



## STK Emergent - 2019 preliminary results

### 1. The economic context

In 2019 the international stock markets were marked by a number of economic and geopolitical events, including tensions in the trade conflict between the USA and China, anti-government protests in Hong Kong, economic sanctions against Iran, tensions in the Middle East, failure to finalize Brexit and the UK's future role in Europe, all leading to a weaker global economic environment. Despite these economic challenges and geopolitical uncertainties, stock markets performed well overall throughout the year.

Thus, the developed stock markets recorded an average annual return of +17.22%, while emerging frontier stock exchanges achieved an average of +14.81%; the returns generated by investments in precious metals were +18.26% for gold, +15.18% for silver, +21.57% for platinum, in industrial metals were +3.15% for copper, +32.27% for iron ore, and Brent oil yielded +21.91%.

The oil price included in 2019 the decisions taken by OPEC and non-OPEC member states to maintain the agreement to reduce oil production by 1.2 million barrels/day and to further reduce production by 0.5 million barrels/day (decision taken in December), the involuntary decreases in production in Venezuela, Libya and Iran, as well as fluctuations in the tensions of the Sino-American trade war, and other geopolitical factors that had short-term influences.

With regard to the monetary policy, the Bank of England has maintained the bank interest rate at 0.75% (the August 2018 level) and the stock of corporate bond purchases at £10 billion and UK government bond purchases at £435 billion. The Monetary Policy Committee's new projections for economic activity and inflation presented at the November meeting are based on the assumption of an orderly transition to a free trade agreement between the United Kingdom and the European Union. In October, the UK and EU agreed a Withdrawal Agreement and Political Declaration as well as a flexible extension of Article 50. As a consequence, the perceived likelihood of a no-deal Brexit has fallen significantly and the pound has appreciated.

As of 31 January 2020, the United Kingdom has officially left the European Union, now being considered a third country, but during the transitional period, which will last until 31 December 2020, it is treated as a Member State - the United Kingdom will remain in the EU Customs Union and in the Single Market with all four freedoms (of movement of goods, capital, persons and services) and all EU policies applying.

The US Federal Reserve has decided three reductions in the benchmark interest rate in 2019, respectively 2.25% in July, 2.00% in September and 1.75% in October, in an attempt to protect the US economy from trade tensions, slowing global growth and low inflation.

Domestically, the National Bank of Romania maintained the monetary policy interest rate at 2.50% as well as the interest rates on the standing facilities - the deposit facility interest rate, 1.50%, and the lending facility interest rate, 3.50%. The Bucharest Stock Exchange represented by the BET index ended the year with an increase of 35.13% and the BET-FI index of the financial sector recorded a growth of 37.27%, both indices starting from a rather low level of the last two years, generated by the shock of the Emergency Ordinance 114 from December 2018.



## 2. Financial Statements

The preliminary annual financial statements as of 31 December, 2019 have been prepared in compliance with the International Financial Reporting Standards (IFRS).

### a) Statement of Financial Position

The preliminary statement of financial position at 12/31/2019 in compliance with the International Financial Reporting Standards is as follows:

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In accordance with IFRS:	12/31/2019	(%)	12/31/2018	(%)	2019 vs 2018
<b>Non current assets</b>					
Other financial assets at fair value through other comprehensive income	29,221,977	51.4%	28,039,762	49.2%	4.2%
<b>Current assets</b>					
Securities at fair value through profit or loss (held for trading)	9,375,910	16.5%	23,381,688	41.0%	-59.9%
Cash and cash equivalents	18,217,289	32.1%	5,615,038	9.8%	224.4%
<b>TOTAL ASSETS</b>	<b>56,815,177</b>	<b>100.0%</b>	<b>57,036,488</b>	<b>100.0%</b>	<b>-0.4%</b>
<b>Equity</b>	<b>56,472,287</b>	<b>99.4%</b>	<b>56,685,829</b>	<b>99.4%</b>	<b>-0.4%</b>
<b>Current liabilities</b>	<b>342,890</b>	<b>0.6%</b>	<b>350,659</b>	<b>0.6%</b>	<b>-2.2%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>56,815,177</b>	<b>100.0%</b>	<b>57,036,488</b>	<b>100.0%</b>	<b>-0.4%</b>

The *Other financial assets at fair value through other comprehensive income* include mainly securities held at STK Properties SA and Emergent Real Estate SA. As unlisted companies they are valued in conformity with international valuation standards in accordance with Regulation 2/2018; thus, a fair value is used from a valuation report made by an ANEVAR certified external valuator.

*Securities at fair value through profit or loss (held for trading)* category, amounting to RON 9.38 million, mainly comprised shares of companies in the oil sector. As at December 31, 2019 they represented 28.1% of the total trading portfolio (cash representing 64.2%). The change of -59.9% compared to the end of 2018 is due to the reduction of the exposure in the oil sector during 2019, thus the cash increasing from RON 5.62 million to RON 18.22 million.

Equity remained at about the same level last year at RON 56.47 million compared with RON 56.69 million at the end of 2018, and current liabilities decreased by 2.2% to RON 0.34 million from RON 0.35 million at the end of 2018.



**b) Statement of Profit or Loss**

Compared to the end of 2018, the preliminary statement of profit or loss at 31 December, 2019 in compliance with the International Financial Reporting Standards, is as follows:

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In accordance with IFRS:	2019	2018	Chg (%)
Dividend income	213,910	51,772	313.2%
Interest income	13,915	9,295	49.7%
Net gain from foreign exchange differences	3,782,721	0	n.a.
<b>Total Net Revenue</b>	<b>4,010,545</b>	<b>61,067</b>	<b>6467.5%</b>
Net loss on financial instruments traded or held for trading at fair value through profit or loss	3,818,265	7,791,786	-51.0%
Administration fees, bank charges, fees	1,854,131	2,253,554	-17.7%
Net loss from foreign exchange differences	0	191,397	n.a.
<b>Total Net Expenses</b>	<b>5,672,396</b>	<b>10,236,737</b>	<b>-44.6%</b>
<b>Net Loss for the year</b>	<b>(1,661,850)</b>	<b>(10,175,670)</b>	<b>-83.7%</b>

During 2019, the Fund recorded net income from dividends, interest and exchange rate differences, the securities from the portfolio generating dividends amounting to RON 0.21 million increasing from RON 0.05 million, and the interest received by the Fund was 49.7% higher in 2019 compared to the previous year. Currency exchange differences led to a net gain of RON 3.78 million compared to a net loss of RON 0.19 million in 2018, the pound appreciating 8.0% during the year.

The net loss from financial instruments traded was by 51.0% lower compared with the previous year and is due entirely to the declines in the stock prices during the last three months of 2019. The operational expenses of the Fund were reduced by 17.7% at RON 1.85 million from RON 2.25 million at the end of 2018.

The net result of the year 2019 was a loss of RON 1.66 million; the oil companies in which we invested during the year have registered significant increases in turnover and profitability, but these increases have not been reflected in their market value. We interpreted this divergence as a bearish signal and decided to liquidate the holdings, the companies confirming increases only at the level of financial statements, not in terms of prices.