



PORTFOLIOMETRIX

A large circular graphic is centered on the page. It features a white background with a dark blue border. Inside the circle, there are several overlapping images: a snowy landscape with a fence, a bright orange and red fire, and a person in a dark jacket and helmet working in a dark, industrial setting. The text is overlaid on the white background of the circle.

PORTFOLIOMETRIX
Special Report

ANALYSIS OF THE CONFLICT IN UKRAINE

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1. INTRODUCTION



The last four days have been a kaleidoscopic blur of heavy armour rolling through the European countryside, of loud explosions and plumes of smoke rising from city skylines. People cowering in underground shelters, chaotic scenes at stations, lines of refugees at border posts. News coverage of women and children making Molotov Cocktails, video clips of Kalashnikovs being handed to civilians. Burned out tanks and trucks on destroyed bridges. A forty-mile convoy of Russian vehicles rumbling towards Kyiv.

Riveting, surreal and anachronistic. It feels like we should be watching these scenes in black and white. Instead, we have them in full colour, captured on iPhones and shared on the internet.

It is a crime and a monstrous one; one that leaves no room for explanation or forgiveness. It has no place in 21st century, regardless of pretext. That this invasion is happening reveals the extent of the West's long-term miscalculations of Russian intent - and the tenuous assumptions that underpin the global security order. That the invasion is going badly reflects the extent of Mr Putin's own miscalculations, and that is something we ought to worry about. Nothing in this conflict has been predictable.

Despite Western intelligence standing steadfast by their assertion of imminent invasion, many experienced analysts merely saw Russian posturing, while conceding that there was no real way of reading Vladimir Putin's mind. Others expected more limited operations in the East to secure the breakaway republics in the Donbas region - this despite OPSINT (open-source intelligence) suggesting troop dispositions were optimised for a multi-front assault. The invasion, expected or not, has stunned the world.

2. THE FOUNDATIONS OF MISCALCULATION

Mr Putin's current miscalculations

Russia appears to have made several telling miscalculations with regards to the strength and will of Ukrainian resistance, the effectiveness of its own armed forces, the intensity of global condemnation, the widespread solidarity with Ukraine, and the speed with which consensus was reached on retaliatory measures. It has severely underestimated the will of the European Union in particular, and of opposition to the war from within Russia and Russians abroad.

Yawning gaps exist between the objectives of this campaign and the outcomes realised thus far. If the aim was to push NATO back from its borders, this has failed, as NATO has reinforced the Balkan and other NATO states - including with American boots. If the aim was to exploit EU equivocation, divisions and inaction, it has woken Europe from its slumber, united it, and galvanised it into action with commitments of lethal aid. Russian aggression has provided the catalyst for increased NATO spending, which political cajoling has hitherto failed to.

If Russia's aim was to pluck Ukraine from the orbit of the EU and NATO by leveraging historic and cultural ties, it has done the opposite, destroying trust between the nations and underscoring the conviction that Ukrainians' future lies to the West. If the aim was to bring Ukraine back into the Russian sphere of influence, Ukrainian identity as an independent sovereign nation has never been stronger. If the aim was to destabilise and depose a democratically elected government, it has instead further legitimised and emboldened it, burnishing the status a Ukrainian president Russia has sought to vilify.

Russia can weather sanctions for a period, but the raft of measures implemented will prove crippling in time. This in a country that has stagnated economically for almost a decade and where real incomes have been declining. Most devastating for Russia has been Europe's acceptance of the risks that Russia could turn off the energy taps, the threat of which is more powerful than the act itself.

