



SIFEM

SWISS INVESTMENT FUND
FOR EMERGING MARKETS



CASE STUDY

4i CAPITAL PARTNERS IN UKRAINE



4i CAPITAL PARTNERS IN UKRAINE – A STORY OF RESILIENCE IN THE FACE OF ADVERSITY

The collapse of the Soviet Union, civil unrest, a military conflict, an inflation rate which peaked at 50 percent, and a global pandemic: businesses in Ukraine have certainly had their share of hardships over the past three decades. Yet in the face of adversity and strong headwinds, this is the story of a team who has always believed in the country's economic potential.

This is also the story of a Development Finance Institution (DFI) which has sought to make a positive development impact in a transition economy. The Swiss Investment Fund for Emerging Markets (SIFEM) has invested in Ukraine with the aim to achieve two of the United Nations Sustainable Development Goals (SDGs). First, by supporting growth-oriented companies, SIFEM's investment has made a contribution towards SDG 8, which seeks sustained and inclusive economic growth as well as the support and creation of decent work opportunities. Second, SIFEM has contributed towards SDG 9 by helping to promote sustainable industrialisation and innovation, and by providing capital to a private equity firm, which has bolstered financial sector development in Ukraine and its environs.



SIFEM's partners are 4i Capital Partners, a Ukraine-based private equity investment company, which is led by its two Managing Partners, Alexandru Munteanu and Kamil Goca. The company has been engaged in private equity investments, expansions, restructurings, and realisations for nearly two decades, managing investments in Ukraine and the region in good as well as in challenging times. They were initially part of Dragon Capital, the largest investment bank in the Ukraine, but became independent in 2016 when 4i Capital Partners was founded.

The investment team currently manages the Europe Virgin Fund (EVF), which was raised in 2009 with USD 57 million of committed capital and instrumental support from international finance institutions such as the Swiss Investment Fund for Emerging Markets (SIFEM), the European Bank for Reconstruction and Development (EBRD), and the Black Sea Trade and Development Bank (BSTDB). SIFEM contributed USD 7 million to EVF.

The Fund holds investments in several regional companies, including Ruta, a manufacturer of tissue products, and Sperco, a pharmaceutical producer of mainly cold and cough medicines. In the wake of the conflict between Ukraine and Russia in 2014, and the subsequent loss of the Russian market on which they heavily depended, these portfolio companies had to overcome the challenge of completely reorienting themselves and having to find new markets. They did so successfully, but just as they were entering calmer and more profitable waters, the two companies had to face another major event as the current Covid-19 crisis is looming large over their future.

In 2014 as now, these companies are not alone. The Fund Manager and SIFEM are doing their best to support and help them overcome yet another challenge, which will ultimately contribute to making the investee companies more resilient. Indeed, the financial strength of the companies has helped them to weather economic shocks and thus to preserve jobs and the incomes they generate.

