

# Q&A: Investing Millions of Dollars With Texan Sense

By [Andrew McChesney](#)

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**Igor Tabakov**

Texan entrepreneur and investor Christopher Van Riet says only three things have shocked him in Russia: watching the value of the ruble tumble from 6 to 21 against the dollar in a month in 1998; hearing from his father during a visit to Houston that President Boris Yeltsin had resigned; and learning two years later that billionaire Mikhail Khodorkovsky had disclosed his ownership in the Yukos oil company.

It was the declaration by Khodorkovsky, his former boss, that brought Van Riet back to Russia after a three-year hiatus in London. And it's Vladimir Putin's steady leadership after the chaotic 1990s that has helped keep him here since.

Christopher Van Riet

## Education

1993 – BS in economics, Wharton School, University of Pennsylvania  
BA in psychology, University of Pennsylvania

## Work Experience

1993-95 — Wall Street  
1995-96 – Menatep Group  
1996-98 – Transaero  
1998 - Present — Entrepreneur and investor, whose projects include recouping Japan's Daiwa Securities' \$100 million loan to Menatep Bank and serving as Yukos board member in 1999; overseeing Dixy's IPO in 2007; leading the buyout of Rising Star Media from Sumner Redstone in 2009 and the subsequent sale to ProfMedia in 2011; and serving as founder and managing director of Radius Group (formerly Giffels Management Russia) since 2006.

**Favorite book:** “The History of Knowledge” (1991)

by Charles Van Doren

**Reading now:** “Freefall: America, Free Markets, and the Sinking of the World Economy” (2010) by Joseph Stiglitz

**Movie pick:** “V for Vendetta” (2006), a thriller directed by James McTeigue

**Favorite Moscow restaurant:** El Gaucho

**Weekend getaway destination:** Amsterdam

"When Mikhail Khodorkovsky went public with his ownership, I said, 'Putin and the Russian government have let them know that ownership will be honored.' I said, 'That changes everything,'" Van Riet said in an interview. "I got back here immediately. I was basically on the next flight over. I started buying everything I could. One of the things we bought into was Dixy."

Dixy is the supermarket chain that Van Riet, as its executive chairman, guided through a \$360 million initial public offering in 2007. He and his fellow investors walked away with \$210 million, a tidy return on their 2004 investment of \$43 million — Dixy's first private equity.

But Dixy is just one facet in Van Riet's colorful history in Russia, which began in 1995 when he, as a 25-year-old Wall Street investment banker, got his start working at Khodorkovsky's Menatep Group with Yuri Milner, now a billionaire entrepreneur who owns Mail.ru, ICQ and stakes in Internet companies like Facebook and Twitter.

One of Van Riet's clients at Menatep was Transaero, and he moved over to the airline to work as its chief financial officer in 1996.

After the 1998 crisis hit, he returned to Menatep — as a member of the Yukos board representing Japan's Daiwa Securities, which had loaned \$100 million to Menatep Bank and held a 14 percent stake in Yukos as collateral. Van Riet credits his previous ties to Menatep for helping him land the job.

"Daiwa Securities ... said, 'Chris, you know your way around here. We just need someone to help us explain to our Russian creditors what we expect from them, and we need someone to explain to us what our Russian creditors are thinking,'" he said. "What's amusing about that is actually you have a Texan between the Russians and a Japanese bank."

Van Riet shepherded through a debt deal after oil prices recovered from lows of \$8 in 1998 to \$20 the next year.

Then he decided that Russia wasn't the right place to invest. The problem, he said, was that foreign investors felt uneasy about Russian politics, and he knew from his earlier experience of raising financing for Transaero, with Yeltsin's health failing, that he could not convince investors to bet on Russia.

"Generally, a meeting lasts an hour. I'd spend 15 minutes giving Chris Van Riet's personal views of the heart condition of Boris Yeltsin," he said of the Transaero meetings. "And I did not understand at that time that if that took one quarter of my meeting, there was no way that the investor was going to invest in Russia."

The memories of those meetings returned when he woke up on Jan. 1, 2000, and heard from his father that Yeltsin had resigned and Putin, a political unknown, would serve as acting president.

"I had learned by that time that if I spent all my meetings for the next couple years trying to explain what I knew about Vladimir Putin — who no one knew anything about — that there would be no business for me to do," he said. "I also knew that the debt workouts had been resolved. So I didn't really think that there was something I could do to contribute to the economy here. Therefore, if I couldn't contribute to the economy, how could I make a living? So I moved to London."

Then in June 2002, Khodorkovsky revealed that he owned a 36 percent stake in Yukos, giving him a net worth of \$7.2 billion, well over the \$3.7 billion that Forbes magazine had estimated his fortune at five months previously. Khodorkovsky's announcement was widely praised at the time as a landmark event in Russian corporate disclosure, and Van Riet demonstrated his agreement with his wallet.

"I said, 'Wait a second. They now believe they own their assets,'" he said. "This was something I had to explain to my Japanese clients. I said, 'They know they control their assets, but they don't think they own them. As a result, they have different incentives than long-term improvement of the assets.' Why improve something long-term if five years is the payoff and someone can take it away from you any day?"

