



Russia Ukraine – March 2022

The conflict between Russia and Ukraine will be the catalyst for major shifts in global financial markets. Two weeks ago, we released a short video outlining our thoughts on the invasion of Ukraine by Russia. We briefly discussed our approach as it relates to hedging risk as well as managing assets in our portfolio. [Click here to watch the video.](#)

To give more perspective, we highlighted Bill Browder, author, *Red Notice: A True Story of High Finance, Murder, and One Man's Fight for Justice*. The book explores the many facets of modern-day corruption in Vladimir Putin's Russia.

Bill Browder Overview:

Browder, CEO and co-founder of Hermitage Capital Management, the investment advisor to the Hermitage Fund, once the largest foreign portfolio investor in Russia. Browder's firm delivered stellar returns by exposing corruption at major Russian companies, bringing about company shake-ups, and boosting share prices. At one point, Hermitage, led by the American born financier and political activist, managed \$4.5 billion of assets.

In 2005, Browder was blacklisted after ten years of developing strategies to mitigate risk associated with Russia. The Russian government labeled him as a "threat to national security" and denied entry into the country. The Economist wrote the reason the Russian government blacklisted Browder was because he interfered with the flow of money to "*corrupt bureaucrats and their businessmen accomplices*".

Over the next few years, Browder and his close associates, as well as their families, became the victims of a multitude of Russian crimes. On numerous occasions, individuals were intimidated, beaten or even robbed. Further, the Russian government and law enforcement conducted numerous raids on Browder's fund. Sadly, the raids and freezing of funds was never found to be lawful.

The book, released in 2015, is a New York Times Best Seller.

Browder is a frequent guest on international media outlets as well as is a regular guest on numerous cable TV shows.

Browder also remains very active on his Twitter account. [You can find him here to read all his opinions regarding geopolitics and finance.](#)

Browder's vast expertise on Russian affairs and finance makes his book an excellent read to give a more robust perspective.

Sanctions against Russia by the West

The list of financial, economic, and personal sanctions against Russia and Russia's elite was swift and comprehensive.

Here are a few of note:

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- Sanctions have been placed against Russian banks and Russian oligarchs. Russian banks have been banned from borrowing from Western banks, various imports have been limited, Russian diplomats and oligarchs have been banned from countries (their assets have also been seized on some level), Russian banks have been banned from the SWIFT system (banking), numerous western companies have also closed down their services or stopped selling their goods within Russia (Apple, Microsoft, Visa, Mastercard, etc.)
- Recently Canada and the U.S. have also banned imports of Russian oil and gas. The U.K. also has made the decision to ban Russian energy as well.
- Essentially western nations are attempting to handicap Russia and cause it massive financial stress. Ukraine allies do not want to enter the war but, do want to support them. The sanctions against Russia have made the Russian federal reserve less valuable, the Ruble less valuable and the Russian “war fund” less valuable.

Russian Stock Market Closed and Circling the Drain

Russia’s flagship index, the MOEX, has been closed since February 25th, 2 days after the invasion of Ukraine.

The MOEX, is down 38% year to date but, once it reopens it will go into free fall. Russian ETFs and stocks that trade in the U.S., England, and other nations are down 70-80%. Liquidity has been stripped from investors, certain Russian funds are not allowed to be bought and trading platforms have even banned Russian assets.

By all estimates, the entire Russian economy and financial system are in free fall.

U.S. ETFs with the largest exposure to Russia:

Top 10 stock funds with largest Russia exposure

Ticker	Stock	% of portfolio
ERUS	iShares MSCI Russia ETF	95%
RSX	VanEck Russia ETF	93.9%
GQGRX	GQG Partners Emerging Markets Equity R6	16.6%
DVYE	iShares Emerging Markets Dividend ETF	16.5%
N/A	JNL/GQG Emerging Markets Equity I	15.6%
KGGIX	Kopernik Global All-Cap I	13.5%
GMOEX	GMO Emerging Markets III	13.3%
GTDDX	Invesco Emerging Markets All Cap A	11.6%
GOFIX	GMO Resources III	10.7%
FNDE	Schwab Fundamental Emerging Markets Large Company Index ETF	9.3%



Various western asset managers also have deep exposure to Russia. The Russian stock market has historically traded in deep value territory, large-cap Russian stocks trade at low multiple and have high dividends, the reason they trade at such a discount is something like this happening.

The **Financial Times** published an article on the freezing of Russian assets, investors cannot access their capital and still have no idea what redemptions they will have.

An excerpt from the article:

Russia-exposed funds with more than €4bn in combined assets have been frozen in Europe, preventing investors from heading for the exits as they grapple with unprecedented western sanctions imposed on Moscow after its invasion of Ukraine.

At least 22 asset managers including JPMorgan, BlackRock, BNP Paribas, Franklin Templeton, Amundi, UBS, Schroders, Liontrust, Danske Bank, East Capital and Pictet have suspended funds since the invasion, meaning investors are now stuck with no indication of when they might be able to withdraw their money from these vehicles, according to data from Fitch and announcements from the managers.

More suspensions are expected, with assets held in Russia-focused mutual funds sold in Europe standing at €5.7bn at the end of January, according to Lipper, the data provider.

Bill Browder's thoughts on global sanctions placed against Russia:

Bill Browder claims the worst has yet to come, he believes the Russian economy will eventually fall into a deep depression.