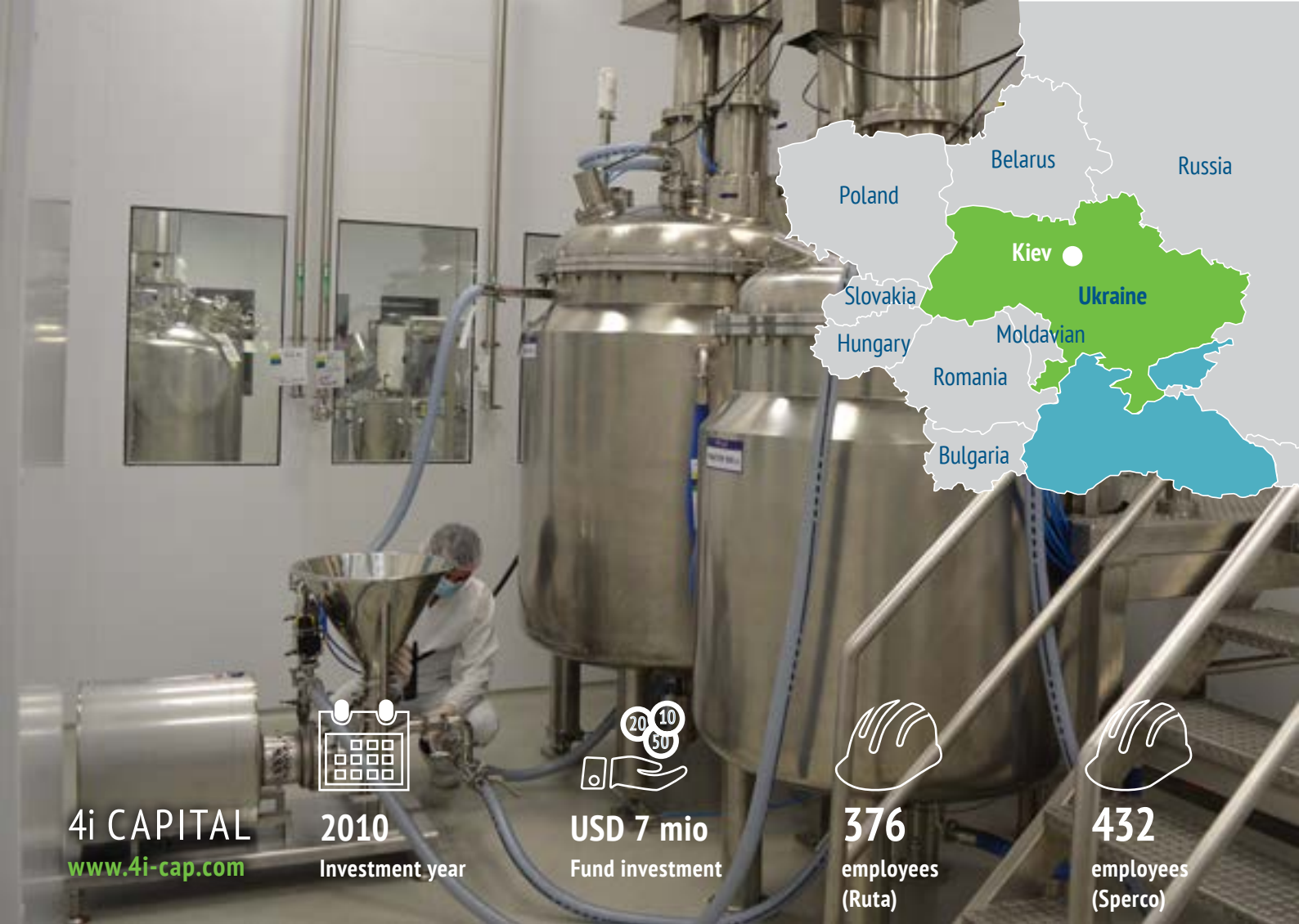


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THE FACES BEHIND THE INVESTMENT – AND THEIR INVESTMENT PHILOSOPHY

Both Alexandru Munteanu and Kamil Goca are veterans of the private equity industry in the region and ambitious professionals. The two combine more than 50 years of experience in finance, doing deals and developing companies in Ukraine and the region.

Alex was born and raised in Moldova when it was a still a Soviet republic. After graduating in physics in Moscow and following the regime change in Russia in 1991, Alex moved to the world of finance. After a stint at a French bank, he helped the National Bank of Moldova to set up a foreign exchange department, and then pursued further studies at Columbia University in New York, USA. Subsequently, Alex worked for the World Bank before accepting a job in private equity in Ukraine at Western NIS Enterprise Fund that launched Horizon Capital, where he worked for 11 years, and then went on to work for Dragon Capital. He has stayed in this field ever since, having served on the board of directors at various com-

panies, and now has over 20 years of private equity experience in Ukraine. In addition, Alex has held leading roles in various organisations, including the Business Advisory Council for Southeastern Europe and Eurasia, the Pechersk School International, and the Alliance Française of Moldova.

Born and raised in the Czech Republic, Kamil studied at the University of Economics in Prague where his interest in financial markets was kindled. After working as an analyst for a German bank, he joined Wood & Company, the Prague-based leading investment bank in the Central and Eastern European (CEE) region, and in 2000, he was one of the founding partners of Dragon Capital, now the largest investment house in Ukraine.