The revelation was a game changer for Van Riet. He returned to Russia and hasn't looked back since.

Van Riet, 40, founder and managing director of Radius Group, a real estate infrastructure solutions company with 40 employees and more than \$900 million in warehouse projects in Russia, sat down with The Moscow Times in his seventh-floor downtown office to reminisce about his 15 years in Russia and to share insights into why he has succeeded where other foreign investors have failed. He spoke with pride about the work that he and his

partner, managing director David Simons, a British national, are putting into South Gate, Radius' flagship 104-hectare industrial park located 30 kilometers south of Moscow, whose first occupants are U.S. agricultural machinery giant John Deere and Sweden's Volvo Trucks. Complimenting Van Riet's dapper suit and monogrammed shirt was a stark reminder of his roots: black cowboy boots emblazoned with the Texan flag.

**Q: Why did you first come to Russia?**

A: I wanted to come to Russia because I had a view that youth and energy would have a disproportionate payoff in Russia than the United States, where age and experience are the qualities needed to get somewhere and do something. I came here on a two-week vacation from my Wall Street job in May 1995 to look around. I realized very quickly that this market was only just starting. I went around the market and met people like Ruben Vardanian, Charlie Ryan, Boris Fyodorov and Stephen Jennings. I came to two conclusions: One, I've got to get to Russia immediately. Two, I want to work for the Russians because it's their country and, as foreigners, we're guests here. We need to be sensitive to that. Just like if foreigners go to Texas, they need to be sensitive that Texas has its own culture and needs to be respected.

So I went to work for Menatep because it was a Russian group. Yury Milner was putting together Alliance-Menatep, which was going to be an investment-banking arm of Menatep Group. Yury was and is a visionary, and I wanted to get involved with visionary Russians who were young and working to change things.

I left when I realized that Menatep Group was participating in things like loans for shares that just made me uncomfortable as an American. Nothing concrete. It just didn't make me feel comfortable. I had no involvement in it. Then I went to go work for Transaero because it involved visionaries who were creating a new product based on Boeing aircraft — a service that the Soviet Union never provided to the traveling public.

**Q: What difficulties have you faced?**

A: There was no rule of law in this country in the '90s. That's why I think Putin is a great leader. He has brought rule of law to Russia, and that has unlocked great wealth for the population — increased incomes and made things better here. Foreign businesses feel more comfortable in Russia now. Putin has transformed this nation in a great way, and I think he should be credited for that and complimented for that globally.

As I said, it was chaos in the '90s. There were plenty of mistakes and failures, and I committed plenty of my own. All I was doing was investing my time and effort to try to help make things better — like with Transaero. Historically, Menatep Group had been a funder of Transaero, and then around 1996 Boris Berezovsky bought out Menatep's interest. I came in later and helped bring in Western investment capital. We put together a very large transaction that ultimately Boris Berezovsky decided to turn down. It was gut wrenching.

**Q: What have you learned from your mistakes?**

A: All the failures in the '90s basically taught me one simple thing — resilience is the differentiating factor in this country. You really have to have ability to believe in what you're doing, move forward with that believe in spite of enormous barriers, uncertainties

and complications, and see it through.

Also, something I had learned earlier got reinforced here. I was born and raised in Houston, Texas, and I received a set of values in my upbringing. Stick to your core values — that's always served me well. When in doubt, tell the truth. When faced with uncertainty, ask for help. When being offered unbelievable deals, maybe think that if they're unbelievable they aren't real. Simple things like that.

I think the most important thing the '90s taught me was to understand what value you bring, and focus on realizing that value in a situation. Don't try to do something you really shouldn't be doing. What does that mean? I've been responsible for an enormous amount of investment — inward investment into Russia. But people always say, "Well, you're from Texas. Why haven't you invested in the oil and gas industry?" And I say, "The oil and gas industry isn't really an industry that's for private individuals or institutions. That's for Russian individuals and institutions and global oil businesses." There's not a lot I can bring to the table in getting involved with extracting natural resources from underneath Russian soil and exporting it out of the country.

I also learned not to use a lot of debt in a risky marketplace. The main risk I see is that the cost of money changes so quickly — just enormous swings in the cost of money in this country. When the cost of money swings that rapidly, you need to be very careful about using debt. So use debt judiciously. I was looking at my personal net worth on Aug. 17, 1998, and there was a big hole. I said, "I have to work very hard to pay back the money I borrowed to do things." I said to myself, "I never want to feel that again."

When the 2008 crisis hit, a lot of developers had a lot of problems, and their debt ended up being worth more than their assets. We never had this problem. There's \$170 million invested in South Gate. We financed only \$50 million of that with debt. So for one part debt, we were more than two parts equity.

**Q: How do you raise equity without turning to banks?**

A: You've got to find equity investors who believe in the long-term business prospects of Russia and are willing to make the return over a longer period of time than three or five years. That's quite important for everything we do here. Not every investor's like that. Some investors want to get in and out and to do it fast. These are not the type of investors who are going to find what we do appealing.

