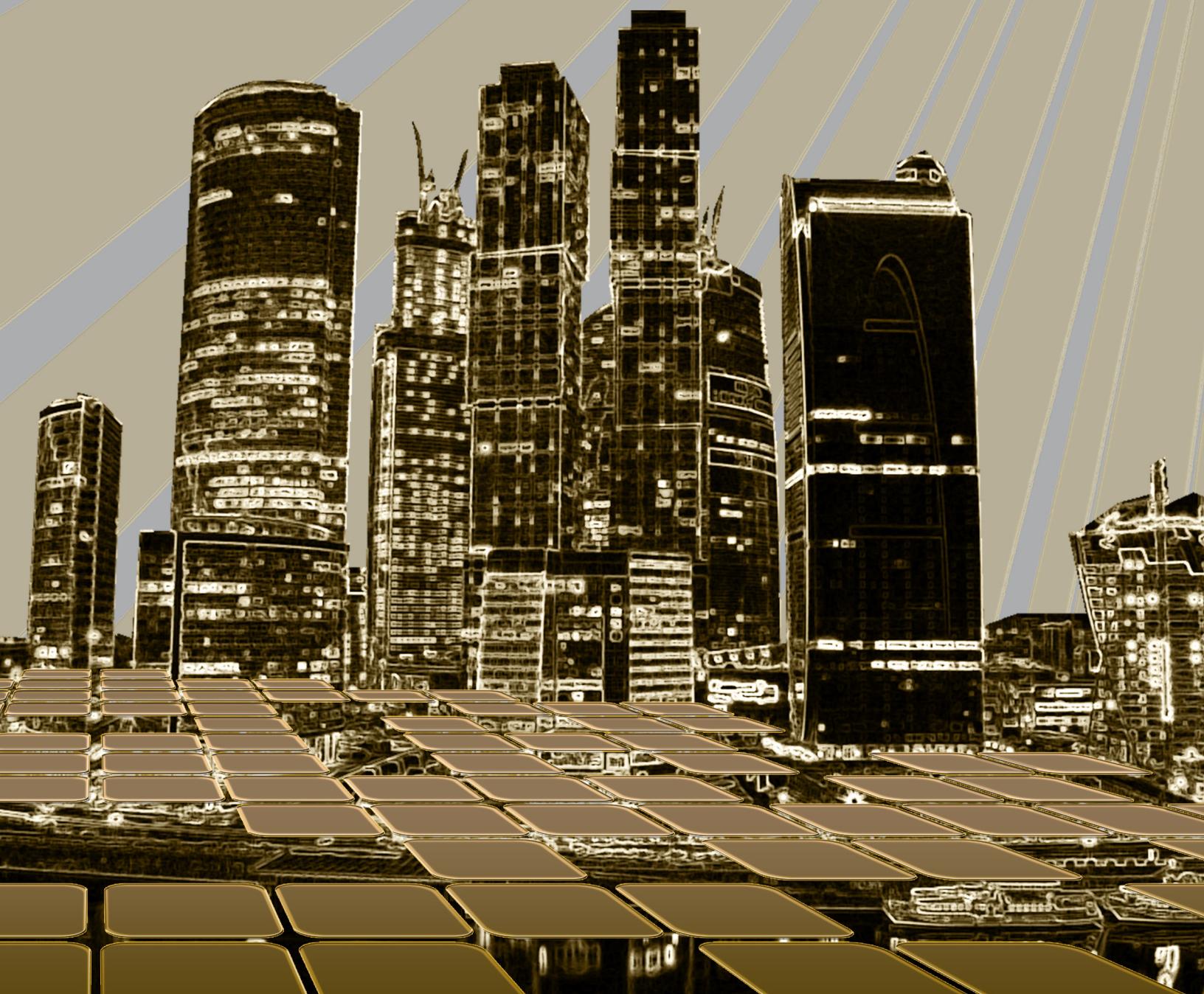


# MACRO-ADVISORY

Bespoke Russia-CIS Consulting



*Providing a bespoke consulting service to help investors better understand Russia-CIS opportunities and risks.*