In 2008, Alex and Kamil decided that they were going to start something together – and joined forces by setting up a private equity fund based in Ukraine, a generally underinvest-



“Lehman Brothers collapsed on the first day of our fundraising. The circumstances for the fundraising were indeed very difficult. But SIFEM was the first institution which believed in us, and for this we are thankful.”

– ALEXANDRU MUNTEANU, 4i CAPITAL PARTNERS



“Building the trust needed to become a majority shareholder may take longer and is a challenge. However, we consider it crucial to avoid risks and to leverage our value-addition.”

– KAMIL GOÇA, 4i CAPITAL PARTNERS

ed country. Admittedly, in the aftermath of the 2008 Global Financial Crisis, this was not the easiest time to conduct fundraising for a private equity fund in Ukraine. But the two succeeded in bringing together USD 57 million, with the final closing of the Fund in 2011. SIFEM contributed USD 7 million to EVF and was its very first investor.

The Fund's name, Europe Virgin Fund (EVF), was both a statement in support of Ukraine's European connection as well as a reference to the country's largely untapped market. Among the Fund's first investments were Ruta, a manufacturer of tissue products, and Sperco, a pharmaceutical company.

In the many years of working in private equity, Alex and Kamil have come to learn that only active management of investee companies may lead to desired results. Sitting in the passenger seat as a minority shareholder often does not. They there-

fore aim to take the controlling stake in a company, whilst ensuring a balanced relationship with their local partners who are often the founders of a business.

4i Capital pursues an investment philosophy which is based on integrity, impact, innovation, and intelligence – a set of principles which has always stood Alex and Kamil in good stead. Also, for 4i Capital, private equity investments are a group effort which requires diverse teams in terms of age, nationalities, work experience and personality, at the level of both the Fund and the portfolio company. Besides Alex and Kamil, the 4i Capital Partners team includes three more professionals and an administrative assistant.



THE LOCAL CONTEXT

UKRAINE

Ukraine is a land of wide, fertile agricultural plains, with large pockets of heavy industry in the east, and with a population of around 40 million people. It has long played the role of a geopolitical flash point. In the west and south, it shares borders with the EU and Moldova, and in the north and east with Belarus and Russia. A significant minority of the population uses Russian as its first language, particularly in the cities and the industrialised east. Ukraine was a cornerstone of the Soviet Union, but in its nearly three decades since independence, it has sought to forge its own path and has aligned itself more closely with the European Union.

THE CRISIS OF 2014

An uprising against pro-Russian Ukrainian President Viktor Yanukovich in 2014 ushered in an EU-leaning government. Russia and armed insurgent groups then seized the Crimean Peninsula and occupied parts of the industrialised east of Ukraine. Even after the disintegration of the Soviet Union in 1991, economic ties between Ukraine and Russia had remained strong up to that point. The conflict, however, put the two countries at loggerheads. The war and loss of industrialised territories threw the Ukrainian economy into turmoil. The local currency, the Hryvnia (UAH), lost 70 per cent of its value against the US-Dollar, with an inflation rate peaking at almost 50 per cent in 2015, and a GDP that shrank by more than half (in USD-terms). In the context of the conflict, Russia enforced economic measures and closed its market for Ukrainian goods entirely, including a transit ban.

BASIC NECESSITIES: TOILET PAPER AND COUGH MEDICINE – AND HOW TWO COMPANIES OVERCAME A CRISIS



Ruta, the main brand of a company called JSC VGP, is a leading hygiene tissue products manufacturer in Ukraine. The company was founded in 1998 and grew fast as an established napkin producer which then diversified its product portfolio to include toilet paper, paper towels and facial tissue. In 2011, the Europe Virgin Fund (EVF) supported Ruta with growth capital with the purpose of modernising the company's production facilities. Today, Ruta counts 376 employees and boasts a high retention rate of 92 per cent amongst its production staff. Over the investment period, SIFEM's capital contribution has thus far helped to support the net growth of around 100 jobs at Ruta.

