



STK FINANCIAL
Societate de Administrare a Investițiilor

Board of Directors Report 1st Half 2019

STK Emergent



Half-year report in accordance with: **Law no. 24/2017, ASF's Norm no. 5/2018**

Date of the report: **08/12/2019**

Name of the issuer: **STK EMERGENT Investment Fund managed by STK FINANCIAL SAI**

Headquarter: **Cluj-Napoca, Heltai Gaspar street no. 29**

Telephone number: **0264 591 982**

Decision of the Financial Supervisory Authority (ASF): **no. 20/16.03.2006**

Registration number in the ASF Registry: **CSC08FIIR/120004**

The regulated market on which the issued securities are traded: **The Bucharest Stock Exchange**

Subscribed and paid-in share capital: **RON 121,950,600**

The main characteristics of the securities issued by STK Emergent: **609,753 fund units, registered, dematerialised, par value: RON 200 per fund unit**

The financial statements for the first half of 2019 have been prepared in accordance with the Financial Supervisory Authority (ASF) Norm 39/2015 for the approval of the Accounting Regulations pursuant to the International Financial Reporting Standards (IFRS), applicable to entities authorized, regulated and supervised by the ASF in the Sector of Financial and Investment Instruments. The financial statements of STK Emergent fund have not been consolidated.

The financial statements as of 06/30/2019 have not been audited.

Events with significant impact on the Fund`s performance

In the first six months of 2019 the following significant events influenced the Fund's portfolio:

- Although not reflected in the share prices of all oil companies held in the portfolio, the increase in the oil price was 19.0%, the Brent oil price reached \$64.40/barrel, from \$54.14/barrel at the end of December 2018; the trend of the oil price was also determined by factors such as:
 - the evolution of US oil production and inventories; the US International Energy Agency publishes a weekly report on the country's oil sector activity;
 - market expectations for an extension of the agreement between OPEC and non-OPEC member countries to reduce oil production by 1.2 mb/day, expectations materialized at the beginning of July, when it was decided to extend the voluntary production cuts until March 31, 2020;
 - Iran, Venezuela and Libya, although OPEC member countries, but excluded from the agreement, recorded involuntary declines in the oil production, the first two countries being under US sanctions, while Libya is still dealing with internal conflicts;



- US-China trade war, existing tariffs of 10% for \$200 bn. worth of goods imported from China have been increased to 25% since May 10, 2019; at the Osaka G20 summit on June 28-29, 2019, the US and China officially agreed to restart trade negotiations after concessions from both sides;
- The British Pound fluctuated during the first six months of 2019 between RON 5.1585 - 5.5749, influenced by the uncertainty and political tensions that have characterized the Brexit process over the last six months: in the first quarter of the year, the UK withdrawal agreement negotiated with the European Union was rejected three times by the British Parliament, the date of Brexit being postponed to April 12; following the meeting of the European Council on April 10, the Brexit date was postponed to October 31, 2019, these events leading to the resignation of Prime Minister Theresa May;
- During the first half of 2019, the US Federal Reserve maintained the benchmark interest rate at the December 2018 level, although at the June meeting it signaled the possibility of reducing it, if the economic outlook did not improve in the following period;
- During April, the European Central Bank decided that the interest rate on the main refinancing operations and the interest rates on the marginal lending facility and the deposit facility will remain unchanged at 0.00%, 0.25% and -0.40% respectively, maintaining them at their present levels at least through the end of 2019.

Important events that occurred after the end of the reporting period:

- Boris Johnson was elected as Prime Minister of the United Kingdom in July, in the new position pledging to deliver Brexit even without an agreement;
- At the July 31 meeting, the US Federal Reserve decided to lower the monetary policy interest rate for the first time since December 2008, by a quarter percentage point, in the range of 2.00% -2.25%;
- On August 1, the US President announced the decision to impose additional tariffs of 10% on another \$300 bn. Of Chinese imports, from September 1; thus, with the new tariffs, approximately all goods imported by the US from China will be subject to additional tariffs, a measure that has led to market declines in the days following the announcement.

For the next six months of the year, the main risks and uncertainties are mainly related to the movements in the oil price and of the British Pound, given by the following:

- The evolution of the US oil production;
- Risks over potential oil supply disruptions, given by the increase of tensions in the Middle East, especially in the area of the Strait of Hormuz;
- US-China trade war escalations, the possibility of closing a trade deal to end the dispute being presumed beyond the 2020 U.S. presidential election;
- further reductions in the monetary policy interest rate - in the face of slow global economic growth and high trade tensions, the FED could continue to cut interest rates to support the long-term US economic expansion;
- the possibility of Brexit on October 31, without an agreement.



