



STK Emergent – 2017 preliminary results

- **STK Emergent fund ended the year with a net income of RON 92.3 thousand.**
- **The net financial result for the year was influenced by the evolution of the oil companies that the Fund had a stake in.**
- **The Fund recorded a 19% decrease in operating expenses.**
- **In 2017 the Fund paid dividends in an amount of RON 5.8 million.**

1. The economic context

2017 has been a tumultuous year marked by natural disasters, geopolitical tensions, and deep political divisions in many countries. On the economic front, however, 2017 ended on a high note, with GDP continuing to accelerate over much of the world, the World Bank forecasting global economic growth to edge up to 3.1% in 2018.

Metal and fuel prices were supported by stronger momentum in global demand as well as supply restraints in the energy sector, including hurricane-related stoppages in the United States, the crisis in Venezuela, and security problems in regions of Iraq.

The developed financial markets recorded an average annual return of 1.24% and emerging stock markets brought average gains of 1.44%, while yields generated by investments in precious metals were 13.1% gold, 6.4% silver, 2.8% platinum, in industrial metals were 31.4% for copper, -10.6% for iron ore, and crude oil yielded 11.5%.

The monetary policies of the major economic powers continued in 2016 to sail in contrary directions. The Bank of Japan has continued its loose monetary policy in order to achieve the 2% inflation target, maintaining the level of minus 0.10% interest rate throughout the year. Also, the European Central Bank left the key interest rates unchanged at present levels, but starting from April, ECB changed the monthly pace of net asset purchases under the asset purchase programme from €80 billion, to €60 billion until the end of December 2017; as stated in the December monetary policy decision, from January 2018 net asset purchases were reduced at a monthly pace of €30 billion, until the end of September 2018, or beyond, if necessary.

In November 2017, the Bank of England increased its Bank Rate to 0.50% from 0.25% for first time in the last ten years, but maintained the stock of corporate bond purchases at £10 billion and the UK government bond purchases at £435 billion throughout 2017.



The Federal Reserve continued its way to a restrictive monetary policy, raising the key interest rate three times in 2017, from 0.75% to 1.00% in March, 1.25% in June and 1.50% in December, referencing an improving economy and labor market.

Domestically, The National Bank of Romania kept the monetary policy interest rate at 1.75%, but changed the interest rates on the standing facilities, the deposit facility interest rate (raised from 0.25%, to 0.50% in October and to 0.75% in November) and the lending facility interest rate (decreased from 3.25%, to 3.00% in October and to 2.75% in November). The Bucharest Stock Exchange represented by the BET index ended the year with a modest growth of 0.9%, while the BET-FI index of the financial sector generated a return of 2.5%.

2. Preliminary Financial Statements

The preliminary annual financial statements as of 31 December, 2017 have been prepared in compliance with the International Financial Reporting Standards (IFRS).

a) The Balance Sheet

Compared with the beginning of the year, the preliminary balance sheet at 31 December, 2017 in compliance with the International Financial Reporting Standards is as follows:

	01.01.17	(%)	31.12.17	-RON- (%)
Non current assets				
Financial investments available for sale	25,096,542	35.2%	28,399,150	42.0%
Financial investments at fair value through profit or loss	532,630	0.7%	0	0%
Current assets				
Securities at fair value through profit or loss (held for trading)	11,180,775	15.7%	29,063,602	43.0%
Cash and cash equivalents	34,439,479	48.3%	10,079,681	14.9%
TOTAL ASSETS	71,249,426	100%	67,542,433	100%
Current liabilities	334,739	0.5%	321,546	0.5%
Equity	70,914,687	99.5%	67,220,887	99.5%
TOTAL EQUITY AND LIABILITIES	71,249,426	100%	67,542,433	100%

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.

The increase in exposure to the oil and gas sector led to a growth of securities at fair value through profit or loss of 160% as compared to the end of 2016, while cash decreased by 71%. Part of the downturn in cash is due to the payment of distributed dividends from the 2016 profit, amounting to about RON 6 million.

The 5% decrease in equity, from RON 70.91 million at the beginning of the year, to RON 67.22 million at the end of December, was mainly due to dividend payments.



b) The Income Statement

Compared to the end of the last year, the preliminary income statement at 31 December, 2017 in compliance with the International Financial Reporting Standards, is as follows:

	-RON-	
	2016	2017
Total Revenues	33,015,234	18,877,789
Gains on financial instruments traded or held for trading at fair value through profit or loss	32,936,467	18,607,716
Dividends income	49,500	260,268
Interest income	29,267	9,805
Total expenses	23,152,451	18,785,443
Losses on financial instruments traded or held for trading at fair value through profit or loss	16,415,830	16,172,023
Management fees, bank charges, other fees	2,681,269	2,560,102
Net loss from foreign exchange differences	4,055,352	53,319
Net profit/(loss)	9,862,783	92,346

Investments in mining and petroleum sectors generated total revenues of RON 18.9 million during the year, as the oil price fell to \$ 42.47/barrel in the first part of the year, but it subsequently recovered, on December 29, 2017 reaching \$ 60.09/barrel, being 11.5% above the price of the last day of 2016.

In 2017, the pound depreciated by 0.8% against the national currency, which generated a net loss from foreign exchange differences in the amount of RON 0.053 million, significantly lower than the loss recorded in the previous year, when the pound depreciated by 16.0% under the impact of the Brexit referendum.

The Fund's operating expenses amounted to RON 18.9 million in 2017, down by 19% year-on-year.

Recording higher revenues while reducing costs, resulted in achieving a net income of about RON 92.3 thousand.