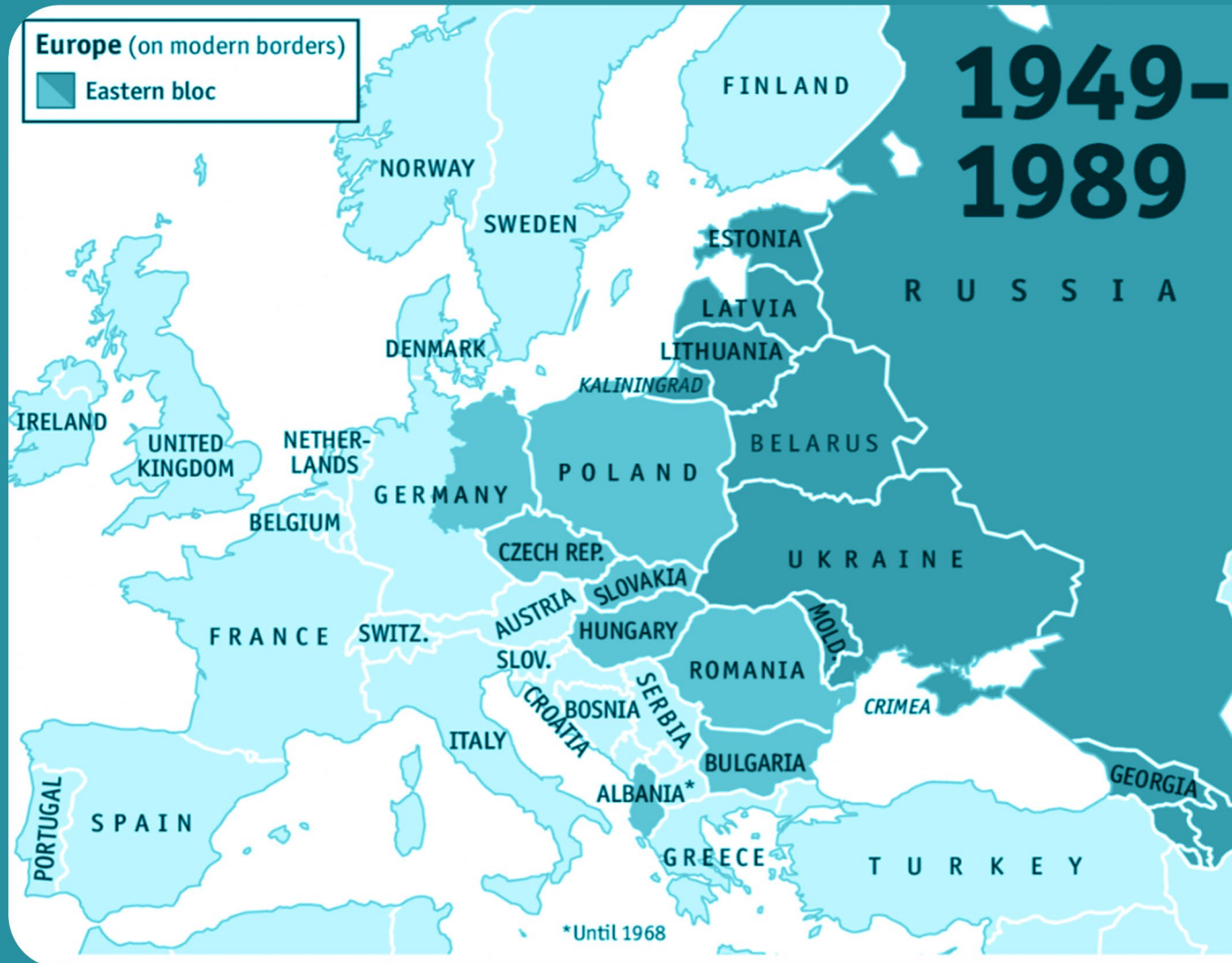
That Mr Putin has been thwarted makes him a very dangerous man indeed.



Source: Ukrainian Presidential Press Office, 25 February 2022



The West's historic miscalculations



Economist.com/graphicdetail

Under-appreciating historical context

This section aims not to justify the unjustifiable, but to give historic context to Russia's and Mr Putin's behaviour.

The disintegration of the Soviet Union ended the cold war superpower duopoly, leaving America in charge on the global stage and dealing a massive blow to Russia's power, prestige and influence. Russia's sense of national identity (much like Britain's, in fact) is tied up with the triumphs over tyranny in the Second World War. Putin's popularity has much to do with his appealing to nationalist instincts, of projecting strength, his nostalgia for the Soviet Union and asserting Russia's influence in global affairs. It is against this backdrop that we need to understand Russia's sensitivity to expanding Western political, military, and economic influence.

