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PPF a.s.
The First Private Investment Fund

by Michal Otradovec

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Comments Welcome

This working paper is a joint publication of the Czech Management Center and the William Davidson Institute. The author is employed by the firm J. P. Morgan in Prague and is an external collaborator of the Czech Management Center in Čelákovice, Czech Republic. This case study is a product of a research project on "The Role of Investment Funds in Corporate Governance: The Case of the Czech Republic" funded jointly by the William Davidson Institute and the Czech Management Center. This paper represents the individual views of the author and not those of sponsoring agencies or institutions or their affiliated agencies. Comments and suggestions are welcome. Disseminated in 1996 by the William Davidson Institute with permission from the Czech Management Center and the author.

Case Study
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Czech Republic

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Table of Contents

1. Executive Summary

Shortly after the political change in the Czech Republic in 1989, the government instituted the economic transformation from a centrally planned to a market economy. A very important prerequisite of such a transformation has been the privatization of assets that were then almost entirely state-owned, ranging from small businesses to large corporations. Privatization has been carried out via restitution to former owners or their descendants, public auctions, direct sales to domestic or foreign investors, and--very important--voucher privatization: Vouchers distributed by the government were directly invested by individuals in companies' shares or were entrusted by them to voucher investment funds, which invested them on the individual's behalf.

PPF Investment Company (further referred to as "PPF") has become a very important player among the investment companies that established investment funds for voucher privatization in the Czech Republic, acquiring from individuals 68 percent of all available vouchers. PPF's success stands out because it has been neither owned nor supported by any of the country's financial institutions. Relatively independent in business decisions, PPF's group of young, talented managers with a strong entrepreneurial spirit created a success story.

After both the first and second waves of voucher privatization, PPF succeeded in ranking among the ten largest investment companies, based on the number of investment vouchers acquired from individuals. PPF's marketing campaign, although very modest, attracted the equivalent of 117,700 and 119,700 shareholders in each wave, respectively, who invested their entire voucher book. This represents 2.7 percent and 3.1 percent, respectively, of all investment vouchers entrusted by individuals to funds in the first and second waves. Currently, PPF has under management more than CZK 3.7 billion (US$140 million) in assets in voucher funds in the Czech Republic.

Free of the conflicts of interest characterizing many of the Czech Republic's funds that are managed by bank-owned investment companies, PPF has been promoting sound investment management practices and has developed a reputation as a highly professional and trustworthy company. PPF's funds are ranked among the top funds by a number of criteria. Moreover, it was ranked the country's top fund manager in 1994, with an average 13 percent net asset value per share increase despite the significant decline overall in the Czech stock market.

2. PPF Investment Company in the Share Acquisition Period

Background of Voucher Privatization

Shortly after the political change in the Czech Republic in 1989, the government began an economic transformation from a centrally planned to a market economy. A very important prerequisite to such a transformation has been the privatization of assets that were almost entirely state-owned, ranging from small businesses to large corporations. Privatization has been carried out via restitution to former owners or their descendants, public auctions, direct sales to domestic or foreign investors, and–very important–voucher privatization: Vouchers distributed by the government were directly invested by individuals in companies' shares or were entrusted to voucher investment funds which invested them on the individuals' behalf.

History of Voucher Privatization and Privatization Funds

There have been two waves of voucher privatization. In each wave, all Czech citizens were allowed to purchase a "voucher book", containing 1,000 voucher points, for roughly US$35 equivalent entitling them to participate in the bidding process. More than 80 percent of the eligible citizens decided to participate. The participants then had to choose between bidding the voucher points for shares in privatized companies on their own or entrusting the voucher points to funds that would invest them on their behalf. In the first and the second waves of privatization, CZK 206 billion (US$8 billion) and CZK 155 billion (US$6 billion), respectively, of book value assets, representing shares in the Czech Republic's 1,500 companies, were privatized.

In the zero round of the first and second voucher privatization waves, funds attempted to persuade voucher-book holders to entrust their voucher points to them. In the first and second waves, 72 percent and 63 percent of the available voucher points, respectively, were entrusted to funds.

