

Probus Funds Conference

April 15th 2021

2021Q1 – Review & Outlook



Introduction and Welcome by Bernard Bonvin

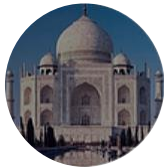
Senior Partner of the Probus group

In addition to its 30+ years of experience in global wealth management, Probus Group has built a range of equity funds that offers a unique getaway to some very exciting investment arenas in particular in Asia.

We are pleased to welcome you to the quarterly presentation of their respective markets by our asset management teams.

Each presentation will last 15 minutes followed by a 5 minutes Q&A. Feel free to send questions by chat to Daniel Michaud for them to be answered at the end of each presentations.

Probus India Fund



9:10am – 09:30am

- Speakers: Mehul Bhatt, Tejas Doshi and Daniel Michaud
- From Mumbai and Dubai
- Collectively over 45 years of experience in investing on international and Indian markets

Probus Mekong Fund



9:30am – 9:50am

- Speakers: Andrew Ranken and Marc Lavoie
- From Bangkok and Melbourne
- Mekong fund managers since 2011, collectively +40 years of experience in South East Asia.

Probus Saisei Japan Fund



9:50am – 10:10am

- Speaker: Frederic Annoni
- From Geneva
- Saisei fund manager since 2009, 36 years of experience investing in the Japanese market.

Probus Kaltchuga Russian Equity Fund



10:10am – 10:30am

- Speaker: Alexandre Starinsky
- From Moscow
- Kaltchuga fund manager since 2006, 27 years of experience in Russia.

Probus Opportunities SA, SICAV-SIF

India Equity Fund

Short term pain for long term gain

Short term outlook for India is concerning

- Daily covid cases are increasing. India is facing a second wave.
- Government policy and foreigners have pushed indices to overstretch valuations
- Market pull back possible.

Mid term to long-term outlook remains extremely appealing

- Demand across the board is returning. Country lockdown improbable.
- Taper tantrum unlikely.
- 2021 Budget: foundation laid for long term investing.
- Premium compared to the rest of the world is in line or below average.

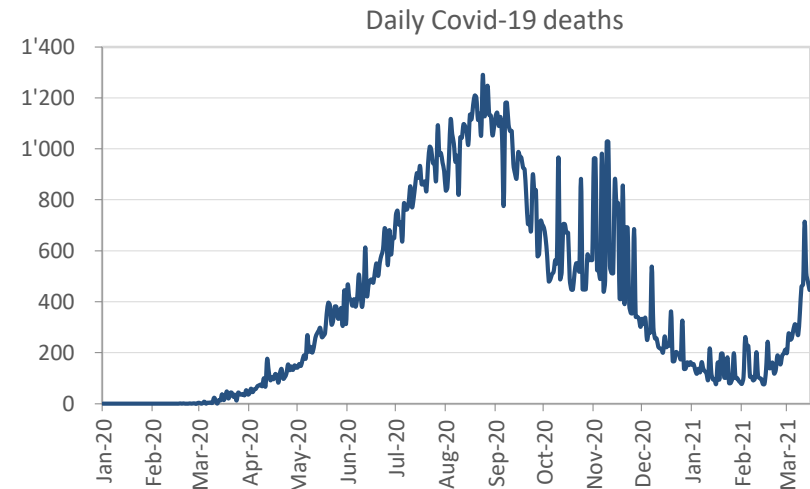
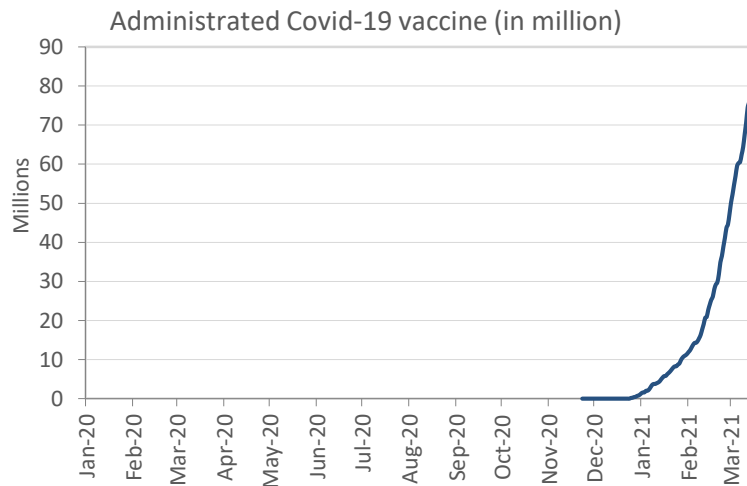
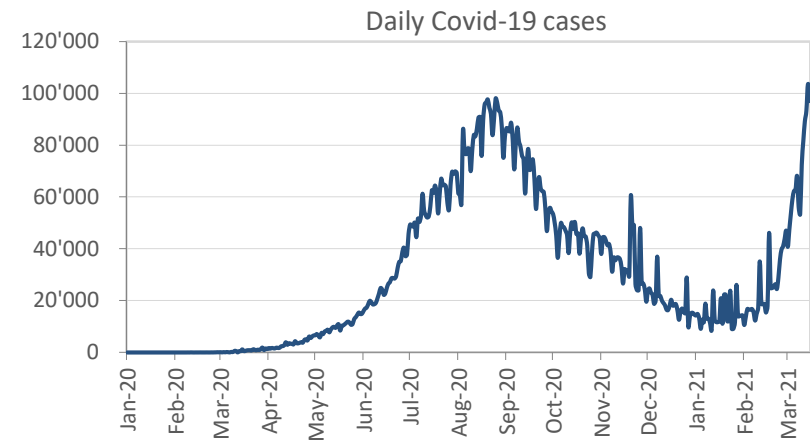