The crisis of 2014 was a major challenge for Ruta. Before 2014, 30 per cent of the company's revenues and 50 per cent of its profits came from exports to Russia and Kazakhstan. After the import and transit bans, these markets were no longer accessible to Ruta. In the ensuing years, Ruta worked hard to establish new markets in the Baltics, Poland, Germany, and other EU countries. By 2018, the sales volumes to Russia and Kazakhstan had been replaced with shipments to the EU and Ruta's domestic market share rose from 10 to 18 per cent. The company became profitable again in 2018 and 2019 was the most successful year in its history as measured by net income.

Sperco is a Ukrainian generic medicines producer. Founded in 1995, the company has become one of Ukraine's foremost producers of pharmaceuticals, particularly cold and cough medicines. From five employees initially, the company has grown to 432 employees today. The Fund Manager invested through a 50 per cent stake two years before the crisis of 2014 – to support the company's growth, which included an upgrade in its production capacity. Over the investment period, SIFEM's capital contribution has thus far helped to support the net growth of around 100 jobs at Sperco.

Similarly to Ruta, the crisis of 2014 had dire effects on the company. The Ukrainian pharmaceutical market declined by nearly 50 per cent (in USD-terms) and the company's net revenues dropped by 60 per cent from USD 23.8 million in 2013 to USD 9.7 million in 2015. Instead of cutting costs, 4i Capital decided to invest in Sperco during those challenging times and recruited a first-rate management team, including a new CEO, CFO, and COO. Under their leadership, Sperco increased market penetration, improved the terms of cooperation with distributors, and reviewed and improved the stock of raw materials and finished goods. In October 2016, Sperco also finalised its Good Manufacturing Practice compliance project, which was initiated in 2009 and cost nearly USD 13 million. As a result, Sperco was able to maintain strong operating margins and to preserve jobs. Sperco has been able to recover its pre-crisis revenues (in USD-terms) and profitability by 2017 and, similarly to Ruta, 2019 was the most successful year in the company's history with an EBITDA (in USD) 4.5 times higher than at the lowest point in 2015.



IT'S ABOUT MORE THAN PROVIDING FINANCING – THE INVESTEE PERSPECTIVE

A private equity investment in a company is about much more than merely providing financing. Over the course of an investment, a portfolio company receives guidance in the form of assistance and facilitation from the Fund Manager, which is crucial, especially in times of a crisis. In the case of 4i Capital, the Fund Manager is part of the active management of a portfolio company, and contributes to the systematisation of processes, the definition of the company's vision and strategy, as well as to the improvement of company management. For example, 4i Capital has directly managed the recruitment of local talent for the top positions in the portfolio companies – and in some cases even took on the role of interim manager until a position had been filled. The collaboration between the Fund Manager and a portfolio company is therefore highly symbiotic.

“I have been working with 4i Capital Partners for almost nine years, and during our cooperation we had to overcome many different problems and difficult situations. There were successes and failures. But together, we always found the right solution and I would describe our relationship as partnering and strong. I would call it a good combination between my business experience and knowledge in the production and sales of tissue products and the experience of 4i Capital Partners in financial management and strategic vision. And from my point of view, this is the most important thing.”

– ILLIA MIRETSKIY, CEO RUTA

Fund Managers, like 4i Capital Partners, are required to ensure that their portfolio companies meet SIFEM's ESG requirements, which includes encouraging portfolio companies to consider the potential for positive impacts and opportunities from business activities. This includes supporting certifications needed to enter new markets. 4i Capital supported Ruta's BSCI certification which, in part, supported its access to European customers and helped the company establish itself as a producer that meets state-of-the-art production standards.