1. Financial statements

The Fund's **Statement of Financial Position** as of 06/30/2019 compared with 12/31/2018 is as follows:

| | -RON- | | |
|---|-------------------|-------------------|-------------|
| In accordance with IFRS: | 06/30/2019 | 12/31/2018 | Chg (%) |
| Other financial assets at fair value through other comprehensive income | 29,501,787 | 28,039,762 | 5.2% |
| Securities at fair value through profit or loss (held for trading) | 22,542,827 | 23,381,688 | -3.6% |
| Cash and cash equivalents | 6,928,037 | 5,615,038 | 23.4 % |
| TOTAL ASSETS | 58,972,652 | 57,036,488 | 3.4% |
| Current liabilities | 352,207 | 350,659 | 0.4% |
| Equity | 58,620,445 | 56,685,829 | 3.4% |
| TOTAL EQUITY AND LIABILITIES | 58,972,652 | 57,036,488 | 3.4% |

The category *Other financial assets at fair value through other comprehensive income* includes mainly securities held by STK Properties SA and Emergent Real Estate SA. The 5.2% increase in the value of the financial assets compared to the same period last year is mainly due to the change in the valuation method; thus, as of June 2019, these are valued according to international valuation standards in accordance with Regulation 2/2018, using a fair value given by a valuation report made by an ANEVAR certified external valuator (prior to June 2019, these financial assets were recorded at the book value, adjusted according to the fair value of their assets).

Securities at fair value through profit or loss (held for trading) decreased by 3.6%, as at June 30, 2019, having a value of RON 22.54 mil., compared to RON 23.38 mil., decrease due mainly to the sale of shares from the portfolio, sale that determined the increase of cash and cash equivalents by 23.4%, from RON 5.62 mil to RON 6.93 mil. During the first six months of the year, the Fund maintained its exposure to oil companies, their share in the total trading portfolio ranging from 69.4% and 80.8%.

At the end of the first six months of 2019, the Brent oil price was \$64.40/barrel, rising from \$54.14/barrel at the end of December 2018, being a function of oil demand and supply. Although the variation of oil production is estimated to increase from one year to another, mainly due to US shale production, industry's capex between 2015-2019 was 50-60% of the 2014 peak. Historically, there is a correlation between production and capex, and based on this correlation, there are chances that production in the coming years will not be able to keep pace with increasing demand. The estimated Brent oil price as a function of oil demand and supply is \$80/barrel; the price at the end of June is 20% below the estimate, being the fifth consecutive year in which the average annual price was below estimates; over the last 20 years there has been a similar case in 2004, which was followed by a 94% increase in price over the next three years (from \$38.46/barrel to \$74.72/barrel).



The Fund's equity increased by 3.4% in the first half of the year, as a result of the incorporation of the net result for the period of RON 0.47 mil. The increase in the value of financial assets at fair value through other comprehensive income by 5.2% generated a growth in reserves and, implicitly, had a positive effect on equity. The composition of the Fund's equity is shown in the table below:

-RON-

| In accordance with IFRS: | 06/30/2019 | 12/31/2018 |
|---|-------------------|-------------------|
| Capital on fund units | 121,950,600 | 121,950,600 |
| Issue premiums | 10,003,133 | 10,003,133 |
| Reserves* | 3,906,688 | 2,444,663 |
| Retained earnings on transition to IFRS | (32,498,316) | (32,498,316) |
| Reported earnings | (45,214,251) | (35,038,581) |
| Result for the period** | 472,591 | (10,175,670) |
| Total Equity | 58,620,445 | 56,685,829 |

*according to IFRS, the Reserves include the positive/negative differences arising from revaluation of *Other financial assets at fair value through other comprehensive income*

** according to IFRS, the Reserves include the positive/negative differences arising from revaluation of *Securities at fair value through profit or loss (held for trading)*

The financial performance of the fund as of 06/30/2019 compared to the same period from the last year is as follows:

-RON-

| In accordance with IFRS: | H1 2019 <i>6 months</i> | H1 2018 <i>6 months</i> | Chg (%) |
|---|-----------------------------------|-----------------------------------|----------------|
| Net gain on financial instruments traded or held for trading at fair value through profit or loss | 976,860 | 6,325,215 | -84.6% |
| Dividend income | 153,900 | 41,772 | 268.4% |
| Interest income | 5,189 | 5,518 | -0.6% |
| Net gain from foreign exchange differences | 269,005 | 181,453 | 48.3% |
| Total Net Revenue | 1,404,953 | 6,553,958 | -78.6% |
| Administration fees, bank charges, fees, other expenses | 932,362 | 1,178,058 | -20.9% |
| Total Net Expenses | 932,362 | 1,178,058 | -20.9% |
| Net Profit for the year | 472,591 | 5,375,900 | -91.2% |

Fund's net revenues realized during the first half of 2019 amounted to RON 1.40 mil. as opposed to net revenues of RON 6.55 mil. in the same half of the last year. The most significant increase was by 268.4% recorded by the dividend income, increasing from RON 0.04 mil. to RON 0.15 mil. The net gain from financial instruments traded or held for trading, was RON 0.98 mil., consisting of the



net positive result from the sale of shares and the net positive change in the prices of the shares in the portfolio as of June 30, 2019. The Fund recorded a net positive result from exchange rate differences of RON 0.27 mil. (against RON 0.18 mil. in the first half of 2018).

