per square meter of any restaurant in the world.

But at its core, Russia is a natural-resources country. Yet the tax and legal barriers to in-

vestment in either oil or mining are formidable. How much longer will Russia keep shooting itself in the foot this way?

I would rather say that Russia has tried to protect its large oil companies in their infancy. It has also tried to transfer its large natural-resource assets to Russian investors. There's nothing wrong with that from a macroeconomic and, most important, political perspective. I would like to see how America would react if AT&T were sold tomorrow to the Japanese.

Now that ownership of strategic assets has been transferred to strong domestic players, and that process is almost finished, we'll see the barriers start coming down. The new owners need to recapitalize those companies, and they themselves will drive the process and lobby the government.

For an investor looking at this region, would you recommend an Eastern European fund that also includes Russia, or would you bet just on Russia?

It's more important to look at who is running the fund. I find that the large-scale international companies that have funds for every region of the world tend to lose focus and perform slightly lower than those that concentrate on specific regions. I also

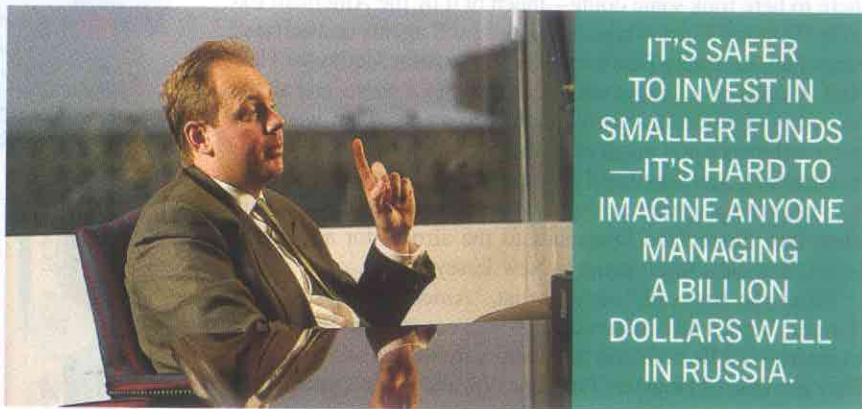
fund, an open-end fixed-income fund with about \$110 million, which has returned 49% since its inception in July 1996. In equities, there are close to 25 different Russia-specific vehicles now. Of them, there are probably six good ones—the Rurik fund, managed by Swedish investment bank Alfred Berg; Hermitage; Fleming; Regent; Lexington/Troika Dialog; and New Century Holdings. The rest are highly questionable.

How much of a return can one reasonably expect this year and next in the Russian market?

Russia was up almost 70% in early 1997. It's since come off about 15%, mostly because of the rise in U.S. interest rates. Russia and other lower-quality credit markets will probably continue to have some softness for a while. But the fundamentals in the market are still very, very good. So I think Russia will achieve 50% return levels, if not better, for the next two years.

To what extent is political risk still with us in Russia? If Yeltsin were to die tomorrow, what would happen?

Whenever an emerging market replaces a



feel it's safer to invest in funds that don't have \$5 billion in them, but a couple of hundred million. I find it hard to imagine that anyone could manage a billion dollars well in this part of the world.

The market is just starting to open to retail investors. Morgan Stanley, Fleming, Templeton, and a few others have publicly traded funds. But with the exception of Morgan Stanley, which just launched, you'll find that those funds have not performed as well as private funds. That's because of regulatory impediments, but it's also because it's not their only market.

For high-net-worth investors, there are a lot of opportunities. We have the Kipling

leader, particularly a country that has just come out of a massive restructuring, there is bound to be some instability, which unsettles markets. The real question in Russia is, Do we believe that the process that has taken place is irreversible? I do. Therefore, any volatility due to a change of power would be quickly recouped under any subsequent administration.

I recently told a friend that when we bet on the 1996 presidential election, we bet the shop. We were going to have a business if Yeltsin won, or not have a business if the Communists took over. I don't believe I'll ever have to make that bet in Russia again. Ever. **F**