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Russian investors shift from aggressive towards risk-averse

Latest Citibank Russia Research "tracks impact of financial crisis"

In January 2009 ZAO Citibank conducted its first research on affluent Russians investment behavior amid the crisis. The results show that affluent Russians demonstrate a very educated approach towards their investment strategies amid the financial crisis by shifting from aggressive and relatively risky behaviours towards more conservative ones, and being ready to pay for safety and stability.

The topic of saving one's money is becoming more and more pertinent as the global financial crisis unfolds and Russian ruble depreciates. How to retain savings? Where to keep them? What changes should be made to investment strategies in the current market conditions? This survey marks the beginning of a series of publications on the role of affluent segment in Russian economy.

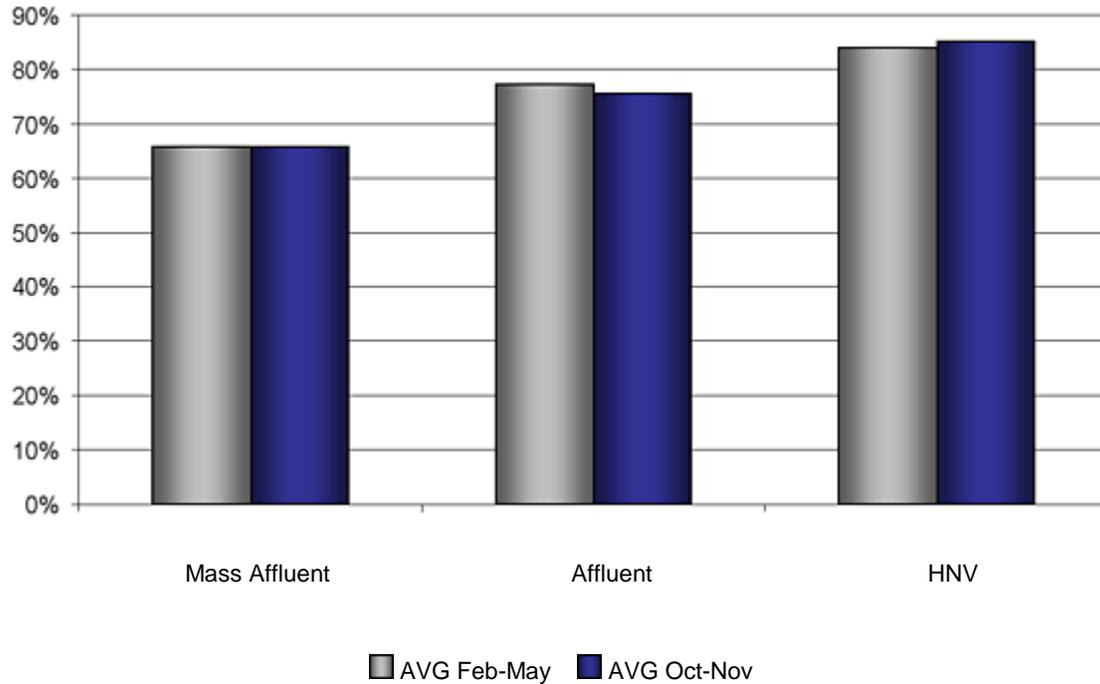
For the purposes of this research, Affluent Segment is defined as those people having more than \$50,000 available in liquid assets at their disposal for investment. It is split into the "Mass Affluent," who have liquid assets from \$50,000 to \$250,000, the "Affluent," with \$250,000 - \$500,000, and the "High Net Worth" (HNW), with more than \$500,000 in liquid assets. The sample is based on CitiGold customers of ZAO Citibank, including both aggressive investors (who allocate their funds to investment and insurance products) and conservative ones (who simply keep money at the bank). Research methods involved the analysis of quantitative data related to the investment operations of customers.

Commenting on the results of research, Veronika Zhukova, Head of CitiGold, said: "Until now, the majority of publications on these topics have covered either the population in general or the so-called "oligarchs". However, the most educated and active investors in Russia, so-called "affluent customers", have never been analyzed. At the same time, they are likely to demonstrate the most weighed and appropriate approach when addressing the emerging challenges, which might serve as a benchmark".

Analytical report on research results

Despite financial turmoil, the percentage of aggressive investors remained stable at 66%, although their number had decreased by about 23% in October-November, as compared to level from February-May. Moreover, as Citibank's online survey of almost 160 affluent customers shows, 49% had made no changes in their savings' strategies as of November, regardless of market conditions.