The net expenses of the Fund are composed of expenses with administration fees, bank charges, and other fees, which decreased in the first half of 2019 by 20.9%, to RON 0.93 mil., compared to RON 1.18 mil. in the first half of 2018. The net result for the first half of 2019 was a profit of RON 0.47 mil. (compared to a profit of RON 5.38 mil. resulted in the same period of last year).

The **Cash flow statement** for the first half of 2019 is as follows:

-RON-

| In accordance with IFRS: | H1 2019 <i>6 months</i> | H1 2018 <i>6 months</i> | Chg (%) |
|--|-----------------------------------|-----------------------------------|----------------|
| Interest received | 5,189 | 5,518 | -6.0% |
| Dividends received | 152,782 | 31,772 | 380.9% |
| Proceeds from the sale of securities held for trading (shares) | 3,030,290 | 17,354,526 | -82.5% |
| Purchases of securities held for trading | (941,213) | (16,573,637) | -94.3% |
| Payment for the Fund's administration | (720,661) | (822,919) | -12.4% |
| Payments for other operational expenses | (192,755) | (219,364) | -12.1% |
| Cash flow from operating activities | 1,333,632 | (224,104) | <i>n.a.</i> |
| Dividends paid to unit holders | (2,031) | (80) | 2438.4% |
| Tax on dividends paid | 0 | (10,183) | <i>n.a.</i> |
| Cash flow from financing activities | (2,031) | (10,263) | -80.2% |
| Net increase/(decrease) in cash and cash equivalents | 1,331,601 | (234,367) | <i>n.a.</i> |
| Cash and cash equivalents at 1 January | 5,615,038 | 10,079,681 | -44.3% |
| Effect of exchange rate changes on cash and cash equivalents | (18,602) | 61,932 | <i>n.a.</i> |
| Cash and cash equivalents at end of period | 6,928,037 | 9,907,246 | -30.1% |

The net cash flow from operational activities by the end of the first half of 2019 was positive, amounting to RON 1.33 mil., compared to RON -0.22 mil. from the same period last year due to the increase in the dividends received and the reduction of the operational expenses. Proceeds from the sale of securities held for trading (shares) totaling RON 3.03 mil.; this category includes the value of the shares sold during the first six months of the year.

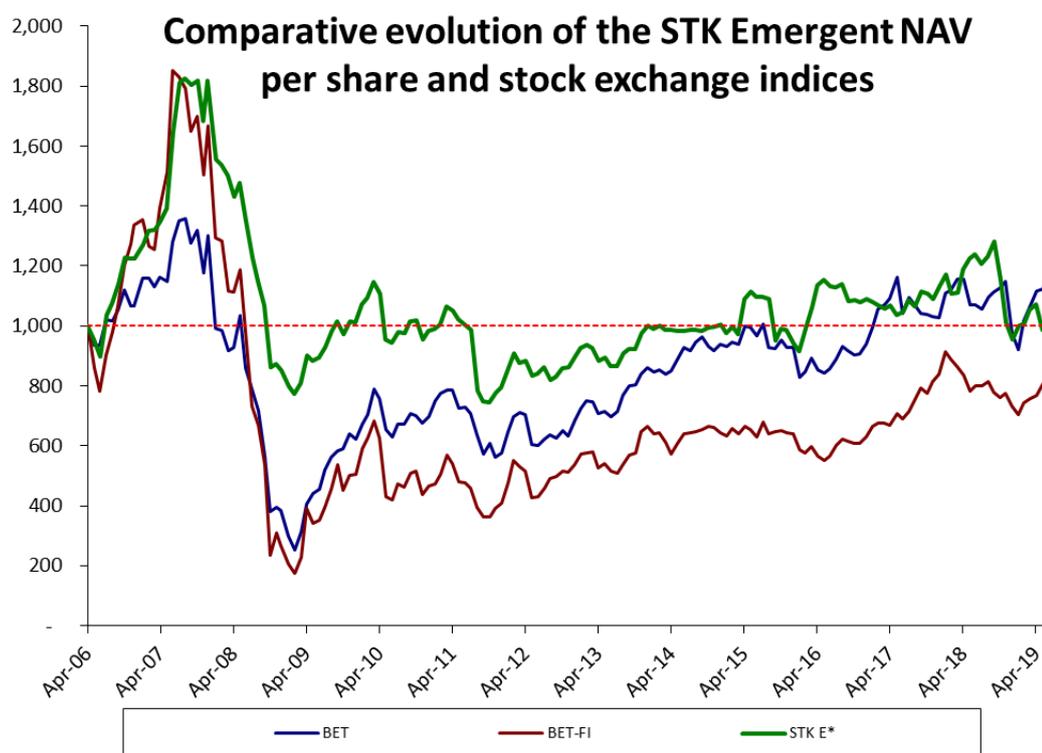
Payments for purchases of securities held for trading were RON 0.94 mil., representing the value at which the shares were purchased, commissions and other trading expenses.



