



STK FINANCIAL
Societate de Administrare a Investițiilor

Annual Report

STK Emergent Investment Fund

For the tax year 2018



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Interim report in accordance with: **Law no. 24/2017 and ASF's Norm no. 5/2018**

For the fiscal year: **2018**

Date of the report: **24.04.2019**

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

Headquarters: **Cluj-Napoca, 29 Heltai Gaspar street**

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-up 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**

1. Analysis of the company's activity

1.1 a) Description of the company's main activity

STK Emergent was incorporated as a civil society without legal personality that privately raised financial resources and fell into the category of other collective investment undertakings with a permissive investment policy. In November 2007, the fund was transformed from a closed-end investment fund that privately raised resources into one that raises resources publicly.

b) Specification of the establishment date of the company

STK Emergent was set up at the initiative of the STK FINANCIAL S.A. Asset Management Company and has an unlimited duration. The closed-end investment fund STK Emergent was established through a private offering running between 03/20/2006 – 04/20/2006. The Fund is registered at the Financial Supervisory Authority (A.S.F.) under No CSC08FIIR/120004.

c) Description of any significant merger or reorganization of the company, its subsidiaries or companies controlled during the financial year

N/a.

d) Description of acquisitions and/or disposal of assets

The Fund has only financial assets. Compared to the end of 2017 the Fund's assets in 2018 are as follows:

	<i>-RON-</i>		
In accordance with IFRS:	2018	2017	Change ('18-'17)
Non current assets			
Financial assets at fair value through other comprehensive income	28,039,762	28,399,150	-359,388
Current assets			
Securities at fair value through profit or loss (held for trading)	23,381,688	29,063,602	-5,681,914
Cash and cash equivalents	5,615,038	10,079,681	-4,464,643
Total Assets	57,036,488	67,542,433	-10,505,945



Securities at fair value through profit or loss summed up RON 23.38 million at the end of 2018, down by RON 5.68 million as of the end of 2017, reflecting the prices' evolution of the companies in the portfolio, as well as of the markets. Cash decreased from RON 10.08 million to RON 5.62 million at the end of 2018, the Fund increasing its exposure to oil companies, their share in the portfolio growing from 63.9% (31 December 2017) to 76.2% (31 December 2018).

e) Description of the main results of the company's activity valuation

1.1.1 General valuation elements

The Fund's revenues and expenses for 2018 and 2017 are as follows:

	-RON-		
In accordance with IFRS:	2018	2017	Change ('18-'17)
Net Revenues	61,067	2,705,766	-2,644,699
Net Expenses	10,236,737	2,613,420	7,623,317
Net result for the year	-10,175,670	92,346	-10,268,016

Fund's profit, income and costs

In accordance with IFRS, the Fund realised a net loss of RON 10.18 million, the net expenses of RON 10.24 million comprising net loss on trading instruments, administrative expenses and net loss from foreign exchange differences, the increase by RON 7.62 million compared to the year 2017 being wholly attributable to the net loss on financial instruments traded or held for trading.

Net revenues include dividend and interest income for the year 2018 and net gains from financial instruments traded or held for trading in the year 2017. They were included in the position *Net revenues* and represent the change of RON -2.64 million.

Export

N/a.

Market share

At the end of 2018, STK Emergent had a market share of 4.36% of the closed-end funds market from Romania, according to statistics provided by the Association of Fund Managers from Romania (<http://www.aaf.ro/fonduri-inchise/>).

Liquidity

The amount of cash and cash equivalents (deposits and current accounts) of the fund at December 31, 2018 is RON 5,615,038.

1.1.2 Assessing the technical level of the company

N/a.

1.1.3 The assessment of the technical and material supply activity

N/a.

1.1.4 Assessing the sale activity

N/a.



1.1.5 The assessment of employee/company staff issues

N/a.

1.1.6 Assessing issues related to the impact of the issuer`s core business on the environment

N/a.

1.1.7 Research and development activity

N/a.

1.1.8 Company`s risk management activity

a) Market risk

In order to estimate the market risk we use the annualized synthetic risk and return indicator (SRRI), which computes the volatility using the 5 previous years' weekly returns.