Browder believes the Russian GDP will eventually tank by 20-25%; he believes we have never seen financial sanctions at this magnitude in modern times. A 20% decrease in GDP would be the lowest GDP since 2006 for Russia.

Browder stated that it is one thing for Western governments to alienate and sanction Russia, but private business leaving Russia and refusing service in Russia could be impossible for the economy to recover. He has recently called for every western company to leave Russia and stop providing services to Russia. This may be happening as a result of the invasion.

Browder explains the only way to win versus Putin is making him financially obsolete and making this war so expensive he cannot afford it. *Browder has long speculated that Putin is the richest man in the world, in 2017 he estimated Putin was worth north of \$200 billion.*

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We should 'starve Putin of money': Browder warns we're only scratching the surface sanctioning the oligarchs

Browder also explains that this move is also a power grab for Vladimir Putin, a move for him to stay in power. Browder explains the move is not just about Ukraine or the EU, it's about the opposition of Russia and showing power.

In recent years, the Russian population support for Putin has shrunk. Stealing public and shareholder money has fueled this outrage. The mafia in Russia is the actual government. The members of the mafia have worked together for decades or are related. A large portion of Putin's inner circle are billionaires, the power and corruption in Russia are real.

Browder also believes the movements in recent years by Russian allies, Belarus and Kazakhstan could be foreshadowing for Russia and Putin is scared of that.



In 2020 and 2021 there were massive protests in Belarus against the government and corrupt President who has been in power for longer than Vladimir Putin has been in power in Russia. The Belarussian President has referred to himself as “the last dictator”. The protests were in the lead-up to a national election. Election results were rejected by the opposition and parts of the population as the incumbent claimed to have 70% of the votes. The EU rejected the results of the election and numerous countries around the world called the process a “sham” and have not recognized the President.

Protests continued for months and were supposedly only controlled when Russian forces entered to assist the Belarus government. Belarus has been Russia's biggest help during their invasion of Ukraine.

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Riots have also occurred across Russian ally Kazakhstan this year. The President of Kazakhstan has been riddled with corruption since his 1990 election, he has also been labeled as a modern-day dictator. The riots have been against the Kazakhstan regime.

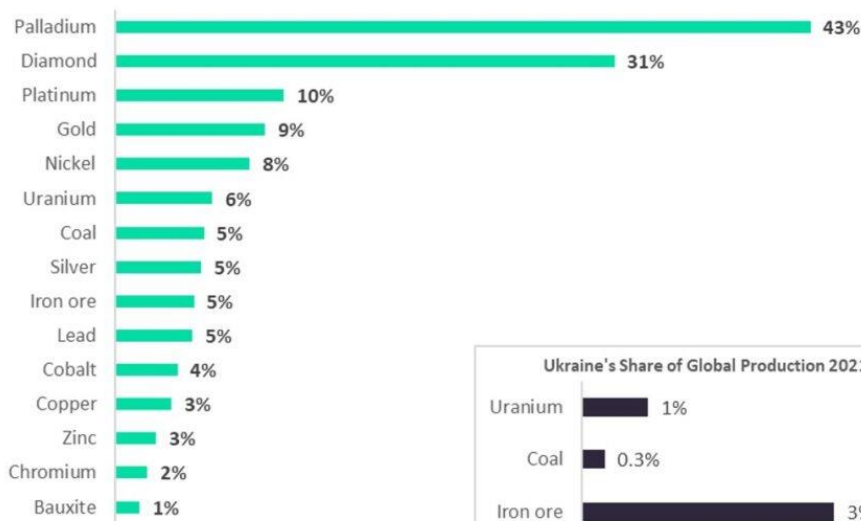


Putin sees the writing on the wall as protests in Russia have increased in recent years. Browder compared Putin's move to one of desperation.

Browder's comments have increased in hostility towards Putin as the invasion in Ukraine continues. He has argued to "knock them back to the stone ages".

These sanctions will continue to cripple Russia but, will inherently lead to higher prices for consumers. Energy prices which were already rising will continue to rise exponentially. Russia is not just an oil and gas nation; metal prices will also be on the rise.

Russian Share of Global Production 2021 (est.)



Ukraine's Share of Global Production 2021 (est.)



The price of Nickel is below:



162% since last April and a majority of that in the last 2 weeks.....

Any person who says the rise of price in fossil fuels should be a catalyst for renewable energy and to buy electric cars should be shown the price of natural gas and nickel. Nickel is a major input in electric cars and natural gas is the main source of power when charging electric cars. Russia is the world's largest nickel producer.

This event may be the impetus for western leaders to understand that dependence on energy from certain countries can present a national security issue. This dependence on a single source of energy can provide the capital needed to fund a dictator's nefarious plans. Green energy will most likely be the future; unfortunately, we are far away from it being a global solution as of yet. Also, we strongly believe fossil fuels will also play a crucial role in our future economy. We sincerely also hope that investment increases in oil and gas exploration so that supply can meet demand. So far it does not look like our hope will become a reality.

Unfortunately, expensive gas might just become the "new normal".

Again, we strongly encourage our readers to read Browder's book and follow his commentary.

Please reach out to us if you have any questions regarding Russia and Ukraine and financial markets.

MacNicol & Associates Asset Management Inc.

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