A special bidding system was developed that had an auction-like price adjustment to demand for shares in each company and supply of available shares in individual bidding rounds. Initially, one share in the company represented CZK 1,000 (US$35) in book value, and in subsequent rounds the price was adjusted according to demand as follows:

- if the perfect supply-demand equilibrium was reached for the company's shares, the shares were entirely sold out;
- if shares were undersubscribed, the subscribed shares were sold and the remaining shares were offered in the subsequent round for a lower price
- if shares were oversubscribed by less than 25 percent, individuals received full subscription, and the fund's demand was reduced in order to reach supply-demand equilibrium;
- if shares were oversubscribed by more than 25 percent, all the shares were offered again at a higher price in the next round.

In both voucher privatization waves, the bidding rounds had to be repeated until all the assets offered in the privatization wave were substantially sold. Ultimately, there had to be five rounds in the first wave and six in the second.

Industry Structure and Regulations

About 150 investment companies managing a number of funds and 80 self-managed funds now exist in the Czech Republic. Whereas around 500 investment privatization funds and unit privatization funds have been sourcing from voucher privatization, only about 20 cash funds have been established. Due to low market liquidity, the majority of the funds are closed-end. An open-end fund sector is yet to be developed.

The Act on Investment Companies and Funds issued in 1992 has the stipulation, among others, that a fund's investments tied to a single company cannot exceed 10 percent of its portfolio net asset value, and share holding in one company cannot exceed 20 percent. However, the latter limitation is under attack by the investment companies. The act also limits a fund's annual fees to 2 percent of the assets it manages and to a one-time fee of 2 percent at the fund's inception.

In addition, because banks are generally not allowed to become long-term investors in a company except when temporarily repossessing it as a non-performing borrower, the role of an investment company in the market is strengthened.

Business of PPF Investment Company

The founders of PPF Investment Company (further referred to as "PPF") clearly recognized the vast opportunities for investment management offered in the framework of voucher privatization. Thus, the original mission of PPF was to establish and manage funds for voucher privatization.

After the outstanding results achieved by management during the first wave of voucher privatization, PPF extended its scope of domestic activities by establishing a securities trading subsidiary. The company also launched a small cash fund in Slovakia that invested in Czech assets, which was successful in attracting investors to its two second-wave unit privatization funds.

In 1993 as new investment opportunities emerged in the countries of the former Soviet Union, the company expanded abroad. PPF established a Moscow-based Russian subsidiary, PPF-R. PPF-R has a major interest in the Peter the Great Family of Funds and acts as the asset manager. It also has brokerage operations and significant proprietary investments.

Because PPF's core activity remains the domestic investment management of funds established for the first and second waves of voucher privatization, it is the primary focus of this study.

History of PPF Investment Company

In 1991, a young business university-educated individual with a very strong get-it-done personality, equipped with limited funds but a great deal of entrepreneurial spirit, established a Prague-based start-up company. He began looking for similar individuals who would help him fine-tune and eventually carry out his bold idea: To build a strong investment company that would manage large privatization funds and compete with the investment companies being established by the country's financial institutions.

The key to the successful start of the company was the arrival of a talented former engineer and student of M.B.A. program established by one of the U.S. business schools in Prague. It must be said that at the time of the Czech political and economic changes, knowledge of investment management concepts was extremely limited. The PPF founder and his close colleagues discovered some of these concepts and tailored them to the current environment of Czech voucher privatization.

Key to the later success of PPF, which had little collateral, was that the well-presented business idea of the company attracted investors who were willing to finance PPF's marketing campaign for voucher privatization.

At that point the company started looking for permanent employees. Because the company intended to start with a small team, the selection process of full-time employees was mainly based on personal references from the two senior officers and from new employees as they were hired. The information systems staff was found among students through newspaper advertisements.
At about the same time, PPF retained a freelance movie producer as project manager for the marketing and advertising campaign. PPF's funds for carrying out the campaign were limited relative to those received by investment companies from the financial institutions that owned them. Nevertheless, the effectiveness of PPF's campaign, measured by the number of investor-points per advertising dollar attracted to the individual funds, was reportedly among the highest--if not the highest--of the investment companies. Thus, the advertising campaign project manager added to the already very inventive approaches of the founder and his team.

