



STK FINANCIAL
Societate de Administrare a Investițiilor

Annual Report

STK Emergent Investment Fund

For the fiscal year 2016
In accordance with the Annex 32 from the CNVM`s
Regulation no. 1/2006



The annual report in accordance with the **Law no. 297/2004 and C.N.V.M.'s Regulation no. 1/2006**

For fiscal year **2016**

Date of the report: 04/24/2017

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

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

Telephone number: **0264.591982**

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, nominative, dematerialized, 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

It is not the case.

d) Description of acquisitions and/or disposal of assets

The fund has only financial assets. Compared to the end of 2015, the situation of the fund`s assets is as follows:

	RON		
	In accordance with IFRS:		
	2015	2016	Differences ('16-'15)
Financial investments available for sale	25,118,597	25,096,542	-22,055
Financial investments at fair value through profit or loss	892,143	532,630	-359,512
Securities at fair value through profit or loss (held for trading)	13,222,886	11,180,775	-2,042,111
Receivables	2,503,938	0	-2,503,938
Cash and cash equivalents	19,696,744	34,439,479	14,742,734
Total Assets	61,434,308	71,249,426	9,815,118



Under IFRS, the fund's portfolio was reclassified to financial investments at fair value through profit or loss and financial investments available for sale, so all quoted shares were revalued at fair value and unquoted shares were tested for impairment.

Compared to the end of 2015, the cash position increased by RON 14.74 million, its weight raising from 32.1% to 48.3%. Part of the cash increase of 2016, about RON 2.50 million, was due to the collection of trade receivables in the balance at the end of 2015, representing outstanding amounts from the sale of shares by the end of 2015.

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

1.1.1 General valuation elements

The evolution of the revenues and expenses in the last 2 years is as follows:

	RON		
	In accordance with IFRS:		
	2015	2016	Differences ('16-'15)
Revenues	3,373,801	16,599,403	13,225,602
Expenses	7,379,177	6,736,618	-642,559
Profit/ (loss) for the year	-4,005,376	9,862,785	13,868,160

Fund's profit, income and costs

Under IFRS, the Fund earned a net profit of RON 9.86 million in 2016, due to the favorable performance of the financial investments in the mining and oil&gas sectors, which generated a net gain of RON 16.52 million.

The portfolio's holdings during the year determined a dividend amounting to RON 49,500, down from RON 314,985, while the exchange rate differences led to a net loss of about RON 4.06 million during 2016, because of the depreciation of the British pound against the national currency, with the vast majority of the investments made in securities traded in pounds.

Export

N/a.

Percentage of the market

At the end of 2016 STK Emergent had a market share of 14.4% of the closed-end funds market from Romania and 26% of the closed-end equity funds market, 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 30, 2016 is RON 34,439,479.

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

The return of a stock in a period of time is influenced by the market return. This has a significant effect on the result of the fund's investing activity.

In order to estimate the market risk we use the annualized synthetic risk and return indicator (SRRRI), which computes the volatility using the 5 previous years' weekly returns. This volatility is computed and reconfigured weekly using the following formula:

$$\sigma = \sqrt{\frac{m}{T-1} \sum_{t=1}^T (R_t - \bar{R})^2}$$

where the registered returns correspond to a number of T independent periods (T=260 weeks) for an interval of 1/m years (m=52 weeks), and \bar{R} is the mean arithmetic return over T periods.

The SRRRI indicator is computed for each security in the collective investment undertaking. Also, the annualized SRRRI indicator is computed at the portfolio level using the following formula:

$$\sigma_p = \sqrt{52 \cdot v_p \cdot M_p \cdot v_p^T}$$

where

σ_p is the annualized SRRRI for the portfolio

v_p is a vector with 1 row and n columns, where n is the number of securities in the portfolio, each element of the vector being equal to the SRRRI indicator for that security multiplied by the weight of that security in the portfolio.

M_p is the correlation matrix for the returns of the securities, having n rows and n columns, where n is the number of securities in the portfolio.

For stocks and investments in other funds which are unlisted or do not have a sufficient trading history the BET index is used as a proxy in the computation of the SRRRI



indicator for Romanian securities, and the STOXX 600 Europe index for European securities.

The risk profile classification is done according to the following table containing SRI volatility intervals, each interval having a correspondent risk class.