Investors should buy the dip and progressively allocate to India

Short term pain

Covid-19 cases are rising worryingly

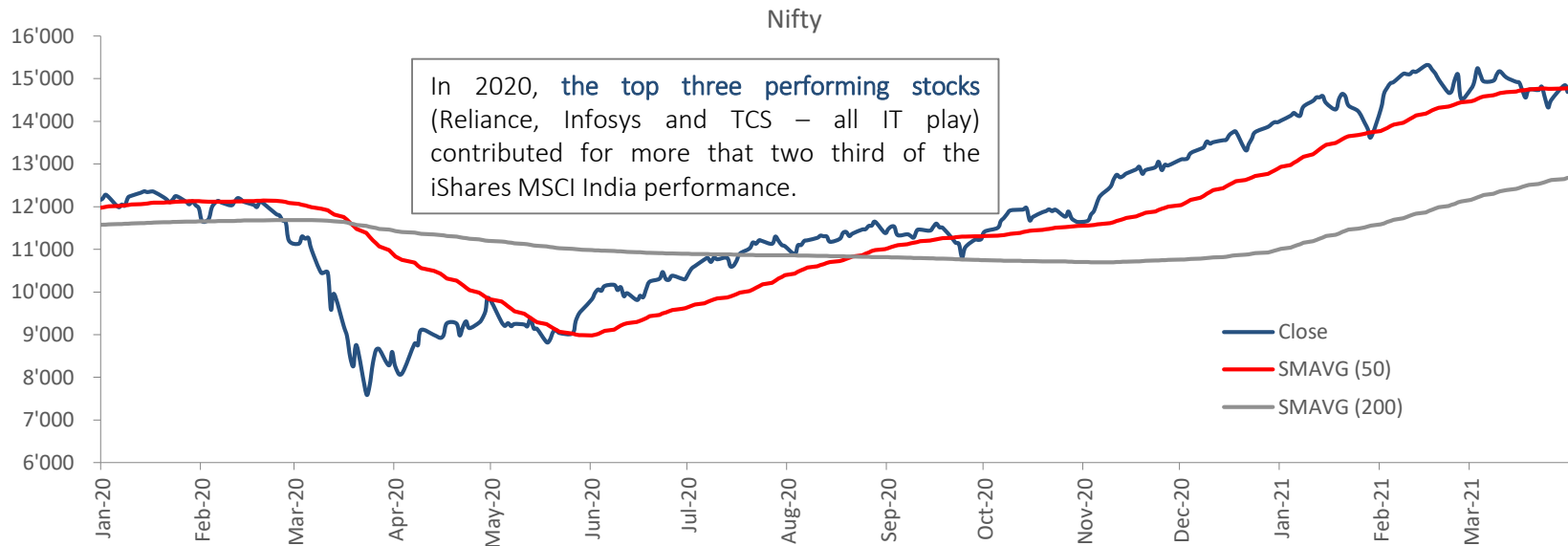
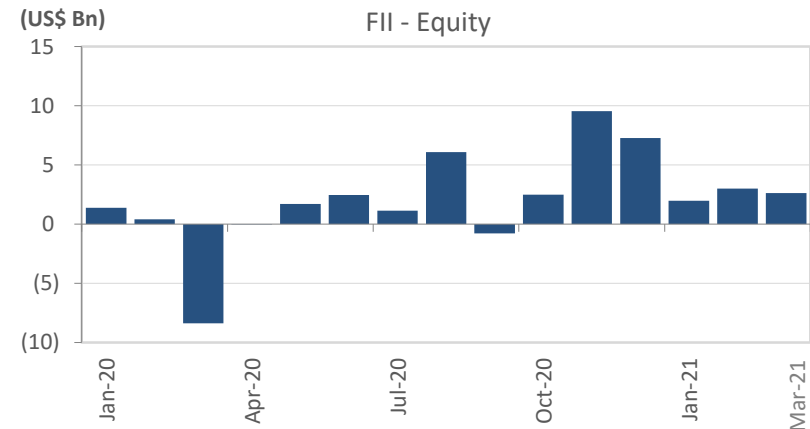
- Daily covid cases are increasing. India is facing a second wave.
- However, deaths numbers remain in check so far.
- Vaccine administration has been a success so far.