On 31.12.2018, the SRRI computed at the portfolio level was 51.4%, in accordance with the Fund's risk class.

b) Sensitivity analysis

In order to determine the effect of the market risk on the net asset value, a sensitivity analysis is performed, in which the total value of the securities varies between -30% and +30% compared to the value at the reference date, the value of cash and bank deposits being held constant.

		Sensitivity analysis 12/31/2018					
		-30%	-20%	-10%	10%	20%	30%
	Total value (RON)						
Securities	51,421,450	35,995,015	41,137,160	46,279,305	56,563,595	61,705,740	66,847,885
Current accounts	2,495,170	2,495,170	2,495,170	2,495,170	2,495,170	2,495,170	2,495,170
Bank deposits	3,119,867	3,119,867	3,119,867	3,119,867	3,119,867	3,119,867	3,119,867
Other assets	1	1	1	1	1	1	1
TOTAL ASSETS	57,036,488	41,610,053	46,752,198	51,894,343	62,178,633	67,320,778	72,462,923
TOTAL DEBT	342,210	342,210	342,210	342,210	342,210	342,210	342,210
NET ASSETS	56,694,279	41,267,844	46,409,989	51,552,134	61,836,424	66,978,569	72,120,714
		-27%	-18%	-9%	9%	18%	27%

*For the sensitivity analysis performed on 12/31/2018, the net asset was calculated according to the asset valuation rules set out in Regulation 9/2014 and certified by the depositary.

c) Credit risk

Bellow is presented the credit rating of the banks where the deposits are or cash is held in current accounts, and the exposure concentration for each bank is calculated as a percentage of the total exposure as of 12/31/2018.



Bank	Rating	Cash held in current accounts (RON)	Bank deposits	Total exposure	Concentration
Banca Transilvania	BB	6,965		6,965	0.12%
BRD	BBB+	2,467,383	3,119,867	5,587,250	99.51%
Banca Comercială Feroviară	n.a.	20,770		20,770	0.37%
Raiffeisen Bank	BBB-	53		53	0.00%
Total		2,495,171	3,119,867	5,615,038	

d) Liquidity risk

The liquidity risk management is performed globally, by monitoring the liquidity risk limits such that the ratio of current exposure to current liquidity is less than 3.5, allowing the held instruments to be liquidated in less than 3.5 days.

		31.12.2018
1	Current exposure (2) - (3)	27,724,594
2	Net assets	56,694,279
3	Assets with limited liquidity	28,969,685
4	Current liquidity (5) + (6) + (7) + (8)	181,587,271
5	Current liquidity for listed stocks	175,972,234
6	Current liquidity for financial instruments not admitted to trading	
7	Current liquidity for deposits	3,119,867
8	Current liquidity for cash	2,495,170
9	Current exposure/ Current liquidity	0.15

On December 31, 2018, the Current exposure/ Current liquidity indicator was 0.15, which is within the permissible liquidity limit.

1.1.9 Perspective elements regarding the company's activity

- a) Presentation and analysis of trends, events or uncertainties affecting or likely to affect the liquidity of the company as compared to the same period of the previous year

The main strategy of the Fund is to invest in undervalued securities, which underperformed the market in the last period. Currently, the main sector of interest is the oil sector, as the market undervalues the companies in this sector compared to the values obtained by discounting future cash flows.

The strategy is subject to market risk because the bottom prices are quite difficult to identify. According to our studies, long-term investments in undervalued companies generate yields above the market average, but there is also a risk of short-term underperformance (for up to 1-2 years). Nevertheless,



underperformance indicates the chance for the security or the sector to generate higher returns, with a favorable ratio between expected return and assumed risk.

- b) Presentation and analysis of the effects of current and anticipated capital expenditures on the financial position of the company compared to the same period last year

It is not the case, because the fund does not record capital expenditures due to its object of activity.

- c) Presentation and analysis of the events, transactions and economic changes that significantly affect earnings from core business

All the revenues of STK Emergent come from the core business. The revenue structure differs from one tax year to another, depending on the evolution of the capital market.

In 2018, the Fund's portfolio was composed mainly of shares of the companies belonging to the oil and gas sector, companies that replicated the trend of the entire sector, driven by oil price movements.