***We don't want to invest ahead of some crisis, but we also don't want to wake up in five years and find our competitors took the market and made a lot of money while we were watching the headlines.***

**C.E.O. of Multi-National Company**



*Russia is already the world's 5th largest consumer market...outlets, such as the Mega Mall pictured, are being built across the country.*

*M*acro-Advisory provides a bespoke consulting service for investors and companies who want to better understand the opportunities and risks of conducting business and making investments in Russia and Central Asia.

Russia and the Central Asian States can be challenging locations for foreign investors. Misleading perceptions concerning the current Russian economy prevent investors from sharing in the steady growth of the world's eighth largest economy and the fifth largest consumer market.

The founding partners of Macro-Advisory have a combined thirty-five years' experience living and working in Russia and Central Asia and their unique expertise enables them to guide investors away from risk and towards growth and profit.

Macro-Advisory's client base will include international corporations, macro hedge funds, venture capital funds, private investment groups, family businesses and high net worth individuals who will benefit from either a fully bespoke consulting service or from the partner's evaluations published in regular, subscription only private reports.



*C.I.S. combines nine full member states plus two associate states with a total population base of 280 million and aggregate GDP of \$2,615 billion (based on UN data for 2012).*



## OUR SPHERE

The Commonwealth of Independent States (CIS) is made up of nine full member countries and two associate members.\* Russia is dominant in terms of population and economic size within the group, while several of the other countries have experienced strong growth in recent years.

Russia, Kazakhstan, Azerbaijan and Turkmenistan are resource rich economies which have recorded rapid growth on the back of high hydrocarbon prices and rising production volumes. Workers from other CIS countries work across the region, and their remittances make up a sizeable part of the GDP in countries such as Tajikistan, Kyrgyzstan and Uzbekistan.

In aggregate this economic block is one of the largest in the world, offering long-term growth opportunities as consumer spending and service requirements expand in leisure, health care and education as spending in infrastructure and agriculture increases.

The CIS is also a very diverse region in terms of economic, social and political structures. Business access and investment risks are far from uniform across the region which adds to the challenges facing foreign investors.

Capital market development varies across the CIS. While Kiev and Almaty have bourses with listed and traded stocks, Moscow has the largest and most active stock market. A limited number of stocks are tradeable elsewhere in the CIS, and several of the CIS countries have issued sovereign debt or plan to in the coming years.

\* The table showing the population and GDP data for CIS countries is on Page 12.



*CIS countries need to spend more than \$1 trillion to improve the road network across the vast territory ... a recent example is this highway interchange outside Moscow.*

## OUR SERVICES

**M**acro-Advisory provides a bespoke consulting service for investors and business managers who want to better understand the most important economic, political and social trends in Russia and across the CIS. Our objective is to help our clients identify business and trading opportunities, give them a better understanding of the timing and risks, assist them in setting up and working in the CIS and, ultimately, make money in the region.

Macro-Advisory is not a subscription based research service. We work with each client individually to:

- Identify their needs in Russia and CIS
- Work out a strategy to best deliver those needs
- Monitor progress and keep the client fully informed
- Advise on any changing conditions which may either offer enhanced profit opportunity or increase risk
- Keep the client fully informed of any new opportunities in their area of interest

In practical terms the services we can provide for each client include:

- A clear business plan setting out how we can work together
- A schedule for written updates covering the region in general or some specific country, region, industry or socio-political trend which may be of specific interest to the client
- Personal meetings or presentations in the region or at their office, wherever located
- Full-time, direct access to Macro-Advisory senior partners to answer any questions or to provide an ad-hoc update
- On the ground assistance with travel, meetings or in setting up locally based operations

*Cramped Soviet era accommodations are being replaced with modern apartments and houses.*



## OUR CLIENTS

We provide our clients with the best, most comprehensive analysis of what is happening in Russia and across the CIS. That way they can be better informed to both make money and minimize risk. We will have relatively few clients in each of the categories listed below, in order to avoid conflicts of interest and to provide a fully bespoke service to each client.

