



GUEST BLOGGERS

Meet Our Team: Greg Konieczny

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I'm fortunate to work with an outstanding team of analysts and portfolio managers across the globe, and to have the opportunity to meet with them in their home countries. On these visits, I gain valuable local insight as I observe the fundamental changes taking place in the local economy and as we tour companies in search of potential investment opportunities. Earlier this summer I met with Greg Konieczny, Templeton Emerging Markets Group's chief executive officer Romania, and we had some great discussions about issues affecting Eastern European emerging markets and the potential we see in select countries and sectors. Here, I share a chat with Greg, who provides his perspective on opportunities he sees in the region as well as some more personal information to help you get to know him a bit better.

Mark Mobius: Your area of expertise is Eastern Europe. Can you talk briefly about where you see the biggest opportunity in the region today—and why?

Greg Konieczny: The largest markets in the region—Russia and Turkey—are looking interesting to us again.

Russia has suffered due to its military conflict with Ukraine and the resulting international sanctions, along with falling oil prices. However, current market valuations seem to already reflect the bad news. The price of oil has recovered a bit this year, which should help Russia's budget and current account. However, we see very limited investment opportunities in the oil and gas sector in Russia due to high state involvement. We are much more optimistic about the prospects of the Internet and the consumer sectors, which could benefit from improvements in the domestic Russian economy.

The Turkish market has been very volatile this year, and recent declines following the unsuccessful military coup this summer have brought the market to what we view as attractive levels compared with other regional markets. Turkish-listed corporates tend to compare favorably to their peers in general in the EMEA region (Europe, Middle East and Africa) when it comes to corporate governance, balance sheet structure, top management, credibility and export capability. Also, Turkish consumption growth has been resilient despite a drop in tourism. As a result of the recent market and currency underperformance, we do see tempting investment targets in Turkish consumer stocks and exporters.

Among frontier countries in Eastern Europe, we view Romania as the most attractive market. There are bargains from a valuation standpoint, there have been many stocks delivering high-dividend yields, and there appear to be good prospects for further initial public offerings of state-owned enterprises (SOEs) as well as private companies. Gross domestic product growth has been strong over the past few years and was up 5.0% in the first half of this year on a year-over-year basis, which puts Romania on track to potentially be the fastest-growing economy among members of the European Union (EU).¹

Mark Mobius: I understand that you were a university student in Poland as the Communist era was ending there. What was that like? It must have been a little confusing to a student of economics!

Greg Konieczny: It was even more confusing for university professors than for the students! I went to the University of Gdansk in 1989 to study foreign trade. It was in the midst of huge political changes triggered by the Solidarity movement and its leader, Lech Walesa (I actually went to the same high school at the same time as his oldest son). All of this resulted in the first free elections in 1989 and a switch to market economy in Poland. All of these historical changes started during the first year of my studies. During my first semester, I had lectures about the advantages of a socialist economy. But during my second semester, the professors had to start explaining that capitalism is actually not that bad. Very often their lectures were limited to them reading out of foreign books on economics, as they had to study them together with us students! It was amazing how quickly things then started to change. During my third year of studies, I had already started working as a stock broker at the Warsaw Stock Exchange, which was established in 1991.

Mark Mobius: What attracted you to the world of investment management as a career?

Greg Konieczny: To me, investment management is the essence of capital markets. From the very beginning of my studies I appreciated the energy and dynamics of buying and selling shares in private transactions, and also later when the first stock exchange was established in Poland. I also saw the huge opportunities that investment management offers, which was fueled by books I read about famous Wall Street gurus.

Mark Mobius: You manage Fondul Proprietatea in Romania; what makes it unique?

Greg Konieczny: Fondul Proprietatea (Fondul) was established to compensate Romanians whose properties were confiscated by the former Communist government, and we have been its investment manager since 2010. Fondul is the largest closed-end fund in the region, and after we listed the fund in London, it became the fifth-largest fund listed there. What makes the fund unique is that, since Romania is still a frontier market, the fund is quite large in terms of asset size compared to the local stock market. The fund holds large minority stakes in the largest and most important Romanian SOEs and private companies in the energy and infrastructure sectors. Over half of the portfolio is still in unlisted companies, so Fondul offers an interesting exposure to those companies and Romania.

