



STK FINANCIAL
Societate de Administrare a Investițiilor

Board of Directors Report **For Q3 2017**

STK Emergent

STK FINANCIAL Societate de Administrare a Investițiilor SA

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Decizia CNVM nr. 2731/05.10.2005, Nr. Reg. A.S.F. PJR05SAIR/120017, CIF: 17772595, J12/2600/2005, Capital social: 913.724 lei
Operator date cu caracter personal nr. 30711



Interim report in accordance with the **Law no. 24/2017, C.N.V.M.'s Regulation no. 1/2006, C.N.V.M.'s Regulation no. 15/2004, ASF's Norm no. 39/2015**

Date of the report: **11/15/2017**

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

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

Telephone number: **0264.591982**

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

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

The financial statements for the third quarter of 2017 have been prepared in accordance with the Financial Supervisory Authority (ASF) Norm no. 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 09/30/2017 have not been audited.

1. Financial – accounting position

The Fund's Balance Sheet as of September 30, 2017 compared with the end of the year 2016 is as follows:

-RON-

In accordance with IFRS:					
	12/31/2016	(%)	09/30/2017	(%)	Chg(%)
Financial investments available for sale	25,096,542	35.2%	29,129,895	43.9%	16.1%
Financial investments at fair value through profit or loss	532,630	0.7%	0	0.0%	N.A.
Securities at fair value through profit or loss (held for trading)	11,180,775	15.7%	30,444,751	45.9%	172.3%
Receivables from securities operations	0	0.0%	6,400	0.0%	N.A.
Cash and cash equivalents	34,439,479	48.3%	6,735,604	10.2%	-80.4%
TOTAL ASSETS	71,249,426	100.0%	66,316,650	100.0%	-6.9%
Current liabilities	334,739	0.5%	319,323	0.5%	-4.6%
Equity	70,914,687	99.5%	65,997,327	99.5%	-6.9%
TOTAL EQUITY AND LIABILITIES	71,249,426	100.0%	66,316,650	100.0%	-6.9%



In accordance with the the IFRS, the fund's portfolio is classified into financial investments available for sale, financial investments at fair value through profit or loss and securities at fair value through profit or loss (held for trading). The financial assets included in the financial investments available for sale category are measured at book value, adjusted for the fair value of these companies's assets, with the positive or negative difference being included directly in equity, through other comprehensive income. The financial investments at fair value through profit or loss and securities held for trading are measured at fair value, with the positive or negative difference being recognized in the income statement.

In the first part of the year, the Fund increased its exposure to oil and gas companies' shares, as the oil sector is the most undervalued of all economic sectors, indicating a potential of overperformance in the next period. Moreover, the regression model that reflects the historical evolution of the oil prices relative to the global crude oil demand and supply, indicates an equilibrium price of USD 80 per Barrel. Also, the quarterly data on global oil supply and demand reveals a supply gap of around 1 million barrels per day. Similar situations have occurred only 2 times since 2000, in Q1 2007 and Q3 2011, moments followed by oil price increases by 113% and 35%, respectively.

The increase in exposure to the oil and gas sector led to a hike in securities at fair value through profit or loss of 113.4% as compared to the end of 2016, while cash decreased by 72.2%. Part of the downturn in cash is due to the payment of distributed dividends from the profit for the year 2016, amounting to about RON 6 million. The 6.9% decrease in assets, from RON 71.25 million at the beginning of the year to RON 66.32 million at the end of September 2017, was mainly due to dividend payments.

In the first 9 months of the year, the equity decreased by 6.9% as a result of the registration of the dividend distributed from the profit for the year 2016, in amount of RON 6.10 million and the incorporation of the result for the period of RON -1.86 million. The 16.1% increase in value of available for sale assets generated a reserve raise and implicitly had a positive impact on equity, reducing the unfavorable effect of loss in the first 9 months of the year and dividend recording. The composition of the fund's equity is shown in the table below:

-RON-

In accordance with IFRS:		
	12/31/2016	09/30/2017
Capital on fund units	121,950,600	121,950,600
Issue premiums	10,003,133	10,003,133
Reserves*	492,667	3,534,796
Retained earnings on transition to IFRS	-31,739,957	-31,739,957
Retained earnings	-39,654,539	-35,889,286
Result for the period**	9,862,783	-1,861,959
Capitaluri proprii total	70,914,687	65,997,327

*according to IFRS, the reserves include the positive/negative differences arising from revaluation of available for sale assets

