



Interest rates

'Savers who want to ensure that they are still getting a reasonable deal should check rates in branches fairly regularly'

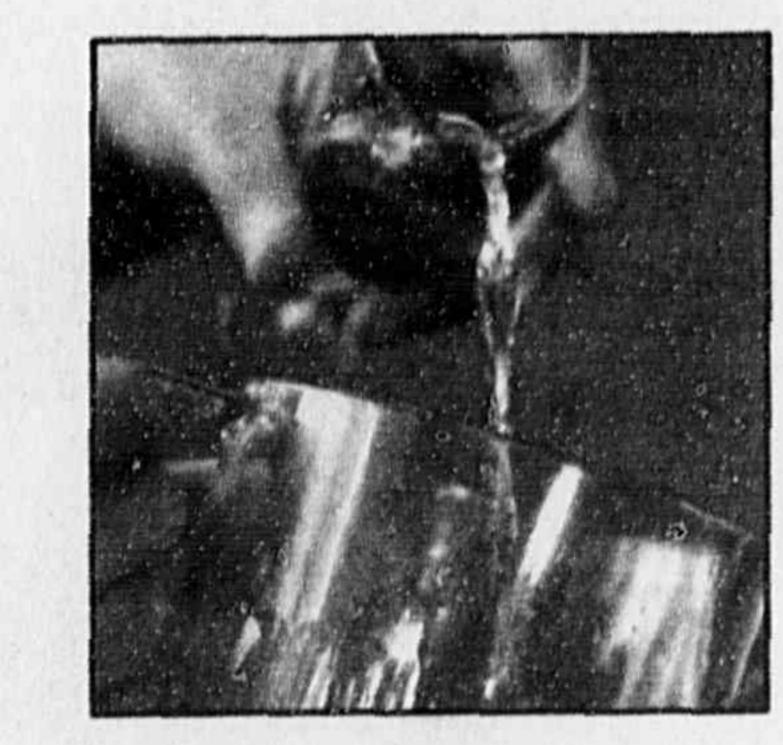
Page 3



Windfalls

'Stop envying those people who got windfalls. They have learned recently shares can go down as well as up'

Page 3



Unit trust charges

'Managers are expected to be given the option of adding an extra charge known as a dilution levy'

# Raiders in the healing arts

tors who take direct too." underperforming companies undervalued companies. What all overs and sell off assets. Their actions are designed to raise the pulse rate of a company rather than strip out its heart.

This kind of activism has increased on both sides of the Atlantic in recent years as a way of enhancing value by forcing through strategic or management change. The shareholder activists are increasingly harnessing the power of large institutional investors, which may be deterred from taking an overly aggressive often the best way to increase stance by their corporate rela- value. They are funded by a com- public fund. "We can act as a tions.

corporate programmes at Institu- Wyser-Pratte, who worked for tional Shareholder Services, com- 25 years on the arbitrage desk of pares activists with the raiders Prudential Insurance of the US, of fundamental drivers to the that launched leveraged take- and operates from a small office growth of direct action investing. overs in the 1980s. "These share- on the 24th floor of a Wall Street" The world is going to polarise holders talk like the raiders of office block, calls what he does into index trackers, which replithe 1980s but act like traditional "street warfare". He combines cate the index movements, and a activists. In the end, they all legal action, proxy voting and the group of people doing active want to see better returns on implicit support of large institu- value investing." His analysis is their investment."

share price up to \$20."

None of the investors described cier George Soros. more money from their invest- alent, there have been two signif- believe the retail investor could may well be too late. founder who left to set up the activist investors and larger opportunity in the future.

hey have been called them. He says: "Raiders try to these involves the Lens fund and

action against underperforming The activists covered by

The new breed of corporate raider aims to cure sick companies, not strip them, writes Jane Martinson

bination of institutional money Patrick McGurn, director of and very wealthy individuals.

over bids in the 1980s. In order to shake-up at Waste Management, cant returns above the index. explain his comparison between which led to the virtual takeover There are few avenues for ordinow and then, McGurn says: of the largest waste disposal nary retail investors to take part

the corporate raiders buy other people's stock and then Hermes, the index-tracking fund of the late 1990s - a sell out. We try to add value and manager for British Telecommudiverse set of inves- we want others to make money, nications, the UK's largest pension fund.

Hermes Lens, a joint venture to companies in order to grab the McGurn's analysis include char- be backed with funds from BT prize of an enhanced share price. acters as diverse as Monks, a cor- and other institutional and But, as befits the caring, sharing porate governance figurehead, wealthy investors, aims to target decade, the motives of recent Guy Wyser-Pratte, a former US up to 10 companies in the FTSE shareholder activists appear arbitrageur, and Michael Price, All-Share index. The new fund benign. They aim to turn round an investor with a passion for will not invest more than 20 per cent of its estimated £150m in rather than launch hostile take- share is a belief that activism is any one company, so it will not hold more than a tiny stake in the larger companies it targets.