“Some of our potential foreign customers have asked whether our company is certified according to BSCI¹ standard or other social standards. During the tenders organised by customers, this kind of certification is obligatory for all tender participants. In our case, the first to ask us about this was a large Swiss retailer in 2015. 4i Capital supported our decision to obtain a certificate.”
– ILLIA MIRETSKIY, CEO RUTA

For the investee company Sperco, the Fund Manager has played a crucial role in shaping the company's vision and strategy:

“Beyond investing in new machinery and supporting us in HR matters, 4i Capital Partners has helped us implement a consistent strategy, which has made it possible to expand and improve in the areas of Sales & Marketing, Production and Finance. Each one of these areas is being managed as a separate project and with direct participation from 4i Capital.”
– PAVEL SHCHIGOLEV , CEO SPERCO

The Fund Manager is also supporting an investee company when the going gets tough, such as during the crisis of 2014:

“Our company had important markets in the Crimea and the Donbas region, which accounted for nearly 15 per cent of our revenues. The loss of these two regions was a big blow to us and had not been considered in our strategy. We simply had to work with the fact that our market had suddenly become smaller. But for us, the main goal was to grow faster than the market and to keep our personnel motivated. During that time, 4i Capital was there for us and helped us to adjust to this new situation.

– PAVEL SHCHIGOLEV , CEO SPERCO

¹ The Business Social Compliance Initiative (BSCI) is a leading supply chain management system that supports companies to drive social compliance and improvements within the factories and farms in their global supply chains. BSCI implements the principle of international labour standards protecting workers' rights such as International Labour Organization (ILO) conventions and declarations, the United Nations (UN) Guiding Principles on Business and Human Rights and guidelines for multinational enterprises of the Organization for Economic Cooperation and Development (OECD). Ruta has been certified by SGS.

COVID-19 – FACED WITH YET ANOTHER MAJOR CHALLENGE

Although the crisis of 2014 and the current Covid-19 pandemic are both major events, they are very different in character and scale. Whilst the crisis of 2014 had a regional impact, the current health, economic and financial crisis is global and all points to the scenario that it will hit the world much harder than the global financial crisis of 2008. The magnitude of the impact on the portfolio companies and their operations therefore cannot be estimated at present. But it is fair to say that difficult times lie ahead.

The portfolio companies are in direct contact with Alex and Kamil and conduct weekly calls, which allow them to zoom in on all the major issues affecting the companies. In addition, the institutional investors such as SIFEM are also in regular contact with the Fund Manager with the purpose of helping them to assess risks and impacts on their operations. The immediate focus is on the workers' health and how they can adjust to the "new normal" in the workplace. In addition, discussions with the Fund Manager address ways to mitigate the adverse effects of the crisis, including alternatives to furloughing employees. For the time being, the portfolio companies have weathered the crisis well, without any retrenchment or any other major cost-cutting programmes.

After the promising and successful developments of last year, having to face yet another major challenge can be disheartening. But Alex and Kamil remain optimistic:

"We do hope that the current crisis will have less of an impact than that of 2014, and we are also hopeful that the economy will rebound very soon. Just like in 2014, I am certain that we are going to come out of this more resilient than before."

- ALEXANDRU MUNTEANU, 4i CAPITAL PARTNERS

Their experience in managing the 2014 crisis proved invaluable when having to respond to the Covid-19 crisis. Both companies were able to operate throughout the lock-down. They acted quickly and together with the companies' management teams worked hard to ensure the safety of their employees. The 4i Capital team was fully aware that retrenchment is not a long-term solution and were therefore looking for alternative solutions to protect jobs, as they did in 2014. Given that the team had been able to improve the companies' balance sheets in recent years, they were able to face the current crisis with little debt on their books. As a result, neither company is facing significant liquidity issues as of today, nor do they require emergency funding to continue their operations. The Covid-19 health and economic crisis is still unfolding around the world and in the Ukraine, but it is fair to say that the 4i Capital team is well equipped to successfully overcome yet another crisis.



INVESTMENTS FROM SWITZERLAND – THE ROLE OF SIFEM

The Swiss Investment Fund for Emerging Markets (SIFEM) is the Development Finance Institution (DFI) of the Swiss Confederation. SIFEM is an integral part of Switzerland's instruments of economic development cooperation. It is owned by the Swiss Confederation who assigns SIFEM its strategic objectives which serve as guidelines for investment activities.

