



Investment in Russia Wanted: billion dollar funds

With the dust settled on Skolkovo, a project aimed at promoting innovative business start-ups with foreign know-how, another project – with even bigger ambitions – has recently been unveiled. Called the Russian Direct Investment Fund (“RDIF”), it is targeting a much broader field of activity.

The RDIF is effectively owned and managed by the Russian state but structured like a private equity fund. It has a management company with supervisory and management boards, together with an investment committee. The CEO is an experienced Russian private equity investor who is currently recruiting a team of investment professionals. It is proposed that the various boards and committees of the fund are supported by an international advisory board of business and academic experts, the membership of which is not yet decided.

The RDIF intends to invest between \$50 and \$500 million in each project, with co-investment of at least the same amount expected from foreign investors, so that the fund’s maximum stake will be 50% (minus one share). The average stake is expected to be 25%. With \$2 billion being released into the fund each year for the next 5 years, the Government is therefore hoping to attract at least \$30 billion of foreign equity.

Projects in Russia involving state bodies have previously encountered jurisdictional issues around the country of incorporation of the joint venture company and the law under which it, and the relationship between the co-investors, is governed. Interestingly, the fund has specifically noted that it will respect customary deal structures and enter into agreements with co-investors governed by international law.

While no limitations have been placed on qualifying business sectors, the focus is on modernization and –

again – innovation. Agriculture (and perhaps oddly, food retailing), transportation and housing are mentioned in the modernization category, along with aerospace, healthcare and telecoms/IT under innovation.

With its talk of maximizing returns and exit strategies, the fund seems to be mainly aimed at portfolio investors, and a number of major sovereign and private equity funds have expressed an interest in participating (China Investment Corporation, Kuwait Investment Authority, Blackstone and TPG, to name but a few). To qualify, a fund must have at least \$1 billion under management. At the same time, new technologies and knowhow are also being sought directly, and thus strategic investors with at least \$1 billion of revenue – and perhaps a longer investment timeframe – are also welcome.

The fund may be appealing to different types of investor, but the same rationale applies to all: for investors without detailed Russia knowledge, and / or with a concern over Russian risk, they are invited to partner with the Russian state to access its knowhow, financial commitment and – some would argue – protection. Some element of political risk remains, but for investors of this caliber, the balance may well now have tipped in favor of entering the Russian market – assuming suitable projects can be found.

Nevertheless, investors both great and small will want to consider the whole picture, including what the Russian government is doing to change the on-the-ground reality of excessive red tape, corruption and legal uncertainty for business. The answer here is that, generally, there are changes for the better. The hope is that initiatives such as Skolkovo and RDIF will force an ever faster pace of change, and in turn transform the Russian investment landscape for good.