**Hedge Funds:** We provide timely analysis of both macro and political trends for hedge fund investors to take full advantage of opportunities in equities, currencies, debt and commodities. We provide on-going analysis of the macro and political developments so that they may also best position to profit from up-coming changes.

**Venture Capital Funds:** For investors with a longer term horizon, we provide analysis of the events and trends which are shaping the future of Russia and the CIS. We provide opinions on how current risks and the general business backdrop may change over the medium to longer term across the region and on an industry basis.

**Multi-National Corporations.** We help multi-national companies to better understand the business and macro-political environment in Russia and the CIS. For companies who are already in the region, we provide support and analysis to help them better plan for the future. For companies still outside but looking in, we help make sense of the headlines and cut through the noise to highlight what is actually important.

**Investment Funds.** Investment funds get access to regular updates covering macro and political events and trends across the region. We highlight trends and changes which have investment implications and provide insight into financial market developments.

**High Net-Worth Individuals.** For HNWI and family businesses, we provide a fully bespoke service which we comprehensively agree to, either with them or their investment staff in advance.



*The value of Russia's consumer spending is set to rise from 1.3 trillion annually to \$3 trillion by 2025(\*)*.

## RUSSIA'S ECONOMY – FACING THE NEXT GROWTH CHALLENGE

Russia's economic and fiscal structure has undergone a spectacular transformation over the past fifteen years. The value of the economy has grown from under \$200 bln in 1999 to over \$2.1 tln last year; and from a reported over 100% debt to GDP, Russia now owns the world's fourth largest financial reserves and a sovereign debt to GDP of 3%.

The surge in hydrocarbon export revenue was certainly a major part of that change, but the real story has been the emergence of the Russian consumer. Spending by people and the expanding pool of small and medium sized businesses have been the major driver of growth over the past decade. Today, Russia boasts the fifth biggest consumer market in the world, lagging just behind Germany. Russian consumers have the highest per capita spending power in the emerging market world, which is why the market is proving to be such a strong magnet to the world's major luxury marques and consumer brands.

The economy is of course not without its problems, as the projected growth of near 2% for this year and the next (\*) is not enough to sustain the country's development. Growth needs to average 5-5.5% annually; the next phase of the country's growth will have to come from an increase in investment by both domestic and foreign businesses as well as more effective state spending. For that to be achieved, the country now needs to improve the business climate and more effectively tackle such areas as corruption, poor rule of law and excessive business bureaucracy. This is indeed a considerable challenge facing the country over the next five years.

The role of oil prices are less critical than it used to be or is popularly perceived. Oil revenues do not form part of GDP growth drivers other than as a source of state budget revenues. The country has introduced a "budget fiscal rule" to limit spending based on oil revenues, and the Central Bank now allows the currency to freely float against price of oil as a sort of shock-buffer. This has proven very effective since the 2008 slump.

Russia's ruble is now freely floating against the world's major currencies, and there are no capital flow restrictions. Russia was admitted to the World Trade Organization in August 2012 and is now actively working towards full OECD membership.

(\*) based on Sberbank-CIB research

*Moscow's once forbidding airports  
are now modern and efficient.*



## THE ROLE OF POLITICS

*P*olitics is never far from the headlines across most emerging economies, but particularly so when it comes to Russia and the CIS. In no other major developing economy does political uncertainty have such a large role in determining how investors and business leaders view investment risk. It is one of the major reasons why the risk-premium has been consistently large in Russia and why asset valuations remain relatively low.

Some of the concerns are certainly valid. The state exercises a very strong role in the economy, and state companies are dominant in the so-called strategic sectors such as extractive industries, utilities and the financial sector.

