



## **Board of Directors Report 1<sup>st</sup> Half 2018**

**STK Emergent**



Half-year report in accordance with: **Law 24/2017, Regulation 5/2018, C.N.V.M.'s Regulation 15/2004, ASF Norm 39/2015**

Date of the report: **08/14/2018**

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 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, nominative, dematerialized, par value: RON 200 per fund unit**

The financial statements for the first half of 2018 have been prepared in accordance with the Financial Supervisory Authority (ASF) Norm 39/2015 for the approval of the Accounting Regulations pursuant to the International Financial Reporting Standards (IFRS), applicable to entities authorized, regulated and supervised by the ASF in the Sector of Financial and Investment Instruments. The financial statements of STK Emergent fund have not been consolidated. The financial statements as of 06/30/2018 have not been audited.

## **Events with significant impact on the Fund's performance**

In the first six months of 2018, the following significant events influenced the Fund's portfolio:

- The increase in oil prices by 23.6%, the WTI oil price reaching \$74.26 (at the end of December 2017, was \$60.05), the evolution of oil prices was also determined by factors such as:
  - the evolution of US oil production and inventories; the US International Energy Agency publishes a weekly report on the country's oil sector activity;
  - the US withdrawal from the Iran nuclear deal signed in 2015; the decision was announced on May 8 and involves re-imposing sanctions that will target critical sectors of Iran's economy, such as its energy, petrochemical, and financial sectors;
  - the OPEC meeting held on June 22, which concluded with the decision to increase oil production to levels assumed in November 2016 - a 100% compliance level, that is, a reduction in output of 1.2 mb/d, following the finding that OPEC Member Countries have exceeded the required level of conformity that had reached 152% in May 2018 and the oil market situation has further improved over the past six months;
- The US decision to impose tariffs on US imports of steel (a percentage of 25%) and aluminum (a percentage of 10%) as of 8 March (1 June for the EU, Canada and Mexico) has generated a wave of retaliatory actions against the US, marking the beginning of a trade war;
- The US-China tensions over bilateral trade have escalated during the first six months of 2018,



China being accused of unfair trade practices and violations of intellectual property rights, both countries announcing punitive tariffs to be implemented, measures that have rattled financial markets;

- The pound fluctuated between RON 5.199 - 5.396 during the semester, influenced by the uncertainty, complexity and political tensions that characterized the Brexit process over these six months; although a draft withdrawal agreement, including the December 2017 negotiations, was published in March, there are still divergences as regarding the jurisdiction of the European Court of Justice in relation to the interpretation and application of the agreement as regards the interpretation and application of the agreement and the border between Northern Ireland and Ireland after Brexit;
- The US Federal Reserve decided to hike the monetary policy interest rate in March and June meetings, on the background of solid economic growth and the strengthening of the labor market;
- At its June meeting, the European Central Bank announced its decision to end the quantitative easing program from the next year, reducing bond purchases from EUR 30 billion to EUR 15 billion during the last three months of the year.

For the next six months of the year, the main risks and uncertainties are mainly related to the evolution of the oil price, given by the following:

- US sanctions against Iran's energy sector, which will effectively come into force on 4 November, with the purpose of reducing Iranian oil imports to zero;
- limits on OPEC members' ability to compensate the reduction of Iranian oil production;
- possible further reductions of Venezuelan production, over and above the capacity of OPEC members to offset these reductions;
- the OPEC meeting on December 3rd (with the probability of ending the production cut agreement);
- limited potential for US production increases, due to pipeline bottlenecks;
- increases in the number of US drilled but uncompleted wells;
- The escalation of the US-China trade war (on July 6, the US started applying trade tariffs on \$34 billion worth of Chinese goods, the Asians responding with the same measure on US imported products).



## 1. Financial statements

The Fund's **Balance Sheet** as of 06/30/2018 compared with 12/31/2017 is as follows:

-RON-

In accordance with IFRS:	06/30/2018	(%)	12/31/2017	(%)	Chg (%)
Financial assets available-for-sale	29,146,520	39.6%	28,399,150	42.0%	2.6%
Securities at fair value through profit or loss (held for trading)	34,607,113	47.0%	29,063,602	43.0%	19.1%
Receivables from securities operations	10,000	0.0%	0	0.0%	n.a.
Cash and cash equivalents	9,907,248	13.4%	10,079,681	14.9%	-1.7%
<b>TOTAL ASSETS</b>	<b>73,670,881</b>	<b>100.0%</b>	<b>67,542,433</b>	<b>100.0%</b>	<b>9.1%</b>
Equity	73,344,158	99.6%	67,220,887	99.5%	9.1%
Current liabilities	326,723	0.4%	321,546	0.5%	1.6%
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>73,670,881</b>	<b>100.0%</b>	<b>67,542,433</b>	<b>100.0%</b>	<b>9.1%</b>

