TKB INVESTMENT PARTNERS

Flash note
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"Russian Google", exposure to gold and other major changes in the MSCI Russia 10/40 index

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On 1 September, Yandex was included into MSCI Russia 10/40 index with the weight of close to 10%. Yandex is the "Russian Google", successfully competing with the Google internet search engine in Russia. Yandex has also become Russia's biggest ride-hailing company since starting a joint venture with Uber there. It is the first Russian high-tech company to be included in MSCI's Russia indices.

We see this as another step on the road to the Russian equity indices gaining a more diverse structure. It is worth reflecting on how far the Russian market has progressed in this journey over the last five years.

Main changes in MSCI Russia 10/40 index structure

Category	2015	2020	Change
Privately controlled companies	49.5%	72.8%	+23.3%
High-tech companies	0.0%	9.7%	+9.7%
Gold producers	0.0%	9.5%	+9.5%
Steel producers	4.5%	8.4%	+3.9%
Energy	41.0%	34.8%	-6.1%
Banks	18.1%	11.5%	-6.3%

Note: end of 2015 vs. 1 September 2020
Sources: MSCI, BNP Paribas AM, TKB Investment Partners, September 2020.

Dominance of privately controlled companies. Privately controlled companies now account for 72% of the MSCI Russia 10/40 index compared with around 50% five years ago. This rise has occurred mainly at expense of state-controlled companies in old-economy sectors such as fixed line telecoms, banks, power utilities and oil & gas. We believe that privately owned companies allocate their capital better than state-run firms, both in the world (as shown in a recent OECD paper) and in Russia. This bodes well for the future returns from the Russian equity market.

High-tech. Besides Yandex, we believe that Mail.ru, a "Russian Tencent", is highly likely to be included in the MSCI Russia index in November 2020. Another candidate for inclusion is Tinkoff, the largest purely online bank in Russia and the world.

Gold producers. At the end of 2015, there were no gold producers in the MSCI Russia indices. Now there are two, with a combined weight of close to 10%.

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Survival of the fittest. As in nature, where the most adaptable, strongest and smartest survive, Russia's equity market constituents have become stronger and better managed. 2014-2020 was a tough period for the Russian market and the country's economy having to deal with major oil price swings, the imposition of sanctions and of course the COVID-19 pandemic. In the face of such challenges, many weak companies went under, while stronger companies took their place in the index. Looking ahead, we believe this is likely to improve the chances of the Russian market outperforming broader emerging market equities.

Note: The above-mentioned companies are for illustrative purpose only, are not intended as solicitation of the purchase of such securities, and does not constitute any investment advice or recommendation

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