The West has misjudged Putin too. That he is a murderous, authoritarian, kleptocratic despot is the easy bit; more contentious is what drives him and what his end goals are. His father, a conscript in the Soviet Navy, later served in the Destruction Battalion of the NKVD in WW2 (later disbanded as a criminal organisation). His grandfather was the personal cook to Vladimir Lenin. Putin's elder brother died of diphtheria during the siege of Leningrad. His grandmother was killed by the Nazis and his maternal uncles never returned from the Eastern Front. Putin himself worked as a KGB foreign intelligence officer for sixteen years, rising to the rank of lieutenant colonel. It is against this backdrop that we need to understand the man.



Harvard professor of international relations, Stephen M. Walt, belongs to the realist school and authored the Balance of Threat Theory. He believes the Ukrainian crisis was avoidable and that the world is now paying a high price for a flawed theory of world politics. Walt argues that the United States and Europe succumbed to “wishful thinking and liberal idealism” and, had they instead relied on realism, Russia may not have invaded Crimea in 2014.

‘U.S. and European officials believed that liberal democracy, open markets, the rule of law, and other liberal values were spreading like wildfire and a global liberal order lay within reach. They assumed, as then-presidential candidate Bill Clinton put it in 1992, that “the cynical calculus of pure power politics” had no place in the modern world.’

Walt’s key argument is that there is no central agency that can protect states from one another, that war is always a possibility and nations are reluctant to rely on trust, not knowing what others may do in the future. Liberalism, he argues, believes that well-off democracies don’t fight each other and, to be secure in the world, one simply needs to topple tyrants, spread democracy, and focus on economic prosperity. The momentum of the expansion of western influence lies at the heart of Russian paranoia.

The counter to Mr Walt’s position is that Russia has just provided all the proof necessary to support the defensive actions of her neighbours (including seeking NATO membership), none of which had any plans to attack her. It cannot seriously be argued that a pre-condition for making Russia more secure is through making her neighbours less secure.

Fuelling Russian paranoia

After the disintegration of the Soviet Union, NATO enlarged to include Poland, Hungary and the Czech Republic. Subsequently, ex-Eastern Bloc States Romania, Hungary, Bulgaria, Slovakia, Slovenia, Croatia, Montenegro and Albania enter the NATO alliance, as well as the Balkan states Estonia, Latvia and Lithuania, which share a border with Russia. All these countries, except Albania and Montenegro, have also acceded to the EU, falling firmly into the Europe’s sphere of influence. That they were entitled to make this choice as sovereign states (and that it made sense for them to do so), would not have alleviated Moscow’s sense of disenfranchisement. That they have thrived as Russia has stagnated ups the political ante.

In 2008, the Bush administration nominated Georgia and Ukraine for NATO membership. Many, including Henry Kissinger, opposed NATO enlargement from the start, arguing that Russia would see it as a threat and respond accordingly. Certainly, the domino effects that triggered both World Wars highlight the risks (and benefits) of military alliances. NATO asserts that it is a defensive organisation (it is) and has no intention of ever attacking Russia (it doesn’t). Yet US military action on the global stage reinforces the notion that attacks on “Bad Actor” sovereign states are permissible.



Source: <https://www.mappr.co/thematic-maps/nato-map/>

The 2003 invasion of Iraq (a sovereign state) on the flimsiest of pretexts, was aimed at regime change, no matter how odious that regime. Obama went beyond UN resolutions in Libya and supported the toppling of Muammar Gaddafi, a foreign head of state. US extra-judicial killings of Iranian military leadership indicated the willingness of the US to use force outside international law to protect its interests. Russia is indisputably a Bad Actor and, by these standards alone, ought not to feel overly secure, the world’s largest nuclear arsenal notwithstanding.

Misunderstanding intentions and influences

To paint Putin as the head of a gangster state run by a band of rent-seeking oligarchs is not unreasonable, but that does not reveal his purpose. Is personal enrichment and that of his inner circle, and the protection of their wealth, the objective? Or is it the means to some other end?