First Wave of the Voucher Privatization

Because the concept of investment management was new to almost the entire Czech population, PPF decided to concentrate its initial efforts on presenting and thoroughly explaining the concepts of voucher privatization in the media, e.g., PPF's senior representatives frequently wrote newspaper articles and appeared on TV and radio. The goal of these presentations was not only to educate the Czech population about voucher privatization. It was also to demonstrate the professional abilities of PPF's managers and its customer orientation. This approach was successful in establishing the public perception that PPF was a modest company led by young, trustworthy professionals.

PPF established four closed-end investment funds whose names referred to the different geographical regions in the Czech Republic. Those funds–PCIF, PJIF, PMIF, and PSIF–were legally set up as joint-stock companies tied to PPF through a management contract. The goal of establishing four funds as opposed to one strong fund was to get closer to potential customers, conveying the message that the individual regional funds would be committed to each particular region. This marketing tool emphasized the regional commitment of PPF. In addition, three regional offices of PPF Investment Company were established in Zlín, Teplice and České Budějovice. There was a joint strategy of bidding for shares in all four funds. (These funds later merged on January 1, 1995.)

During the zero round of the first wave of voucher privatization, PPF organized three direct-mail rounds to 2.5 million households in the Czech Republic. The direct mailings invited the holders of the voucher books to entrust their voucher points to one of the PPF funds as the means for entering the lottery. Each week, individuals who entrusted their voucher books, in whole or in part, to one of PPF's funds were drawn from among PPF investors and won one of the prizes proportionate to the portion of voucher book entrusted to PPF as follows: one out of each seven investors received CZK 2,000; one out of 70 investors received CZK 5,000; one out of 700 investors received CZK 10,000; one out of 7,000 investors received CZK 100,000; and one out of 70,000 investors received CZK 1 million. In addition, PPF's four funds offered a buy-back option promising CZK 11,000 per voucher book in one year's time. (The market value of the fund's shares roughly equalled CZK 11,000 during the option exercise period.) As a result, PPF's four investment funds attracted 190,000 shareholders and 117 million investment points, i.e., the equivalent of 117 million shareholders each subscribing the entire voucher book. That represented 2.7 percent of all the investment points invested with all Czech investments funds.

The initial strategy of bidding for shares was aimed at acquiring the shares of about 100 mid-sized and larger companies. As well, after analyzing the competitiveness of the country's industries, PPF selected preferred industries to invest in, such as glass, engineering, construction and building materials, energy, and food. PPF's strategy included a preference for mid-sized and larger companies that were expected to be relatively liquid when share-trading began. Also, due to low bidding prices, PPF intentionally acquired a number of smaller companies in the selected industries.

PPF mainly targeted Czech companies because most of its shareholders were Czech. Therefore, the later split of Czechoslovakia into two countries did not create any difficulties.

Thus, the mix of companies ranged from portfolio investments to larger shareholdings in companies, allowing PPF to nominate its representatives to the boards of those companies, assuring performance oversight.

The selection process of the companies, in which shares could be acquired through the bidding procedure, was complicated mainly by a lack of information about many of the companies. The companies had limited reporting requirements and only a few of the larger companies issued annual reports. Moreover, annual reports and other public documents distributed by a company frequently provided little information. In addition, companies tended not to respond to PPF's requests for information because most of the information that companies in Western Europe or the U.S. routinely communicate to their investors the Czech companies considered confidential. Therefore, initially, PPF pre-selected about 400 (and later, 200) companies based on available financial data, such as book value of assets, revenues, net profits, and a few selected financial ratios. PPF was well aware that the information from past financial statements was limited, due mainly to the changing market environment. Contributing to this environment substantial industry restructuring; a significant change in the Czech Generally Accepted Accounting Principles as of January 1, 1993; and the relatively recent introduction of the free market pricing system as opposed to prices prescribed by the government. Therefore, many companies that showed large revenues and profits in the past could have been on the decline and vice versa. Given the difficulties of obtaining information on companies, it was necessary to collect a large amount of fundamental business information on the pre-selected companies within a short period of time.To do this, PPF's analysts conferred about the companies with a number of outside industry experts and visited as many companies as possible. Eventually, the investment decisions were made based on conclusions reached by a team of fund managers.

Considering the bidding procedure, the quality of the information on individual companies was only one factor contributing to successful bidding in the view of PPF management. As well, the demand of the other investors needed to be estimated so that the size of PPF's bid for an individual company would not cause oversubscription. Therefore, PPF stored the data on the bidding process from the previous rounds and tried, with more or less success, to predict demand in the upcoming bidding round.

