



STK Emergent-2016 preliminary results

- **STK Emergent fund ended the year with net income of RON 9.9 million.**
- **The profit was generated by successful investments in oil & gas and mining shares in the first part of the year.**
- **The net gains from disposal of financial assets and revaluation of financial assets at fair value have increased compared with the previous year.**
- **The foreign exchange differences led to a negative result due to the depreciation of the British pound against the Romanian currency following the Brexit vote.**
- **The fund's assets increased by 16% in 2016, from RON 61.4 million to RON 71.2 million.**
- **Of the realized net income the asset management company intends to pay out a gross dividend ranging from RON 8 to 10 per fund unit.**

1. Economic context

2016 was the year of industrial metals and crude oil, yields generated by stock exchanges around the world during 2016 being relative modest compared to the performance of basic resources and petroleum. The developed financial markets recorded an average annual return of 5.03% and emerging stock markets brought mean gains of 3.42%, while record yields were generated by investments in industrial metals (iron ore: +83%; zinc:+63%; copper:+17%) and crude oil (+45%).

Monetary policies of the major economic powers continued in 2016 to sail in contrary directions. The year started with a monetary easing by the Central Bank of Japan, thereby introducing negative interest rates in order to achieve the inflation target of 2%, setting a level of -0.10% policy rate that has been kept throughout the whole year. In March, the European Central Bank announced the expansion of the monthly purchases under the asset purchase programme to EUR 80 billion starting in April, the inclusion of the investment grade euro-denominated bonds issued by non-bank corporations established in the euro area in the list of assets that were eligible for regular purchases and the cut of monetary policy interest rates. Subsequently, in December, it decides to continue its purchases under the asset purchase programme at the monthly pace of EUR 80 billion until the end of March 2017. From April 2017, the net asset purchases are intended to continue at a monthly pace of EUR 60 billion until the end of December 2017, or beyond, if necessary.

The referendum of June 23, 2016 in the UK completed with a majority vote in favour of leaving the European Union led in August to a launch of a new round of quantitative easing by the Central Bank of England, through the purchase of government bonds by 60 billion pounds in the next six months and corporate bonds of 10 billion pounds in the next 18 months. Also, the Central Bank of England cuts the monetary policy rate from 0.50% to



0.25% for the first time in seven years and a half and introduced a potential 100 billion-pound loan program for banks.

The US Federal Reserve continued its way to a more restrictive monetary policy, so that in December increased again the key interest rate to 0.75%.

Domestically, The National Bank of Romania kept the monetary policy interest rate at 1.75% and generated liquidity in the banking system through a gradual cut of foreign-denominated reserve requirement rate from 14% to 12% and finally to 10%. The Bucharest Stock Exchange represented by the BET index ended the year with a modest growth of 3.7%, while the BET-FI index of the financial sector generated a return of 3.3%.

2. STK Emergent financial statements

The annual financial statements as of 31 December, 2016 have been prepared in compliance with the International Financial Reporting Standards (IFRS).

a) STK Emergent Balance Sheet

Compared with the beginning of the year, the preliminary balance sheet at 31 December, 2016 in compliance with the International Financial Reporting Standards is as follows:

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	01.01.16	(%)	31.12.16	(%)
Financial assets held for trading	25,118,597	40.9%	25,096,542	35.2%
Financial assets available for sale	14,115,029	23.0%	11,713,406	16.4%
Receivables	2,503,938	4.1%	0	0.0%
Cash and cash equivalents	19,696,744	32.1%	34,439,479	48.3%
Total assets	61,434,308	100.0%	71,249,426	100.0%
Current liabilities	360,349	0.6%	334,739	0.5%
Equity	61,073,958	99.4%	70,914,687	99.5%
Total liabilities and equity	61,434,308	100.0%	71,249,426	100.0%

The first month of 2016 started with corrections of the crude oil price, iron ore price and copper price, due largely to the existence of an oversupply. Also, the lifting of the international sanctions imposed on Iran meant the freedom of Iran to increase its crude oil production and contributed to the decline of the crude oil price. These corrections offered the opportunity to increase the fund`s exposure to industrial metals and oil and gas.

From February to April, Basic Resources and Oil and Gas recorded steady growth, so we thought that in the short term there was a risk of significant corrections and, as a result, we liquidated the fund`s portfolio in order to preserve the realized gains and to reinvest its resources when the risk-return ratio might have been more attractive. Later, at the end of the year, we partially reinvested in oil producers, as OPEC decision to reduce the crude oil production starting with January 2017 could generate a major rise in the crude oil price.

The investments made during 2016 led to a 16% increase in the fund`s assets, from RON 61.4 million to RON 71.2 million.



b) STK Emergent Income Statement

Compared to the end of the last year, the preliminary income statement at 31 December, 2016 in compliance with the International Financial Reporting Standards is as follows:

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	2015	2016
Revenues	22,883,252	34,235,657
Dividends income	314,985	49,500
Interest income	286,781	29,267
Income from foreign exchange differences	11,238,814	4,943,152
Income from disposal of financial assets	10,942,447	18,935,562
Net gains from revaluation of financial assets at fair value through profit or loss	100,225	10,278,176
Expenses	26,888,630	24,372,874
Management fees, other fees and bank charges	4,051,188	2,681,269
Expenses with disposal of financial assets	13,705,706	12,693,101
Expenses with foreign exchange differences	9,131,736	8,998,503
Net loss from revaluation of financial assets at fair value through profit or loss	0	0
Net income	- 4,005,378	9,862,783

The investments in minning and petroleum sectors during the year generated total revenues of RON 34.2 million, up by about 50% compared to 2015.

The sale of the trading portfolio`s stocks generated a net gain of RON 16.5 million, from which about RON 10.3 million were registered as unrealized gains, as a result of mark-to-market the shares before selling them (included in net gains from revaluation of financial assets at fair value through profit or loss category), but which were realized afterwards, when the portfolio was liquidated in April 2016.

The foreign exchange differences led to a net loss of about RON 4.06 million during the year, compared to a net gain of RON 2.1 million in 2015. The negative result from foreign exchange differences is attributed to the local currency appreciation against the British pound during 2016, the main part of the securities being traded in pounds.

The operating expenses of the fund have amounted to RON 24.4 million, down by 9% over the previous year.

Recording higher revenues while reducing costs, resulted in achieving a net income of about RON 9.9 million.