Founded in its current form in 2011, SIFEM is specialised in providing long-term financing to small and medium-sized enterprises and other fast-growing companies in developing countries and emerging markets. This helps to create and secure more and better jobs and reduce poverty while also contributing towards the integration of these countries into the global economic system.

As mentioned in the introduction, SIFEM also commits to maximising the development effects linked to its investment decisions throughout the whole investment cycle. SIFEM's investments are fully in line with the 2030 Agenda for Sustainable Development adopted by the United Nations in 2015.

SIFEM's investment operations are managed by Obviam. Obviam is a manager of collective assets, with a licence from FINMA, and over 20 years of experience in impact investing. The firm has around 30 employees and advises public, institutional, professional, and private clients. Obviam is SIFEM's non-discretionary asset manager, manages UBS's first impact fund, and advises the impact investing portfolios of various other institutional, professional and private investors. Obviam offers investors an opportunity to capture attractive returns and generate sustainable positive impact in emerg-

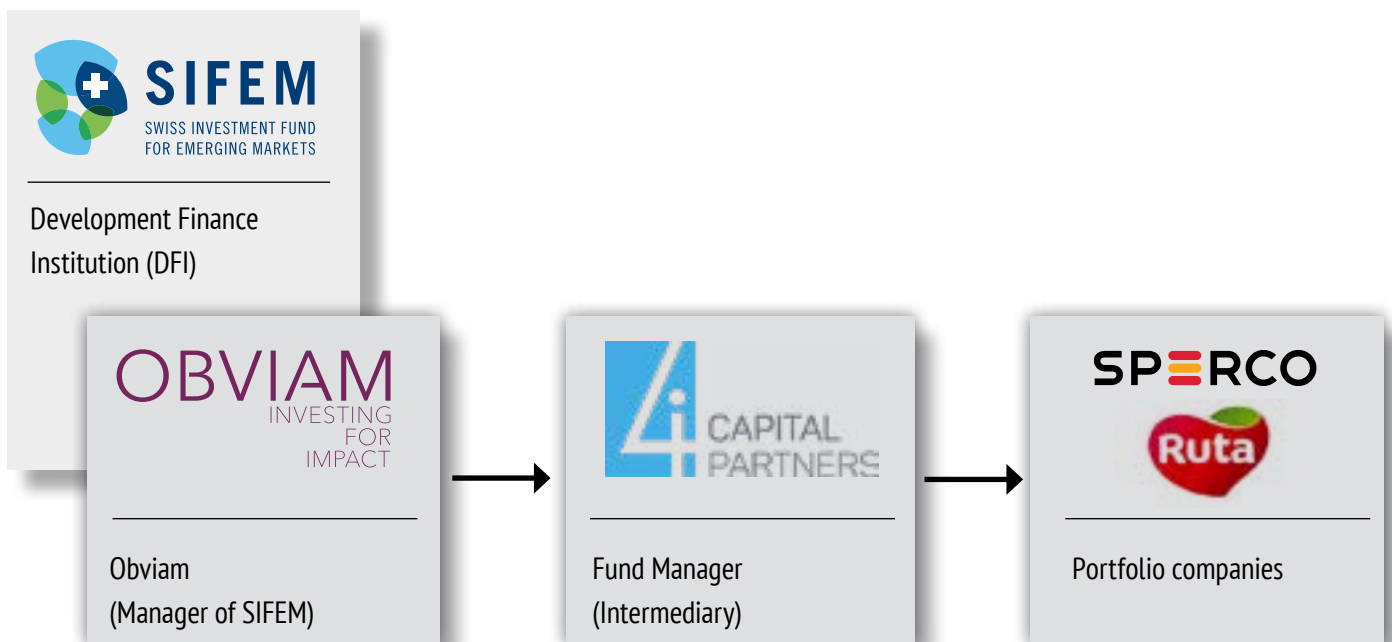
ing and frontier markets, via a proven and responsible investment approach.