As a result of the great price difference of the least and most expensive companies in the later bidding rounds, PPF did not strictly apply its original strategy of focusing primarily on mid-sized companies but also acquired shares in a number of smaller, potentially illiquid but substantially underpriced companies. Eventually, PPF ended up with a portfolio of more than 200 companies with a book value of CZK 5 billion. Due mainly to legally required valuation of shares that were in effect during the first wave of voucher privatization, and also because of the continuing decline of the Czech stock market, the current net asset value of PPF's PCIF fund is approximately CZK 2.5 billion.

Second Wave of Voucher Privatization

PPF established two closed-end unit privatization funds for the second wave –CPF and MPF. Similar to that of the first wave, the funds' geographical focus was used as a marketing tool aimed at attracting regionally attuned investors. The funds have an identical portfolio structure because there was a joint strategy of bidding for shares in both the funds.

The zero round of the second wave was substantially different from the first because of the experience gained in the first wave by the investment companies. In PPF's view, creating a strategy that could beat the competitors was getting increasingly more difficult. As a result, many investment companies, at the expense of other marketing tools, decided to offer cash incentives for investing in their fund. However, PPF primarily chose to run a regular advertising campaign on TV and radio and in newspapers, and also, at the end of the zero round of the second wave, its TV contest offered a daily chance for one individual–of all those who had entrusted their voucher points to PPF funds–to win CZK 0.5 million. As a result, PPF succeeded in attracting 140,000 shareholders, representing 119,000 whole voucher books, who entrusted their points to PPF's funds. In the second wave, total advertising costs per voucher book were greater– including those of PPF–compared to the first wave, due to the investment companies' greater sophistication.

In PPF's view, the first and second wave bidding strategy of the investment companies established by financial institutions did not differ substantially because the investment companies' access to the information and analytical know-how possessed by their parent financial institutions existed during both waves. In contrast, PPF built both a team of analysts and analytical know-how during the first wave and completed this process before the second wave. Therefore, for PPF the substantial difference between the first and second wave was in the higher availability of information supplied by companies. Also, PPF analysts used the time between the first and second waves to collect and analyze larger volumes of information. Moreover, the PPF bidding strategy for the second wave changed: In contrast to the first wave, PPF funds were aimed at acquiring portfolio investments in larger, potentially liquid companies,such as chemical companies and utilities, without a narrow focus on any single industry. This strategy led, obviously, to a number of smaller shares and, therefore, PPF was kept from nominating its representatives to these companies' boards of directors. Nevertheless, success in bidding was again heavily dependent on qualitative factors–mainly the ability of PPF managers, based on the bidding data from preceding rounds, to predict share oversubscription in particular companies.

3. Investment Management Policies

Portfolio or Corporate Management

PPF views the shares held in the portfolios of funds under its management as ranging from portfolio-management types of holdings to holdings where PPF influences management decisions through its representatives on the boards. Since portfolio management requires a different set of skills than those of managing holdings in small, illiquid companies, PPF is considering internal organizational changes that would separate these two activities.

PPF has relatively large share holdings in many small and illiquid companies. In general, PPF is interested in nominating its representatives to the boards of companies in which it has large shareholdings. In the case of many mid-sized and smaller companies, PPF believes that it is important to have a representative on the board in order to safeguard the assets from mismanagement through either incompetent senior management decisions or intentional attempts of the management to make commercial arrangements benefiting themselves at the expense of the company and the fund's shareholders. Concern about insufficient minority shareholder protection is aother reason for having a representative on the board. PPF wants to be well informed and to become part of a shareholder coalition should there be an offer for sale of a majority stake in the company for a price above the market price. Such a take-over can leave minority shareholders locked in a company because they have no influence over the company's decisions. They may be able to sell their shares only at a very low price, if at all.