Risk Class	Volatility intervals	
	Equal or greater than	Less than
1	0.00%	0.50%
2	0.50%	2.00%
3	2.00%	5.00%
4	5.00%	10.00%
5	10.00%	15.00%
6	15.00%	25.00%
7	25.00%	

31.12.2015	SRI indicator	31.12.2016	SRI indicator
Listed stocks(portfolio)	32.07%	Unlisted stocks(portfolio)	32.18%
	41.90%	Genel Energy PLC	20.94%
Tullow Oil PLC	43.98%	Premier Oil PLC	65.78%
Genel Energy PLC	21.28%	Tullow Oil PLC	49.09%
Enquest PLC	21.28%	Ophir Energy PLC	20.94%
S.S.I.F. BROKER S.A	31.90%	E.On Se Na	29.56%
ARMATURA S.A. CLUJ-NAPOCA	50.19%	S.S.I.F. BROKER S.A	27.87%
CONSTRUCTII BIHOR S.A. ORADEA	15.56%	ARMATURA S.A. CLUJ-NAPOCA	77.68%
Unlisted stocks		CONSTRUCTII BIHOR S.A. ORADEA	14.28%
STK PROPERTIES S.A.	14.28%	Unlisted stocks	
Investments in other funds		STK PROPERTIES S.A.	14.28%
FII BET-FI INDEX INVEST	14.28%	EMERGENT REAL ESTATE	14.28%
BT Obligatiuni	14.28%	Investments in other funds	
		FII BET-FI INDEX INVEST	14.28%



b) Sensitivity analysis

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

		Sensitivity analysis 31.12.2016					
		-30%	-20%	-10%	10%	20%	30%
	Total value(lei)						
Securities	36,809,946	25,766,962	29,447,957	33,128,951	40,490,941	44,171,935	47,852,930
Listed stocks	11,244,404						
Genel Energy PLC	1,853,816						
Premier Oil PLC	3,618,028						
Tullow Oil PLC	1,821,700						
Ophir Energy PLC	613,288						
E.On Se Na	1,521,269						
S.S.I.F. BROKER S.A	786,518						
ARMATURA S.A. CLUJ-NAPOCA	38,562						
CONSTRUCTII BIHOR S.A. ORADEA	991,223						
Unlisted stocks	25,096,542						
STK PROPERTIES S.A.	7,762,634						
Emergent Real Estate	17,333,908						
Amounts under settlement	469,000						
BET-FI Index Invest	469,000						
Current accounts	9,130,802	9,130,802	9,130,802	9,130,802	9,130,802	9,130,802	9,130,802
Bank deposits	25,308,675	25,308,675	25,308,675	25,308,675	25,308,675	25,308,675	25,308,675
Other assets	2	2	2	2	2	2	2
Outstanding receivables	2						
TOTAL ASSETS	71,249,425	60,206,441	63,887,435	67,568,430	74,930,419	78,611,414	82,292,408
TOTAL DEBT	324,694	324,694	324,694	324,694	324,694	324,694	324,694
NET ASSETS	70,924,731	59,881,747	63,562,742	67,243,736	74,605,726	78,286,720	81,967,715
		-16%	-10%	-5%	5%	10%	16%



c) Credit risk

The credit rating of the banks where there are deposits or cash held in current accounts is presented, and the concentration of exposure is computed for each bank as a percentage of the total exposure.

Bank	Rating	Cash held in current accounts(RON)	Bank deposits	Total exposure	Concentration
Banca Transilvania	BB	6,713	17,351,831	17,358,544	50%
BRD Banca Comerciala Feroviara	BBB-	9,102,738	7,956,727	17,059,465	50%
	n.a.	21,207		21,207	0%
Raifeissen Bank	BBB+	169		169	0%
Total		9,130,826	25,308,558	34,439,384	

d) Liquidity risk

The STK Emergent fund is an exchange listed closed-end fund, the trading of fund units being possible at all times during the trading hours, due to this fact this fund does not have a table containing the settlement dates for the subscription or repurchase of the fund units. The liquidity risk management is performed globally, by monitoring the liquidity risk limits according to the following criteria:

The adherence to the following risk limit is being monitored:

Current Exposure/Current liquidity < 3.5, where:

Current Exposure = Net assets – Assets with limited liquidity

Current Liquidity = Current liquidity of listed securities + Current liquidity of unlisted securities + Current liquidity of derivatives + Current liquidity of deposits + Cash

Current liquidity of listed securities = average daily trading value over the last 3 months

Current liquidity of unlisted securities = 0

Current liquidity of deposits = the total value of the deposits at the reference date.