From Bern, Obviam's employees manage investment operations in more than 500 companies in over 70 countries. SIFEM invests through nearly 100 financial intermediaries, including 4i Capital Partners in Ukraine, by investing indirectly in local or regional risk capital funds, such as the Europe Virgin Fund (EVF), and by providing credit lines to local banks and other financial institutions, often in collaboration with other DFIs and private investors.

SIFEM works with financial intermediaries not only to deliver relevant financing solutions, but also to add value to local businesses. In this sense, SIFEM's role goes beyond the provision of long-term finance. SIFEM seeks to strengthen the capacity of local Fund Managers and financial institutions to manage environmental, social, and governance risks (ESG) at the level of their underlying portfolios. Moreover, SIFEM targets investments that contribute to climate change mitigation and foster women's economic empowerment.



INVESTMENT CHAIN



WHY UKRAINE?

With a GDP of over USD 150 billion and a population of around 40 million people, Ukraine is one of the largest markets in Emerging Europe and a priority country of Switzerland's development cooperation. It is also one of the least developed countries in the region with a per capita GDP of less than USD 3,000.

The country has immense economic capacity but continues to be both under-developed and prone to de-stabilising economic swings that hamper living standards. Ukraine's sensitive political situation and war-escalated tensions with Russia also contribute to instability.

It is very interesting to compare the different paths that Ukraine and Poland have taken since the collapse of the Soviet Union in the early 1990s. Whilst both countries had similar GDPs in 1990, Poland's GDP has increased ninefold whereas Ukraine's GDP has only increased nearly twofold. It becomes apparent that Poland's integration into the European Union in 2004 has powered the acceleration of the country's economic development.

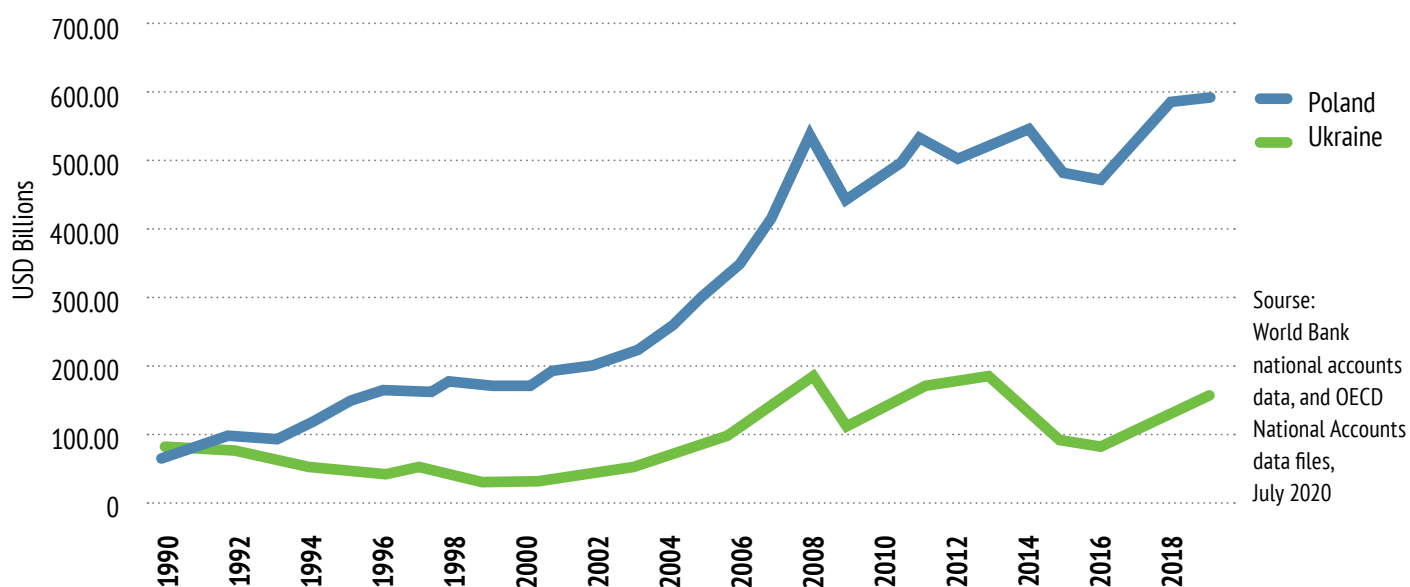
SIFEM's investment in EVF was counter-cyclical. At the time, Ukraine was experiencing the worst recession since 1994. Its