Source: Bloomberg & Probus Analysis

Indices pushed by government policies and foreign inflows into IT stocks

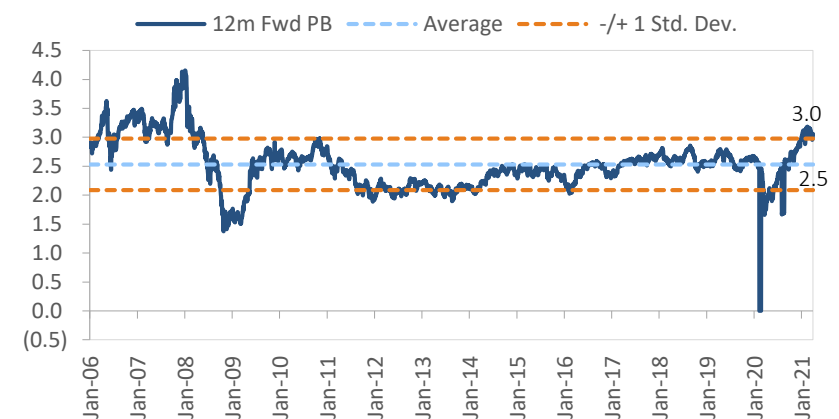
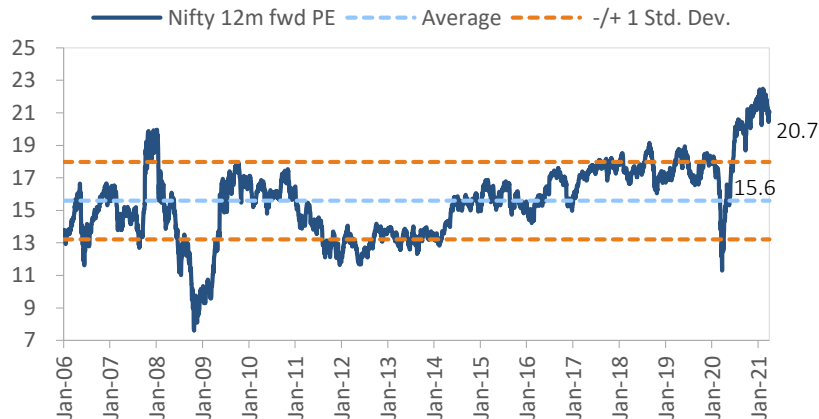
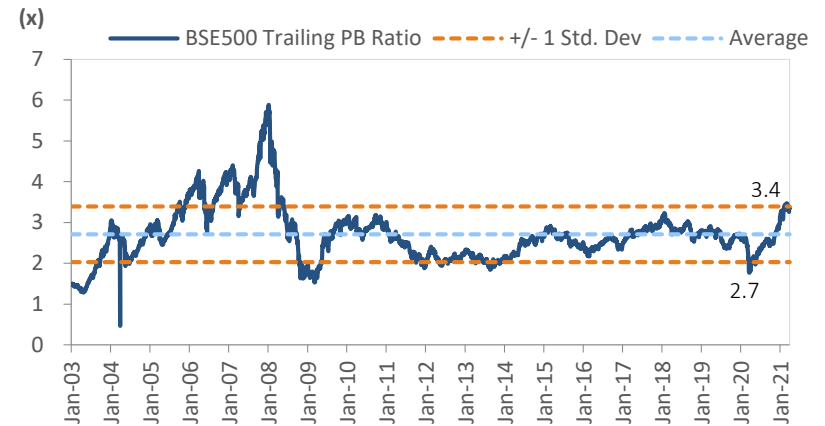
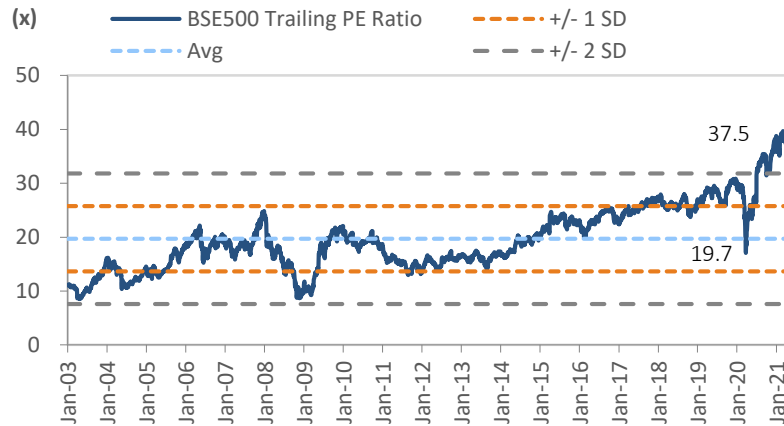
- Like most of the markets around the world, the Nifty significantly bounced from its March 2020 low and ended the year +16.6%
- The bounce was massively triggered by various fiscal and monetary policies
- Foreigners definitely contributed to the India recovery. Record foreign inflows were recorded during the second half of 2020.