In the first nine months of 2018, the oil price experienced a steady improvement, reflecting a combination of strong growth in global demand coupled with increasing constraints on supply. However, during the fourth quarter, concerns over a weakening demand outlook, as a consequence of the US-China trade war, and expectations of over-supply saw a rapid deterioration in the oil price, which dipped to around \$43/barrel in late December. As a result, at the end of 2018, the Fund did not record net gains on financial assets, the income shown in the table below being in the form of dividends and interest earned.

In accordance with IFRS:	-RON-				
	2018	(%)	2017	(%)	2018 vs 2017
Total Revenues	61,067	100.0%	2,705,766	100.0%	-97.7%
Net gains on financial assets at fair value through profit or loss	0	0%	2,435,693	90.0%	n.a.
Dividend income	51,772	84.8%	260,268	9.6%	-80.1%
Interest income	9,295	15.2%	9,805	0.4%	-5.2%

The structure of dividend income (according to IFRS) is presented below:

Company	-RON-	
	12/31/2018	(%)
Inmarsat PLC	31,015	59.9%
Closed-end Fund BET FI INDEX INVEST	20,757	40.1%
Total	51,772	100.0%

The holdings in the tradable portfolio in the year 2018 generated dividend income in the amount of RON 51,772. About 60% of the dividends received in 2018 were distributed by Inmarsat PLC, while the rest by BET FI INDEX INVEST INVESTMENT FUND.



2. Company's tangible assets

STK Emergent does not own tangible assets. The investment in such assets is not included in the Fund's prospectus.

3. The stock exchange of the securities issued by STK Emergent

3.1. The specification of the market on which the securities are traded

Fund units issued by STK Emergent are traded on the Bucharest Stock Exchange starting with September 22, 2008. On December 31, 2018, 609,753 fund units with a nominal value of RON 200 were in circulation.

The value of transactions with STK Emergent units in 2018 was RON 2.41 million; on December 31 2018, the Fund's market capitalization was RON 26.59 million.

Dividend policy

The dividend policy is governed by the Incorporation Agreement (Contract de Societate Civilă) of the STK Emergent.

Dividend policy for the past 3 years

In 2016 and 2018, the Fund did not distribute dividends. During 2017, the Fund distributed a gross dividend of RON 10/fund unit from the 2016 profit, and paid dividends in the amount of RON 5.81 million.

Description of any acquisition activities of its own fund units

Between 04/02/2018 – 04/06/2018, a fund-redemption operation was carried out in accordance with the provisions of *Chap. 15 Redemption of fund units*, paragraphs 15.1 - 15.12 of the Civil Society Agreement of the Fund. As a result of this transaction, no redemption requests were made, so the number of fund units remained the same.

STK Properties SA, a 99.99% company owned by STK Emergent, has no fund units on December 31, 2018.

Emergent Real Estate SA, a 99.99% company owned by STK Emergent, had 117,016 fund units on December 31, 2018.

The way in which the fund pays its debt obligations to the holders of debt securities

N/a.

4. The management of the STK Emergent Fund

4.1 Fund management

The fund manager is the Asset Management Company STK Financial SA in accordance with the constitutive documents of STK Emergent. The duration of the management contract concluded between the Asset Management Company and the Fund is unlimited.

The Board of Directors of STK Financial SA Asset Management Company is composed of 3 members. The list of the members of the Board of Directors is as follows:



- Nicolae PASCU - Chairman
- Prof. Dr. Dumitru MATIȘ - Member
- Adrian ROȘIANU – Member

Details regarding the Board members are available at www.stk.ro.

There were and there are no agreements or family relationships between board members and other persons who led to the appointment of board members in this position.

As of 12/31/2018, STK Financial SA Asset Management Company held 19,385 fund units.

The affiliated entities are STK Financial Asset Management Company, STK Properties SA and Emergent Real Estate SA. The holdings of their fund units were previously stated.

4.2 Executive management of the Fund

Company`s managers lead and coordinate the daily work of the company in accordance with statutory bodies` decisions to conduct the company`s business in good working order. In 2018 the company`s directors were Mr. Nicolae Pascu and Mrs. Cristina Pascu.

As of 12/31/2018, the management and the persons close to them held 24,824 fund units.