But some of the popularly perceived political risks are not valid. The country remains stable and support for the president has been consistently high. The table below from the respected Levada Center polling company shows that while Vladimir Putin's 3rd term approval rating is averaging less than that of his previous two terms, it is still comfortably high.

The challenge facing Russia and many of the CIS countries will be to allow for the orderly development of political diversification, i.e., something which is inevitable given the expanding role of the middle class in the country.

Russia is facing into a political and social evolution with little risk of anything disruptive. Macro-Advisory is well placed to observe, analyze and report on this trend and to highlight to our client base any implications for further profit opportunities and risks.

<u>Elections and Major Events</u>		<i>Vladimir Putin has Remained Consistently Popular</i>								
		May '08	Aug '10	Jan '11	Jan '12	July '12	Dec '12	Mar '13	June '13	July '13
<i>Vladimir Putin</i>										
Approve		84%	78%	72%	64%	67%	65%	63%	63%	65%
Disapprove		12%	16%	25%	34%	32%	34%	36%	36%	37%
<i>Source: Levada Center</i>										



*Russian equities are listed in Moscow and via DRs in London and New York principally. Moscow's MICEX bourse is by far the most active in Eastern Europe-Mid East-Africa region.*

## CAPITAL MARKETS

*F*ollowing the merger with the RTS, Russia now has one major bourse, MICEX. A majority of Russian equities have dual listings on MICEX and, via Depository Receipts (DR), on an international bourse, principally London or New York. Some large companies have only a DR listing. The total value of all listed Russian equities, as of mid 2013, was approximately \$900 bln. Of this total, the free-float available to portfolio and individual investors was approximately 30%.

MICEX also hosts a very active derivatives market, including Futures and Options instruments which cover indices, stocks, commodities and currencies.

The stock market is still dominated by companies in the extractive industry sectors. They accounted for two-thirds of the value of the market in mid 2013. The government has a program to privatize almost \$100 bln of equity currently under its ownership, but the program has been subject to constant delay and revision for both economic and political reasons. In the coming years, a total of up to \$50 bln worth of non-state listings is thought to be waiting for an opportunity to come to the market.

The major issue for equity investors is the relatively small pool of long-term focused domestic capital. The pension industry is poorly developed, and insurance funds are excluded from investing in equities. Russian people still prefer to save via cash deposits rather than mutual funds. Changing the domestic capital base is one of the government's key policy objectives, and as the program evolves, the structure of the investor base will change significantly. This will also have a major impact on market listing and valuation dynamics.

Russian debt is principally listed domestically, but both the state and several major corporations have existing US dollar and Euro denominated Eurobonds. From 2013 Euroclear has been given access to the domestic ruble bond market, and this has greatly expanded the active investor base and helped support issuance and valuations. The international clearing agency will also get access to the domestic equity market from 2014, and along with other enhancements to the regulatory and legislative infrastructure will help improve the efficiency and valuation parameters in the market.

\* Key Market Indicator Chart appears on Page 12.

*Russia aims to revive industrial output via JV's such as the very successful partnership between Renault-Nissan and AvtoVaz, the country's largest car producer.*



## RUSSIA-CIS IS A CHALLENGING BUSINESS LOCATION

*T*here is no doubt that investing and starting a business in Russia and the CIS can often be difficult and frustrating. The experience and insights gained by Macro-Advisory's founding partners in the region can help investors better understand and navigate the local challenges.

The equity indices are regularly amongst the most volatile within the major emerging markets because of the often exaggerated perception of risk and the relatively low domestic investor base. This leaves Russian equities very exposed to foreign investor flows and to external events. But within that volatility, trading opportunities, based on thematic and specific stock analysis, are plentiful. For example, through the first half of 2013 the main MICEX Index fell 7%, while fifteen liquid stocks rose by greater than 15% and fifteen lost 30% or more. The performance gap between the best and worst name was 150% in the period.

