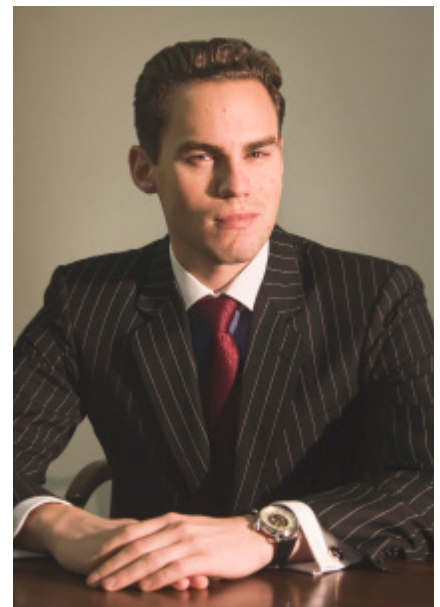


RUSSIAN PRIVATE EQUITY RECRUITMENT MARKET — FACTORS AND TRENDS

The Paradox of Private Equity – the short term view. In the West it has for years been the ultimate goal, to be on the buy-side. No longer chase the market for Mergers & Acquisitions mandates but be the one who is tendering the market for potential opportunities to invest. Yes, almost all investment bankers in New York and London coming from Goldman Sachs, Merrill Lynch, Morgan Stanley and Credit Suisse etc, view private equity as the most glorious and final destination of their careers.



Erik Stromqvist,
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Is that the case in Russia?

Not necessarily, in Russia there are essentially three types of private equity. First, the traditional western fund structure with numerous of foreign investors. Second, the normally vastly diversified Russian oligarch's investment portfolio. Third, the new emerging structures - joint-ventures between state and/or oligarch money coming together with an established private equity firm or an International investment bank. All of the above, being correlated to state interests and bank guarantees in one way or another.

The new emerging joint-ventures are essentially driven by one main factor – financing. In the west high levels of leverage on the capital of the fund have until the crisis been the norm. In Russia with substantially higher cost of funding, most investments have normally been 100% pure equity being invested. By joining forces more can be achieved. One example would be Infrastructure projects, where political connections and access to large scale financing will be a key ingredient.

Another dimension is the importance of corporate governance for investors, which is one of the main challenges for Russian government to address in order to increase the flow of international investments. Valuation is another, when making a due diligence and comparing a listed company, with non-listed target of similar sort, agreeing on a price tag has proved to be difficult, of course linked to the fact that the Russian stock exchange outperformed all other markets globally. This being one of the reasons why there has been so few M&A deals year to date.

How does this affect the recruitment market?

The above is clearly not great advertisement for private equity recruitment. Private equity as a topic of conversation still attracts a lot of attention among the people in the market, however there is a growing trend for people making more comprehensive due diligence before joining a new structure. With the investment period closing in some of the established funds, add to this the difficulties in attracting new substantial flows of capital due to the fact that the current flow of international funds tend to favor public equity investments. Moreover, the need for cost-cutting measures is likely to fuel the negative sentiment of frustration in the field.

In general, opportunities are far and few in between, people are no long ready to compromise on compensation levels to enter the field of private equity, unless they have been let go by their former employer. This category still being of a slowly growing number is still the trend, as well as the difficulties of "placing" people who are unemployed. In contrast, surviving the difficulties in the market is

clearly a boost in the stock value of the candidate.

During the crisis, salaries have been haltered, bonuses being delayed and promised promotions not materialized. Given the discrepancy between different structures and imperfect Russian market in terms of compensation does not facilitate great support in negotiations with clients versus candidates' expectations. Which in the world of a headhunter is gives reason for headache. This being especially true in the span of junior to mid-senior level recruitments.

The weighted power between buy-side and sell-side is another part of the equation. Asset management as a field is still rather new to Russia, without gigantic established long term funds, insurance companies and pension funds and so forth. In paradox to the west compensation levels are generally more generous among the people who can bring the funds, as opposed to those who are actually managing them. Needless to say the ability to leverage financially is one of the driving factors in candidate behavior, currently favoring the sell-side.

Salaries in Russian private equity funds.

Title	Fixed salary per month (RUR*)
Managing Partner	700,000+
Managing Director	450,000 - 700,000
Investment Director	300,000 - 450,000
Investment Officer/VP	180,000 - 300,000
Associate	130,000 - 180,000
Senior Analyst	100,000 - 130,000
Analyst	80,000 - 100,000

*01.01.2010 1 USD=30.1851RUR

Will the trend continue?

Today, we see private equity people of all seniority levels opening the door to potentially leave the industry or to join a larger structure as well as going back to Investment banking M&A. In general private equity in Russia is still rather underdeveloped. Also, deals are not always revealed to the open market, but agreed upon in other contexts and arguably with orthodox valuation models. Even though history have produced rather astonishing IRR in the past, people tend to reason that the number of completed deals is what counts, irrespectively on which side of table the person was sitting,

and that will play a major role in the decision-making process of the candidate. In this context, yet another paradox is emerging. The sentiment among heads in Investment Banking being reluctant to re-hire or bring private equity people into the hierarchal structure of an Investment bank. Compensation, expectations of seniority levels, politics, and perception of deal sheets and how deals were originated as well as the perception of work capacity are arguably the main factors supporting this trend.

Bullish future

The 2009 recovery performance of the Russia the stock market and soaring oil prices is most likely to once aging increase the appetite to invest in CIS, private equity included. The planned state process of floating state interests through IPO's will also be a driving factor broadening the exit strategies of these newly formed structures. The well-informed and long term oriented candidates in the investment field are like to remain pro private equity. Surprisingly,

recent trends also suggest more opportunities for expatriates in certain areas, to build up recognition, corporate governance reassurance, investor confidence and seniority, less surprisingly in the context of fund raising. With more funds slowly entering the market will further feed the development of the industry into more professional environment, and hence, the need to find good personnel.

Compensation structures have traditionally been the keystone of Private equity's attractiveness. However, when the promised leverage of being part of the fund's investment is not realized, the short-term sentiment in the local market becomes very evident. In sum, we believe private equity will continue to play an important role, highly correlated to the success of the recent established joint-ventures. However, in the short term investment banking may be on the rise. The choice to maximize short term return on hard work and number of completed transactions – which is what is all about for the successful finance professional – also in financial markets recruitment.



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