Litigation or administrative proceedings involving the fund manager or members of the executive management over the past 5 years relating to their activity within the issuer

N/a.

5. Financial – accounting position

a) Statement of Financial Position (SFP)

The main elements of the STK Emergent SFP the last 3 tax years are as follows:

In accordance with IFRS:	2018	(%)	2017	(%)	2016	(%)	-RON- 2018 vs 2017
Non current assets							
Financial assets at fair value through other comprehensive income	28,039,762	49.2%	28,399,150	42.0%	25,096,542	35.2%	-1.3%
Financial assets at fair value through profit or loss	0	0.0%	0	0.0%	532,630	0.7%	0.0%
Current assets							
Securities at fair value through profit or loss (held for trading)	23,381,688	41.0%	29,063,602	43.0%	11,180,775	15.7%	-19.5%
Cash and cash equivalents	5,615,038	9.8%	10,079,681	14.9%	34,439,479	48.3%	-44.3%
TOTAL ASSETS	57,036,488	100.0%	67,542,433	100.0%	71,249,426	100.0%	-15.6%
Equity	56,685,829	99.4%	67,220,887	99.5%	70,914,687	99.5%	-15.7%
Current liabilities	350,659	0.6%	321,546	0.5%	334,739	0.5%	9.1%
TOTAL EQUITY AND LIABILITIES	57,036,488	100.0%	67,542,433	100.0%	71,249,426	100.0%	-15.6%



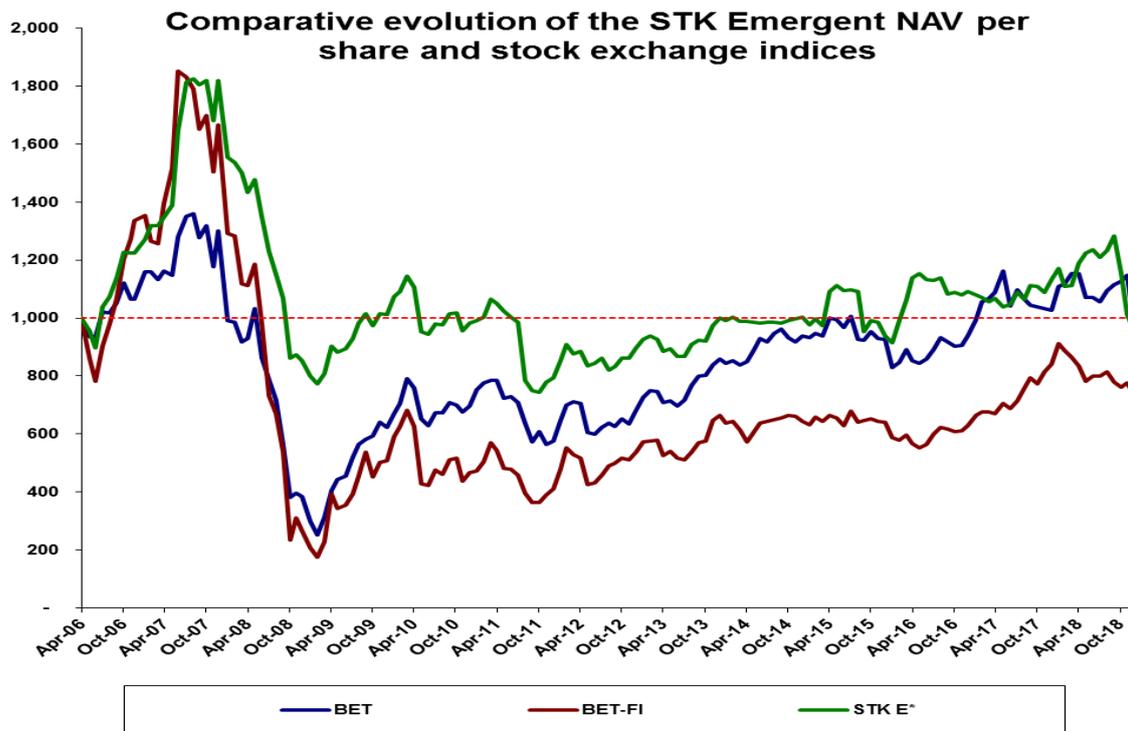
According to IFRS, Financial assets at fair value through other comprehensive income (category that includes mainly securities held in STK Properties SA and Emergent Real Estate SA) account for 49.2% of the total assets at the end of 2018.