GDP had dropped from USD 179.8 billion in 2008 to USD 117 billion in 2009. The expected development effects were job creation and a contribution to improving the living standards of Ukrainians, as the country's economy began to grow again in 2010. However, Russia's annexation of the Crimea and the war in Donbas severely damaged Ukraine's economy, particularly its industrial sector, plunging the country into another recession in 2014, which ended only in 2016.

WHY EVF?

SIFEM decided to specifically support the Europe Virgin Fund (EVF) as it was one of the few funds in the region which had managers with a full private equity cycle experience, thanks to Alex Munteanu's 20 years private equity track record in the Ukraine. SIFEM was also attracted by the Fund's strategy to take majority stakes in businesses and to be hands-on with value creation initiatives, notably in the areas of Corporate Governance, Finance, HR, and Operations. SIFEM played an instrumental role as the first institutional investor to approve a commitment to EVF.

GDP (CURRENT US\$) - UKRAINE, POLAND





GDP (CURRENT US\$), IN USD BILLION

REGION	1990	2019	MULTIPLE
Poland	66.0	592.2	9.0x
Ukraine	81.5	153.8	1.9x
World	22,626.4	87,751.5	3.9x

Source:
World Bank
national accounts
data, and OECD
National Accounts
data files,
July 2020

MAIN CHALLENGES WHEN INVESTING IN UKRAINE

Ukraine's private sector is growing, but at the same time it faces challenges in the areas of Corporate Governance and Financial Transparency. While there has been progress in ease of doing business, improving financial sector transparency and fighting corruption, various operational risks still remain in the Ukrainian market. Following three years of severe recession from 2014-2016, Ukraine's economic recovery picked up pace in 2019 as the new government under President Volodymyr Zelenskiy ramped up structural reform implementation. Ongoing cooperation with the IMF should ensure fiscal and debt sustainability over the short term, yet over the longer term, structural reforms and a more broad-based macroeconomic recovery are needed to ensure financial stability.

SIFEM'S EXPERIENCE OF COLLABORATING WITH 4i CAPITAL PARTNERS

SIFEM has collaborated with the team for over 10 years and built a strong relationship. The 4i Capital team demonstrated with Fund I their ability to both add and preserve value. They have significantly modified some of the companies' strategies to weather macroeconomic shocks as discussed in this case study. This experience clearly highlights the considerations for SIFEM's indirect investments via local intermediaries, who have a deep understanding of local realities and are able to act quickly when faced with both micro- and macro-economic challenges.



ABOUT SIFEM

The Swiss Investment Fund for Emerging Markets (SIFEM) is the Swiss development finance institution. It is owned by the Swiss Government and is an integral part of the instruments of economic development cooperation. SIFEM is specialised in providing long-term financing through local funds and financial institutions to small and medium-sized enterprises and other fast-growing companies in developing and emerging countries, focusing on the priority countries of Switzerland's development cooperation. This helps to create and secure more and better jobs and reduce poverty while also contributing towards the integration of these countries into the global economic system.

Picture sources:
Ruta and Sperco



ABOUT OBVIAM

Obviam is an independent investment advisor specialised in long-term investments in emerging and frontier markets. Obviam advises public, institutional, and private clients, including the Swiss Investment Fund for Emerging Markets (SIFEM), the Development Finance Institution (DFI) of the Swiss Confederation. Obviam offers investors an opportunity to capture attractive returns and generate sustainable positive impact in emerging and frontier markets, via a proven and responsible investment approach.

Obviam has made reasonable efforts to ensure the accuracy of the data presented. A case study is made possible both through Obviam's first-hand experience and/or the information provided by Obviam's investment partners. The data in this case study is valid as per mid-2020.

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