Source: Bloomberg & Probus Analysis

... leading to rich valuations

As a result, India markets as the rest of the world have become expensive

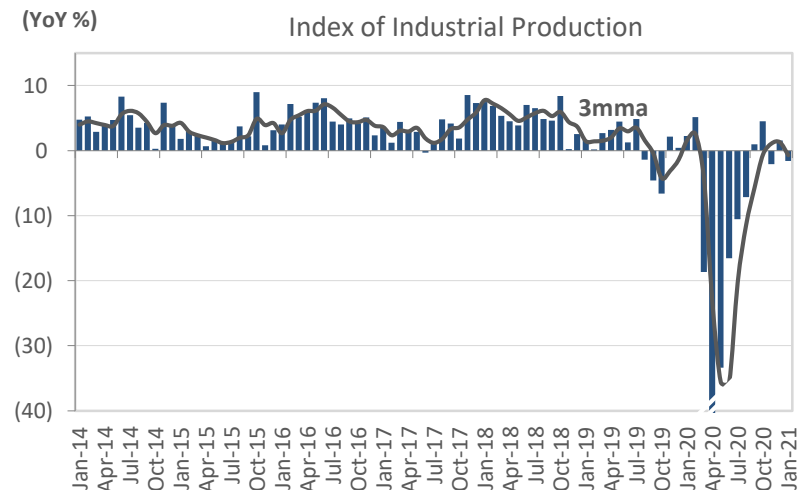
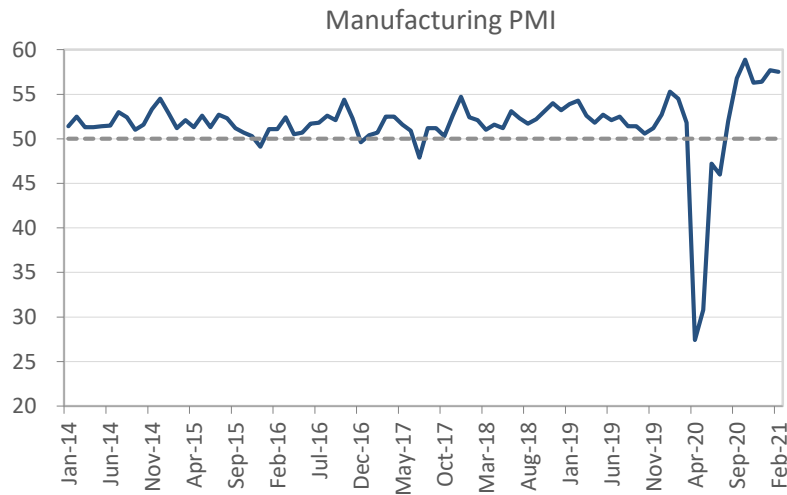
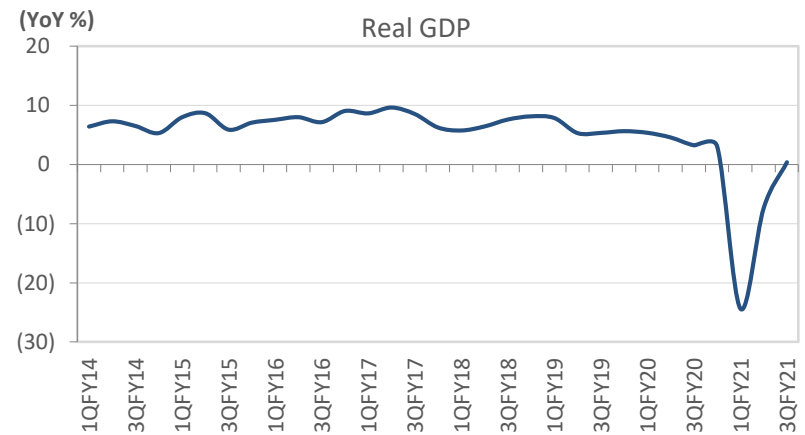


Source: Bloomberg & Probus Analysis

Long term gain

Demand across the board is returning

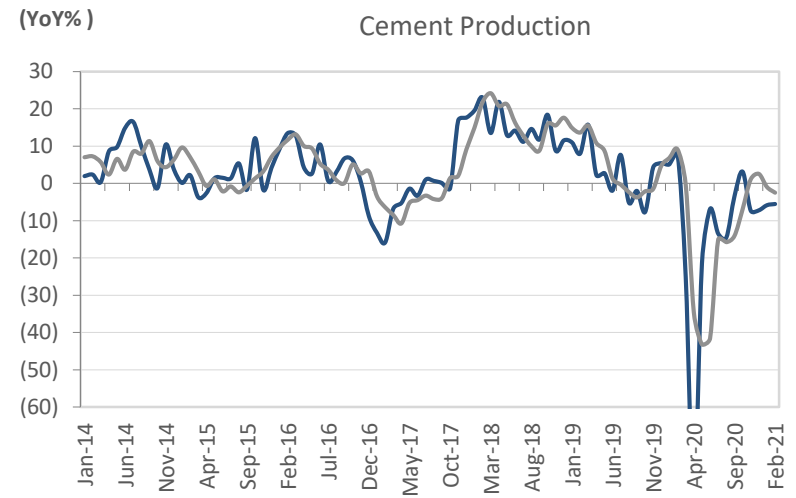
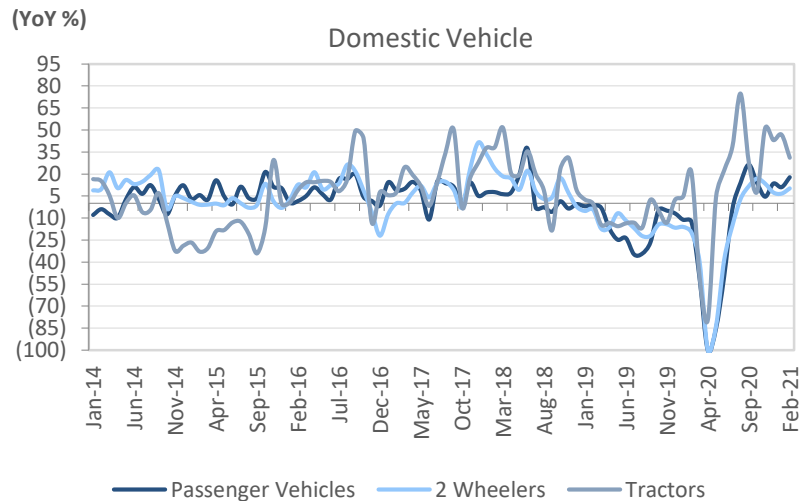
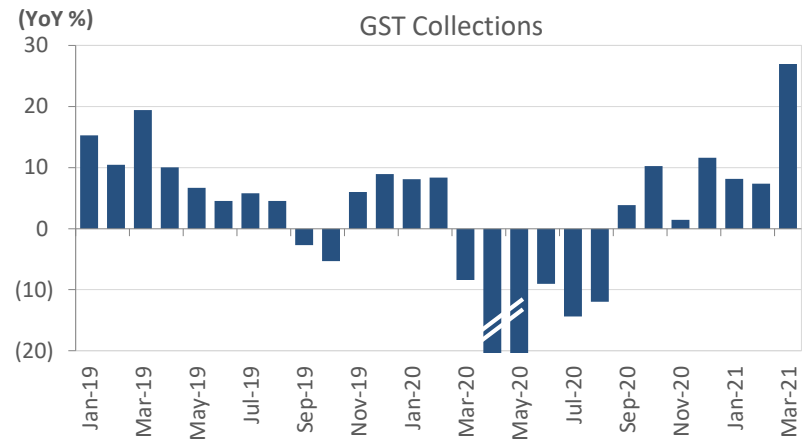
- After a terrible blow in 2020, economic numbers are improving across the board
- GDP, PMI and Industrial productions are all showing encouraging signs.



