



**CROSSING SWORDS WITH OLIGARCHS:  
PROFITABLE INVESTMENT AND ECONOMIC DEVELOPMENT IN EMERGING MARKETS  
PRESENTED BY WILLIAM F. BROWDER,  
FOUNDER AND CEO, HERMITAGE CAPITAL MANAGEMENT**

**International Development Club Fall 2006 Speaker**  
Columbia Business School  
October 16, 2006

*On October 16, 2006, Bill Browder appeared at Columbia Business School and addressed more than 200 students, faculty and alumni as the International Development Club fall 2006 speaker. Mr Browder is founder and CEO of Hermitage Capital Management, the premier investment advisory firm specializing in Russian equities, with approximately \$3.5 billion invested in Russia and total shareholder returns to date of approximately 2,500 percent. Drawing upon his groundbreaking experience in Russia not only as an investor, but also a leading shareholder-rights activist and outspoken champion of better corporate governance, Mr. Browder discussed the role played by investors in shaping the business environment. Glenn Hubbard, dean and Russell L. Carson Professor of Finance and Economics, introduced Mr. Browder. Charles Calomiris, the Henry Kaufman Professor of Financial Institutions and academic director of the Jerome Chazen Institute of International Business, moderated the subsequent discussion.*

**“An Unusual American”**

Bill Browder opened his talk by answering a question that he is often asked when people meet him for the first time: “How can this guy with an American accent be the biggest investor in Russia?” Although a native of Chicago, Mr. Browder describes himself as “an unusual American.” His grandfather was a labor union organizer in the 1920s and traveled in 1927 to Moscow, where he would meet his future wife, at the invitation of a group of Communists affiliated with the labor movement. In 1932, he returned to America as head of the American Communist Party. While Mr. Browder humorously assured the audience that “I am not a Communist, or I would not be standing here at Columbia Business School tonight,” he went on to explain that his family background has “had a very profound effect on my life and my thinking.”

### **“A Monumental Decision”**

Indeed, it was this background that led Mr. Browder to direct his career toward Russia after graduating from Stanford Business School in 1989. When describing his decision, he recalls musing, “Well I come from this long line of Communists. Maybe I can make something out of that.” By 1992, Mr. Browder was working as an investment banker on the Eastern European team at Salomon Brothers. Realizing there was no investment banking activity in Russia at that time, he focused his effort there. He received his big break when a request for proposal for an unusual deal crossed his desk: advice regarding the privatization of a fishing fleet in Murmansk, a Russian town 200 miles north of the Arctic Circle. He won the mandate, took the assignment and traveled to Russia for the first time, which he describes as “a monumental decision for me because I learned something there that changed my life forever.”

What Mr. Browder learned was the aggressive privatization that was taking place at that time, whereby national assets were being sold for extraordinarily low prices. As he explained, the Russian government had a program whereby a voucher was granted to each of the country’s 150 million citizens, which collectively could be exchanged for a 30 percent stake in the Russian economy. The fact that the average trading value for these vouchers was \$20 implied that the market capitalization for the entire Russian economy—home of 10 percent of the world’s oil reserves, 35 percent natural gas of the world’s natural gas reserves and 25 percent of the world’s nickel reserves—was a mere \$10 billion! Having identified this, Mr. Browder humorously explained how he returned to the Salomon Brothers office “just crazed with greed.”

By 1993, he convinced his colleagues at Salomon to allow him to invest \$25 million in Russian privatizations. By July 1994, that portfolio grew to \$125 million, and other investors followed in his footsteps.

With the bank’s largest clients recognizing his success and wanting him to manage their money, Mr. Browder decided to leave Salomon Brothers and launch his own fund. He received his first investment of \$25 million from Edmond Safra, owner of Republic National Bank of New York. Mr. Browder moved to Moscow in April 1996 and began making investments. After his fund rose 40 percent in its first month and another 35 percent in its second, a number of other investors expressed strong interest in participating. The fund was opened to new investors and grew to \$150 million under management in the first year. In 1996, the fund was up 228 percent, and grew to more than \$1 billion under management.