The currency and debt markets have been considerably more stable, given the relatively high level of hydrocarbon revenues and the consequent positive budget and fiscal impact. But that may also change in the coming years, as the government needs to raise investment spending without automatic recourse to oil revenues. The debt load will increase and the currency is expected to become more volatile, both of which will present investors with greater opportunity to trade in Russian instruments.

Navigating the world of bureaucracy is one of the frustrations faced by foreign businesses looking to expand in Russia and the CIS. The Moscow government has committed to a five year program to improve the country's ranking in the World Bank's Ease of Doing Business Table from 112th (2012) to 20th. Other CIS countries are preparing similar programs, albeit on very different time lines. Russia has joined the World Trade Organization (August 2012) and is committed to an agreed schedule for easing trade and investment flows with the rest of the world.

The path ahead will certainly not be smooth. There will be setbacks and the occasional mini-crisis either at national or regional levels. But the need for change, i.e. evolution, is now irreversible and that means the government in Moscow, and later elsewhere across the CIS, must ease the way for greater investment and economic diversification.



*Russians are spending more in the leisure industry, including this bespoke Jack Nicklaus designed course, one of several in the Moscow region.*

## WHO WE ARE

The founding partners of Macro Advisory are Chris Weafer and Vincent Gaughan, who have a combined thirty-five years' experience living and working in Russia and Central Asia.



**Vincent M. Gaughan**  
*Email: [vmg@macro-advisory.com](mailto:vmg@macro-advisory.com)*

Vincent M. Gaughan began his career in Russia in 1993 when he was appointed the first and only American attorney to a Committee of the Supreme Soviet of the Russian Federation. As counsel to the Inter-Republic Trade Committee, Mr. Gaughan assisted in drafting trade regulations among the newly formed Commonwealth of Independent States (CIS). Subsequently Mr. Gaughan founded and was President of The Bering Group Ltd., which acted as a liaison in the structuring and financing of various ventures between foreign companies and the Russian public and private sectors.

The Bering Group was instrumental in the establishment of the first real time on-line national lottery in Russia. It secured the first private security license in Russia, issued by the Ministry of Internal Affairs to Vance International, an American security company. The Bering Group also held marketing rights to the Russian Olympic Committee and logo from 1998 to 2006.

More recently, Mr. Gaughan represents Jack Nicklaus, the American golf legend, in Eastern Europe, Russia and Central Asia in his golf course designing business. To date he has identified and successfully negotiated the contracts for the design of six Nicklaus signature golf courses in Russia and Central Asia.

Mr. Gaughan holds a B.S.B.A. from Georgetown University, an M.B.A. from Babson College and a J.D. from Fordham University Law School. He served as an Assistant District Attorney for Erie County, New York and worked as a licensed stockbroker for Merrill Lynch.

Vincent was born in the United States.

*Russia is set to host a number of major international events – including the 2014 Winter Olympics in Sochi – as it looks to boost its international profile.*



**Christopher J. Weafer**  
*Email: cjh@macro-advisory.com*

Chris Weafer has worked in Russia for more than fifteen years. Most recently he was voted the best Russian investment strategist for 2013 by investors in separate polls carried out by Thomson Reuters Extel and Institutional Investor magazine. He has regularly placed in the top three of these respective polls over the past ten years.

Before leaving to co-found Macro Advisory, Chris held the position of Chief Strategist at Sberbank-CIB, Russia's largest bank and one of the biggest banks in Europe. Prior to that he served for four years as Chief Strategist with Uralsib Financial Corporation and for five years with Alfa Bank, two of Russia's largest privately owned financial groups. His first role in Russia was as Head of Research with Troika Dialog, a privately owned investment bank, from June 1998. He held that position for over four years.