Source: Bloomberg & Probus Analysis

Demand across the board is returning

- GST collections, which is a good proxy for economic activity has significantly increased in March 2021
- Vehicle sales and cement production are also recovering.



Source: Bloomberg & Probus Analysis

2021 Budget: foundation laid for long term investing

Indian Budget 2021 Key Highlights

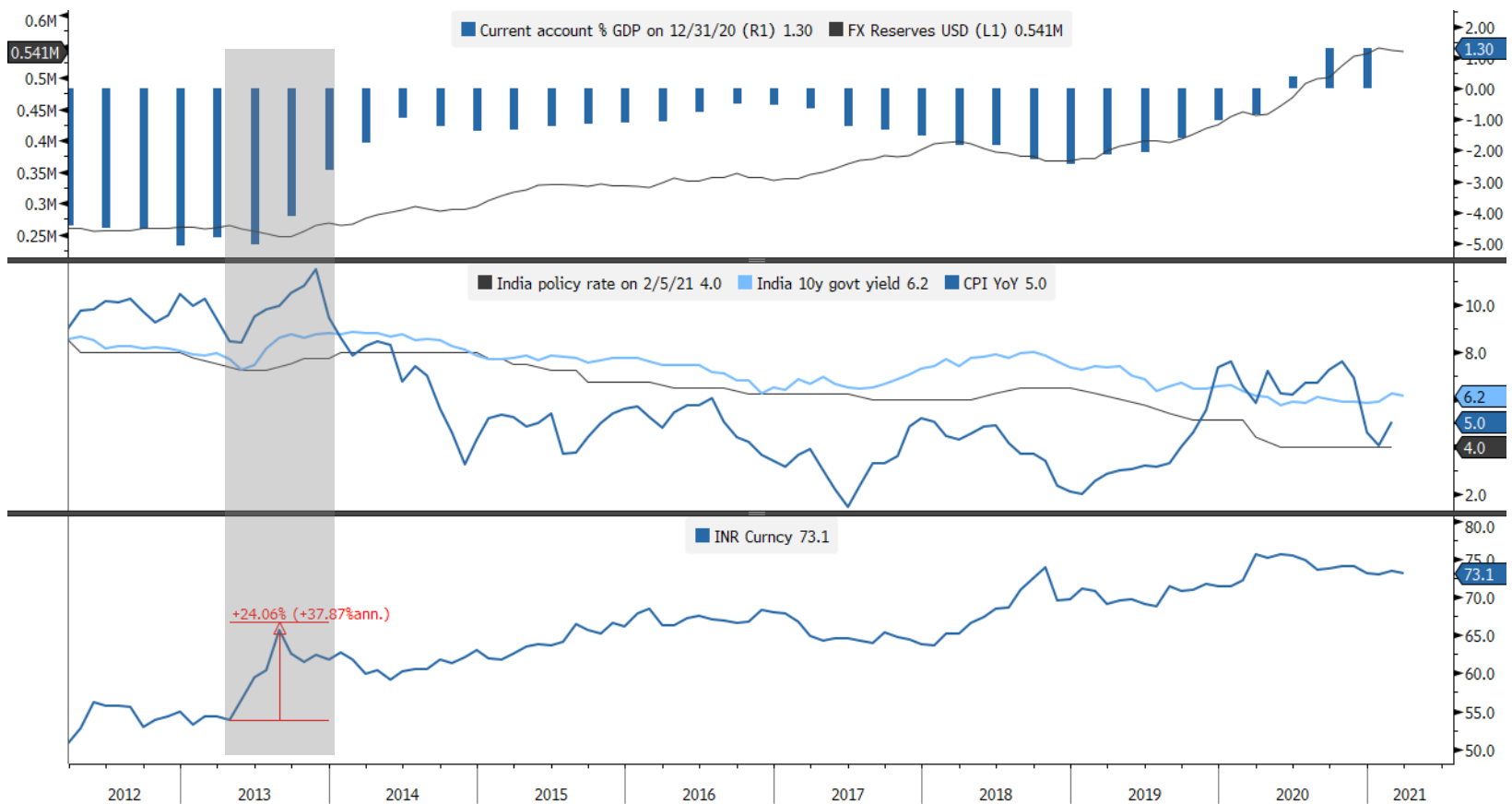
“No negatives = positive”

Finally growth oriented, minimum government, maximum governance

Taxes	Infrastructure	Disinvestment	Regulations
No changes in any form of taxes	\$ 15 billion for road alone & much needed financial sector reforms like increase in FDI in Insurance sector will boost these two sectors which can be big employment providers.	The setting up of the National Asset Monetization Pipeline, disinvestment target of 1.75 lakh crore and IPO of LIC becomes very important given that the fiscal deficit is expected to be 6.8% of GDP.	Changes proposed both on the regulatory and some of the procedural front for small to midsize companies including start-ups
Restructuring	Healthcare	Environment	Affordable Housing
Decision to set-up Asset Restructuring Company and recap of PSBs will release capital for loans from these banks and kickstart the economy.	Increased outlay on healthcare by 134%	Support for clean environment, and clean water and sanitation – programs over the next 5 years with an estimated outlay of ~\$ 35 billion	Some stimulus has been provided in the affordable housing sector