### **“Going to War”**

With the Asian crisis and the subsequent Russian default and devaluation, Russian stocks collapsed in 1997, and the value of Mr. Browder’s fund tumbled 90 percent, from \$1.15 billion to \$120 million. At that moment, a major shift occurred in the investing landscape in Russia. As he explained, “There are no rules in Russia to prevent people from misbehaving.” Despite the lack of rules, the Russian oligarchs who held majority stakes in leading firms had held themselves in check in order to gain access to Western capital markets. However, the investment banks of Wall Street became uninterested in dealing with Russia, given the sharp losses they had incurred there. With no incentive to continue playing by the rules, “the oligarchs of Russia embarked [in the fall of 1998] on an orgy of stealing that has been unprecedented in the history of business.” This included such schemes as asset stripping, dilutions and embezzlement. Indeed, “every possible scheme was cooked up and tried out,” according to Mr. Browder.

This threat to his remaining \$120 million compelled Mr. Browder to initiate the corporate governance activism for which he has subsequently become so famous. As he explained, “I didn’t start becoming an activist because it was a good idea; I became an activist because it was the only way you could possibly prevent yourself from going out of business.”

Mr. Browder’s first fight was over Sidanco, the medium-size Russian oil company of which he and his associate, Mr. Safra, owned 4 percent. Vladimir Potanin, the oligarch who owned the remaining 96 percent of the stock, organized a share dilution to triple the number of outstanding shares, with the new shares sold only to his group, at a 97 percent discount. Essentially, he attempted to steal two-thirds of Mr. Browder’s stock. Mr. Browder decided to “go to war” to fight this tactic. Otherwise, he feared, this would become “the new technology for stealing” that would undermine his remaining investments.

Protected by a group of 15 bodyguards armed with automatic weapons, Mr. Browder and his colleagues began a campaign of doing “three things every day to cause economic harm to Vladimir Potanin.” They informed influential Western investors doing business with Potanin, such as George Soros and the Harvard University endowment, who in turn complained to him. They arranged for an exposé of the matter in the *Financial Times*, which was followed by extensive media coverage and made Mr. Browder’s fight the cause célèbre of Moscow. Finally, they approached the Russian SEC, which “had never enforced a single action in the history of their organization,” and convinced it to take action. This ultimately resulted in the suspension, investigation and cancellation of the share issue by the Russian government.

This successful experience taught Mr. Browder that “the only way that one can function in a place like Russia is to fight and to fight like hell.” Since then, he has been involved in 10 major efforts of corporate governance activism involving major firms, such as Gazprom. This has proven to be an enormously successful business strategy, as he has recovered all that he had lost in the crash and then some. Mr. Browder now has more than \$3.5 billion under management, representing a 2,500 percent return for his initial investors.

### **From Cause Célèbre to Persona Non Grata**

From 2000 to 2004, Mr. Browder’s biggest partner in combating the oligarchs was President Vladimir Putin of Russia. As he explains, “One after another after another, [President] Putin helped us fix. I was a great, great fan of his. And, he was a great, great ally of mine.”

In 2004, however, “[President] Putin basically won his war with [the] oligarchs” with an impressive nine-year prison sentence in Siberia for Mikhail Khodorkovsky, Russia’s wealthiest man and most powerful oligarch, on charges of tax evasion. The oligarchs began not only to pay their taxes but also to align themselves with President Putin and the government.

Meanwhile, Mr. Browder continued his activism. This eventually caught up with him in November 2005, when upon arrival at the Moscow airport from London, he was informed that he was no longer allowed in Russia and was subsequently deported. This puts Mr. Browder in the unusual situation of being “the biggest investor who can’t get a visa to Russia.” He has not been back since but continues both his fund management and his activism from London, supported by a team on the ground in Moscow. When asked whether or not he regrets having engaged in activism that resulted in being banned from Russia, Mr. Browder explains, “I think it was absolutely the right thing to do, all the way through.” Spoken like a true activist.

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