

A SHERPA ECONOMY: HOW RDIF'S INVESTMENT BUSINESS WORKS

RDIF SHOWS WHAT IT LOOKS LIKE FOR AN ECONOMY TO DEVELOP AHEAD OF ITS TIME, AND PROVES THAT THE RUSSIAN ECONOMY CAN CERTAINLY ACHIEVE THIS. THEN, THERE WILL BE NO NEED TO ORGANIZE, ARRANGE, AND PERSUADE THE EXPECTED INVESTMENT BOOM IN RUSSIA TO BEGIN—IT WILL JUST HAPPEN AS PART OF THE PROCESS. IT WILL NOT BE A MIRACLE, JUST THE RESULT OF TECHNOLOGY, MANAGEMENT AND VISION. DMITRY BUTRIN

RDIF's foundation in 2011 coincided with a peak in the recovery of global outward capital overflows following the 2008 crisis. In 2012, these were already in decline, and in 2014, developing markets, including Russia, experienced a crisis of direct investments—due initially to weakening DFI flows from developed countries. The world simply seemed to lose interest in the idea of outward investments; DFI in even the richest global economies shrank, and the global level of investment seen in 2007 had still not been beaten by 2017. Autumn 2014 saw a radical change in Russia's macroeconomic and foreign policy position. For a variety of reasons, the government and the Bank of Russia adopted an accelerated and rather tough program of financial stabilization and budget consolidation.

We should start with how RDIF attracts money to Russia. RDIF is itself an investment fund and aims to earn money through providing investment capital to developing companies to scale-up their business to the federal or international level, both for the benefit of the businesses themselves as well as the profitable withdrawal of that capital after 5–7 years. RDIF triples the initial amount of allocated financing due to the growth of the investments on the one hand and the increase in the tax payments on the other.

When it finds an investment opportunity, RDIF submits a co-investment proposal to its key partners. RDIF conducts continuous negotiations about investment partnerships with other sovereign funds, and work to enhance these relationships. The partnerships themselves are direct investment funds, created in each case on their own terms. For example, the Russia-China Investment Fund has \$2 bln capital. In the case of Saudi Arabia, RDIF and the Public Investment Fund (PIF) of the Kingdom created a separate fund, in which the PIF invests up to \$10 bln, in particular, in Russian infrastructure and technology projects. This mutual fund can also engage other RDIF partnerships in specific projects, as well as private investors and banks. Partners can invest any additionally required funds in the Russian projects independently. A similar scheme has been used for the \$1bn Russian-Japanese investment fund, which was created jointly with the Japan Bank for International Cooperation (JBIC) on a parity basis. A \$7 bln fund was created with the investment fund of the United Arab Emirates, Mudabala. The Russian-Kuwaiti fund uses the model of "automatic co-investment", within which investments by Kuwait in RDIF projects are made even without a decision from Kuwait. The size of the fund, which had an initial value of \$500 m, was recently increased.

Through the partnership with Turkey's Rönesans Holding, RDIF is looking to facilitate co-investment in Russian healthcare, construction, infrastructure and commercial real estate. RDIF is looking for projects in the power industry together with India's Tata Power, in infrastructure with India's IDFC, and in port logistics with the port operator DP World—an area in which investment limits are especially high at up to \$2 bln.

Meanwhile, the general principle of RDIF remains consistent. RDIF searches for investment opportunities for itself in Russia and then offers its partners the opportunity to take part in the investment. In the preferred investment system, RDIF partners invest one dollar (or more) for every dollar invested by RDIF. In this system, the partner profits from guaranteed investment payback, minimal risks, RDIF expertise and capabilities, and the use of the fund's existing instruments for work in the Russian economy. In fact, RDIF acts as a "sherpa" for major sovereign investors, showing them the



RDIF AND CHINA DEVELOPMENT BANK, THE WORLD'S LARGEST FINANCIAL DEVELOPMENT INSTITUTION, ENVISAGED THE CONSTITUTION OF THE CHINA-RUSSIA RMB INVESTMENT COOPERATION FUND

investment opportunities in Russia. It is worth remembering that mountaineers do not climb 8 km mountains alone, but are always accompanied by sherpa guides, whose job is to climb with them.