Representatives on the boards of directors are carefully chosen from among the employees of PPF and outside management experts. According to PPF's internal policy, employees representing PPF on the boards cannot be representatives on more than one board of directors and one supervisory board. It is believed that additional board assignments would probably reduce their ability to perform their duties within the investment company. While PPF employees on the board of directors go through different external management training programs, external representatives are not given training because they are carefully selected from among management experts. PPF is departing from the concept of having several full-time professionals whose only responsibility is representing PPF on boards.It has not been prescribing common strategies to the members of the board but it has been increasingly seeking potential synergies with holdings in different companies. PPF expects the board representatives to perform their duties in the best interests of the fund's shareholders. For example, as information on the company (e.g., annual reports) becomes available, the board members supply it to the PPF analyst responsible for the relevant industry. Also, the board members are occasionally called to meetings of board representatives in order to meet each other and exchange opinions. External board representative nominations are usually based on references from PPF senior management. Therefore, PPF has not experienced major difficulties with the board representatives. Thus, despite the fact that according to current legislation, board members nominated by the investment company act as individuals representing the fund's shareholders, PPF believes that, with a few exceptions, it has sufficient control over them. The board members are compensated only by the company on whose board they sit.

PPF has joined the industry trend of consolidating diverse fund portfolios that consist of large numbers of smaller holdings. As a result, for example, the number of issues in the portfolio of the PCIF fund, established for the first wave of the voucher privatization, decreased by 15 per cent since it was created. This process of portfolio consolidation is expected to continue, and it will be handled within PPF by its newly established subsidiary, PPF-Capital Management.

Other Policies

PPF realizes the value of regularly communicating with its shareholders and potential investors about the activities of the investment company. In order to satisfy their need for information, PPF investment company regularly publishes information about the investment company and its funds. Audited annual reports and half-year reports are available on request. The net asset value of the portfolio is published weekly in the press. Detailed data on the portfolio is published quarterly. Occasionally, a magazine whose contents covers important events in the life of the company is published and sent to the shareholders. The marketing department is available to answer additional questions that shareholders or potential investors have.

PPF encourages the companies to pay dividends. PPF sees dividends as an important tool for monitoring the performance of the companies. Dividend payment signals the promotion of sound business practices within the company. PPF also encourages dividend payments in companies that seem to have a so-called free cash-flow problem: there is a cash flow in excess of what can be profitably reinvested in the firm.

PPF's funds paid no dividends in 1993, but did so in 1994. The goal of PPF is to provide a stable stream of dividends to its shareholders in the future whenever possible. The situation in 1993, when PPF was not permitted to pay dividends, could repeat in the future as a result of the regulation permitting only profitable companies to pay out dividends. For investment funds this situation is hard to achieve: according to the required valuation procedures, in most cases the book values of shares held by privatization funds significantly exceeded the market value at which the shares have since been traded.Then, first-time trading in shares acquired during the voucher privatization by investment companies frequently leads to a loss on their sale.

PPF Investment Company holds a long-term contract with the investment company for the investment management. The funds themselves do not have any employees. All the activities are performed on the investment company level. For example, in the case of the PCIF fund from the first wave of the voucher privatization, the management contract is cancellable several years from the date that the shareholders of the fund would deliver their notice of cancellation. A sizeable contract breakage cost clause is stipulated in the contract. The asset management contract between the fund and the investment company establishes the management fee of 2 percent of the portfolio asset value.

4. PPF Investment Company's Role in the Czech Investment Management Market

Over several years, PPF has developed into a very efficient investment company with more than CZK 3.7 billion (US$140 million) of assets under management in the Czech Republic. PPF demonstrates an investment strategy of growth in net asset value mainly by assisting the smaller companies in its portfolio to realize their potential and by optimizing the portfolio of mid-sized and large companies. In other words, PPF is building a strong portfolio that includes small stakes in large companies as portfolio investments and large or controlling stakes in mid-sized and smaller companies, either for the purpose of the companies' restructuring and development or for sale of the controlling stake to a strategic investor. As well, the process of decreasing the number of companies in the portfolio will continue. In PPF's view, investments will continue to be channeled to prospective companies without regional or industrial focus and without considering the size of companies.

The company is led by a young and ambitious management team. Although Czech nationals, a number of the senior managers have graduated from foreign business schools or went through training abroad. On the one hand, measured by the volume of assets under management, PPF is not as sizeable as the investment company subsidiaries of the Czech financial institutions. On the other hand, not being tied to a financial institution allows flexibility, which gives PPF a competitive edge. PPF has been promoting sound business practices within the industry and, therefore, its future among both the other large non-banking and banking investment companies appears more than merely promising.

