



STK FINANCIAL
Societate de Administrare a Investițiilor

Annual Report

STK Emergent Investment Fund

For the financial year 2019



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

For the fiscal year: **2019**

Date of the report: **04/28/2020**

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 raises 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 2018, the situation of the Fund's assets is as follows:

	<i>-RON-</i>		
In accordance with IFRS:	2019	2018	Change ('19-'18)
Non current assets			
Other financial assets at fair value through other comprehensive income	30,678,898	28,039,762	2,639,136
Current assets			
Securities at fair value through profit or loss (held for trading)	9,375,911	23,381,688	-14,005,777
Cash and cash equivalents	18,217,289	5,615,038	12,602,251
Total Assets	58,272,098	57,036,488	1,235,610



Securities at fair value through profit or loss summed up RON 9.38 million, a large part of the shares of the oil companies held in the portfolio were sold by the end of 2019. Thus, cash and cash equivalents increased by RON 12.60 million, at RON 18.22 million on 12/31/2019.

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

1.1.1 General valuation elements

The evolution of revenues and expenses for 2019 and 2018 is as follows:

	-RON-		
In accordance with IFRS:	2019	2018	Change ('19-'18)
Net Revenues	4,010,545	61,067	3,949,478
Net Expenses	5,672,395	10,236,737	-4,564,342
Net result for the year	-1,661,850	-10,175,670	8,513,820

Fund's profit, income and costs

In accordance with IFRS, the Fund realised a net loss of RON 1.66 million; the net expenses of RON 5.67 million comprise a net loss on traded instruments and administrative expenses, decreasing by RON 4.56 million compared to those recorded in 2018.

Net revenues, amounting to RON 4.01 million, includes income from dividends, interest and exchange rate differences (in the case of 2019), being substantially higher than those recorded in 2018, of RON 0.06 million.

Export

N/a.

Market share

At the end of 2019, STK Emergent had a market share of 3.54% 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, 2019 is RON 18,217,289.

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 December 2019, the SRRI computed at the portfolio level was 51.98%, in accordance with the Fund's risk class.

b) Sensitivity analysis

A sensitivity analysis is performed in order to determine the effect of the market risk on the net asset value, analysis 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 12/31/2019					
		-30%	-20%	-10%	10%	20%	30%
	Total value (RON)						
Securities	40,054,808	28,038,366	32,043,847	36,049,328	44,060,289	48,065,770	52,071,251
Current accounts	2,417,498	2,417,498	2,417,498	2,417,498	2,417,498	2,417,498	2,417,498
Bank deposits	15,799,790	15,799,790	15,799,790	15,799,790	15,799,790	15,799,790	15,799,790
Other assets	1	1	1	1	1	1	1
TOTAL ASSETS	58,272,098	46,255,655	50,261,136	54,266,217	62,277,578	66,283,059	70,288,540
TOTAL DEBT	342,890	342,890	342,890	342,890	342,890	342,890	342,890
NET ASSETS	57,929,208	45,912,765	49,918,246	53,923,727	61,934,688	65,940,169	69,945,650
		-21%	-14%	-7%	7%	14%	21%

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 12/31/2019.



Bank	Rating	Cash held in current accounts (RON)	Bank deposits	Total exposure	Concentration
Banca Transilvania	BB	7,122		7,122	0.04%
BRD	BBB+	2,389,834	15,799,790	18,189,624	99.85%
Banca Comercială Feroviară	n.a.	20,543		20,543	0.11%
Total		2,417,498	15,799,790	18,217,288	100%

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.

		12/31/2019
1	Current exposure (2) - (3)	26,310,417
2	Net assets	57,929,208
3	Assets with limited liquidity	31,618,791
4	Current liquidity (5) + (6) + (7) + (8)	34,176,747
5	Current liquidity for listed stocks	15,959,459
6	Current liquidity for financial instruments not admitted to trading	
7	Current liquidity for deposits	15,799,790
8	Current liquidity for cash	2,417,498
9	Current exposure/Current liquidity	0.77

On December 31, 2019, the Current exposure/ Current liquidity indicator was 0.77, 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

Compared to the end of the previous year, the Fund's liquidity increased 3.24 times on 12/31/2019, due to the sale of a part of the shares in the portfolio. The Fund may at any time invest in assets that have sufficient liquidity to ensure compliance with liquidity limits (see paragraph 1.1.8.d on liquidity risk). The objective of the Fund is to invest these available funds during 2020, but at the moment, the risk represented by the evolution of the COVID-19 pandemic affects the market potential in the short term.