Taper tantrum 2021 unlikely

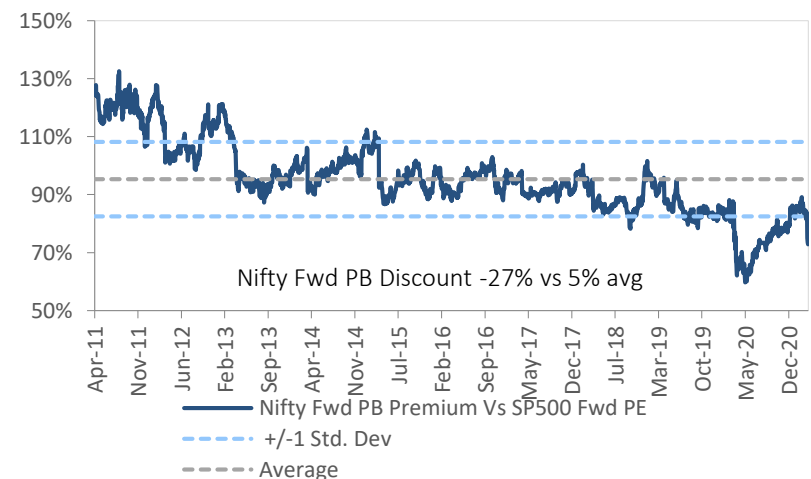
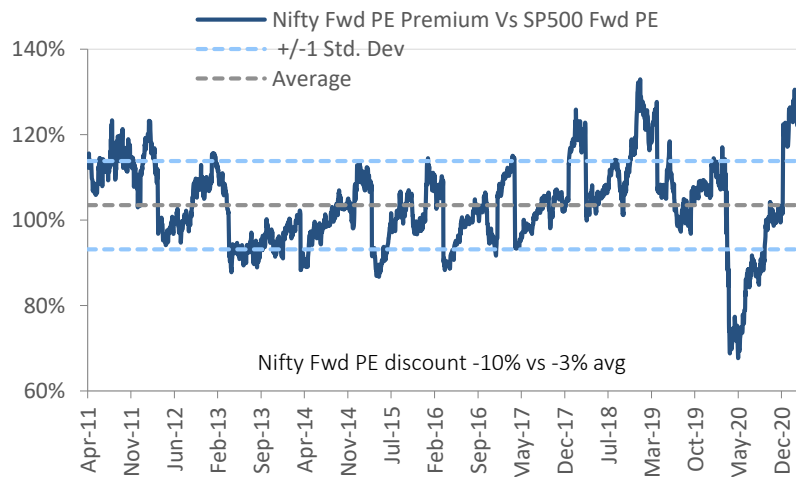
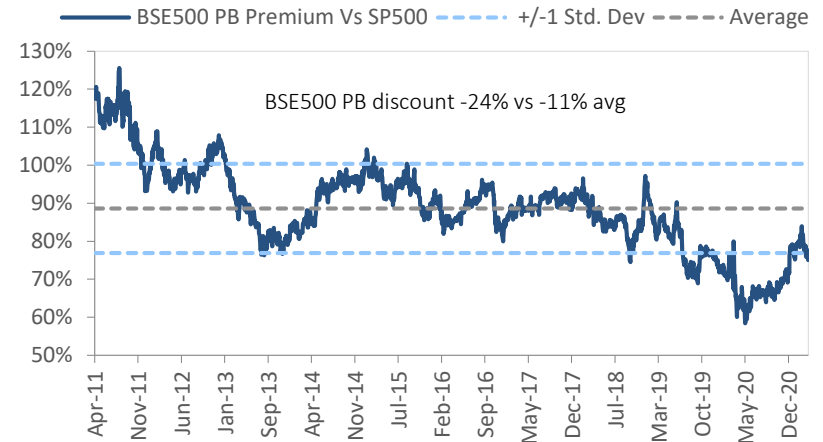
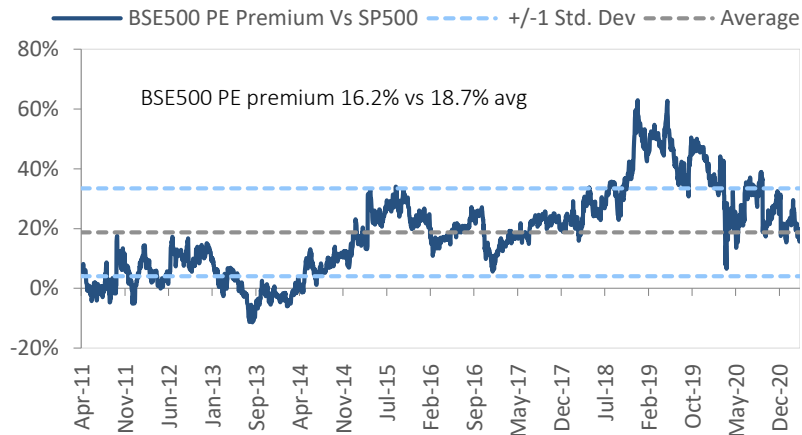
- In the current environment, many investors are scared of taper tantrum like in 2013, when the INR depreciated by more than 20% in 6 months. The situation is now very different than 2013. India's current account in 2013 was at -4.5%, one of the highest deficits historically, while the current account deficit is now in surplus. Finally, FX Reserves have been rising from USD 250bn to USD 540bn and could be used to fight currency depreciation.



Premium compared to the rest of the world is in line or below average

However, India has always traded at a premium compared to the rest of the world.