Securities at fair value through profit or loss (held for trading) account for 41.0% of the assets, were in the amount of RON 23.38 million at the end of 2018, down RON 5.68 million as compared to the end of 2017, reflecting the movements in the prices of the companies in the portfolio, as well as of the markets. Cash decreased from RON 10.08 million to RON 5.62 million at the end of 2018, the Fund increasing its exposure to oil companies, their share in the portfolio growing from 63.9% (31 December 2017) to 76.2% (31 December 2018); at the end of 2018, approximately 90% of the Fund's resources were invested.

The reduction of equity to RON 56.69 million at the end of 2018, from RON 67.22 million at the end of 2017, was due to the incorporation of the net result for the year.

Net assets

The comparative trend of NAV per share and the main indices is presented in the chart below:



STK E*- adjusted NAV per share with distributed dividends

On December 31, 2018, the STK Emergent net asset value per share was RON 92.98, registering a decrease of 15.68% compared to the net asset value at the end of December 2017. Since its launch, the dividend adjusted net asset value per share registered a negative variation of 4.19%. During the same period, the Bucharest Stock Exchange indices recorded declines of -1.05% the BET index and -25.33% the BET-FI index.



The net asset structure of the main components on the last trading day of the year is as follows:

	-RON-		
	12/31/2018	12/29/2017	12/30/2016
Unlisted shares	27,667,252	28,119,767	25,096,542
Tradeable shares portfolio	29,369,236	39,422,644	46,152,790
<i>Shares</i>	23,149,275	28,710,984	11,244,404
<i>Cash</i>	5,615,038	10,079,659	34,439,386
<i>Other assets</i>	604,923	632,000	469,000
Total Assets	57,036,488	67,542,411	71,249,332
Liabilities	342,210	301,680	319,393
Net Assets	56,694,279	67,240,731	70,929,940
NAV per share*	92.98	110.28	106.10*

*adjusted NAV per share with distributed dividends

The unlisted shares of the Fund accounted for 48.8% of the net asset on the last trading day of 2018 (41.8% at the end of 2017 and 35.4% at the end of 2016). The tradable portfolio of the Fund consists of traded shares, cash and other assets, represented by shares in Collective investment undertakings.

The weight of the tradable portfolio in the net asset was 51.8% at 12/31/2018, 58.6% at 12/29/2017 and 65.1% at 12/30/2016. The Net Asset Value per share amounted to RON 92.98 at the end of 2018, down by about 15.7% compared to VUAN at the end of 2017 and about 12.4% less than VUAN * two years ago.

During the reporting period, the Fund did not have Financial Instrumentation Operations (SFTs) or total return swap operations (information according to Article 13(1) (b) of Regulation (EU) 2015/2365 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012).

b) Statement of Profit or Loss (SPL)

The revenues and expenses of the Fund in the last 3 years are as follows:

	-RON-		
In accordance with IFRS:	12/31/2018	12/31/2017	12/31/2016
Net gains from financial assets at fair value through profit or loss	0	2,435,693	16,520,637
Dividend income	51,772	260,268	49,500
Interest income	9,295	9,805	29,267
Total net Revenues	61,067	2,705,766	16,599,404
Net loss from financial assets at fair value through profit or loss	7,791,786	0	0
Administration fees, bank charges, fees	2,253,553	2,560,101	2,681,269
Net loss from foreign exchange differences	191,397	53,319	4,055,352
Total net Expenses	10,236,737	2,613,420	6,736,621
Net Profit/(Loss) for the period	-10,175,670	92,346	9,862,783



According to IFRS, the Fund's net revenues at the end of 2018 amounted to RON 0.06 million, and included dividend and interest income, as compared to previous years, in which it recorded net gains from financial instruments. The end of 2018 saw the steep drop in oil prices and, implicitly, in the prices of the companies in the oil sector included in the portfolio, so that on 12/31/2018, the Fund recorded a net loss from financial assets of RON 7.79 million.