-RON-			
In accordance with IFRS:	2019	2018	2019 vs 2018
Cash and cash equivalents	18,217,289	5,615,038	x3.24



- 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

Not applicable. 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 revenues of STK Emergent come from the core business. The revenue structure differs from one financial year to another, depending on the evolution of the of the share prices included in the Fund's portfolio.

During 2019 the Fund's portfolio was composed mainly of shares of the companies belonging to the oil sector, their evolution being influenced in part by the oil price movements, but also by their specific factors.

At the end of 2019, the Fund did not record net gains on financial assets, the accumulated net income being in the form of dividends, interest earned and exchange rate differences.

In accordance with IFRS:	2019		2018		-RON-
		(%)		(%)	2019 vs 2018
Total net Revenues	4,010,545	100.0%	61,067	100.0%	x65.7
Net gains on financial assets at fair value through profit or loss	0	0%	0	0%	n.a.
Dividend income	213,909	5.3%	51,772	84.8%	x4.13
Interest income	13,915	0.4%	9,295	15.2%	x1.5
Net gain from exchange differences	3,782,721	94.3%	0	0%	n.a.

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

Company	-RON-	
	12/31/2019	(%)
Alro SA	11,044	5.2%
Closed-end Fund BET FI INDEX INVEST	23,000	10.7%
Tullow Oil PLC	179,865	84.1%
Total	213,909	100.0%

The holdings in the tradable portfolio generated dividend income in the amount of RON 213,909 during 2019: 84% of the dividends received were distributed by the oil company Tullow Oil, 11% by the closed-end investment fund BET FI INDEX INVEST and 5 % by the company Alro SA.



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, 2019, 609,753 fund units with a nominal value of RON 200 were in circulation.

The value of transactions with STK Emergent units in 2019 was RON 2.18 millio.; On December 30 2019, the Fund`s market capitalization was RON 31.40 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

During 2017, the Fund distributed from the 2016 profit a gross dividend of RON 10/fund unit and paid dividends in the amount of RON 5.81 million. In 2018 and 2019, the Fund did not distribute dividends.

Description of any acquisition activities of its own fund units

During 2019, the Fund did not carry out activities to acquire its own fund units.

STK Properties SA, a 99.99% company owned by STK Emergent, has no fund units on December 31, 2019.

Emergent Real Estate SA, a 99.99% company owned by STK Emergent, had 117,016 fund units on December 31, 2019.

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 managers

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 12/31/2019, 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 the statutory bodies` decisions to conduct the company`s business in good working order. In 2019 the company`s directors were Mr. Nicolae Pascu and Mrs. Cristina Pascu.

As of 12/31/2019, 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

The changes in the main elements of the STK Emergent Statement of Financial Position in the last 3 fiscal years are as follows:

In accordance with IFRS:	2019	(%)	2018	(%)	2017	(%)	-RON- 2019 vs 2018
Non current assets							
Other financial assets at fair value through other comprehensive income	30,678,898	52.6%	28,039,762	49.2%	28,399,150	42.0%	9.4%
Current assets							
Securities at fair value through profit or loss (held for trading)	9,375,911	16.1%	23,381,688	41.0%	29,063,602	43.0%	-59.9%
Cash and cash equivalents	18,217,289	31.3%	5,615,038	9.8%	10,079,681	14.9%	224.4%
TOTAL ASSETS	58,272,098	100.0%	57,036,488	100.0%	67,542,433	100.0%	2.2%
Equity	57,929,208	99.4%	56,685,829	99.4%	67,220,887	99.5%	2.2%
Current liabilities	342,890	0.6%	350,659	0.6%	321,546	0.5%	-2.2%
TOTAL EQUITY AND LIABILITIES	58,272,098	100.0%	57,036,488	100.0%	67,542,433	100.0%	2.2%

Other financial assets at fair value through other comprehensive income mainly include securities held in STK Properties SA and Emergent Real Estate SA, and as unlisted companies, they are valued according to international valuation standards according to Regulation no. 2/2018; thus, a fair value is used given



