Harvard Holding dissolves amid criticism

Czech investment analysts contend that fund kingpin, Viktor Kozeny, who converted his **HIF Dividendovy Fund** in early 1996 to escape fund legislation, is now reaping the benefits at the expense of minority shareholders.

His firm, **Harvard Capital Management Worldwide** (HCMW), will buy—at just over half its book value—the Kc 19.2 billion ($549 million) in assets that shareholders in his renamed **Harvardsky Prumyslovy Holding** (HPH) decided last August to liquidate through a tender.

"This is bad news" for the fund's minority shareholders, said Komercni Banka fund analyst Leos Soucek. "I don't trust Kozeny."

HCMW's winning bid was for Kc 10 billion ($286 million) to be paid by the end of 1999, an offer higher in price but with a longer payment period than the second-place bid. Kozeny reportedly will pay around Kc 600 per share ($17.14) for HPH, of which he owns around half. When the stock was last traded on the stock exchange on December 3, it recorded a price of 346 Kc per share. But the liquidation price rattled fund analysts such as Soucek, who estimated a real share value of as much as Kc 3,000 ($85.71).

Harvard reported the current net asset value at Kc 1,150 ($32.86). But much of the HPH portfolio includes shares in **Daventree**, a company that Kozeny uses to invest in Russian stocks.

ING Barings Prague trader Karel Ruzicka said because the value of the non-publicly-traded Daventree shares can't be determined, shareholders "rely on the price Harvard managers give for them."

Soucek said the transaction looks suspicious and could not have taken place in more developed markets or even under the **Czech Securities Commission**, the capital-markets watchdog expected to be formed this year.

Eric Volkman, fund analyst at **Raiffeisen Capital & Investment** in Prague, said, "The entire bidding process for the assets was opaque." In November, analysts complained that the Kc 500,000 ($14,000) required deposit kept many potential candidates away.

Analysts also question the ethics of HPH's origins. Kozeny formed HPH in June 1996 by covertly merging **Sklo Union Teplice** with six Harvard investment funds and then converting them into a holding company. By doing so he escaped legislation, effective a month later, that strengthened the rights of minority shareholders in investment funds. That conversion sparked a wave of similar fund transformations that securities officials condemned.

Analysts don't expect other holding company managers to follow Kozeny, though. His huge stake in the fund and use of non-tradable Daventree shares makes the HPH case an exceptional one for the Czech market.

Asia specialist sees fundamentals helping CE survive crisis

Central European emerging markets may continue to get slammed by fallout from the Asian crisis, but have strong underlying fundamentals that will help them weather the storm, according to Travis Selmier, a manager with **USAA Emerging Market Funds** who specializes in Asia but also tracks Eastern Europe.

The San Antonio-based USAA has $1.6 billion invested in 44 countries, $110 million of which is in Russia, Poland, the Czech Republic and Hungary. Among the Central European countries, the fund has $17 million in Poland and about $35 million in Hungary.

"The danger of Asia is that there could be a knock-on effect in more than just sentiment terms — but also in currency terms," said Selmier. "This has affected all of the currencies in Asia, except for Hong Kong and China thus far."

Investors are demanding more for the perceived risk of investing in those countries today, causing "a huge increase in yields around the world, except for the US and certain European countries, and including most emerging markets."

"The question is how long will problems in Asia go on and how long will they reverberate," he said. The fact that Indonesia backed away from adopting a tough budget earlier this month had immediate world-wide reverberations in emerging markets. "Russia got whacked, Poland got hit and it came around to the US, too," said Selmier. "I don't know if there will be another round in Asia and how this will affect sentiment. I'm also not sure on currency devaluation. It looks as if a second round will set in.

How that affects different markets depends on how strong their fundamentals are. They are stronger in Central Europe, in Israel and Mexico — but this can have an impact on markets globally."

Selmier says that Poland "is on its own dynamic," relatively buffered from the Asian free-fall. He ranks it in the top quarter of USAA's emerging market countries. The fund managers watch Korea for signs that the financial and political scandals there might cause a pullback in Korean investment in Poland, and they worry that a slowdown in Germany could affect Poland's cross-border trade which feeds billions of zlotys into the country.

Continued on page 10

FUND BRIEFS

- **Foreign & Colonial Emerging Markets** launched a $69 million closed-end Romania fund in November. The fund, which has a maximum size of $100 million, aims to spend its first year becoming fully invested in the region's bond markets and its second year investing in Romanian companies either already listed or close to being listed.
- **New Europe Investment Company** reported in November that its holdings were invested 47.5% in Russia, 19.7% in Hungary, 7.9% in the Czech Republic, 6.1% in Croatia, 3.8% in Slovakia, 3.7% in Poland, 1.7% in Lithuania, and 7.4% in cash.
- Michael Carter, manager of the $190 million **First Hungary Fund**, will increase his exposure to the Hungarian pharmaceutical sector by purchasing **Coloryte**. The fund's largest sector holdings are 33.7% in manufacturing, 21.4% in pharmaceuticals, 12% in consumer goods and 10.5% in communications.
- Lisa Riley of **Schroder Investment Management** in London was appointed fund manager for the Schroder Eastern European Fund in late 1997. Riley, who replaced Isabel Goiri, is formerly an equity analyst with responsibility for Central European markets at Schroder.