Administration fees, bank charges and other fees had fallen over the past two years to RON 2.23 million. The pound depreciated by 1.14% in 2018 compared to the national currency, which generated a net loss from foreign exchange differences in the amount of RON 0.19 million, higher than those recorded in the previous year when the pound depreciated by 0.81%.

Although investments in oil companies generated a net loss of RON 10.18 million during the year 2018 amid a drop in oil prices, after the end of the year the oil price has returned to a level of \$64/barrel, registering an increase of about 40%.

c) Cash Flow Statement

The Cash Flows of the Fund in the last 3 years are as follows:

	-RON-			
In accordance with IFRS:	2018	2017	2016	2018 vs 2017
Interest received	9,124	9,805	29,285	-6.9%
Dividends received	51,772	256,486	49,510	-79.8%
Proceeds from the sale of securities held for trading (shares)	21,890,538	55,597,906	88,818,521	-60.6%
Proceeds from the sale of securities held for trading (AOPC ¹)	380,143	1,232,899	2,173,398	-69.2%
Purchases of securities held for trading	-24,774,605	-73,236,599	-74,224,375	-66.2%
Payment for the Fund's administration	-1,667,459	-1,581,141	-1,671,007	5.5%
Payments for other operational expenses	-446,212	-443,990	-415,297	0.5%
Cash flow from operating activities	-4,556,699	-18,164,635	14,760,036	-74.9%
Dividends paid to unit holders	64,532	-5,807,370	-27,803	n.a.
Tax on dividends paid	-10,183	-294,757	-20,509	-96.5%
Cash flow from financing activities	54,349	-6,102,127	-48,312	n.a.
Net increase/(decrease) in cash and cash equivalents	-4,502,350	-24,266,762	14,711,724	-81.4%
Cash and cash equivalents at 1 January	10,079,681	34,439,479	19,696,726	-70.7%

¹ Other collective investment undertakings



Effect of exchange rate changes on cash and cash equivalents	37,707	-93,036	31,029	<i>n.a.</i>
Cash and cash equivalents at end of period	5,615,038	10,079,681	34,439,479	-44.3%

At the end of 2018, the cash flow from operating activities was negative, of RON -4.56 million, significantly lower than the one recorded in the previous year, of RON -18.16 million. Proceeds from the sale of securities held for trading (shares) amounted to RON 21.89 million, this category including the value of the shares sold during 2018.

Payments for purchases of securities held for trading decreased to RON 24.77 million, from RON 73.24 million. These include the value at which the securities were acquired, costs and other trading expenses.

The net cash flow from financing activities was at the end of the year of RON 0.054 million and includes the dividends returned by the Central Depository for the year 2014 and not raised by the fund unit holders, and the tax paid for dividends distributed from the profits of the year 2016 that were not claimed at the end of 2017, but was paid in January 2018.

Information on the remuneration policy of STK Financial SAI SA. Amount of remuneration for the financial year 2018

For the financial year 2018, the total amount of remuneration, broken down into fixed remuneration and variable remuneration, paid by STK Financial SAI SA to its staff and the number of beneficiaries is presented in the tables below:

STK Financial SAI SA - Remuneration paid in 2018

Total gross remuneration	Of which, Fixed remuneration (gross)	Of which, Variable remuneration (gross)	Number of beneficiaries
589,895	582,298	7,597	17

STK Financial SAI SA - Remuneration paid in 2018 for Personnel Identified

	Total gross remuneration	Of which, Fixed remuneration (gross)	Of which, Variable remuneration (gross)	Number of beneficiaries
Identified Personnel	453,267	448,310	4,957	11
Of which, Personnel in management positions	105,252	105,252	0	4
Of which, Outsource Functions	18,524	18,524	0	2



The remuneration policy of STK Financial SAI is developed in accordance with the provisions of Law no. 74/2015, Law 29/2017 and ESMA Guidelines. Since the adoption of the remuneration policy of STK Financial SAI, so far it has not been the case for making changes to the remuneration policy adopted at the company level.

For the financial year 2018 the Fund did not pay performance fees to STK Financial SAI.

Signatures

Nicolae PASCU
Chairman of the Board
STK Financial SAI SA

Victor Bogdan Oprean
Chartered Accountant