*In accordance with the IFRS*, the Fund's portfolio is classified into Financial assets available-for-sale and Securities at fair value through profit or loss (held for trading). The financial assets included in the Financial investments available-for-sale category are measured at book value, adjusted for the fair value of these companies' assets, with the positive or negative difference being included directly in equity, through other comprehensive income. The Securities at fair value through profit or loss (held for trading) are measured at fair value, with the positive or negative difference being recognized in the income statement.

Securities at fair value through profit or loss (held for trading) increased by 19.1%, as at 6/30/2018 they amounted to RON 34.6 mil., compared to RON 29.06 mil., mainly due to the price appreciation of shares held in the portfolio. In the first six months of the year, the Fund maintained its exposure to oil companies, their share in the total trading portfolio ranging from 59.9% to 75.7%. The oil and gas sector index, the Stoxx Europe 600 Oil & Gas, achieved a 9.9% return in the first half of the year, and continues to have growth potential over the next period, the factors driving the growth in oil prices are: the increase in world oil demand (by 1.64 mb/d<sup>1</sup> in 2018, according to OPEC's latest estimates), the sanctions imposed by the US on Iran, with a potential to reduce the oil supply by around 1 mb/d, the decrease in sector's investments (which are at about 60% of the investments made before the fall in oil prices). Estimated oil price as a function of oil demand and supply is 81\$ per barrel, representing an 9% upside against the half year end price.

Receivables from securities operations amounting to RON 0.01 mil. are dividends recorded before the end of the semester, to be received in the following period.

<sup>1</sup> According to the monthly report published on 13 August 2018



The Fund's equity increased by 9.1% in the first half of the year as a result of the incorporation of the result for the period of RON 5.38 mil. The increase in the value of financial assets available-for-sale by 2.6% generated a growth in reserves and implicitly had a positive effect on equity. The composition of the Fund's equity is shown in the table below:

In accordance with IFRS:	06/30/2018	12/31/2017	-RON-
Capital on fund units	121,950,600	121,950,600	
Issue premiums	10,003,133	10,003,133	
Reserves*	3,551,421	2,804,050	
Retained earnings on transition to IFRS	(32,498,316)	(32,498,316)	
Reported earnings	(35,038,581)	(35,130,926)	
Result for the period**	5,375,901	92,346	
<b>Total Equity</b>	<b>73,344,158</b>	<b>67,220,887</b>	

\*according to IFRS, the Reserves include the positive/negative differences arising from revaluation of Financial investments available for sale

\*\* under IFRS, the Result for the period includes the positive/negative differences arising from the revaluation of Securities at fair value through profit or loss (held for trading)

The financial performance of the fund as of 06/30/2018 compared to the same period from the last year is as follow:

In accordance with IFRS:	H1 2018 6 months	H1 2017 6 months	Chg (%)	-RON-
Net gain on financial instruments traded or held for trading at fair value through profit or loss	6,325,215	0	n.a.	
Dividend income	41,772	129,811	-67.8%	
Interest income	5,518	7,329	-24.7%	
Net gain from foreign exchange differences	181,453	0	n.a.	
<b>Total Net Revenue</b>	<b>6,553,958</b>	<b>137,139</b>	<b>4679.0%</b>	
Net loss on financial instruments traded or held for trading at fair value through profit or loss	0	3,835,158	n.a.	
Administration fees, bank charges, fees, other expenses	1,178,058	1,490,372	-21.0%	
Net loss from foreign exchange differences	0	595,475	n.a.	
<b>Total Net Expense</b>	<b>1,178,058</b>	<b>5,921,006</b>	<b>-80.1%</b>	
<b>Net Profit / Loss for the year</b>	<b>5,375,901</b>	<b>(5,783,866)</b>	<b>n.a.</b>	

The net revenues of the Fund amounted to RON 6.55 mil. during the first half of 2018, as opposed to net revenues of RON 0.14 mil. in the same semester of last year. The net gain on financial



instruments traded or held for trading amounted to RON 6.33 mil., comprises the net positive result from the sale of shares and the positive net change in the prices of the shares in the portfolio as on 30 June 2018.

Income from dividends and interest were lower in the first six months of 2018 than in the same period last year, but the Fund recorded a net gain from foreign exchange differences of RON 0.18 mil. (versus RON -0.59 mil. in the first semester of 2017).

