

A breed apart with influential allies Stephen Schurr and Neil Buckley take a detailed look at how the biggest and one of the most consistent investors in Russia has ended up being barred from entering the country: [LONDON 1ST EDITION]

NEIL BUCKLEY and STEPHEN SCHURR. **Financial Times** [London (UK)] 28 Apr 2006: 19.

Full Text

Everyone and anyone invested in Russia during the past five years has made money, thanks to the natural resources and emerging markets boom that lifted Russian equities 83 per cent in 2005.

But friends and competitors alike acknowledge that Bill Browder is a breed apart.

The chief executive of Hermitage Capital Management, the Dollars 4.1bn (Pounds 2.3bn) hedge fund that is the largest foreign investor in Russia, has drummed up his fair share of publicity thanks to aggressive efforts to improve corporate governance at Russian companies.

Since news broke last month that Mr Browder has been barred since November from entering Russia over national security concerns, he has become the news story at the centre of the debate about Russian markets and corporate governance.

His public relations coup, arguably, is prompting Clara Furse, the London Stock Exchange chief executive, to write to Vladimir Putin, the Russian president, to complain that the banning could do "significant damage to Russia's reputation". She led a series of high-profile political and business figures to lobby on his behalf.

Browder declined to comment yesterday on how he was able to marshal the support of such an important figure in the UK market, as well as an array of political and business names lobbying for his cause. But the answer lies at least partly in Mr Browder's relentless self-promotion, and his extensive list of contacts gathered in the process. He lists among the backers of his funds a slew of high-profile US and UK investors, including HSBC, Goldman Sachs, UBS, Citigroup, Credit Suisse, JPMorgan and Rothschild.

UK investor money accounts for about Dollars 700m of his fund, with another Dollars 1bn invested by US clients.

In Moscow, Mr Browder is widely seen as having done more than almost anybody else to promote the development of the Russian market. After coming to Russia in the early 1990s for Salomon Brothers, he was struck by the extent to which he believed Russian assets were undervalued.

With Dollars 25m raised from private foreign investors, he launched his fund in April 1996.

He was one of the few investors to keep faith after Russia's financial crisis in 1998. His fund has owned Gazprom stock since 1996 but made a large investment in it in 1999, when Mr Browder says the Russian gas company, that is now among the world's top half- dozen companies by market capitalisation, was "ridiculously cheap". That has helped Mr Browder claim the title of being by far the biggest foreign investor in Russia - almost the size of his three biggest competitors combined.

He has also been one of the biggest foreign supporters of Mr Putin's economic policies.

Mr Browder was so positive that the Kremlin reprinted one of his presentations, "How the West has got Russia wrong," and circulated thousands of copies to Russian embassies worldwide.

He has delivered upbeat assessments of Russia's prospects to the World Economic Forum in Davos and regularly criticised foreign media for what he believed was their overcritical coverage of Russia.

Mr Browder was also one of the few foreign investors to maintain that the legal assault on Mikhail Khodorkovsky, the Yukos oil chief who was once Russia's richest man, was justified - though he criticised its handling by the authorities.

That makes his exclusion from Russia all the more surprising and ironic.

"He was one of the people who made the Russian market," said one Moscow-based investment analyst. "I think a lot of people were sincerely horrified when he was barred."

The series of campaigns he waged on corporate governance brought him into conflict with some of Russia's 1990s-era oligarchs and, more recently, state-controlled companies. That made him some powerful enemies.

He published an annual "forensic audit" of governance at Gazprom and was instrumental in exposing some of the previous management dubious practices.

Most recently, Hermitage has been involved in a lawsuit against Surgutneftegaz, an oil company close to the Kremlin, over alleged misuse of treasury shares by the management. Many in the Moscow market suspect his exclusion from Russia could have something to do with this latest case.

Mr Browder himself said he did not know why he has been barred.

"(He) has been a very high-profile figure on a market that has gone from being a very niche emerging market to one that is getting global attention," said one US hedge fund investor in Russia. Mr Browder oversees the Hermitage fund assets from his London office. This is hardly atypical for a Russia-focused fund.

Indeed, of the 15 largest funds in Russia, 12 of them are located outside of the country, including London-based managers such as Andrew Giles, at Charlemagne Capital, Mattias Westman, at Prosperity Capital, Yves Bayle, at Global Markets Opportunities fund, and Oleg Biryulov, at JPMorgan Russian Securities.

Russia-focused funds have not suffered from having a London headquarters.

The value of Mr Westman's Prosperity Russia fund has more than doubled over the past 12 months, according to Bloomberg data, as has that of Mr Browder's Hermitage fund.

But, in a recent interview with the Financial Times, Mr Browder said: "There is no substitution for being on the ground in Russia."

Hermitage has a staff of analysts in Moscow, which Mr Browder said was essential because "you still can't believe what companies tell you and what brokers tell you".

Of course, not every outside investor in Russia is uniformly supportive of Mr Browder's activity. "On the one hand, I deplore anybody keeping anybody from going anywhere. On the other hand, none of us have an absolute right to go abroad and lecture foreign countries on how to do things," said John Connor, New York-based manager of the Third Millennium Russia fund. "In some cases, he's right on principle but not always sensible."

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☐ Indexing (details)

People	Browder, Bill
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