Listed stocks at 31.12.2016	Security	Liquidity in the security currency	Exchange rate with the fund currency (RON)	Liquidity in the fund currency (RON)
Genel Energy PLC	GBP	1,528,962	5.2961	8,097,536
Premier Oil PLC	GBP	7,055,673	5.2961	37,367,550
Tullow Oil PLC	GBP	19,226,249	5.2961	101,824,138
Ophir Energy PLC	GBP	1,539,657	5.2961	8,154,175
E.On Se Na	EUR	78,376,993	4.5411	355,917,762
S.S.I.F. BROKER S.A	RON			10,060
ARMATURA S.A. CLUJ-NAPOCA	RON			371
CONSTRUCTII BIHOR S.A. ORADEA	RON			-
Unlisted stocks				
STK PROPERTIES S.A.	RON			-
EMERGENT REAL ESTATE	RON			-
Investments in other funds				
FII BET-FI INDEX INVEST	RON			-
Current accounts	RON			9,130,802
Bank deposits	RON			25,308,675
				545,811,068

Current liquidity for listed stocks	545,811,068
Net assets	70,924,731
Assets with limited liquidity	26,556,765
CONSTRUCTII BIHOR S.A. ORADEA	991,223
STK PROPERTIES S.A.	7,762,634
EMERGENT REAL ESTATE	17,333,908
FII BET-FI INDEX INVEST	469,000
Current exposure	44,367,966
Current liquidity/Current exposure	12

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 have underperformed the market in the last period. At present, the main sector of interest is the oil&gas sector, as it underperformed the other sectors.

The implementation of the strategy may generate the market risk because the bottom price is hardly identifiable. Thus, there is a risk that, in the short term, the underperformed security or sector to continue to fall. However, the underperformance of the security or sector indicates the chance to obtain higher returns in the near future, 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 the STK Emergent comes from the core business. The revenue structure differs from one fiscal year to another depending on the evolution of the capital market.

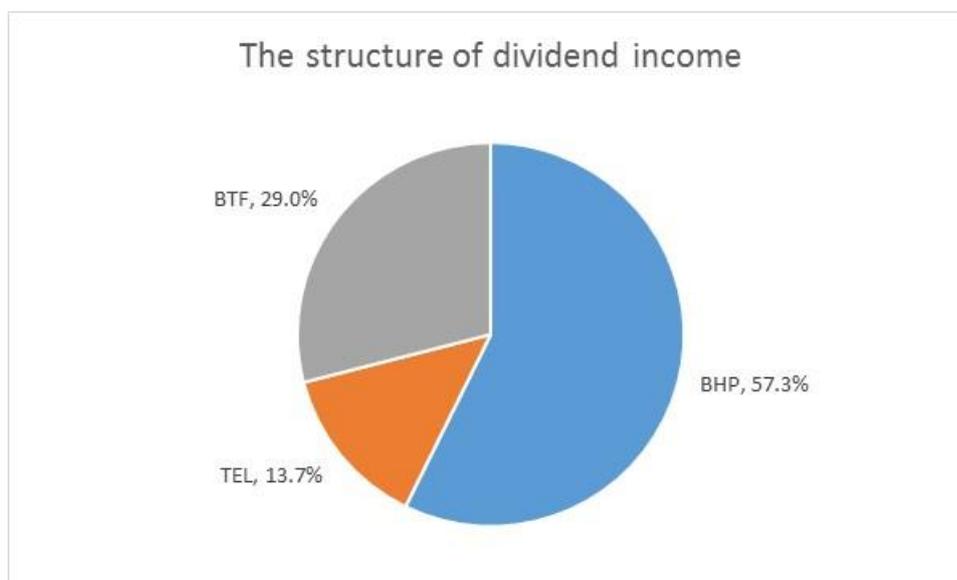
	RON				
	In accordance with IFRS:				
	2015	(%)	2016	(%)	2016 vs 2015
Revenues	3,373,801	100.0%	16,559,403	100.0%	392.0%
Dividends income	314,985	9.3%	49,500	0.3%	-84.3%
Interest income	286,781	8.5%	29,266	0.2%	-89.8%
Net gains from financial assets at fair value through profit or loss	0	0.0%	16,520,637	99.5%	N.A.
Net income from foreign exchange differences	2,772,035	82.2%	0	0.0%	-100.0%

According to IFRS, there is a change in the income structure influenced by the evolution of the capital market. Thus, in 2016, the Fund recorded net gains from financial assets at fair value through profit or loss of RON 16.52 million, representing 99.5% of the total revenues achieved during the year as a result of the favorable evolution of the mining and oil&gas sectors. In 2015, most of the revenue, about 82.2%, was achieved due to the positive exchange rate fluctuations.