There's also a selection process. Something I tell our team here is: "Look, being a shareholder is a job, too. Not only do we need to recruit the best employees for our company, but we also need to recruit the best shareholders for our company." All our investors understand that there will be times when everything looks really dark; and there are going to be times when everything looks rosy. But one thing we know for sure is groups like John Deere are going to be here forever, and groups like Volvo Trucks are going to be here forever; and they need these buildings to make their businesses work.

**Q: With your history with Transaero, what advice would you offer airlines or the government after this summer's jet crashes?**

A: I used to carry around with me a list of all the aircraft manufactured in the Soviet Union. I had their tail numbers, so I could tell the age of the aircraft I was about to get on.

Aircraft are long payback propositions. If you buy an aircraft, you're not going to make your money in two, three, five years. It takes a long time to pay that money back. So it's hard to finance long-term assets with short-term capital. Russia in general is financed with short-term capital. When I say short-term, the price of money is high. Let me explain.

One of the challenges of the airline industry is the same challenge as the electricity industry, the road-building industry, and all the big infrastructure industries in this country. Airlines are core infrastructure assets. They may fly around. They're not like a bridge that doesn't move, but they are infrastructure assets getting people and products from A to B. The challenge is that capital is so expensive that airlines may tend to run aircraft that maybe should be retired. That's where help is needed to replenish the capital stock. I'm not so up-to-speed on the latest financing initiatives around the airlines.

What I do know is the agriculture machinery industry in Russia — historical agricultural machinery is substantially less efficient than new products from companies like John Deere and its competitors. I know the government is focused on making sure that the agricultural harvests in Russia are stable and increasing. Part of that is making sure that you don't lose 10 percent, or whatever the differential between using modern equipment and historical harvesting equipment. Well, that makes sense at a certain cost of capital. It makes sense to buy that new equipment, and the government is really assisting that. They have the agribanks here that provide the financing that encourage companies like John Deere to come to Russia so they can access that financing; and they help bring in place an appropriate cost financing, such that the farmers can pencil in and see that it's in their economic interest to buy new equipment.

This needs to happen in all the infrastructure industries — whether it's airlines or electricity generation capacity. We face a big challenge constructing our buildings. We have to procure electricity at \$1 million a megawatt. That's just to have access to it. The cost of developing one megawatt globally is about \$1 million. So we actually have to pay to the generation company the full capital cost of the megawatt that we want access to. Plus we have to pay for every one of the electrons that comes down the wire to us. That's an unusual circumstance because our money shouldn't be more expensive than the electricity and utility's money. But in this country, everyone's cost of money is about the same. That's a funny thing here.

**Q: Is there value in working with a Russian partner?**

A: We do business with plenty of fine Russian counterparties. The laws in Russia are pretty good now. But the thing that we worry about is trying to have a disagreement resolved in the Russian court system. That would make us very, very nervous. It's doable, but we prefer to spend a lot of time understanding who we're doing business with first to make sure that we have a similar outlook. At Radius, we have plenty of Russian partners whom we do work with, but we don't have shareholder partners who are Russian. We're not against it. It's just that this is a long-term payback asset, and the investors I know who are Russian probably have better things to do with their capital than build large warehouses for John Deere in Russia.

**Q: What is your secret to managing people successfully?**

A: When I worked for Menatep and Transaero in the '90s, money was tight. Sometimes salaries and bonuses that people expected didn't get paid. I found myself spending a lot of my mental energy worrying about whether I was going to get my next paycheck or whether I was going to get a bonus. So when it came my turn to be a decision maker and a partner, I said, "Instead of having my staff and employees worry about getting a paycheck or getting paid their bonus, why don't I make sure that they have 100 percent certainty about that so they can focus 100 percent on doing their jobs?" For example, our people at Radius Group know that if they're doing their job, they're going to be well taken care of.

**Q: How do you encourage struggling employees to give their best?**

A: We sit with them and tell them what we see as things they could be doing better. We give them opportunities to improve. If they improve, we congratulate them and continue to cherish them. If they don't improve, we sit down and say, "Look, this is obviously not working out."

We spend a lot of time working to train our staff and give them opportunities to develop their human capital, their personal skills. That can be the simplest things like Excel training, PowerPoint and Microsoft Word. We work with executive coaching professionals from the U.S. and other places, bringing them here to Russia to run training seminars for our staff. I'm a member of a group called YPO – the Young Presidents' Organization. YPO is a global organization — it has about 18,000 members — and is for CEOs of corporations over a certain size who have reached that role before the age of 45. The mission statement for YPO is, "Better leaders through education and idea exchange." Those are the same type of values that I instill in my companies — whether I'm inside the company as a CEO, the joint managing director in Radius; or an investor in a company who is working with the management team to think about other ways to do their business.

I believe thought, diligence and hard work are the keys to success. And I think that if you apply thought, diligence and hard work in this country, it's amazing what you'll be able to do. Being a young Russian professional today, in my mind, is a guarantee of future success with those three qualities. Without a doubt. The opportunities that this country gives to people who have a desire to affect change is unlimited. I look at myself as an example. I've been here for 15 years.

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