The premium is now around or below average compared to the S&P 500 depending on the metric.



Source: Bloomberg & Probus Analysis

The Fund

Fund methodology

Benchmark ≈ 33%



Value unaware allocation to the main constituents of the benchmark. All such companies are included provided they are not obviously low quality or extremely overvalued.

Weights are adjusted relatively to the index based on an assessment as to quality and valuation relative to historical fundamentals.

Examples:

- Slight underweight on **Reliance** and **Infosys** due to valuations.
- Overweight **Axis Bank** based on asset quality.

Core ≈ 33%



High quality, well-established and financially sound companies:

- Reliable and experienced management
- A history of stable earnings and cash flow growth
- Strong ROEs, wide profit margins and healthy leverage ratios
- High daily volume liquidity

Examples:

- Companies that have a strong track record of cash flow generation but currently trade with cheap valuations -> 3.5% position in **ITC**
- Relatively cheap consumer good companies; a play on rising disposable income among the middle class -> 2.6% positions in **Marico** and **Godrej Consumer Products**

Satellite ≈ 33%



Stocks with poorer earnings stability due to cyclical, or high conviction calls from OysterRock, perhaps based on:

- Anticipated market trends
- M&A activity
- Business model improvements
- Product launches

Examples:

- Plays on valuation dislocations between holding companies and its individually listed stocks -> 3.3% position in **Bajaj Holdings**
- **Laurus Lab**

Fund allocation

Considering the increase in Covid-19 cases and rich valuations, the fund is positioned defensively.

- Overweight in Health Care and Cash.
- Neutral weight in IT despite valuations.
- Underweight cyclicals: Energy, Financials, Materials.

Industry allocation (31/03/21)	Probus India Equity	MSCI India	Delta
Communication Services	1.5%	2.4%	-0.8%
Consumer Discretionary	6.6%	8.9%	-2.2%
Consumer Staples	8.9%	9.5%	-0.6%
Energy	8.8%	13.2%	-4.4%
Financials	24.7%	27.4%	-2.6%
➡ Health Care	17.6%	5.4%	12.2%
Industrials	1.8%	3.7%	-1.9%
Information Technology	15.7%	16.7%	-1.1%
Materials	4.6%	9.4%	-4.8%
Real Estate	1.8%	0.3%	1.4%
Utilities	1.7%	3.2%	-1.5%
➡ Cash	6.2%	0.0%	6.2%
Total	100%	100%	

Stock type allocation	Probus India
Benchmark	34%
Primary	33%
Satellite	26%
Total	93%

Market Cap allocation	Probus India	MSCI India	Delta
Large Cap	57%	100%	-43.4%
Mid Cap	20%	0%	19.5%
Small Cap	18%	0%	17.5%
Total	94%	100%	

Source: Bloomberg & Probus Analysis

Fund allocation

Our methodology, which is focused on high quality, well-established and financially sound companies, is reflected in the fund's metrics:

- Cheaper than its benchmark and developed markets.
- Better return on equity.
- Less leverage.

Furthermore, the structure of the funds allows us to have high conviction calls.

Our current size sets us up with unique advantage of being able to invest over the wider capitalization curve.

For example, HCL Technologies and Laurus Labs.

Metrics (31.03.2021)	Probus India	MSCI India	MSCI Europe	MSCI USA
Price to earnings ratio (T12m)	28.8	42.5	47.0	32.3
Price to book ratio (T12m)	3.8	3.7	2.1	4.5
Return on equity (%)	13.1	9.2	5.0	11.0
Dividend yield (%)	0.9	1.2	3.0	1.5
Debt to equity ratio (%)	102.0	116.0	175.9	118.2
Current ratio	1.2	1.4	1.1	1.4

Probus India Equity		MSCI India	
Top 10 Holdings	Weights	Top 10 Holding	Weights
Reliance Industries Ltd	7.6	Reliance Industries Ltd	11.9
➔ HCL Technologies Ltd	5.9	Infosys Ltd	10.0
ICICI Bank Ltd	5.2	Housing Development Finance Co	8.7
Infosys Ltd	5.1	ICICI Bank Ltd	6.1
Axis Bank Ltd	5.1	Hindustan Unilever Ltd	4.1
Sonata Software Ltd	4.9	Axis Bank Ltd	3.2
➔ Laurus Labs Ltd	4.7	Bajaj Finance Ltd	2.8
Natco Pharma Ltd	2.9	Bharti Airtel Ltd	2.7
ITC Ltd	2.8	HCL Technologies Ltd	2.3
Divi's Laboratories Ltd	2.7	Kotak Mahindra Bank Ltd	2.0
Total	47.0		53.9