** under IFRS, the result for the period includes the positive/negative differences arising from the revaluation of assets held for trading and from financial instruments at fair value through profit or loss



The financial performance of the fund as of September 30, 2017 compared to the same period from the last year is as follow:

- RON-

In accordance with IFRS:			
	Q3 2016	Q3 2017	Change
	9 months	9 months	
Total revenue	28,229,185	14,236,746	-49.6%
Gains on financial instruments traded or held for trading at fair value through profit or loss	28,166,850	14,023,674	-50.2%
Dividends income	41,330	204,950	395.9%
Interest income	21,006	8,122	-61.3%
Net gains from foreign exchange differences	0	0	N.A.
Total expenses	18,761,833	16,098,705	-14.2%
Losses on financial instruments traded or held for trading at fair value through profit or loss	12,515,988	13,718,351	9.6%
Administration fees, bank charges, fees	2,022,957	2,027,235	0.2%
Net loss from foreign exchange differences	4,222,888	353,119	-91.6%
Net profit/(loss)	9,467,352	-1,861,959	N.A.

Fund`s revenues in the first nine months of the year amounted to RON 14.24 million, most of which was generated by gains on financial instruments traded or held for trading through profit or loss (RON 14.02 million). Dividends income were approximately 5 times higher than in the same period of the previous year.

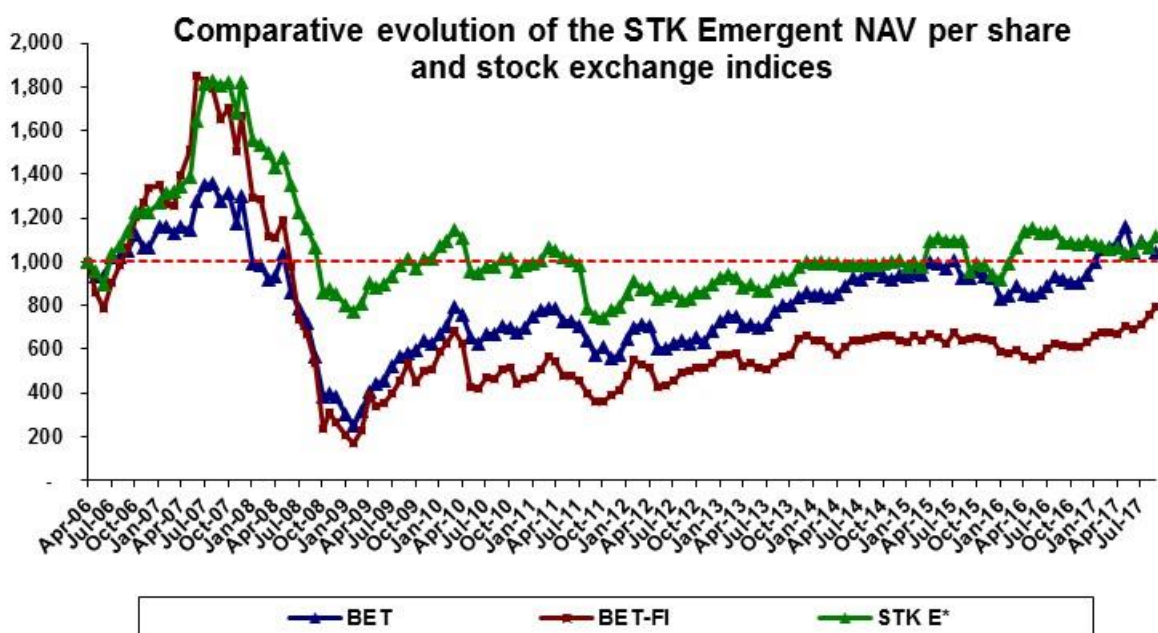
The depreciation of the pound sterling by 1.6% against the domestic currency in the period January – September 2017 generated a net loss from foreign exchange differences of RON 0.35 million, much lower than at the end of September 2016, when the pound depreciated by 16.0% under the impact of the Brexit referendum.

The operational activity of the fund in the first three quarters of 2017 resulted in a net loss of RON 1.86 million, amid the drop in oil prices in the first six months of the year, with most of the portfolio being placed in the oil sector.



2. Analysis of STK Emergent activity

On September 30, 2017 the net asset value per share was RON 108.26, with an increase of 2.04% over the net asset value adjusted for dividends as of 12/31/2016. From launch to the end of September, the net asset value per share registered a positive variation of 11.56%, while during the same period the BET-FI index declined by 19.35% and the BET index increased by 5.58%.



