

KALTCHUGA FUND

Russia Equities A (USD)



Fund fact sheet as of 30 September 2020

Quick facts

Fund category	Russian Equities
Reco. placement period	10 years
Last NAV (USD)	8,597.87
NAV frequency	Daily
ISIN	LU0290813871
Distributed in	LU, CH, FR
Risk and reward profile	1 2 3 4 5 6 7 Lower Risk Higher Risk

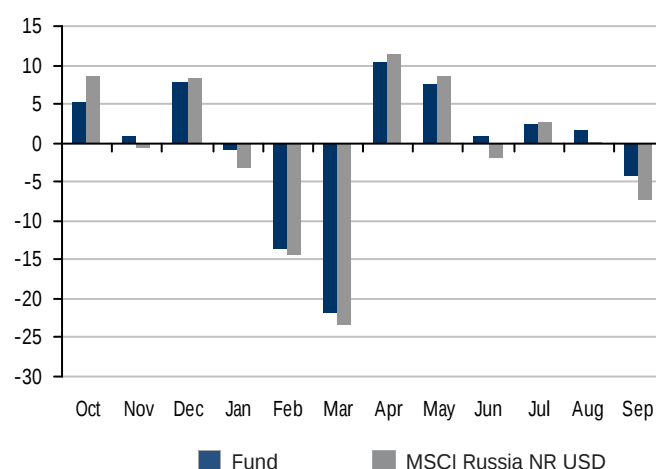
Investment objective

The Fund's objective is to outperform the MSCI Russia and achieve medium to long-term capital appreciation from long-only investments in liquid Russian equities, mainly Blue Chips. The Fund's strategy combines top down analysis together with a bottom-up stock-picking approach and doesn't use leverage or derivatives.

Cumulative performance



Monthly performances over 1 year (%)



Past performance (%) - Net returns

	Cumulative						Annualised		
	Month-to-date	Year-to-date	1 year	3 years	5 years	10 years	3 years	5 years	10 years
Fund	-4.23%	-20.18%	-8.47%	3.73%	58.81%	16.22%	1.23%	9.69%	1.51%
Index*	-7.37%	-28.03%	-15.97%	12.79%	68.94%	5.89%	4.09%	11.05%	0.57%

*MSCI Russia NR USD / Origin: 01/04/2007

Fund information

Legal form	SICAV UCITS
Fund domicile	Luxembourg
Fund launch date	31/03/2007
Total AUM (USD)	19,877,469.57
Fiscal year end	December 31st
Fund currency	USD
Cut-off time	See prospectus
Management company	Probus Capital Mgt SA
Custodian bank	Quintet Private Bank
Auditor	E&Y Luxembourg
FATCA status	Reporting FI
Solvency II	TPT file contributor
German tax	Transparent

Investment team

Jean-Louis Tauvy has been managing the Kaltchuga Funds since 1994. After being responsible for the realization of large industrial projects in Singapore, France and the USSR he became a pioneer of the Russian stock market with unique knowledge of the Russian and other FSU markets. He has a MS of Engineering from ENS des Arts et Métiers.

Alexandre Starinsky is Head of Research. MSc in Physics from Univ. Paris VI. MA in Economics & Finance and postgraduate in Post Soviet Studies from Sciences Po Paris. He has worked in Russia and Ukraine since 1993. He joined the Group in 2006.

NAV analysis

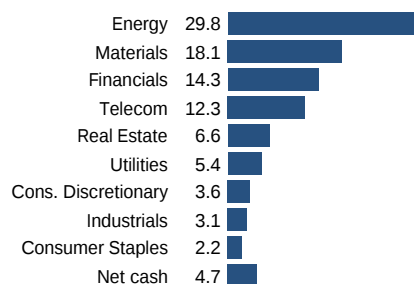
3 years figures (ann.)	Fund	Index	Value	Date
Annual volatility	23.07	25.73	52-week NAV high	11,466.98 20/01/2020
Beta	0.88		52-week NAV low	5,977.56 18/03/2020
Tracking error	5.37		Max drawdown (%)	-47.87 28/02/12-18/03/20
Sharpe	0.10	0.23		
Information ratio	-0.53			