5. Appendices

Appendix 1.: Net Asset Value Under Management

	PCIF	CPF	MPF	Total
Net Asset Value (in CZK million)	2,441	864	400	3,705

The four investment privatization funds established for the first wave of the voucher privatization recently merged establishing PCIF fund.

CPF and MPF are the closed-end unit privatization funds.

The data represent the average for the week of July 3, 1995.
The market price per share of PCIF represents about 43 percent discount to net asset value.

PPF's PCIF fund is quoted, and listed (i.e. belongs among the group of high-quality shares with more stringent reporting requirements applied to the corporation) on the Prague Stock Exchange.

Appendix 2.1.: Czech Top Investment Funds for the First Wave of Voucher Privatization, Ranked According to the Net Asset Value per Voucher Book

(The number of shares issued by the funds per voucher book differs.)

Fund Name	Investment Company / Fund Manager	NAV / Voucher Book (in CZK)
IF YSE	LinhArT	29,000
Harvard IF růstový	Harvard Capital & Consulting	23,100
Harvard IF dividendový	Harvard Capital & Consulting	22,600
PPF - PCIF	**PPF Investment Company**	**21,500**
Bankovní IF	1. IN, subsidiary of IPB (bank)	19,100
IF Bohatství	1. IN, subsidiary of IPB (bank)	18,800
Růstový IF Kvanto	O.B. Invest, subsidiary of ČSOB (bank)	18,700
IF Energetiky	1. IN, subsidiary of IPB (bank)	18,700
Creditanstalt IPF	Creditanstalt	18,500
Komerční Banka IF	IKS KB, subsidiary of Komerční Banka	17,000

	Estimated Average NAV / First Wave Voucher Book (in CZK)	*18,500*

NAV represents estimates as of July 31, 1995.

Appendix 2.2.: Czech Top Investment Funds for the Second Wave of Voucher Privatization, Ranked According to the Net Asset Value per Voucher Book
(The number of shares issued by the funds per voucher book differs.)

Fund Name	Investment Company / Fund Manager	NAV / Voucher Book (in CZK)
Harvard IF růstový	Harvard Capital & Consulting	22,000*
Harvard IF dividendový	Harvard Capital & Consulting	21,400*
Creditanstalt Český Infrastrukturní IF	Creditanstalt	15,400
2. Czech Coupon Invest	Czech Investment Company	14,900
Fond zaručených odkupů	1. IN, subsidiary of IPB (bank)	13,500
YSE akcionářů PF	LinhArT	13,400
Živnobanka PF	ŽB Trust, subsidiary of Živnostenská Banka	12,900
YSE Profit PF	LinhArT	12,900
YSE2 IF	LinhArT	12,700
Fond pravidelných příjmů	1. IN, subsidiary of IPB (bank)	12,400
ISP Podnikatelský tržní PF	ISP	12,000
AAA	KIS CP, subsidiary of Česká Pojišťovna (insurance)	11,900
Fond majetku	1. IN, subsidiary of IPB (bank)	11,700
Fond prosperity	1. IN, subsidiary of IPB (bank)	11,700
PPF MPF	**PPF Investment Company**	**11,400**
PPF CPF	**PPF Investment Company**	**11,400**
Alpha Effect	KIS CP, subsidiary of Česká Pojišťovna (insurance)	11,100
	Estimated Average NAV / Second Wave Voucher Book (in CZK)	*10,500*

NAV represents estimates as of July 31, 1995.

* Not comparable; the first wave Harvard IF rustovy and IF dividendovy increased capital by the assets acquired during the second wave of voucher privatization.

Appendix 3.1.: Czech Top Investment Companies, Ranked According to the Number of Voucher Books Entrusted to Them During the First Wave of Voucher Privatization.