Compared to the first half of 2018, on June 30, 2019, cash and cash equivalents were lower by 30.1%, at RON 6.93 mil.

2. Analysis of STK Emergent activity

At the end of June, the net asset value per share was RON 96.17, registering an increase of 3.43% compared to the net asset value per share at the end of 2018, of RON 92.98. From launch to 06/28/2019, the net asset value per share registered a slightly negative variation of 0.91%, while during the same period the BET-FI index declined by 16.35% and the BET index increased by 18.13%.



STK E*- VUAN ajustat conform dividendului acordat

The net asset structure at 06/28/2019 compared to the end of 2018 is as follows:

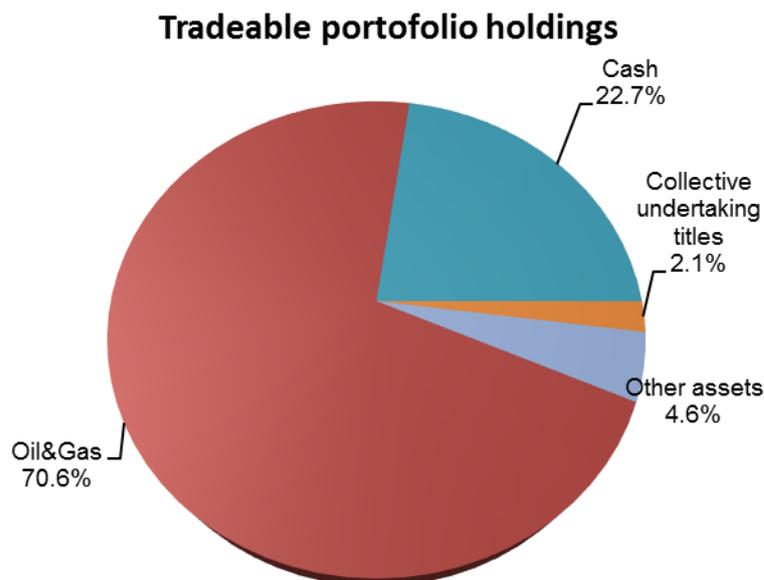
-RON-

| | 06/28/2019 | 12/31/2018 |
|----------------------------|-------------------|-------------------|
| Unlisted shares | 28,459,467 | 27,667,252 |
| Tradeable shares portfolio | 30,513,196 | 29,369,236 |
| <i>Shares</i> | 22,952,806 | 23,149,275 |
| <i>Cash</i> | 6,928,048 | 5,615,038 |
| <i>Other assets</i> | 632,342 | 604,923 |
| Total assets | 58,972,663 | 57,036,488 |
| Liabilities | 334,596 | 342,210 |
| Net assets | 58,638,067 | 56,694,279 |
| NAV per share | 96.17 | 92.98 |



The tradeable shares portfolio of RON 30.51 mil. represents 52.0% of the total net assets at the end of June. *Other assets* category includes collective undertaking titles. The Fund's net assets increased by 3.43%, from RON 56.69 mil. at the end of 2018 to RON 58.64 mil. at the end of June 2019.

The structure of the tradeable portfolio holdings as of 06/28/2019 is presented in the chart below:



At the end of June 2019, about 70.6% of the trading portfolio is composed of shares belonging to oil & gas companies, while cash represents 22.7% of the total portfolio.

3. Changes affecting the capital and management of the company

3.1. Description of cases where the Fund was unable to meet its financial obligations

Not applicable.

3.2. Description of any change in the rights of the holders of securities held

Not applicable.



4. Significant transactions

During the first half of 2019 the senior management did not purchase STK Emergent fund units.

Attached to this report are:

Financial Statements as of 06/30/2019
Notes to the Accounts

**Chairman of the Board,
PASCU Nicolae**

**Chartered Accountant,
OPREAN Victor Bogdan**