KALTCHUGA FUND

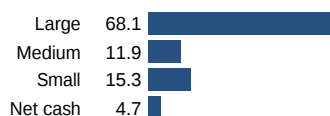
Russia Equities A (USD)

September 2020

Sectorial allocation (%)



Market cap breakdown (%)



Asset class breakdown (%)



Top 10 holdings (%)

Sberbank	9.0	Etalon	4.7
Gazprom	7.0	Rosneft	4.6
Lukoil	5.8	Mail.Ru	4.6
MMC Norilsk Nickel	5.6	Magnitogorsk	4.3
Novatek	5.1	Surgutneftegas	4.3
Top 5 positions	32.5	Top 10 positions (%)	55.2

Available share classes

Class Name	ISIN	BLMG ticker	Curr.	Type	Launch date	Min. invest.	Mgt. fees	Perf. fees	OGC	Front / back load
A USD	LU0290813871	KALRUSA LX	USD	A	30/03/2007	None	2.00%	None	3.14%	Closed for subs/up to 1%
B EUR	LU0290814093	KALRUSB LX	EUR	A	16/07/2007	None	2.00%	None	3.14%	Closed for subs/up to 1%
C USD	LU0462676486	KALRUSC LX	USD	A	04/12/2009	None	1.70%	None	2.83%	Up to 2%/up to 1%
D EUR	LU0462681726	KALRUSD LX	EUR	A	04/12/2009	None	1.70%	None	2.81%	Up to 2%/up to 1%

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Disclaimer

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Switzerland

The prospectus and the Key Investor Information Documents for Switzerland, the articles of incorporation, the annual and semi-annual report in French, the list of the purchases and sales and further information can be obtained free of charge from the representative in Switzerland: Carnegie Fund Services S.A., 11, rue du Général-Dufour, CH-1204 Geneva, Switzerland, web: www.carnegie-fund-services.ch. The Swiss paying agent is: Banque Cantonale de Genève, 17, quai de l'île, CH-1204 Geneva. The last share prices can be found on www.fundinfo.com. For the shares of the Fund distributed to non-qualified investors in and from Switzerland and for the shares of the Fund distributed to qualified investors in Switzerland, the place of jurisdiction is Geneva. Each time performance data is published, it should be noted that the past performance is no indication of current or future performance, and that it does not take account of the commissions and costs incurred on the issue and redemption of shares. Please read the Prospectus before considering an investment in Kaltchuga Fund.

France

The centralising correspondent is Société Générale, 29 Boulevard Haussman - 75009 Paris. The official prospectus as well as the Key Investor Information Documents for France and the annual and semi-annual reports in French are available free of charge from Société Générale, 29 Boulevard Haussman - 75009 Paris, web: www.securities-services.societegenerale.com/fr.

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Commentary

In September, global assets broke their five-month rally, investors' confidence taking a knock as Covid cases surge globally and localized lockdowns threaten to stall economic recovery. With investors back into risk-off mode and the dollar taking a bid (USD:EUR +2%), oil prices retreated (Brent -9.4%), testing the \$40 support, but eventually closed the month above that level. The rouble was weak (RUB:USD -4.3%) too, but mostly as a reflection of growing geopolitical tensions and possible sanctions in response from Western countries to Navalny's poisoning and Russia's support to Lukashenko in Belarus. Due to lower oil prices, weaker rouble and local taxation initiatives, Russian stocks (RTS -6.4%, MSCI Russia -8.1%) underperformed emerging (MSCI EM -1.8%) and developed peers (S&P 500 -3.9%).

The Fund lost 4.2% (vs MSCI Russia NR -7.4%) and is down by 20.2% YTD (vs MSCI Russia NR -28%).