Interest and dividends income contributed less to the fund`s total revenue in 2016, with a drop from 9.3% in 2015 to 0.3% (interest income) and from 8.5% in 2015 to 0.2% of the total revenues (dividends income).



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



The holdings in the tradable portfolio during the year 2016 generated dividend income of RON 49,500, down from RON 314,985. Most of the dividends, about 57.3%, were received from BHP, a mining company.

2 Fund`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

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 30, 2016 609,753 fund units with a nominal value of RON 200 were in circulation.

The value of transactions with STK Emergent units in 2016 was RON 2.6 million; on 30 December, 2016 the fund`s market capitalization was RON 37.81 million.

Dividends policy

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

Dividend policy for the past 3 years

According to IFRS, from the profit of the year 2014 and the unallocated profits in the previous years, the Fund distributed a gross dividend of RON 4.75 per fund unit. For the year 2015 no dividend were assigned, while from the realized profit from 2016, the Fund distributes a gross dividend of RON 10 per unit.



Description of any acquisition activities of its own fund units

STK Emergent has not redeemed its own fund units.

STK Properties SA, a 99.99% company owned by STK Emergent, has no fund units on December 30, 2016.

Emergent Real Estate SA, a 99.99% company owned by STK Emergent, had 117,016 fund units on December 30, 2016.

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 administrators

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
- Dumitru Matiş - Member
- Roşianu Adrian – 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.

On December 30, 2016 STK Financial SA Asset Management Company held 18,551 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 2016 the company`s directors were Mr. Nicolae Pascu and Mrs. Cristina Pascu.

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) Balance Sheet

The evolution of the main elements of the STK Emergent Balance Sheet in the last 3 fiscal years is as follows:

RON

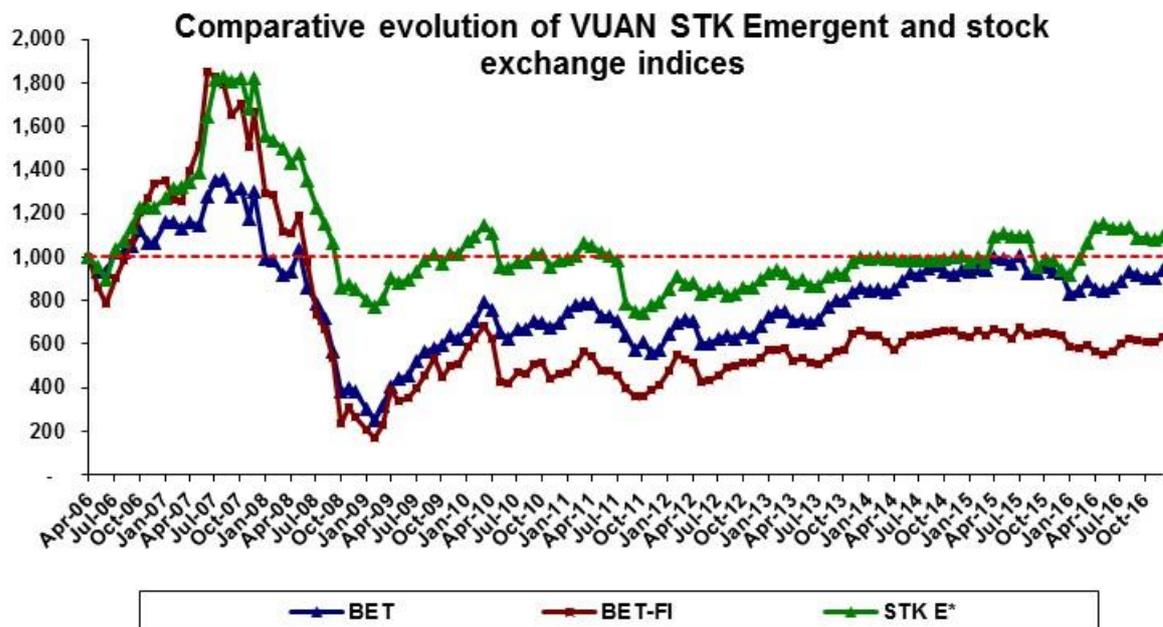
	In accordance with IFRS:						2016 vs 2015
	2014	(%)	2015	(%)	2016	(%)	
Non current assets							
Financial investments available for sale	25,023,152	36.6%	25,118,597	40.9%	25,096,542	35.2%	-0.1%
Financial investments at fair value through profit or loss	0	0.0%	892,143	1.5%	532,630	0.7%	-40.3%
Current assets							
Securities at fair value through profit or loss (held for trading)	26,034,159	38.1%	13,222,886	21.5%	11,180,775	15.7%	-15.4%
Receivables from securities operations	10	0.0%	2,503,957	4.1%	0	0.0%	-100.0%
Cash and cash equivalents	17,313,199	25.3%	19,696,726	32.1%	34,439,479	48.3%	74.8%
TOTAL ASSETS	68,370,520	100.0%	61,434,308	100.0%	71,249,426	100.0%	16.0%
Equity	67,880,218	99.3%	61,073,958	99.4%	70,914,687	99.5%	16.1%
Current liabilities	490,302	0.7%	360,350	0.6%	334,739	0.5%	-7.1%
TOTAL EQUITY AND LIABILITIES	68,370,520	100.0%	61,434,308	100.0%	71,249,426	100.0%	16.0%