The former construct is convenient and is easier for the West to work with. The gangster is motivated by greed and the power required to satiate it. The gangster will undertake high-risk adventures to pursue the goals of self-interest but will balk at actions that put that economic self-interest at risk. Putin plundered state assets and used the proceeds to create a ruling economic elite – the oligarchs. He leveraged their greed to make his position unassailable. The requirement for keeping interests aligned places a constraint on power and a limit on action. You can “trust” a gangster motivated by enlightened self-interest.

Other constructs of Putin’s intent are more worrying and, unfortunately, more likely. If Putin’s primary drive is to re-assert Russia’s historic place in the world and sphere of interest, or to craft a place in history for himself next to Peter the Great and Josef Stalin, the calculus must change. If the primacy of ego and pride trump the drivers of money and security, then the assumption of “rational actor” needs to be considered.

As initial prosperity and stability under Putin has waned (and ultimately reversed), so has his dependence shifted from relying on support from the economic elite to support from the security apparatus, including the army. This has meant that the influence of the “rational” gangsters has ceded ground to the influences of ideologues, nationalists and conservatives, whose nostalgia for Russian power and prestige resonate with his own.



3. THE CURRENT MILITARY SITUATION

This section involves a lot of detail so skip over it if you prefer and substitute with, “Russia is not doing as well as expected”. It may, however, be a useful synopsis of the evidence presented through news channels.

Strategic Backdrop

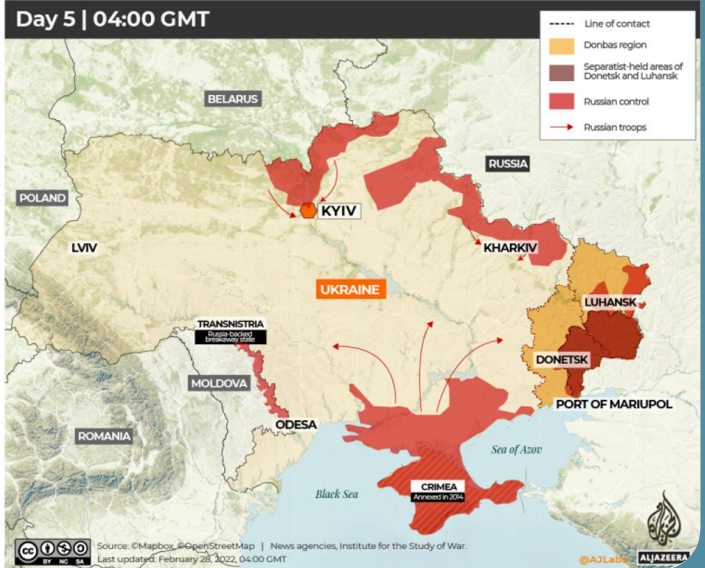
An invading force faces two primary strategic options. The first approach is slow moving and deliberate, where the full weight of the attacking force is brought to bear in the initial assault. There is little stealth involved and the enemy’s main defences are saturated with artillery, rocket fire and airstrikes before a ground assault commences. Gains are incremental and advances are carefully consolidated from a supply and logistics point of view. On encountering hard points of resistance, siege tactics are employed, and firepower is wielded with little discrimination between combatants and non-combatants. This is total war, and the destruction and cost in lives is appalling. It is not the strategy Russia has chosen, but one that she still has the option of resorting to.



RUSSIA-UKRAINE CRISIS

Who controls what in Ukraine?

Blasts have been heard in the capital **Kyiv** and the **second city, Kharkiv**. Ukraine and Russia **will talk on Monday**. Ukraine’s health ministry says **352 civilians have been killed**.



Source: <https://www.aljazeera.com/news/2022/2/28/which-countries-are-sending-military-aid-to-ukraine>

The second choice is German World War II style Blitzkrieg, or “lightning war”, which was used to devastating effect in Poland and France in 1939 and 1940. It is a strategy that emphasises manoeuvrability and speed, using airpower, armour and mechanised infantry. The objective is to rapidly overwhelm, outflank and isolate enemy forces. Many enemy soldiers surrender without firing a shot. It requires quickly gaining complete air supremacy and knocking out command and control structures, neutralising fixed military emplacements and destroying logistical and supply infrastructure. The pace of advance sows confusion and demoralises the enemy, making it difficult to adapt and organise a resistance.