Peter Butler, corporate focus director at Hermes, says it aims to harness support from other institutions, and stresses: "We will have a powerful message to take to company boards."

Another example of transatlantic co-operation is Active Value Advisors, which has \$300m invested in the UK stock market. The group is to be given a \$200m fillip from Calpers, the largest US catalyst in releasing value," says Julian Treger, one of the two advisers behind the fund.

Treger says there are a number tional investors, and adds: "We based on the fact that outper-Among the diverse bunch of get involved anywhere where formance becomes harder to investors included in McGurn's somebody says, 'Can you help?'" achieve in an increasingly effianalysis of active investors is As well as acting with much cient market. Only those pre-Carl Icahn, the Wall Street deal- larger institutional investors, pared to focus and devote the maker involved in several take- activist groups act together. The time needed can achieve signifi-



"Whereas once he might have bid group in the US earlier this year, in such active investing. A com- investors are best advised not to of the funds mentioned, although mance. Pensions Investment \$20 a share to take a company, involved Monks' Lens fund along bination of regulatory require- try riding on the raiders' coat- many appear to have outper- Research Consultants, a UKnow he takes action to get the with Relational Investors, an ments, and the simple lack of tails. Once an activist's stake in a formed relevant benchmarks. based group, is about to commisactive value investor, and finan- firepower, means they are often company has been declared, its The jury is out on the link sion its own study on the subject. left out of such developments. presence will be reflected very between "corporate governance" by McGurn would agree with the In the UK, where corporate The minimum investment in the rapidly in the share price. Inves- and long-term performance, activist investors will continue to corporate raider comparison, but governance activism is often seen Focus fund is £10m, for example. tors who try to catch any imme- partly because of a lack of agree- leverage their limited funds with all agree that they want to make as some way behind its US equiv- Nonetheless, several activists diate uplift by buying the shares ment over definitions.

ments. Bob Monks, the ISS icant unions between smaller provide a serious marketing Can the activist shareholders carried out by Calpers, suggest investing is going to increase," Lens fund in the US, is one of institutional groups. The latest of For the present, most private get independent figures on most activist investment and perfor- world is moving."

While such work is going on, the power of corporate gover-Several studies, including one nance. "Of course, this sort of beat the market? It is difficult to there is a correlation between says Treger. "It's the way the