For the time being, most deals closed by RDIF and its partners in Russia are in the industrial, transportation and logistics sectors. For example, at Zapsibneftekhim, an affiliated enterprise of SIBUR, RDIF and its partners have financed the construction of Russia's largest factory for the advanced conversion of hydrocarbons into polyolefins. Furthermore, the partners have invested in an export terminal at the Baltic Ust-Luga harbor jointly with SIBUR. An investor consortium together with RDIF acquired a minority stake at Fosagro, a leading company in the global fertilizer market. However, the industrial companies involved in RDIF projects are not necessarily giants. For example, the Russian company Cotton Way, a leader in the professional textile processing market, received financing from an RDIF consortium, European Bank for Reconstruction and Development, and Middle East investment funds. Russian Helicopters also obtained development funds from RDIF and several Middle East investors, who bought a share of the company.

In logistics invests and gives its partners an opportunity to invest in road construction projects. These include the Moscow central ring road, the federal highway M4-Don and railway crossings in Moscow's suburbs (together with the Italian company Pizzarotti), the railway connection between Russia and China in the Jewish Autonomous Region, and St.

Petersburg and Vladivostok airports. On the other hand, RDIF and its partners supported the IPO of a major Russian transportation company Globaltruck, and investment funds from Western Europe and USA acted as co-investors in the project. At the same time, infrastructure for RDIF is not limited to roads and construction. From the Fund's perspective, this field also includes investments in the Rostelecom infrastructure aimed at ending the "digital inequality" of Russian regions, in "intelligent electric grids" for the Russian power company Rosseti, in small hydraulic power plants in Karelia, and logistics complexes in Moscow region. RDIF's "investment filter" helps to select most promising projects with high multiple effect, providing returns, creating jobs and developing infrastructure.

This is infrastructure in a broader sense, and RDIF and partners take the same attitude towards healthcare and social services. Two oncology centers in the Moscow suburbs, which are being built together with Mudabala, a large network of perinatal care centers Mother and Child, where RDIF invested together with Blackrock and Russia Partners, investment in the St. Petersburg pharmaceutical company Geropharm, which specializes in medication for blood-stroke and diabetes treatment: all of these are viewed not only as promising investment opportunities, but also as the kind of business that meets social and economic needs. With Geropharm, another RDIF initiative has been applied: the "investment lift", providing support for Russian companies with high exporting potential.

Last, but not least, in the technology and IT sector, RDIF is engaging with so-called digital economics and industry 4.0. For example, it supports the telemedicine startup Doctis, the security system project InfoWatch or calorie tracker Healbe.

Nevertheless, all these projects would have been just a beautiful patchwork of separate investments by RDIF and its partners, if they didn't provide a development opportunity for the future. The main aim of the investment network created by RDIF is not only to provide nearly unlimited "growth capital" for Russian projects, but, more importantly, to ensure partnership expansion opportunities for new sectors and markets. As a matter of fact, the main result of RDIF's activity is that since 2012, most partners of the fund have gained a deep enough understanding of how Russia and Russian business works, who's who in the markets and what to expect of them. RDIF co-investment will certainly continue to grow in the future—the development of Russia's digital economy, the results of financial stability, and the gradual development of a, for now, small but active venture market are still to come, and these processes are sure to bring hundreds of potential new "unicorns" to the surface. But this is not the only thing that matters. The way a market responds to increasing activity is by increasing competition — as a result for every ruble from RDIF and nine rubles from its partners which are invested in Russian projects, a similar amount is added to the Russian economy by the investors of other companies in the market: competitors, partners in the projects synergetic to those of RDIF partners. ■