The weakness of Blitzkrieg is that advance forces operate far ahead of the main body and if objectives are not achieved quickly, supply lines become extended, leaving forward units separated and exposed. It is a strategy that relies on momentum and any delays favour the defender, who assess and reposition, organise defences and re-supply, whilst critically building the will to resist.

Russia framed this (implausibly) as a war of liberation to free the Ukrainian people from oppression and subjugation to malign Western influence. This narrative would be contradicted with evidence of mass civilian casualties and extensive destruction of infrastructure. A protracted war also increases the cost in terms of combatant lives on both sides, undermining support at home while permanently hardening the attitudes of Ukrainians towards Russia. There are many reasons why Russia would want a quick war and to effect regime change instead of occupation.

Russian Military Setbacks

The Russian invasion appears to be faltering, which is not the same as saying it still can't or won't "succeed". It is early days still, and the bulk of Russia's forces are still more than 20km away from Kyiv, with the possibility of encircling the city within days. Russian forces have broken through in the South and are driving towards Odessa.

Let's look at the evidence supporting the idea of Russian setbacks.

Failure to achieve initial goals

The rapid initial advances towards Kyiv and other major cities suggest the objective was to take key cities quickly, knowingly leaving supply chains exposed in the expectation of speedy capitulation and the ability to secure gains. This narrative is supported by (1) the use of special forces far in advance of the vanguard of the mechanised infantry and armour, (2) evidence of the choice of targets selected for cruise missile attacks, and (3) the prioritisation given to securing airports as the intended means of re-supply and to consolidate initial successes.

At the time of writing, no major cities have fallen and advances along important routes have stalled. Ukrainian forces still possess an effective anti-armour capability and are inflicting significant costs on Russian columns, some of which have been described as "decimated" by the press. This suggests the effectiveness of shoulder-launched infantry weapons as a form of "asymmetric warfare" to neutralise the advantages of a technically or numerically superior force. These are exactly the weapons the West has committed to supply more of.

Failure to leverage air superiority

Russia has claimed full air superiority, but there is ample evidence to suggest this is not the complete control that the US has managed to assert within hours in other conflicts. Russia appears to be under-using its air assets, although the reasons are not perfectly clear.

We have seen recent indications of Ukrainian armour in action against Russian columns along key routes, which would not be the case if Russia was able to deploy all its air assets effectively. We have seen evidence of continuing cruise missile attacks against key infrastructure in major cities, but few signs of strike aircraft operating overhead cities. Cruise missiles are expensive, limited in number and are typically used in advance of gaining air superiority. You would choose to use strike aircraft if they could fly unmolested.



There is also little sign of significant disruptions to Ukrainian defensive preparations near major cities. Footage of ground confrontations show hand-to-hand combat and armour in action, but not of the close air support that is a critical differentiator. Again, this may suggest the effectiveness and the deterrent provided by shoulder-launched anti-air missiles being supplied by the US and European countries.

So, why is this telling? An attacking force will ALWAYS seek to gain air superiority as quickly as possible under ALL strategic scenarios and do it as early in the conflict as possible. Anything less than that means things aren't going as planned.





Source: Maxar; https://edition.cnn.com/europe/live-news/ukraine-russia-news-02-27-22/h_d4b7003723f373f86538ff2995c4bb85

Underperformance of the Russian forces and outperformance of Ukrainian forces

Konrad Muzyka, a defence analyst, has been quoted in *The Economist* as saying that the performance of the Russian war machine, “is worse than in Georgia in 2008”.

While the Russian military has undertaken extensive modernisation since the war in Chechnya, Russian forces have underperformed in this conflict so far. There is additional evidence emerging of Russian troops who are not particularly well-trained and appear to lack the will to press forward with the attack. Many Russian troops are young conscripts who are in touch with family at home and will be aware of global sentiment, have doubts about the legitimacy of the mission and know they lack the benefit of unanimous popular support at home.