Mark Mobius: What are some of the biggest changes you've seen in Romania as well as the broader region in the past couple of decades?

Greg Konieczny: Definitely the fall of Communism and the resulting end of Russian domination in the region were the most important events, and they have already found their way into history books across the world. I am proud that Gdansk, my hometown, was the cradle of Solidarity where strikes in the shipyards first took place in 1980. Similar movements were experienced in other Eastern European countries in the following years, with the fall of the Berlin Wall in 1989 being the climax of the changes. Other very important milestones were the expansion of the North Atlantic Treaty Organization (NATO) and the European Union into Central and Eastern Europe.

Mark Mobius: Can you talk about your role as an activist investor?

Greg Konieczny: This is something I have always been very excited about, as I do think minority investors can contribute to the long-lasting success of the companies they are shareholders in. We have been very active in the region. We have recommended a number of board members as well as worked with other shareholders and management teams to improve corporate governance and to promote companies growing their businesses for the benefit of all shareholders. Especially with Fondul in Romania, we have had to be very active in transforming SOEs into real commercial enterprises, while at the same time limiting political influence over those companies. We have been able to bring positive changes, resulting in improved financial results for most of our portfolio companies. In some cases, we have seen a phenomenal turnaround.

Mark Mobius: Do you remember your first week on the job as part of the Templeton Emerging Markets team? What were your impressions?

Greg Konieczny: I still remember the recruitment process. In 1995, Templeton was looking to launch domestic funds in Poland. In order to obtain a license to do so, a company was required to employ two licensed investment advisors. At that time, there were only around 40 licensed advisors in the country, as exams prepared by the Polish regulatory agency were very difficult to pass. Somehow I was one of the lucky ones with license number 16. Templeton approached all the licensed investment advisors, and in the end I was lucky again to receive an offer. I had to take an IQ test, and I remember a short interview with you in your hotel room. Your questions focused on my investment ideas in Poland as well as my past adventures in football (or soccer for US readers). You were quite a good multitasker—I remember during the interview you had to fax some orders to the company's trading desk in Hong Kong (emails were not in use at that time).

During my first week on the job, I attended an analyst conference in California for our clients. I remember that our emerging markets team was rather small back then—only about a dozen of us—and we discussed our investment process in a small room. That was the start of my training. I remember being very surprised that no one left that conference room before you did—at 3 a.m.!

Mark Mobius: We have a dedicated group, don't we? But of course, it can't be all work and no play. What do you like to do in your free time? Any interesting hobbies?

Greg Konieczny: I am passionate about football. Prior to my studies, I was on Poland's national junior team, but I later suffered a knee injury and unfortunately, my short career ended. I still try to play football every week with other former players, but we have to call ourselves old boys! I also try to see each match of the Polish national team live. So last June was pretty busy for me with a lot of trips to France where Poland performed very well in the EURO2016 tournament.



Poland's Junior National Football (Soccer) Team, 1983. Greg Konieczny is pictured top row, to the left of the coach in the center. He was the leading goal scorer of the team!

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All investments involve risks, including the possible loss of principal. Investments in foreign securities involve special risks including currency fluctuations, economic instability and political developments. Investments in emerging markets, of which frontier markets are a subset, involve heightened risks related to the same factors, in addition to those associated with these markets' smaller size, lesser liquidity and lack of established legal, political, business and social frameworks to support securities markets. Because these frameworks are typically even less developed in frontier markets, as well as various factors including the increased potential for extreme price volatility, illiquidity, trade barriers and exchange controls, the risks associated with emerging markets are magnified in frontier markets. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions.

1. Source: Romania National Institute of Statistics press release, August 12, 2016. There is no assurance that any estimate, forecast or projection will be realized.