

NEW MINERVA REPORT

Jupiter Emerging European Opportunities

STEP BACK

It is very important that everyone should try and take the occasional step back to look at things from a wider perspective. If we get too closely involved with the day-to-day moves and emotions, we can miss out on the bigger picture.

The front page article ends with the thought that higher interest rates might be more helpful for the future outcome of the US economy. This may seem ironic, but one of the problems with these low interest rates is that they enable many companies and individuals to muddle along. Higher interest rates would effectively cut out some of the dead wood. This failure to remove can be seen at its clearest in Japan. Over there they have muddled along, avoiding most of the hard decisions. Instead of putting companies out of their misery, they have allowed the walking dead to continue. This has meant that the good companies have been potentially crowded out by the bad. This is particularly true when the bad are additionally helped in their troubles by the government, for example in the Japanese banking system. But that is another story! The point is, when there is no cathartic recession, the economy will not be able to bounce back strongly. This is particularly true when the economy has previously experienced an excessive boom. If we take the logic of this thinking forward, we can expect to see the US economy at best chug along at sub-standard growth. In order to increase our investment returns, we will have to look to diversify away from the US. It is not just the US. We already know of Japan's demise, and Europe isn't an awful lot better. Here also we find that economic growth is sclerotic at best. So without the US, Japan and Europe where else should we look? There are two major political players who have been outside the economic world events, which could, over the next few years, change dramatically. The obvious one that comes to mind is China. We have mentioned China before, and will return to it in a future issue. We think it holds substantial potential over the next few years. The other major future economy is Russia. After the fall of the Berlin Wall, the collapse of communism and the break up of the USSR, Russia has been consigned to the status of bread basket. As recently as 1998 the Russian Government under Boris Yeltsin defaulted on the interest payments of its bonds. The change since then has been extraordinary. By total co-incidence, as we were pulling together our thoughts on Russia, we met up with Elena Shafton. Elena is to be the fund manager of a new fund being launched by Jupiter, called the Emerging European Opportunities Fund. This fund will be the first authorised UK unit trust that can invest in Russia as an 'eligible' market. In fact Elena expects to invest 47% of the fund into that market. Elena was born in Latvia, but identifies very strongly with Russia, having lived most of her early life in Serbia.

RUSSIAN CHANGES

Elena underlined the huge strides the Russian economy has made under Vladimir Putin. It has grown for the last three years. The government is no longer 'in the red', and foreign reserves have grown to \$45.6bn. Putin has a popularity rating of 75%. His move after the September 11th attack has propelled Russia back into the main fold of world politics. But this time it is as a friend, and not as a foe. He has surrounded himself with strong advisers, many of whom have been educated in the West. He no longer believes that Russia's future lies in being strong militarily, but in being strong economically. To follow this, he has had to embrace change. The first thing he did was call the oligarches, and make a deal with them. If they played straight, paid their taxes, and kept out of politics, they would be allowed to keep their assets, no questions asked. Most have complied. Those that haven't have been cut out one by one. The second change was to the tax system. Personal income tax was set at 13%, and corporation tax at 24%. Prior to this, corporation tax was so complicated that some companies were effectively paying 120% tax. Not good business! The change in the tax system has been the major change of fortune for government finances. Reform will not stop here. Putin is pushing forward on banking reform, on deregulation to remove the burdens and on bribes within the bureaucratic systems. Finally he is pushing forward on legal reform. These reforms will maintain the economic growth and make the economy less commodity driven. Russia has got a long way to go. But it has moved a long way already in a very short time.

We like the look of the new Jupiter fund. It is being launched on 16th September, with a 50p offer period from 9th September. This is a fund to tuck away, but which could show substantial gains over a shorter time frame. Apart from the Russian story, it will also invest in countries who are trying to join the EU. As we have seen in other countries, the period prior to joining the EU and the Euro, can be very beneficial for their stockmarket.

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