The Ukrainian military has also undergone extensive reorganisation since the annexation of Crimea in 2014, driven in part by a desire to meet the standards required to join NATO. Most importantly, Ukrainian troops are highly motivated, are fighting on home territory, have fewer supply problems (for now) and have the advantage of the defender. They have the benefit of a righteous cause, an outpouring of patriotic support, and knowledge that the world is united behind them.

Logistical failures

Russian forces appear fairly “road bound” and Ukraine has blown up many bridges. This has caused massive congestion for Russian vehicles and created challenges to getting engineering and bridging units forward. Supply line problems have seen many Russian tanks and vehicles broken down on the roadside. All these stationary and slow-moving vehicles have presented prime targets for ambush.

Command, control and coordination

There doesn't appear to be the levels of coordination between intelligence, air, armour, artillery and infantry required to make Blitzkrieg work. Troops should be advancing with and behind armour, with close air support ever-present and with artillery having already degraded defensive positions ahead. Instead, isolated units have been easily picked off.

It may be that the scale of the invasion is simply unprecedented in the post-Soviet era and intel and command and control is simply too thinly stretched.

What we should still be worried about

Russia has yet to deploy a quarter of its assets and could change tactics and adopt more of a “total war” strategy. Despite several incidents reported, Russia seems to have made a concerted effort to avoid civilian casualties, which can change. They can also bring far more destructive weapons into the mix, particularly if they make more extensive use of the air force and artillery to bombard Ukrainian positions. Russia can also learn from mistakes and adapt.

Mr Putin will be furious with the performance of his military and this conflict is far from over (unless a ceasefire is achieved), so it is too early to draw conclusions. Nevertheless, defying an outcome that seemed inevitable only a few days ago, Ukrainian defenders have confounded all analyst predictions.

4. SANCTIONS AND MILITARY SUPPORT

Summary of sanctions

The imposition of sanctions in earnest began after Russia's recognition of the Donetsk and Luhansk as independent states. The US, UK and EU targeted businesses, institutions, banks, and individuals linked to the recognition of these breakaway states. These include asset freezes, access to capital and travel bans.

After the invasion started on the 24th of February, additional sanctions by the US and EU targeted Russia's banking system (and their access to Western capital), access to advanced technology and targeted individuals within Putin's inner circle and their families, freezing trillions of dollars in assets.

By Friday additional sanctions were targeted directly at Mr Putin and his foreign minister, Mr Lavrov, aiming to freeze their assets. The EU cut off the supply of the aircraft parts required to keep Russia's civilian air fleet airborne, as well as key technology for oil refineries. The Biden administration and European allies announced on Saturday that certain Russian banks would be cut off from the SWIFT secure banking system, after overcoming initial resistance from Germany and other European states. Tellingly, Viktor Orban, Hungary's president and a Putin ally, indicated that he would support all sanctions imposed by the EU.

Restrictions on the Russian Central Bank by the US, EU, Britain, Canada, France, Germany and Italy are aimed at preventing Russia accessing its very large foreign reserves. This shrinks Russia's war chest, increases its dependency on oil and gas exports and multiplies the effectiveness of other sanctions. By Monday, the US announced that these assets would be frozen, while sanctioning the Russian sovereign wealth fund.

Following the UK, EU airspace has been closed to all Russian aircraft on Sunday, and certain Russian media outlets, including Russia Today, were banned from the airways.