### Contents

pressure

Markets London: Industrials take pounding Wall Street: Giants stay cool

Guest column: David Schwartz Personal finance Interest rates: Savers exert

Luck runs out for windfalls Property surveys 4.6 Companies

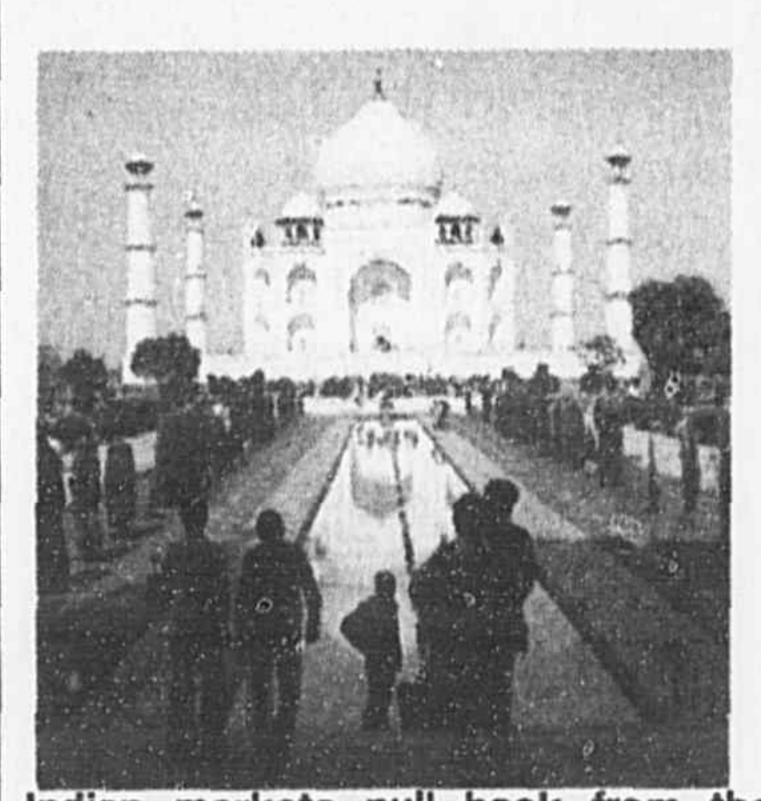
Company in the news: GEC

Financial Planning/ Investment

Briefcase: Our experts answer your

questions Junk Mail Jury Unit trust charges: single price, double trouble

Saving & Borrowing One-year savings rates



Indian markets pull back from the brink. See page 2

	Aim 6
	Annuities 6
	Best borrowing rates 8
	Best deposit rates 8
	Bids 6
	Briefcase 7
	CGT allowances 6
	Directors' dealings 6
1	FT-SE winners & losers 16
	Gilts 6
	Investment trusts 9
	Junk Mail Jury 7
	Last week's results 4
	Market week16
	Money Watch 16
ĺ	Píbs 6
	Pick of Lex 4
	Popular shares 16
	Private investor indices 4
	Results due next week 4
Ì	Saving and borrowing 8
	Company in the news 6
	Serious Money 16
	Smart Money 3
	Tourist rates 16
	Unit trusts 9
	Week ahead 4

http://www.FTQuicken.co.uk Your interactive guide to personal finance

Barry Riley

# The rubble of the rouble

# Europe should be worrying over Russia's troubles

collapse, but it shares problems ussia and its problems of rampant corruption and may seem remote to most of us - why, it is dependence on a shaky currency peg to the dollar. The latter has not even playing in the exposed Russia to the ill effects soccer World Cup - but its of a collapse in the oil price worsening crisis could be more important for the rest of Europe than we think. It depends, though, on whom you believe. "No, Russia is not Europe's Thailand," declares Brian profitability.

Mullaney, at HSBC Securities. Russian contagion will definitely not prove as virulent as the Asian phenomenon. But Martin Armstrong, at Princeton Economics, warns that an imminent Russian economic collapse is a bigger threat to the rest of Europe than the Asian slump. "The real crisis is in

Or is it? François Langlade-Demoyen, at Credit Suisse First Boston, even manages to find an optimistic angle. He says Russian turmoil and the associated capital flight "may well prove to be positive for European equity markets".

Russia," he insists.

Certainly, the main continental European stock markets have flourished in recent months, even taking over the bull market's baton from Wall Street. With the first half of 1998 almost completed, the Europe ex-UK index is up 30 per cent, compared with 16 per cent for the US. The Pacific Basin index has fallen a further 12 per cent during the six months.

Indonesia ranks as the weakest stock market in dollar terms this year, but Russia's index decline of 59 per cent is scarcely better. Russia has escaped an Asian-style banking

(which might better be viewed as a rise in the dollar), and the country's oil barons are said to want a big devaluation to restore Devaluation is ruled out

officially, though, because it would frighten the foreigners

the International Monetary Fund agreed to release another \$670m in short-term support on Thursday, a mooted \$15bn package remains stalled; the IMF does not want to finance another round of capital flight, which has been running at \$20bn a year - although flowing more probably into dollar cash and bonds than European stocks.

Such a shaky financial set-up can perhaps be held together in favourable times, when global

## We could be only a Boris Yeltsin heartbeat away from the collapse of the economic reform process

who provide almost a third of the government's \$60bn of short-term finance. Although overall indebtedness is not high, its average term is very short and the government has to roll over an average of 8bn roubles each week (well over \$1bn), which is why it hoisted interest rates temporarily - to an annualised 150 per cent, at one stage - last month.

A devaluation, incidentally, would also ruin the financial institutions which live dangerously off the speculative spread between dollar rates of 6 per cent and rouble rates roughly 10 times as high. But the rouble seems doomed, anyway.

Right now, Russian consumer price inflation is only about 7.5 per cent, but there is a recent history of hyperinflation and the rouble might go into free fall if confidence collapses. Although

investors have made money on some good bets and are willing to punt their winnings in other high-risk areas. Easy come, easy go; but stock market investors have faced the problem that while Russian corporate assets are often dirt cheap on fundamental criteria, it may be years before they lose their third world characteristics - the stock market fell 39 per cent in May

Is Europe threatened? The trade impact of a Russian meltdown would be serious for some east European countries for which Russia, on average, accounts for a tenth of exports. western Europe's involvement is fairly negligible, however, except for Germany where Russia represents about 5.5 per cent of overall trade. Germany also is the most heavily involved financially, with some \$30bn lent to Russia; indeed Moody's, the

