



STK FINANCIAL
Societate de Administrare a Investițiilor

Board of Directors Report 1st Half 2017

STK Emergent



Half-year report in accordance with the **Law no. 297/2004, C.N.V.M.'s Regulation no. 1/2006, C.N.V.M.'s Regulation no. 15/2004** and the **ASF Norm no. 39/2015**

Date of the report: **08/11/2017**

Name of the issuer: **STK EMERGENT Investment Fund managed by STK FINANCIAL S.A.I.**

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

Telephone number: **0264.591982**

Website: **www.stk.ro**

Subscribed and paid-up 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 first half 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 06/30/2017 have not been audited.

Business overview

1. Financial – accounting position

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

-RON-

In accordance with IFRS:					
	12/31/2016	(%)	06/30/2017	(%)	Chg(%)
Financial investments available for sale	25,096,542	35.2%	29,129,895	46.5%	16.1%
Financial investments at fair value through profit or loss	532,630	0.7%	109,858	0.2%	-79.4%
Securities at fair value through profit or loss (held for trading)	11,180,775	15.7%	23,864,466	38.1%	113.4%
Receivables from securities operations	0	0.0%	0	0.0%	N.A.
Cash and cash equivalents	34,439,479	48.3%	9,590,921	15.3%	-72.2%
TOTAL ASSETS	71,249,426	100.0%	62,695,140	100.0%	-12.0%
Current liabilities	334,739	0.5%	619,720	1.0%	85.1%
Equity	70,914,687	99.5%	62,075,420	99.0%	-12.5%
TOTAL EQUITY AND LIABILITIES	71,249,426	100.0%	62,695,140	100.0%	-12.0%



In accordance with 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` 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.

During the first semester, the Fund increased its exposure to oil and gas companies` shares, as the oil sector is the most undervalued of all sectors, indicating a potential of overperformance in the next period. Also, 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 70. Compared to the equilibrium level, since 2000 there have been only 2 cases in which the price was at a level as low as the present one, which was followed by price increases. Thus, the current situation suggests with a high probability a growth potential of 51% compared to the end-of-semester price.

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 12% decrease in assets, from RON 71.25 million at the beginning of the year to RON 62.70 million at the end of the first half of 2017, was due to dividend payments and the drop in portfolio prices due to the continuing decline in oil prices.

According to IFRS, the equity decreased by 12.5% in the first six months of this year as a result of the registration of the dividend distributed from the profit for the year 2016 in the amount of RON 6.10 million and the incorporation of the result for the period of RON -5.78 million. The increase in value of available for sale assets generated a reserve raise of 3.04 million, implicitly having a positive impact on equity, reducing the unfavorable effect of loss in the first 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	06/30/.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	-5,783,866
Total equity	70,914,687	62,075,420

*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 comparative evolution of the fund`s income statement in the first half of 2017 as compared to the first half of 2016 and the first two quarters of the current year is as follows:

- RON-

<i>In accordance with IFRS:</i>						
	H1 2016	H1 2017	<i>Change</i>	Q1 2017	Q2 2017	<i>Change</i>
	6 months	6 months		3 months	3 months	
Total revenue	30,692,801	6,575,814	-78.6%	3,009,323	3,566,491	18.5%
Gains on financial instruments traded or held for trading at fair value through profit or loss	30,647,826	6,438,674	-79.0%	3,003,304	3,435,371	14.4%
Dividends income	35,136	129,811	269.5%	0	129,811	N.A.
Interest income	9,840	7,329	-25.5%	6,019	1,309	-78.2%
Net gains from foreign exchange differences	0	0	N.A.	0	0	N.A.
Total expenses	18,137,706	12,359,680	-31.9%	5,284,454	7,075,226	33.9%
Losses on financial instruments traded or held for trading at fair value through profit or loss	13,260,648	10,273,832	-22.5%	4,420,686	5,853,146	32.4%
Administration fees, bank charges, fees	1,355,978	1,490,372	9.9%	758,301	732,072	-3.5%
Net loss from foreign exchange differences	3,521,080	595,475	-83.1%	105,467	490,009	364.6%
Net profit/(loss)	12,555,095	-5,783,866	N.A.	-2,275,131	-3,508,736	54.2%

According to IFRS, the fund recorded revenues of RON 6.58 million in the first six months of the current year. The most significant increase was in the case of dividends income, 269.5%, increasing from RON 35,136 to RON 129,811.