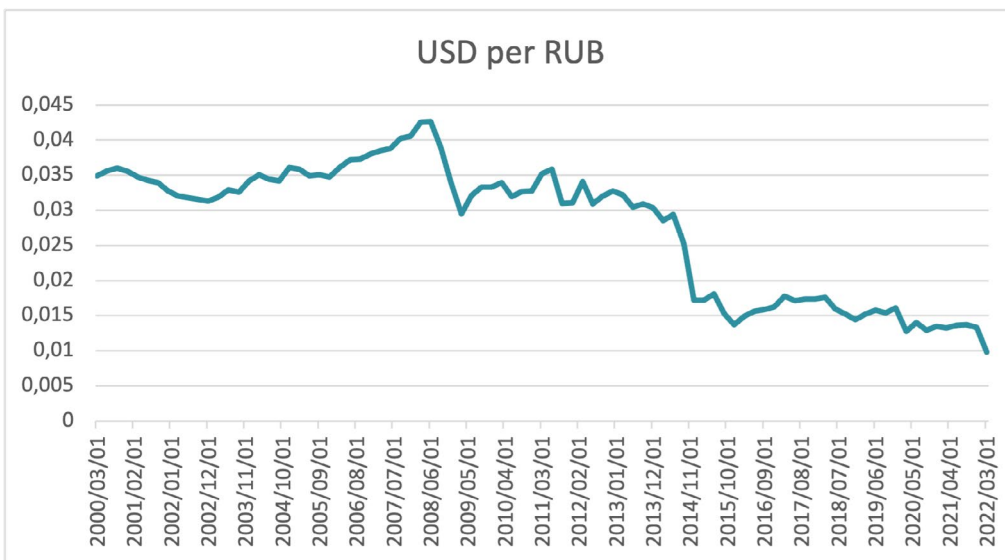
Economic Impact

The Russian economy is in crisis as the impacts of sanctions start being felt. The currency is in free fall, stock markets are closed, interest rates have been hiked from 9.5% to 20%, queues are forming at ATMs with the fear of a run on the banks. The asset freeze on the Central Bank is estimated to prevent Russian access to an estimated \$630 billion in foreign reserves, which is crippling. Russia still holds about 15% of its reserves in China, but China has blocked financing of oil sales, wary of secondary sanctions. S&P has dropped Russia's credit rating to "junk". Companies and individuals are divesting themselves of Russian assets, while sporting events and sponsorships have been cancelled.

Military Support

The US has released an additional USD350m in weapons for Ukraine, while Canada announced USD394 in military support. Ukraine has been asking for Javelin anti-tank and Stinger anti-air missiles. Sweden and Belgium have all offered anti-armour defensive systems, while the UK, Netherlands, Germany, and France have pledged both anti-tank and anti-air systems. The US has not revealed its full list, but it would include all these systems.

Belgium, Portugal, Spain, Greece, Romania, Spain and the Czech Republic have all pledged military aid ranging from assault rifles, machine guns, munitions, body armour and night vision equipment. Bordering Romania has offered to treat casualties in its eleven military hospitals.



Source: Bloomberg, as at 1 March 2022

5. THE HAZARDS OF A RUSSIAN “DEFEAT”

Saving face

The strength, unity of purpose and speed of the international response is as surprising as the Kremlin’s failure to anticipate it. Ukrainian military resilience and the mobilisation of the international response can be chalked up as victories. However, the Russian response to real and perceived failure is a big concern. Nuclear sabre rattling provides one such data point.

Russia and Mr Putin cannot be seen to lose face, not only because of ego, but the impact that such a standdown will have on his grasp of power. Mr Putin faces risks with both the oligarchs and the military men, who have been stung by sanctions and a crisis of confidence respectively. There are no obvious pathways to Russia making military concessions without achieving any of its goals. The suggestion of a failure of judgement, planning or execution is inevitable. Any questions of competence would be devastating to Mr Putin’s carefully cultivated reputation at home.



It is also hard to see how the international community will not seek to punish Mr Putin for his crimes should a cease-fire or some other arrangement be achieved. While de-escalation must be the objective at the negotiating table, Mr Putin’s personal interests may be served through escalation to increase his bargaining position. The challenge is behavioural. When in a winning situation, people choose to consolidate their gains rather than risk losing them. In a situation with little to lose and everything to gain, people become risk-seeking.

Russian Options

Russia is in a no-win situation if the status quo is maintained and the daily costs escalate – it needs to either back down, double down, or extract concessions from Ukraine or NATO. If an unconditional ceasefire were achieved today, it leaves Russia empty-handed with an insurmountable moral, political, economic, and reputational debt. We need to look then at Russia’s options for acquiring bargaining chips to motivate their opposition into making concessions.

