

Podcast - Emerging Markets Analyst David B. Molnar, CFA on his Recent Trip to Russia

Alger Emerging Markets Analyst David B. Molnar, CFA discusses his recent trip to Moscow, concern over possible sanctions, and the impact on Russian investments.

David Molnar: My recent trip to Moscow was quite timely, given the recent events, but the trip was actually planned months in advance, and it was focused on Russian technology, telecom and media companies. We are following the events in the Ukraine and Russia very very closely.

I think it's important to think about the economic impacts on Russia, and the impacts can be seen in a number of areas. In the medium-term, a few things that Russia will have to contend with will be, one, accelerated capital flight. In 2003, over \$63 billion were estimated to have left Russia, and we can see numbers around the same magnitude again this year. Also, in 2013, Russia enjoyed a real boon in foreign direct investment, enjoying \$94 billion of inflows, making it the third-highest recipient of FDI last year. And I can't imagine that we won't see a reduction in corporate commitments to Russia following these events.

And finally, an already-slipping Russian economy could be pushed into recession. There have been a lot of talks about possible sanctions against Russia for its actions in the Ukraine. Sanctions are certainly an important diplomatic tool, but of limited use, unless there's real coordination of efforts between the U.S. and Europe, and a real political will to impose heavy economic costs on large western companies. We can't forget that Russia is the fifth-largest consumer market globally, that U.S. has relatively limited trade linkages with Russia, while the European Union has very deep ties, accounting for 200 Russia accounts for approximately \$236 billion of trade in 2012.

In Russia, we are invested in companies that are run by entrepreneurs and free from government ownership in the typical commodity-based extraction companies that one often associates with investments in Russia. So our holdings really exemplify the positive dynamic change that is really key to the Alger process: high-unit volume growth, for example, rising market share or a life cycle change, and for example, the evolution of the non-cash payment system or a growing e-commerce market.

So our investments are really focused on those companies offering the greatest exposure to the largest consumer market in Europe, as well as to Russia's engineering and technical talent. It's the sixth-largest food retail market in the world. Approximately \$270 billion in value in 2012. The fifth-largest consumer market globally, and the largest consumer market in Europe, with a growing middle class and pent-up consumption demand.

So the management meetings last week reinforced I think our confidence in the outlook for our holdings, as well as the outlook for the growth of Russian technology e-commerce companies.

For example, one of the companies that I met with is a classified website, and the website facilitates transactions annually that are worth up to five percent of Russian GDP, and Russian GDP is over a trillion dollars a year. Another, a game developer enjoys a 2.4 percent market share of global smart phone active monthly users. And finally, the fashion e-commerce market in Russia is expected to grow from \$1.2 billion in 2013 to over \$23 billion by 2020. So there's a lot of activity that's going on. It's a very exciting marketplace, and I think these companies will be less impacted by the events that are certainly going on in the Ukraine and even by a slowdown in the Russian economy, simply as they benefit from technological innovation and consumer demand, an attractive rising share of household and advertising budgets.

So, the situation in the Ukraine is changing rapidly. Hourly, almost. No one imagined that things would evolve in this fashion. And it's quite difficult to anticipate how everything will unfold. But none of the meetings were canceled. Some of the companies expressed appreciation that investors had traveled to Russia despite the crisis. That's why we follow the political events very closely and the economic developments, because it does have an impact on our investments, and it's part of our process.

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