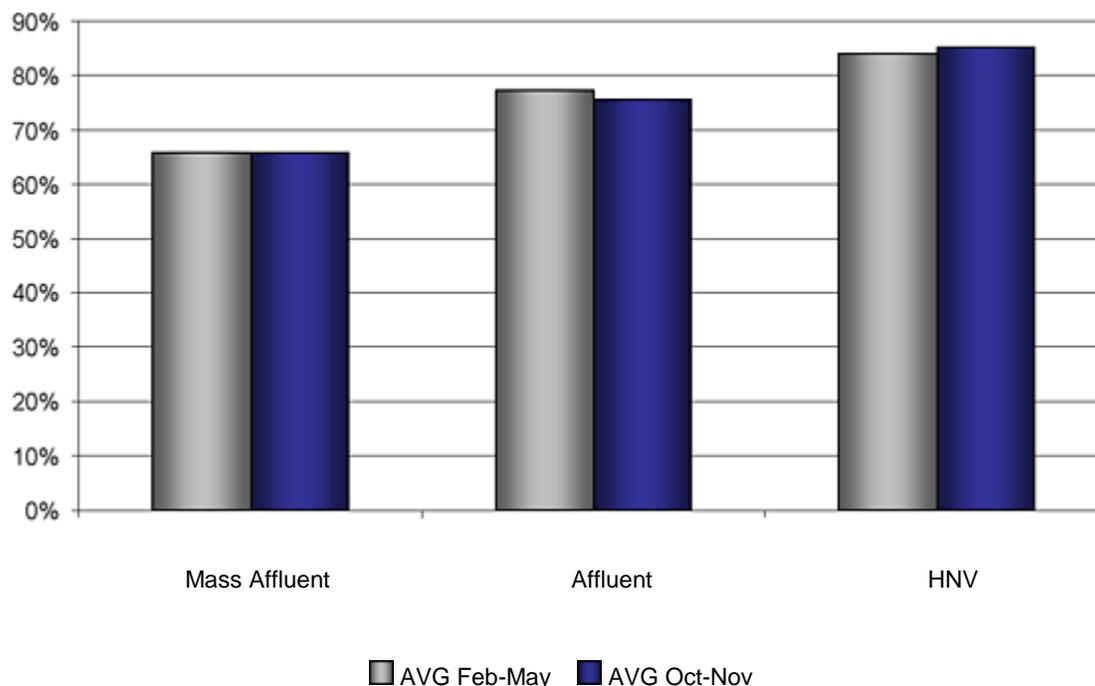
Investment Penetration (in # of active investors)



Source: data of ZAO Citibank

Customers who kept their savings with the bank retained their balances. For the "Mass Affluent" and HNW segments, the balance per customer has declined only slightly in October-November in comparison to the February-May level; there was even a minor increase in the balances of the "Affluent" segment. Overall, this shows that "Mass Affluent" customers, regardless of whether they are aggressive or conservative investors, are less affected by the market sentiments, both aggressive and conservative investors, than other affluent segments. An outflow of aggressive investors made up 19% in the Mass Affluent segment (in October-November if compared to February-May level) while in HNW the outflow made up 35%.

Number of aggressive investors outflow



Source: data of ZAO Citibank

As for the subscriptions on different insurance and [investment products](#), the average amount per customer has shown only a minor decrease of 8%, suggesting that aggressive investors do not reduce amounts invested, but tend to make changes in their portfolio allocations instead.

In October-November, a growing demand for short-term risk-free fund placements was observed due to ongoing market uncertainty. The most popular time [deposits](#) tenors at this time were between 1 and 3 months. There was also a notable change in the currency structure of investors' assets, with balances in U.S. dollars increasing from 26% in October to 36% by the end of December.

As expected, new subscriptions for investment products showed negative growth in the period of October-November as compared to February-May levels, both in volume and value. Surprisingly, subscriptions on [mutual funds](#) were the least affected — the average subscription amount had even increased by 34%, with the HNW segment having the highest rate (an increase of 70%) — gaining the maximum advantage in the current market conditions.

By the end of the year, a significant evolution could be traced in investors' behaviors in respect to buying into local mutual funds. If in 2007 they had been applying a sector selection strategy, the trend in 2008 shifted towards a stock picking strategy with thorough analysis of financial statements and in-depth focus on risk management.

Interestingly, the financial turmoil revealed a clear tendency towards gradual education of Russian investors, who started to demonstrate a thorough understanding of market cycles. For the first time as the financial crisis worsened, sufficient redemptions on the market have not been recognized.

Having a geographic and asset diversification proves an important feature for Russian investors as they show an interest in investing in international markets and global asset opportunities. In geographic terms, the most interesting funds at the end of 2008 were those with exposure to the BRIC countries, emerging markets and Asia.

Amid the challenging market conditions, insurance products gain popularity — both value (6%) and volume (3%) portfolio increases for these products were observed in the October-December period, compared to February-May; the increase was led by the "Mass Affluent" segment, which has shown 7% and 20% increases in volume and value, respectively. New insurance subscription remained stable in value and insurance average subscription size had even increased by 26% in October-December compared to February-May. In this respect, the "HNW" segment showed the sharpest increase of all at +103%, followed by the "Mass Affluent" segment at +48%. This clearly shows a shift in investors' behavior from aggressive, risky investment strategies towards more conservative ones, demonstrating that they are ready to pay for safety and stability.

Conclusions

Overall, despite the natural outflow of investors in the current market conditions, we can observe that investors demonstrate a very educated approach to the situation. There is almost no drop in balance per customer, while half the investors maintain their usual savings strategies, not rushing to make hasty decisions. We also observe a definite shift from investment to insurance products which gain popularity amid the financial turmoil.