Russia has vast military resources at its disposal, which do not rely on the competency of its infantry soldiers and their commanders. Should it choose to, Russia could unleash devastating weapons and indiscriminate firepower against civilian and military targets alike, while NATO would remain helpless to intervene directly without risking war with a nuclear rival. Russia has the ability to destabilise the global security order, providing a powerful motive for international leaders to find common ground.



Russia retains some leverage through Europe’s dependency on Russian gas and oil. However, any gains would be pyrrhic and the self-inflicted damage of cutting energy supplies for any protracted period would be profound. Against the backdrop of the weakness of the Russian economy, compounded by devastating sanctions, there is complete dependency on those revenue streams over the medium term.

6. PLAUSIBLE SOLUTIONS TO THE CRISIS

We have eliminated as unlikely the option of Russia backing down without any concession and know that the hazard of Russia doubling down is unacceptably risky. That means a narrow pathway must be found for Russia to end the conflict while saving face. Much as Ukraine is motivated to continue the fight in the absence of alternatives, they will equally be motivated to de-escalate as quickly as possible. This means, distasteful as it is, “accepting” part of the Russian narrative. It is only through Mr Putin achieving some of the stated objectives for going to war that a peace can be achieved in the near term.

There are two primary legs to Mr Putin’s (unsubstantiated) argument for Russian military intervention; first is the threat to Russia’s security due to the eastward expansion of NATO. Second is the plight of the Russian-speaking populations in the Donbas region and the alleged crimes perpetrated against them. He must be allowed to claim some victory on both accounts.



NATO Membership

It is not possible to imagine a path where Ukraine joins NATO and peace is achieved in the near-term or stability in the long-term.

It is not even clear that NATO, sensibly, had much appetite for this before the conflict, rash promises in 2008 notwithstanding. Nor is NATO necessary or even desirable for Ukraine's security. Ukraine adopting a "neutral" status militarily would not necessarily preclude accession to the EU or, if that was a deal-breaker, the EU could offer Ukraine a status similar to that enjoyed by Norway and Switzerland.

The Ukraine should make this offer, but extract security promises from Russia in return. Putin's demands that NATO withdraw all its infrastructure to Soviet era borders is not feasible. It is not necessary for NATO to make promises about further expansion eastwards in Europe because, Ukraine aside, there is simply nowhere further east to expand. If NATO had to make such a concession, it could do so without yielding anything in a practical sense. However, it is hard to see this happening against the current backdrop.

The "Independent" Republics of Luhansk and Donetsk

The difficulty here is getting Russia to "un-recognise" these territories as independent while leaving enough space for the Kremlin to manoeuvre out of this situation and save face. The Ukraine may have to yield to *realpolitik* and leave the issue of the sovereignty of the areas under the control of Russian-backed separatists off the table.

What Ukraine cannot yield to is the claims of these regions to territories not under their control. Ukraine could offer safeguards to Russia to ensure the security of native Russian speakers and allow for independent observers (as much as anything to debunk spurious Russian claims). Part of any deal should involve the de-escalation of the "frozen conflict" along the de facto front line.



7. BEYOND THE IMMEDIATE CRISIS

Any deal that brings peace doesn't solve the longer-term destabilising influence of a nuclear-armed, autocratic Russia with a malign geopolitical agenda. The international community can only do so much to contain Russia and avoid limping from crisis to crisis. It will largely be up to the people of Russia to resolve their own political problems and forge a new reality. Democracy should be encouraged and supported, but the risks of overtly supporting regime change are high.

This crisis may provide the catalyst for change as the costs of propping up Vladimir Putin have escalated. However, it is unrealistic to imagine the entire Russian power elite relinquishing their influence. The West may need to adopt a pragmatic approach to dealing with some unsavoury people (as they have always done). A mistake would be for the international community to exact too much of a price if Russia is prepared to walk back from the edge. Europe and America must let ordinary Russians who crave peace know that the fight is not with them, while being prepared to invest in a Russia that is prepared to reform.



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