The net expenses of the Fund decreased by 80.1%, to RON 1.18 mil. compared to RON 5.92 mil. in the first half of 2017, comprising just the administration fees, bank charges, fees, other miscellaneous expenses (which in turn were decreased by 21.0% compared to last year's semester). The net result for the first half of 2018 was a profit of RON 5.38 mil., compared to a loss of RON 5.78 mil. realized in the same period last year.

The **Cash flow statement** for the first semester of 2018 is as follows:

-RON-

In accordance with IFRS:	H1 2018 6 months	H1 2017 6 months	Chg (%)
Interest received	5,518	7,329	-24.7%
Dividends received	31,772	129,811	-75.5%
Proceeds from the sale of securities held for trading (shares)	17,354,526	45,047,689	-61.5%
Proceeds from the sale of securities held for trading (AOPC <sup>2</sup> )	0	1,135,000	n.a.
Purchases of securities held for trading	(16,573,637)	(64,077,246)	-74.1%
Payment for the Fund's administration	(822,919)	(807,975)	1.8%
Payments for other operational expenses	(219,364)	(236,266)	-7.2%
<b>Cash flow from operating activities</b>	<b>(224,104)</b>	<b>(18,801,659)</b>	<b>-98.8%</b>
Dividends paid to unit holders	(80)	(5,793,101)	-100.0%
Tax on dividends paid	(10,183)	0	n.a.
<b>Cash flow from financing activities</b>	<b>(10,263)</b>	<b>(5,793,101)</b>	<b>-99.8%</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(234,366)</b>	<b>(24,594,760)</b>	<b>-99.0%</b>
Cash and cash equivalents at 1 January	10,079,681	34,439,479	-70.7%
Effect of exchange rate changes on cash and cash equivalents	61,932	(253,798)	n.a.
<b>Cash and cash equivalents at end of period</b>	<b>9,907,248</b>	<b>9,590,921</b>	<b>3.3%</b>

<sup>2</sup> Other collective investment undertakings



At the end of the first half of 2018, the net cash flow from operating activities was negative, of RON -0.22 mil., significantly lower than the one recorded in the first half of 2017, of RON -18.80 mil. Proceeds from the sale of securities held for trading (shares) amounted to RON 17.35 mil., this category including the value of the shares sold during the first half of 2018.

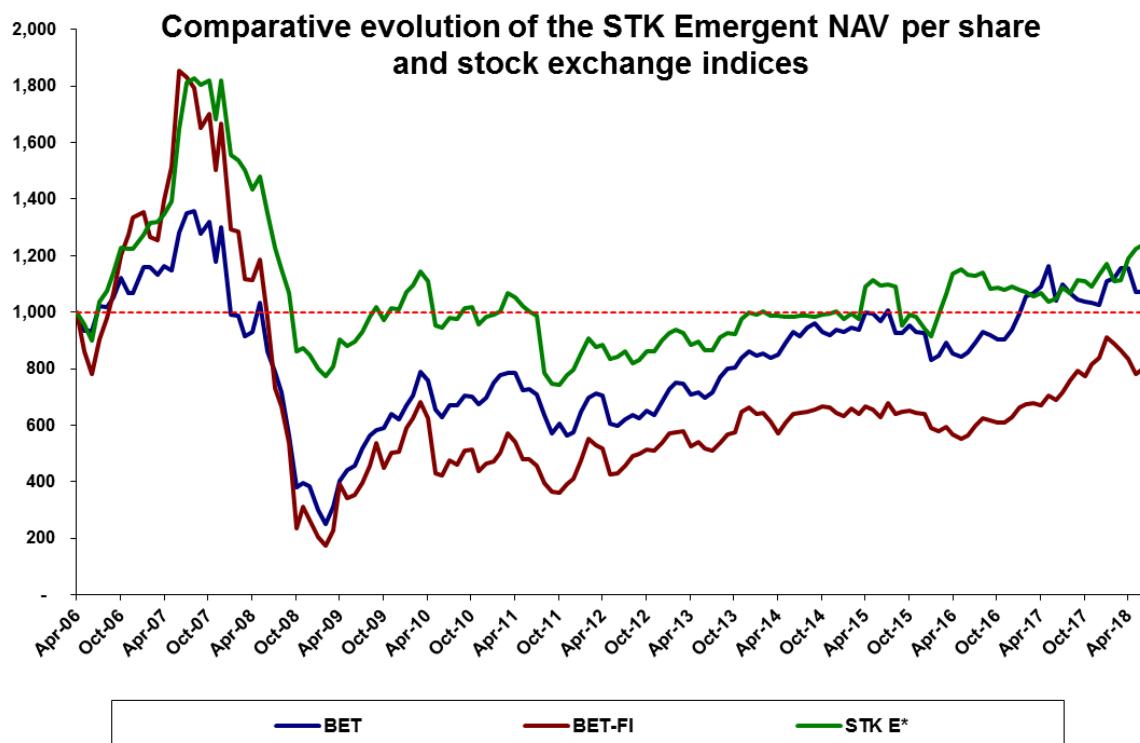
Payments for purchases of securities held for trading decreased to RON 16.57 mil., from RON 64.08 mil. These include the value at which the securities were acquired, commissions and other trading expenses.

