

for financial advisers only



popular uprising

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Russian stock market growth is not all about energy; it's also about a rapidly expanding middle class, says **Robin Geffen**.



The Russian stock market performed remarkably in 2009, rising by over 80% in the 12 months to the end of December.* The two major influences that drove the market were the positive movement of the oil price and the stability and strength of the Russian rouble. These factors enabled sustained consumer spending that, along with relatively low levels of unemployment, resulted in strong returns across the majority of sectors. That strong return was especially within consumer staples, the Neptune Russia & Greater Russia Fund's largest sector overweight.

Indeed, the star performers of the Russian stock market last year were consumer stocks, such as food manufacturers and food retailers, several of which were up well over 100% in 2009. Whilst 55% of the Russian stock market consists of energy stocks, this belies its diversity and the numerous opportunities to be had across many major industries. Recent years have seen the economy's growth percolate down through society and there are enormous numbers of people benefiting from this. In particular, with the phenomenal increase in the average wage in Russia – which has nearly doubled in the last three years – and the consequent steady growth in disposable income, the economy is increasingly consumer-driven; in 2000 only 8% of Russia's population was middle class yet by the end of 2008 this figure had risen to over 24%."

growth potential

Looking to the rest of this year, our expectations are that company profits will rise somewhere in the order of 47%. As this is a stock market that still only trades at around 9x historic earnings, it is not difficult to see a very good rise in the Russian market over the medium term on the back of these high corporate earnings. Even if the market does not re-rate upwards, the growth in earnings will enable the market to make some very useful gains this year.

At Neptune, we have no doubt that emerging market growth as a whole is a sustainable feature over the next decade. The fast level of growth being witnessed in China is having an enormous impact on the world's demand for energy and raw materials, of which Russia is one of the world's leading producers. For example, one of the most significant trade deals in 2009 was China's extension of a US\$15 billion loan to two Russian companies, Rosneft, the oil company, and Transneft, the pipeline company. The loan is repayable in crude oil at market prices over the next 20 years – highlighting China's focus on securing supplies of energy to support its dramatic economic growth. In this respect, China's growth is very positive for Russia, and they certainly look to be two of the most attractive markets over the next three to five years.

significant market

Russia is a very important part of the global economy and it is important that investors maintain exposure to its growth potential. It is our belief that over the next 15 years China will become the world's largest economy and Russia will take its place in the top five global economies. The Neptune Russia & Greater Russia Fund aims to benefit from this anticipated high level of growth. Indeed, the Fund – the first UK onshore OEIC launched solely to invest in Russian equities – has substantially outperformed since its inception in December 2004, returning 209.5% compared to the IMA Specialist sector average of 83.8% over the same time period.*

Robin Geffen is Fund Manager of the Neptune Russia & Greater Russia Fund and Managing Director at Neptune.

The Neptune Russia & Greater Russia Fund is available through the Skandia Investment Solutions platform.

*Source: Lipper, A Accumulation share class performance, IMA Specialist sector, no initial charges, net income reinvested to 26 February 2010. Launch date: 31 December 2004. The performance of other share classes may differ. Past performance is not a guide to future performance.

**Source: World Bank.



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