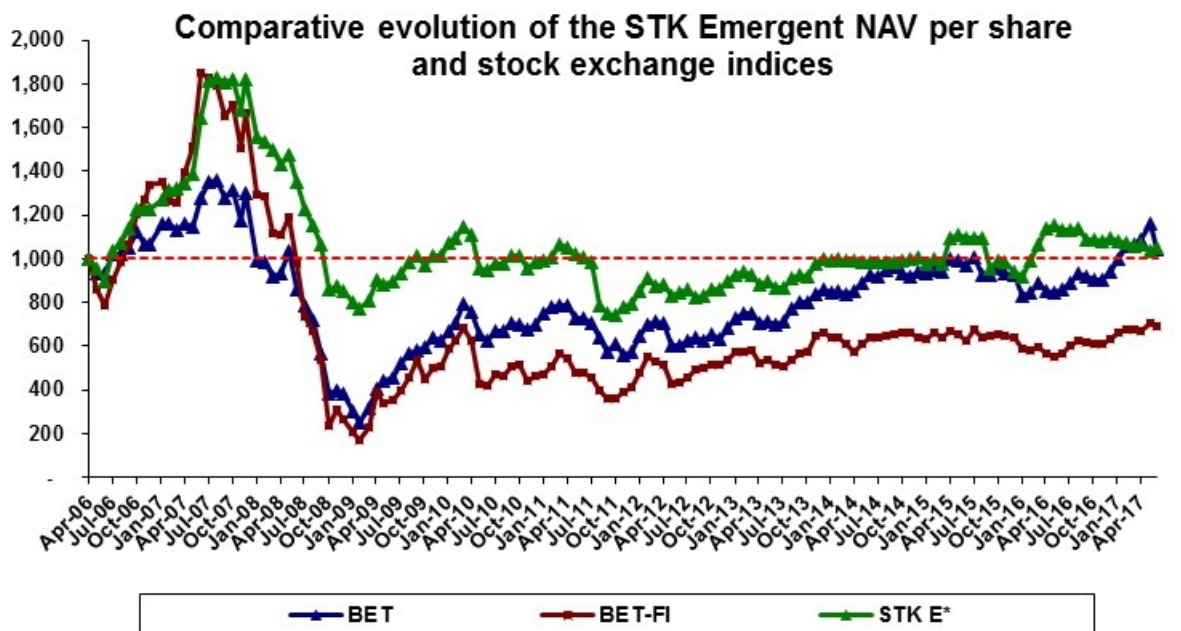
The operating expenses were lower by 31.9% in H1 2017 compared to H1 2016 due to the decrease in losses from fair value revaluation of portfolio shares and as a result of the contraction in net loss from foreign exchange differences, the latter being the effect of a weaker depreciation of the pound against the national currency in H1 2017 (2.1%) compared to the same period in 2016 (11.1%).

The current activity ended in H1 2017 with a loss of RON 5.78 million, as the price of crude oil continued to decline, generating corrections to the price of the shares in the portfolio, but we expect the investments made in the first half of the year to generate gains, with oil and gas sector being the most undervalued sector.



2. Analysis of STK Emergent activity

On June 30, 2017 the net asset value per share was RON 101.82, 4.03% lower compared to the net asset value adjusted for dividends as of 12/31/2016 (106.10) and 4.92% higher than the value at launch. The portfolio's performance is better than the BET-FI index since the launch of STK Emergent, the latter decreased by 29.98%, while the BET index recorded an increase of 5.28% over the same period.



STK E* - adjusted NAV per share with distributed dividends

The net asset structure at 06/30/2017 compared to 12/30/2016 is as follows:

	12/30/2016	06/30/2017
Unlisted shares	25,096,542	28,119,767
Tradeable shares portfolio	46,152,790	34,576,759
Shares	11,244,404	24,446,452
Cash	34,439,386	9,592,307
Collective undertakings titles	469,000	538,000
Other net assets	0	0
Total assets	71,249,332	62,696,526
Liabilities	319,393	612,032
Net assets	70,929,940	62,084,494
NAV per share	116.33	101.82

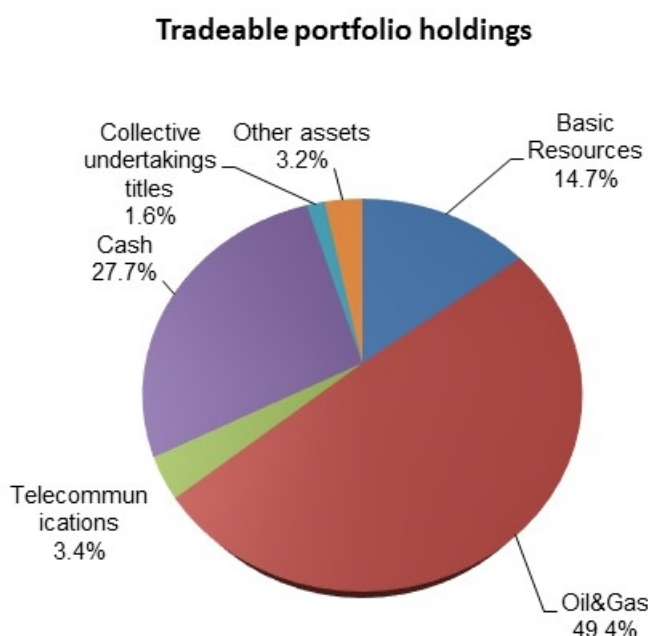
In the first half of 2017, the Fund increased its shares exposure in the oil and gas sector, as we expect an overperformance in this sector as a result of the OPEC members' decision to cut production in order to narrow the gap between supply and demand, which would lead to a rise in the crude oil price, as well as the fact that the global demand and supply level indicates an equilibrium oil price of USD 70, 51% above



the price at the end of June 2017. Thus, the shares held increased from RON 11.24 million to RON 24.45 million at the end of the first half of 2017, while cash decreased from RON 34.44 million to RON 9.59 million.

The fund`s net assets decreased by about RON 9 million, from RON 70.93 million as at the end of 2016 to RON 62.08 million at the end of June 2017, due to the payment of the distributed dividends from the profit for 2016 and the unfavorable evolution of the crude oil prices and, implicitly, of the oil companies due to the expansion of production in America, contrary to OPEC members` action, with the oil sector continuing to underperform the other sectors. The underperformance of this sector indicates a higher probability of generating greater returns over the next period.

At the end of the first half of 2017, the structure of the tradeable portfolio holdings is as follows:



In the first semester of this year the events with significant impact on the fund`s performance were as follows:

- **External factors**

- o The increase in oil production and the number of oil rigs in America has led to a drop in crude oil prices, although OPEC is following its production cut-off plan started at the beginning of the year;
- o 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 USA recorded a 1.2% growth in Q1 2017, over estimates (0.9%);
- 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.

- **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.

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

Significant transactions entered into by the issuer with the persons with whom they may act in concert or in which these persons were involved during the relevant time period.

Not applicable.

Chairman of the Board,

PASCU Nicolae

Chartered Accountant,

OPREAN Victor-Bogdan