Net cash flow from financing activities was at the end of the semester of RON -0.01 mil., and comprises mainly the tax paid for dividends paid during 2017, but not claimed by the end of December 2017.

Compared to the first half of 2017, on June 30, 2018 cash and cash equivalents were higher by 3.3% to RON 9.91 mil.

## 2. Analysis of STK Emergent activity

At the end of June, the net asset value per share was RON 120.31, registering an increase of 9.10% compared to the net asset value per share at the end of 2017, of RON 110.28. From launch to 06/30/2018, the net asset value per share registered a positive variation of 23.97%, while during the same period the BET-FI index declined by 18.76% and the BET index increased by 8.38%.



STK E\*- adjusted NAV per share with distributed dividends

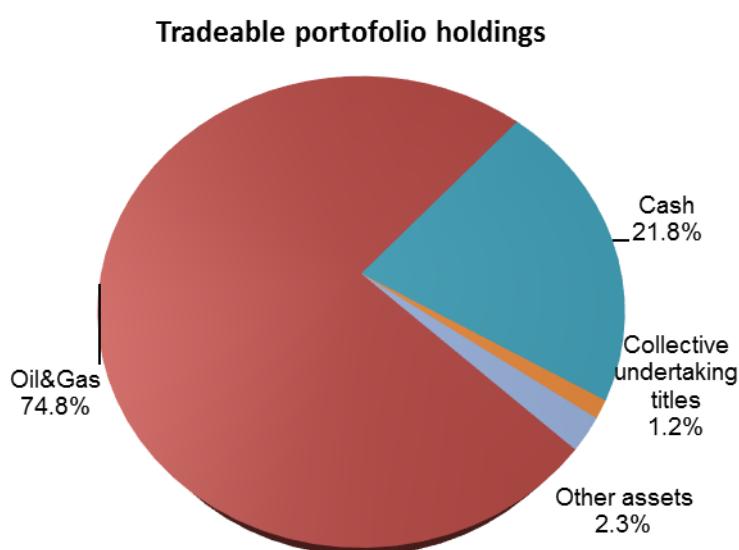


**The net asset structure** at 06/29/2018 compared to the end of 2017 is as follows:

	<i>-RON-</i>	
	<b>06/29/2018</b>	<b>12/29/2017</b>
Unlisted shares	28,119,767	28,119,767
Tradeable shares portfolio	45,551,247	39,422,644
Shares	35,078,866	28,710,984
Cash	9,907,381	10,079,659
Other assets	565,000	632,000
<b>Total assets</b>	<b>73,671,014</b>	<b>67,542,411</b>
Liabilities	310,370	301,680
<b>Net assets</b>	<b>73,360,644</b>	<b>67,240,731</b>
<b>NAV per share</b>	<b>120.31</b>	<b>110.28</b>

The tradeable shares portfolio, of RON 45.55 mil. represents 57.8% of the total net assets at the end of the first semester. *Other assets* category includes collective undertaking titles and dividends to be received, in the case of June. The Fund's net assets increased by 9.1%, from RON 67.24 million at the end of 2017 to RON 73.36 mil. at the end of June 2018, reflecting the increase in the price of shares included in the portfolio.

The structure of the tradeable portfolio holdings as of 06/29/2018 is presented in the chart below:



At the end of June, the trading portfolio is composed of shares belonging to oil & gas companies, about 74.8%, while cash represents 21.8% of the total portfolio.



### **3. Changes affecting the capital and management of the company**

3.1. Description of cases where the Fund was unable to meet its financial obligations

**Not applicable.**

3.2. Description of any change in the rights of the holders of securities held

**Not applicable.**

### **4. Significant transactions**

During the first half of 2018, senior management purchased STK Emergent fund units. The volume of this transaction was 532 units.

Attached to this report are:

Financial statements as of 06/30/2018

**Chairman of the Board,**

**PASCU Nicolae**

**Chartered Accountant,**

**OPREAN Victor-Bogdan**