The government has proposed to review tax breaks for oil & gas companies, and also to introduce a progressive export tax for commodity exporters from 2022. Oil & gas stocks were hit the hardest, with oil prices on the backfoot – Tatneft -20%, Lukoil -15%, Gazprom -11%, Novatek -8%, Rosneft -3%. Surgutneftegas (+5%) bucked the trend thanks to its solid FX balance sheet. Other commodity exporters fared better, as the solid recovery in Chinese factory activity provides a tailwind, particularly in the metals & mining sector (NLMK +6%, Alrosa +6%, MMK -4% ex dividend). Norilsk dropped 6%, with Ni prices down 6% as well. We swapped part of our allocation in Alrosa into Norilsk. We believe the cost of damages linked to this spring's fuel spill is now largely priced in and that the stock price shall catch up on higher metal prices and possibly lower compensations. Alrosa got support from strong August sales result (+12% yoy) and the recovering demand for rough diamonds. Phosagro gained 3% as phosphate prices have stabilized and demand remains healthy.

Our contacts within Sberbank's credit department confirm a boom in mortgage and credit for residential developers is taking place, in connection with the historical low interest rates and the state subsidized program. Mortgage is now accessible at 7% for acquisitions in new residential buildings. Knight Frank estimates that 148,000 mortgages (+38% yoy) with total origination of 375 bln RUB (+59% yoy) were issued in August. We thus stick to our overweight in residential developers Etalon (+1%) now trading at 0.2x P/NAV and LSR (+5%), trading at 0.5x P/NAV. Etalon's leverage declined to 1.4x net debt / LTM EBITDA vs. 1.8x as of YE19. LSR launched semi-annual dividends.

We also swapped half of our position in VTB (+1%) into Tinkoff Credit Systems (+8%). Yandex (-8%) is negotiating to acquire Tinkoff for \$27.64 ps in cash and stock. We believe this deal makes sense from a strategic viewpoint, although the integration of these two radically different businesses is challenging, and the new entity would face strong competition from Sberbank, as the latter now stands firmly on its way to become a tech company. This is why we prefer to split our exposure in the tech sector between Yandex and Mail. The latter was down 11% this month following its share placement.

Detsky Mir (-5%, ex dividend) reported strong August revenues (+15% yoy, including 7.5% LFL) and guided more than 25% yoy growth for July EBITDA.

Globaltrans (-2%, ex dividend) published strong 1H20 IFRS results and announced plans to pay a 15% dividend yield in 2020. Gondola lease rates seem to have stabilized supported by construction cargos.

Real wages unexpectedly increased by 2.3% in July (vs 0.6% in June), but the economic recovery remains tepid. Following upbeat consumer demand data in June-July, retail sales were down by 2.7% in August. Unemployment rose to 6.4% in August, its maximum for the past 8 years, and industrial production fell by 7.2% vs -6.4% in July. Recent rouble weakness diminishes the likelihood of a rate cut at the CBR's October meeting, with the 4.25% level of the key rate likely to persist into December or further depending on the inflation response. The Ministry of Finance has published its budget draft for 2021-23 before passing it to the Duma. It assumes oil prices under \$50 /bbl (Urals of \$42.8 in 2020, \$45.4 in 2021, \$46.6 in 2022 and \$47.5 in 2023), guiding that OPEC+ oil extraction limits will be fully lifted in May 2022. It also assumes a budget deficit of -4.4% this year, shrinking to -2.4% in 2021 and -1% the next two years, thanks to higher oil & gas revenues. The budget gap shall be covered primarily by net debt issuance (including 3 bln USD per year of external debt within the next 3 years), but also by selling FX out of the massive 594-blnd-USD gold & foreign reserves (as of 31 August 2020). The resumption of FX accumulation is planned from 2022. The budget draft also shows that National Projects spending will decline by 210 bln RUB in 2021 relative to the pre-COVID plans (-9%).

Looking up at the global picture, stalled recovery due to the new precautionary restrictions will likely cap oil prices. We though believe that governments around the world will do their best to avoid the full economic shutdowns and so a broad-based slide back into slump conditions is unlikely. Volatility shall remain high on markets, especially as we get close to the Nov 3rd US election, but we also see odds increase of a new stimulus package in the US, which would restore conditions to boost the dollar carry trade.

The MSCI Russia is now priced at 12M forward P/E of 8.3x (vs MSCI EM 14.4x) and offers a dividend yield of 6.9% (vs MSCI EM DY of 2.6% and Russian Eurobond yield of 2.5%), so it remains well placed to benefit from a resumption of carry trade

flows.