Investment Company / Fund Manager	**Number of Voucher Books**
SIS, subsidiary of Česká Spořitelna (bank)	950,000
1. IN, subsidiary of IPB (bank)	712,000
Harvard Capital & Consulting	565,000
IKS KB, subsidiary of Komerční Banka	465,000
KIS CP, subsidiary of Česká Pojišťovna (insurance)	334,000
Creditanstalt	138,000
PPF Investment Company	**117,000**
ŽB Trust, subsidiary of Živnostenská Banka	117,000
Bohemia, subsidiary of Banka Bohemia	85,000
LinhArT	72,000
A-Invest, subsidiary of Agrobanka	71,000

Total vouchers available	*5,977,000*
Vouchers entrusted to funds	*4,351,000*
Vouchers invested directly by individuals	*1,625,000*

Appendix 3.2.: Czech Top Investment Companies, Ranked According to the Number of Voucher Books Entrusted to Them During the Second Wave of Voucher Privatization.

Investment Company / Fund Manager	**Number of Voucher Books**
A-Invest, subsidiary of Agrobanka	309,000
Expandia, subsidiary of Chemapol (chemicals trading)	304,000
Harvard Capital & Consulting	292,000
O.B. Invest, subsidiary of ČSOB (bank)	197,000
KIS CP, subsidiary of Česká Pojišťovna (insurance)	186,000
ISP	158,000
LinhArT	156,000
Czech Investment Company	152,000
SIS, subsidiary of Česká Spořitelna (bank)	124,000
IKS KB, subsidiary of Komerčni Banka	124,000
PPF Investment Company	**119,000**
1. IN, subsidiary of IPB (bank)	97,000
Creditanstalt	78,000
ŽB Trust, subsidiary of Živnostenská	59,000

Total vouchers available	*6,160,503*
Vouchers entrusted with funds	*3,911,000*
Voucher invested directly by individuals	*2,248,000*

Appendix 4.1.: Portfolio Structure of the First Wave PCIF Investment Fund

Industry Group	Portfolio Share (in %)
Engineering	18.9
Glass and Ceramics	5.6
Construction and Building Materials	16.6
Energy and Fuel Processing	8.6
Chemicals and Pharmaceuticals	2.0
Telecommunications	9.0
Electrotechnics	6.6
Food and Beverage	5.9
Banking	12.2
Wood Processing	0.4
Textiles	5.2
Pulp and Paper	3.5
Transportation	1.7
Health	1.8
Other	2.0

The data represents the situation as of July 28, 1995.
The portfolio includes shares in 171 companies. This is a decrease from shares in 202 companies acquired in the first wave of voucher privatization.

Appendix 4.2.: Estimated Portfolio Structure of the Second Wave CPF and MPF Investment Funds

Industry Group	Portfolio Share (in %)
Engineering	1.1
Glass and Ceramics	0.4
Construction and Building Materials	1.3
Energy and Fuel Processing	23.0
Chemicals and Pharmaceuticals	19.5
Telecommunications	24.9
Electrotechnics	3.9
Steel	2.5
Wood Processing	8.6
Textiles	6.2
Health	0.9
Other	7.7

The data represents the estimates as of July 28, 1995.

Appendix 5.: Organizational Structure of PPF Investment Company

PPF Investment Company manages PPF PCIF ("První český investični fond") which merged the four regional investment funds (PCIF, PMIF, PSIF, PJIF) established for the first wave of voucher privatization.

PPF Investment Company manages PPF CPF (Český podílový fond) and PPF MPF (Moravskoslezský podílový fond), established for the second wave of voucher privatization.

PPF also manages PPF VIF fund (Výnosný investiční fond), targeted at Slovak shareholders who invested in Czech assets, at the time of the split of Czechoslovakia.

PPF has a brokerage subsidiary PPF Burzovní Společnost and PPF-R subsidiary established in Russia and managing the Group of Funds Peter the Great with an estimated portfolio net asset value of US$50 million, of which more than one third are shares in companies from the sectors of oil, energy and telecommunications. PPF-R also has brokerage operations and significant proprietary investments. PPF-R has a representative office in Kazakhstan.

PPF Investment Company has a total of 40 employees. The organizational chart includes the managing director, three executive board members, and two executive secretaries. Senior management includes heads of the departments of finance, marketing, analyses, portfolio management and portfolio administration. Members of senior management and some others employees have been trained abroad in the United States, United Kingdom, or Austria.

PPF's brokerage subsidiary PPF Burzovni Spolecnost has 10 employees. PPF Investment Company, PPF PCIF Fund and PPF Burzovni Spolecnost are each governed by a three-member board of directors and a supervisory board. The supervisory board oversees the operations of the board of directors.