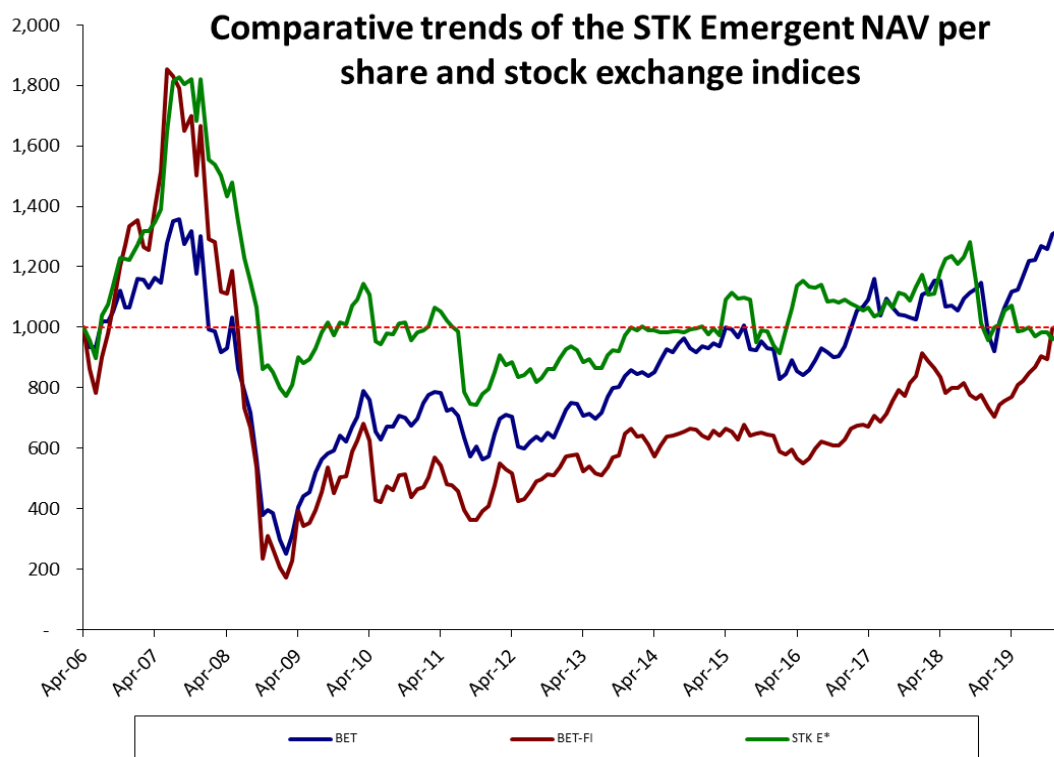
by an evaluation report made by an ANEVAR certified external valuator. In the financial statements presented above, the fair value of these securities as at 12/31/2019 was updated based on the last valuation report prepared during February 2020.

Securities at fair value through profit or loss (held for trading) in the amount of RON 9.38 million represented on the last day of 2019 a share of 16.1% of assets, a decrease of 59.9% compared to the end of 2018, the decrease being attributed to the sale of a part of the shares in the portfolio. Consequently, cash inflows increased to RON 18.22 million, from RON 5.62 million at the end of 2018.

The increase of equity by 2.2%, to RON 57.93 million at the end of 2019, compared to RON 56.69 million on December 31, 2018, was given by the increase of reserves from the revaluation of securities at fair value, which offset the net negative result of the financial year ended.

Net assets

The comparative evolution of NAV per share with the main indices is presented in the chart below:



STK E- adjusted NAV per share with distributed dividends*

On December 31, 2019, the STK Emergent net asset value per share was RON 95.01, registering an increase of 2.18% compared to the net asset value at the end of December 2018. Since its launch, the dividend adjusted net asset value per share registered a negative variation of 2.10%. During the same period, the Bucharest Stock Exchange indices recorded increases of 33.71% the BET index and 2.50% the BET-FI index.

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



-RON-

	12/31/2019*	12/31/2018	12/29/2017
Unlisted shares	29,916,388	27,667,252	28,119,767
Tradeable shares portfolio	28,355,710	29,369,236	39,422,644
<i>Shares</i>	9,538,420	23,149,275	28,710,984
<i>Cash</i>	18,217,289	5,615,038	10,079,659
<i>Other assets</i>	600,000	604,923	632,000
Total Assets	58,272,098	57,036,488	67,542,411
Liabilities	341,407	342,210	301,680
Net Assets	57,930,691	56,694,279	67,240,731
NAV per share*	95.01	92.98	110.28

* Net assets with the update of the value of unlisted shares after the end of the financial year 2019

During the reporting period, the Fund did not have any Securities Financing Transactions (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

The evolution of the revenues and expenses of the Fund in the past 3 years is as follows:

-RON-

In accordance with IFRS:	12/31/2018	12/31/2018	12/31/2017
Net gains from financial assets at fair value through profit or loss	0	0	2,435,693
Dividend income	213,909	51,772	260,268
Interest income	13,915	9,295	9,805
Net gain from foreign exchange differences	3,782,721	0	0
Total net Revenues	4,010,545	61,067	2,705,766
Net loss from disposed financial assets at fair value through other comprehensive income	116,093	0	0
Net loss from financial assets at fair value through profit or loss	3,702,172	7,791,786	0
Administration fees, bank charges, fees	1,854,130	2,253,554	2,560,101
Net loss from foreign exchange differences	0	191,397	53,319
Total net Expenses	5,672,395	10,236,737	2,613,420
Net (Loss)/Profit for the period	-1,661,850	-10,175,670	92,346

The Fund's net revenues at the end of 2019 was RON 4.01 million, including dividends and interest income, and compared to previous years, net income from foreign exchange differences. The securities in the portfolio generated dividends in the amount of RON 0.21 million, increasing from RON 0.05 million, but lower than those received during 2017. The interest income received by the Fund was 49.7% higher in 2019 compared to the previous year and by 41.9% compared to two years ago.



Exchange rate differences led to a net income of RON 3.78 million, compared to net losses of RON 0.19 million in 2018, and RON 0.05 million in 2017, the pound sterling appreciating by 8.0% during 2019, based on advances made in the Brexit process.

Net loss on disposed financial assets, amounting to RON 0.12 million, are related to the sale in the last part of 2019 of shares registered as fixed assets.

The net loss from traded financial instruments was 51.0% lower in 2019, of RON 3.70 million, compared to RON 7.79 million in 2018, and is entirely due to decreases in the last three months of 2019. The Fund's operating expenses were RON 1.85 million, lower by 17.7% compared to 2018, and by 27.6% compared to 2017.

For 2019, the Fund registered a net loss of RON 1.66 million, in the last part of 2019 (and the first part of 2020), the participations in oil companies were liquidated, because, although the price of oil increased during 2019 and the financial statements of companies in the oil sector consolidated, the prices of companies did not reflect these factors.

c) Cash Flow Statement

The evolution of the cash flows of the Fund in the past 3 years is as follows:

	-RON-			
In accordance with IFRS:	2019	2018	2017	2019 vs 2018
Interest received	13,915	9,124	9,805	52.5%
Dividends received	212,986	51,772	256,486	311.4%
Proceeds from the sale of securities held for trading (shares)	17,839,426	21,890,538	55,597,906	-18.5%
Proceeds from the sale of securities held for trading (AOPC ¹)	0	380,143	1,232,899	n.a.
Purchases of securities held for trading	-3,777,477	-24,774,605	-73,236,599	-84.8%
Payment for the Fund's administration	-1,418,830	-1,667,459	-1,581,141	-14.9%
Payments for other operational expenses	-377,659	-446,212	-443,990	-15.4%
Cash flow from operating activities	12,492,361	-4,556,699	-18,164,635	n.a.
Dividends paid to unit holders	-2,031	64,532	-5,807,370	n.a.
Tax on dividends paid	0	-10,183	-294,757	n.a.
Cash flow from financing activities	-2,031	54,349	-6,102,127	n.a.
Net increase/(decrease) in cash and cash equivalents	12,490,330	-4,502,350	-24,266,762	n.a.

¹ Other collective investment undertakings



Cash and cash equivalents at 1 January	5,615,038	10,079,681	34,439,479	-44.3%
Effect of exchange rate changes on cash and cash equivalents	111,921	37,707	-93,036	196.8%
Cash and cash equivalents at end of period	18,217,289	5,615,038	10,079,681	224.4%

At the end of 2019, the cash flow from operational activities was positive, of RON 12.49 million, in the last two years prior to 2019 negative operating cash flows were recorded. Proceeds from the sale of securities held for trading (shares) amounted to RON 17.84 million, this category including the value of shares sold during 2019.

Payments for purchases of securities held for trading decreased to RON 3.78 million, from RON 24.77 million in 2018 and RON 73.24 million in 2017. These include the value at which the securities were acquired, commissions and other trading expenses.

Information on the remuneration policy of STK Financial SAI SA. Amount of remuneration for the financial year 2019

For the financial year 2019, 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 2019

Total gross remuneration	Of which, Fixed remuneration (gross)	Of which, Variable remuneration (gross)	Number of beneficiaries
631,955	631,955	0	19

STK Financial SAI SA - Remuneration paid in 2019 for Personnel Identified

	Total gross remuneration	Of which, Fixed remuneration (gross)	Of which, Variable remuneration (gross)	Number of beneficiaries
Identified Personnel	457,256	457,256	0	12
Of which, Personnel in management positions	110,653	110,653	0	4
Of which, Outsource Functions	29,804	29,804	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 2019, 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