According to IFRS, compared with the beginning of 2016 when the securities at fair value through profit or loss accounted for 21.5% of the total assets, at the end of 2016 they held a share of only 15.7%, while the cash position increased from 32.1% to 48.3%. This is due to a more prudent policy because, in our opinion, there is a risk of significant corrections, as the large stock markets are coming after a long period of growth.

The favorable trend of the investments in the mining and petroleum sectors in the first half of the year, resulting in a profit marked, led to an increase of the own capital by 16.1% as compared to 2015, reaching a level of RON 70.91 million.

b) Net assets

The net assets reflect the value of STK Emergent holdings calculated in accordance with CNVM`s Regulation no. 15/2004. 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 30, 2016 the STK Emergent net asset value per share of RON 116.33 has raised by 16.13% compared to the net asset value per share at the end of 2015. From launch, the net asset value per share registered a positive variation of 9.33%. At the same time, the performance of the Bucharest Stock Exchange indices was: BET-FI declined by 35.95%, while BET decreased by 5.05%.

The net asset structure of the main components is as follows:

	RON		
	31.12.2014	31.12.2015	30.12.2016
Unlisted shares	25,023,152	25,118,597	25,096,542
Tradeable shares portfolio	43,372,321	36,314,906	46,152,790
Shares	20,499,971	11,495,967	11,244,404
Cash	17,313,199	22,200,673	34,439,386
Other assets	5,559,151	2,618,267	469,000
Total assets	67,395,473	61,433,503	71,249,332
Liabilities	477,157	357,497	319,393
Net assets	67,918,316	61,076,007	70,929,940
NAV per share	111.39	100.17	116.33

The tradeable portfolio of the fund consists of the traded shares, cash, shares in Collective undertakings titles and the dividends at the end of the month.



c) Income Statement

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

	RON		
	In accordance with IFRS:		
	31.12.14	31.12.15	30.12.16
Dividends income	8,227	314,985	49,500
Interest income	239,861	286,781	29,266
Net gains from financial assets at fair value through profit or loss	2,221,158	0	16,520,637
Net income from foreign exchange differences	227,806	2,772,035	0
Total revenue	2,697,053	3,373,801	16,599,403
Administration fees, bank charges , fees	2,507,372	4,051,187	2,681,267
Net loss from financial assets at fair value through profit or loss	0	3,327,990	0
Net loss from foreign exchange differences	0	0	4,055,351
Total expenses	2,507,372	7,379,177	6,736,618
Net profit/ (loss)	189,681	-4,005,376	9,862,785

According to IFRS, in 2016 the fund recorded total revenues of RON 16.60 million, compared to revenues of RON 3.37 million in 2015, mainly due to the net gains on financial investments at fair value through profit or loss of RON 16.52 million, amid profitable investments made especially in the first part of the year in the mining and oil&gas sectors.

The depreciation of the pound against the national currency in 2016 had an unfavorable impact on the fund`s results, of about RON 4.06 million, as much of the shares from the fund`s portfolio are traded in pounds. However, investments in mining and oil companies in 2016 generated a net profit of RON 9.86 million.

Signatures

Nicolae Pascu
Chairman of the Board
STK Financial SAI SA

Victor Bogdan Oprean
Chartered Accountant