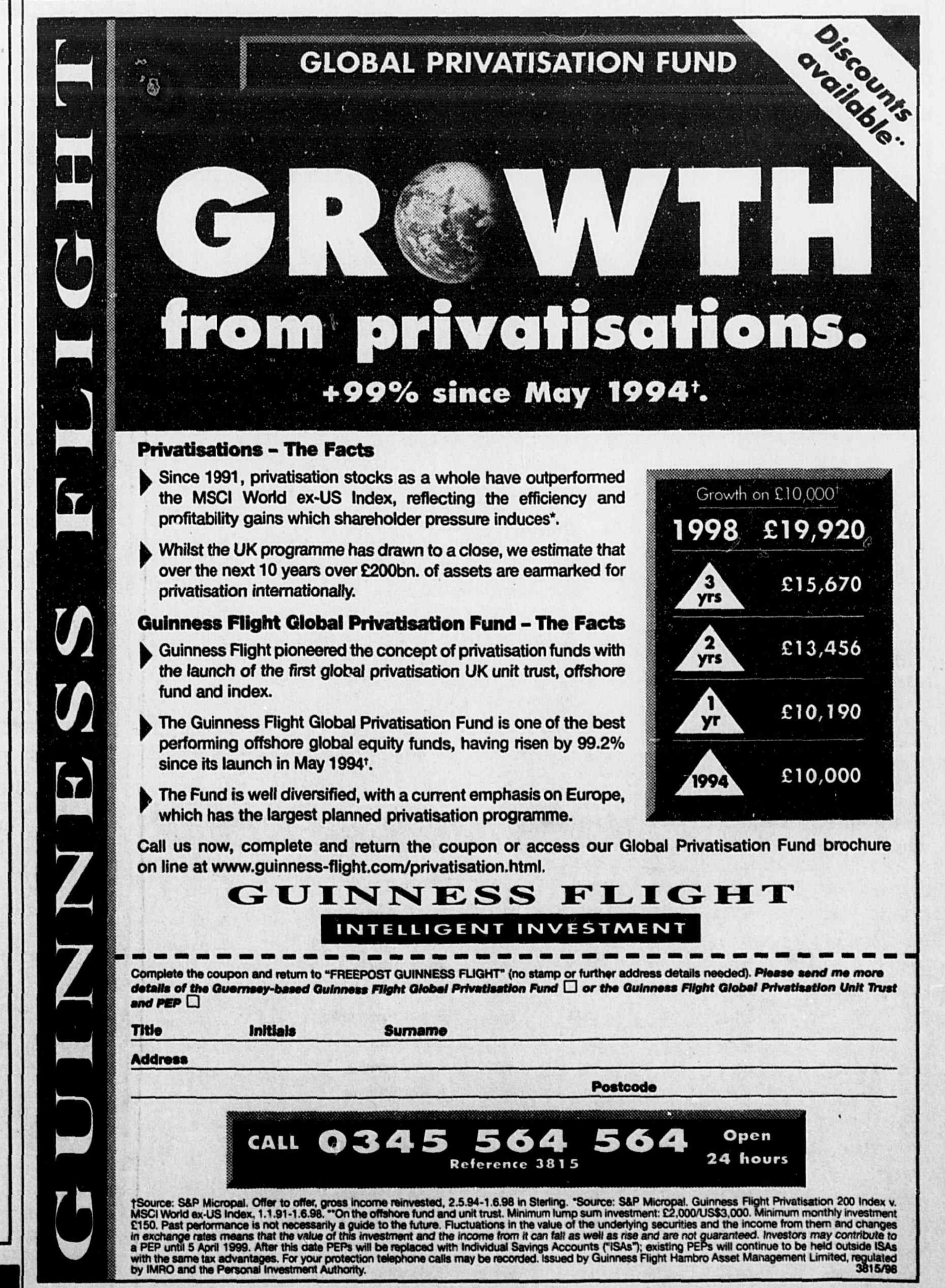
rating agency, downgraded Commerzbank this week because

of rising European risks. These economic and financial hazards look containable. Regardless, Germany's DAX index has been hitting all-time highs this week. The political risks are more worrying, though: it could turn out that we are only a Boris Yeltsin heartbeat away from the collapse of the economic reform process.

The Americans are busy with trouble spots elsewhere. Having diplomatically lost at soccer to Iran, they are now wooing China and addressing the problems in Asia, which is so much more important to them than Russia. Within the past week or so, it has appeared that safe haven flows into the dollar have strengthened, helping to send Wall Street sharply higher despite the imminence of a poor second-quarter corporate reporting season.

Europe's bull market is intact, but it has very much depended on flows from the US, with American investors convinced that sluggish Europe might somehow embrace US-style restructuring. If more Americans come to perceive, like Martin Armstrong, that western Europe is threatened on its doorstep by a kind of Indonesia bristling with nuclear weapons, they might take their money home, or perhaps send it back to

a restabilised Asia. Those suitcases stuffed with Russian mafia dollars are unlikely to provide an adequate substitute, bulging though they are reliably said to be.



"The Rubble of the Rouble." Financial Times, 27 June 1998, p. [1]. Financial Times Historical Archive, https://link.gale.com/apps/doc/HS2302372911/FTHA?u=ft&sid=FTHA&xid=a9c4389e. Accessed 8 July 2020.