STK E*- adjusted NAV per share with distributed dividends

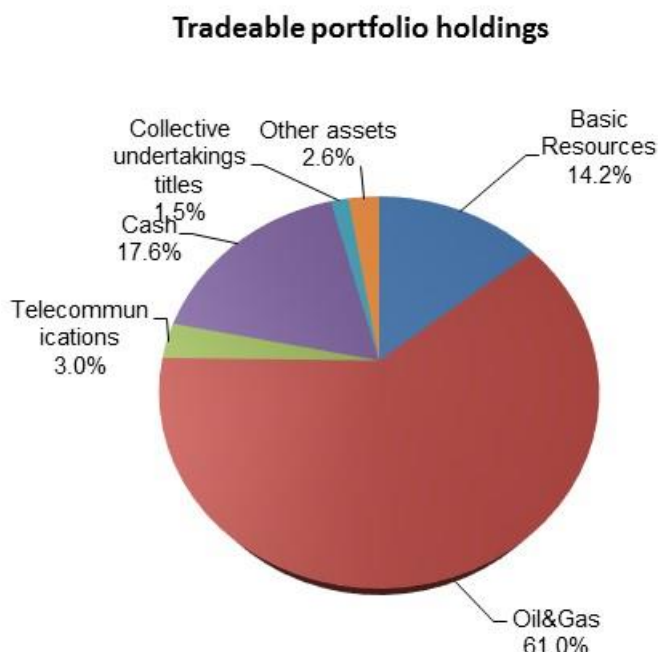
The net asset structure at 09/30/2017 compared to 12/31/2016 is as follows:

	12/31/2016	09/30/2017
Unlisted shares	25,096,542	28,119,767
Tradeable shares portfolio	46,152,790	38,196,894
Shares	11,244,404	30,874,879
Cash	34,439,386	6,735,615
Collective undertakings titles	469,000	580,000
Other net assets	0	6,400
Total assets	71,249,332	66,316,661
Liabilities	319,393	304,600
Net assets	70,929,940	66,012,061
NAV per share	116.33	108.26
Adjusted NAV per share with distributed dividends	106.10	108.26

The fund's net assets decreased by about RON 5 million, from RON 70.93 million as at the end of 2016, to RON 66.01 million at the end of September 2017, due to the payment of distributed dividends from the profit for the year 2016.



The structure of the tradeable portfolio holdings as of 09/30/2017 is presented in the chart below:



On September 30, 2017 most of the traded portfolio is represented by shares in the oil sector, about 61.0%, while shares in the industrial metals sector account about 14.2% of the total traded portfolio, and cash is 17.6%.

3. Events with significant impact on the fund`s performance

Factors that influenced the company`s activity and results in the first nine months of the year:

- *External factors*

- During the third quarter, the crude oil price has increased, being supported by a faster-than-expected fall in US crude inventories and increased expectation for an extension of production cuts amid rising global demand; these increase managed to significantly reduce the effects produced in the first six months of the year when the price dropped due to the increase in oil production and the number of oil rigs in America;
- The slowdown in China`s economic growth in 2016, reaching +6.7%, the lowest level since 1990, has had a negative effect on industrial metal prices;
- The US Federal Reserve increased the interest rate twice, from 0.75% to 1.00% (in March) and from 1.00% to 1.25% (in June);



- The presidential election in France in April ended with the victory of the pro-European candidate Emmanuel Macron;
- In May, OPEC extended the reduction of production until March 2018;
- The US economic growth accelerated in the second quarter (2.6%), exceeding the analyst estimates (2.5%);
- The geopolitical tension between US and North Korea in August ;
- In July, the large entities from S&P500 index reported half-year results higher than estimates.

- ***Internal factors***

- The extremely low liquidity of the Bucharest Stock Exchange, the low volume of transactions, making the Romanian capital market one of the last places in Eastern Europe to this end ;
- The impossibility to invest in companies transferred from Rasdaq market on unregulated markets such as AERO and Sibex alternative trading systems.

They are attached to this report:

Balance Sheet as of 09/30/2017

Income Statement as of 09/30/2017

Informative data

Notes to the financial information

**Chairman of the Board,
Pascu Nicolae**

**Chartered Accountant,
Oprean Victor-Bogdan**