Prior to coming to Russia, Chris worked as Head of Research for NatWest Markets in Bangkok, Thailand, during the Asian financial crisis of 1997-98. Before that he was Senior Investment Manager at the Abu Dhabi Investment Authority, one of the world's largest sovereign wealth funds, based in Abu Dhabi City. Chris started his investment career with the Irish Life Assurance Company in Dublin, Ireland, and has accumulated over thirty three years experience in emerging markets.

Chris is the author of a wide variety of published articles about Russia, Central Asia and the trends in macro oil. He is also widely quoted in the international financial press and appears regularly on CNN International, BBC, Bloomberg, Reuters and Russia Today on these and related subjects.

Chris was born in Ireland.

## TABLES AND INDEXES

Russia Macro Data - 5 years					
	2010	2011	2012	2013F	2014F
GDP, \$ bln	1,478	1,849	2,013	2,100	2,180
Real GDP, y-o-y	4.5%	4.3%	3.4%	2.2%	2.2%
Industrial production, y-o-y	8.2%	4.7%	2.6%	1.0%	2.0%
Budget balance, % of GDP	-4.0%	0.8%	0.0%	-0.4%	-1.0%
CPI, end of year	8.8%	6.1%	6.6%	5.9%	5.5%
CPI, average	6.9%	8.6%	5.1%	6.2%	5.6%
Lending rate, average	10.8%	8.5%	9.1%	10.0%	9.0%
Deposit rate, average	6.0%	4.4%	5.5%	5.0%	4.5%
Unemployment	7.5%	6.6%	5.7%	5.2%	5.0%
Average monthly wages, R '000	21	24	27	29	31
Trade balance, \$ bln	152	198	193	170	137
Current account, \$ bln	70	99	75	55	25
FDI, \$ bln	43	53	55	65	70
Monetary reserves, \$ bln	444	454	487	487	487
Foreign public debt, \$ bln	47	46	70	76	80
Foreign public debt, % of GDP	3.2%	2.5%	3.5%	3.6%	3.7%
Foreign private debt, \$ bln	442	493	568	670	730
Total Foreign debt, % of GDP	33%	29%	32%	36%	37%
RUB/USD, aop	30.4	29.4	31.1	31.9	33.3
RUB/USD, eop	30.9	31.4	30.8	33.0	33.5
RUB/EUR, aop	40.3	40.9	39.9	41.6	42.6
RUB/EUR, eop	40.8	41.5	40.3	43.5	42.9
Urals, average, \$/bbl	78	109	110	108	100

Historic data: State Statistics Service & Central Bank. Forecasts: Sberbank-CIB

Commonwealth of Independent States				
Country	Population (millions)	GDP US\$ billions*	GDP Growth**	
<b>Full Members</b>				
Armenia	3.3	10.6	2.1%	
Azerbaijan	9.2	71.0	3.8%	
Belarus	9.5	58.2	4.3%	
Kazakhstan	16.9	196.2	5.2%	
Kyrgyzstan	5.7	6.2	0.8%	
Moldova	3.6	7.6	4.4%	
Russia	143.3	2,000.0	3.4%	
Tajikstan	8.0	7.3	2.1%	
Uzbekistan	29.9	51.6	4.1%	
<b>Associate Members</b>				
Turkmenistan	5.2	33.5	6.9%	
Ukraine	45.6	175.2	0.2%	
<b>Total C.I.S.</b>	<b>280.2</b>	<b>2617.4</b>		

\* based on UN data for 2012 and Sberbank-CIS research

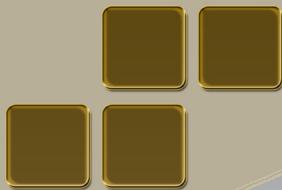
\*\* based on Asian Development Bank and Sberbank-CIS research for 2013

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## **CONTACT US**

**Myasnitskaya 24/7  
Dom 3-4/4  
Moscow 10100  
Russian Federation**

**Email: [info@macro-advisory.com](mailto:info@macro-advisory.com)  
Telephone: +7 916 349 2039**