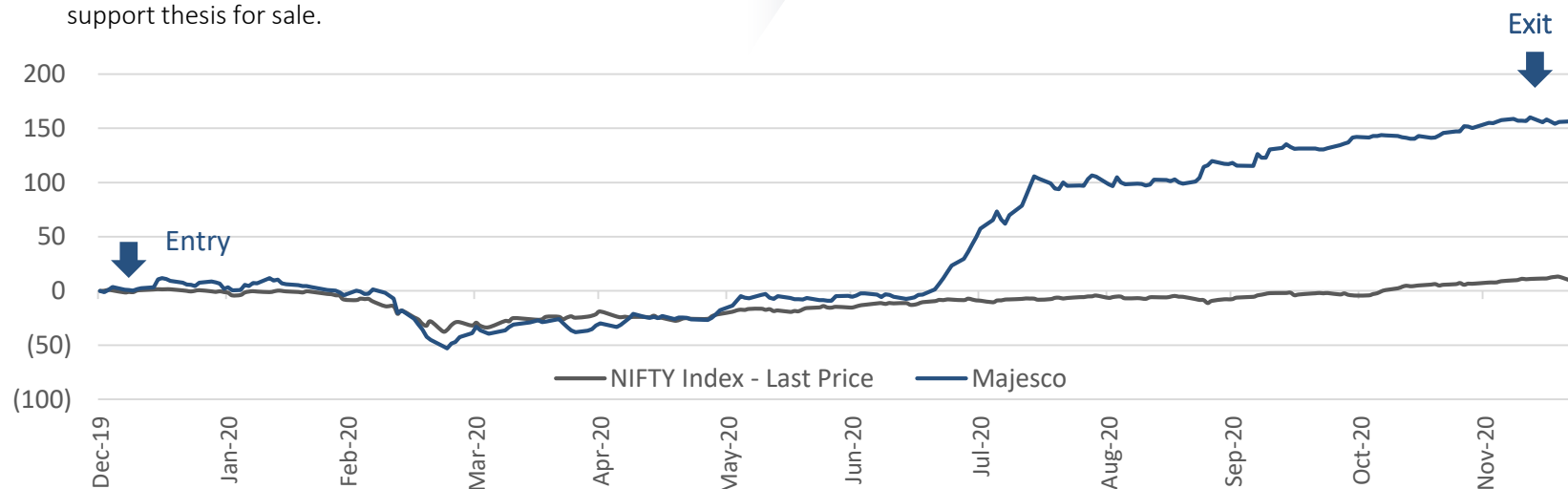
Source: Bloomberg & Probus Analysis

Special Situation: Transition to Product Business

- Unique Insurance product business crafted from India
- Industry tailwinds and attractive valuation made it a formidable idea
- Hived off listed separately from parent (Mastek) was preparation for sale
- Partnership with IBM and solid execution on Metlife (\$ 100mn contract) key testimonials to thesis
- Clear signs of M&A being a key catalyst
- Board composition and organisation design eg no second generation support thesis for sale.

Exit

- Entry MCap - \$ 150 mn MCap; < 2x rev (peers at 5-10x rev in US),
- Exit \$ 594 mn on 8th August 2020 to Thoma Bravo. Opens 69% up on deal.
- Full exit in India by ORC over Rs 980.



Payout of Rs 985 per share as dividend in addition to the buyback. Investors rewarded handsomely

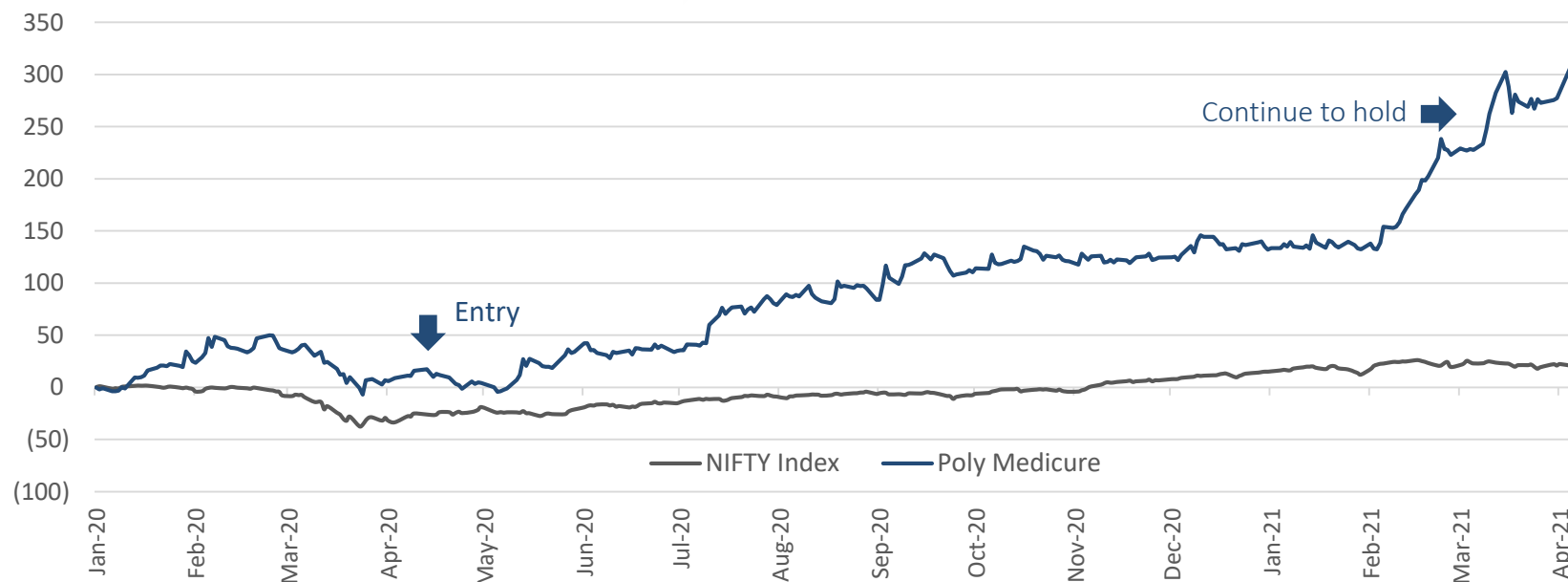
Source: Bloomberg & Probus Analysis

Special Situation: Business in transition

- Import substitution of medical consumables in India
- High margin domestic branded business gaining traction
- Branded business in Europe and US taking off
- Growth without equity dilution till 2021

Long term Compounder

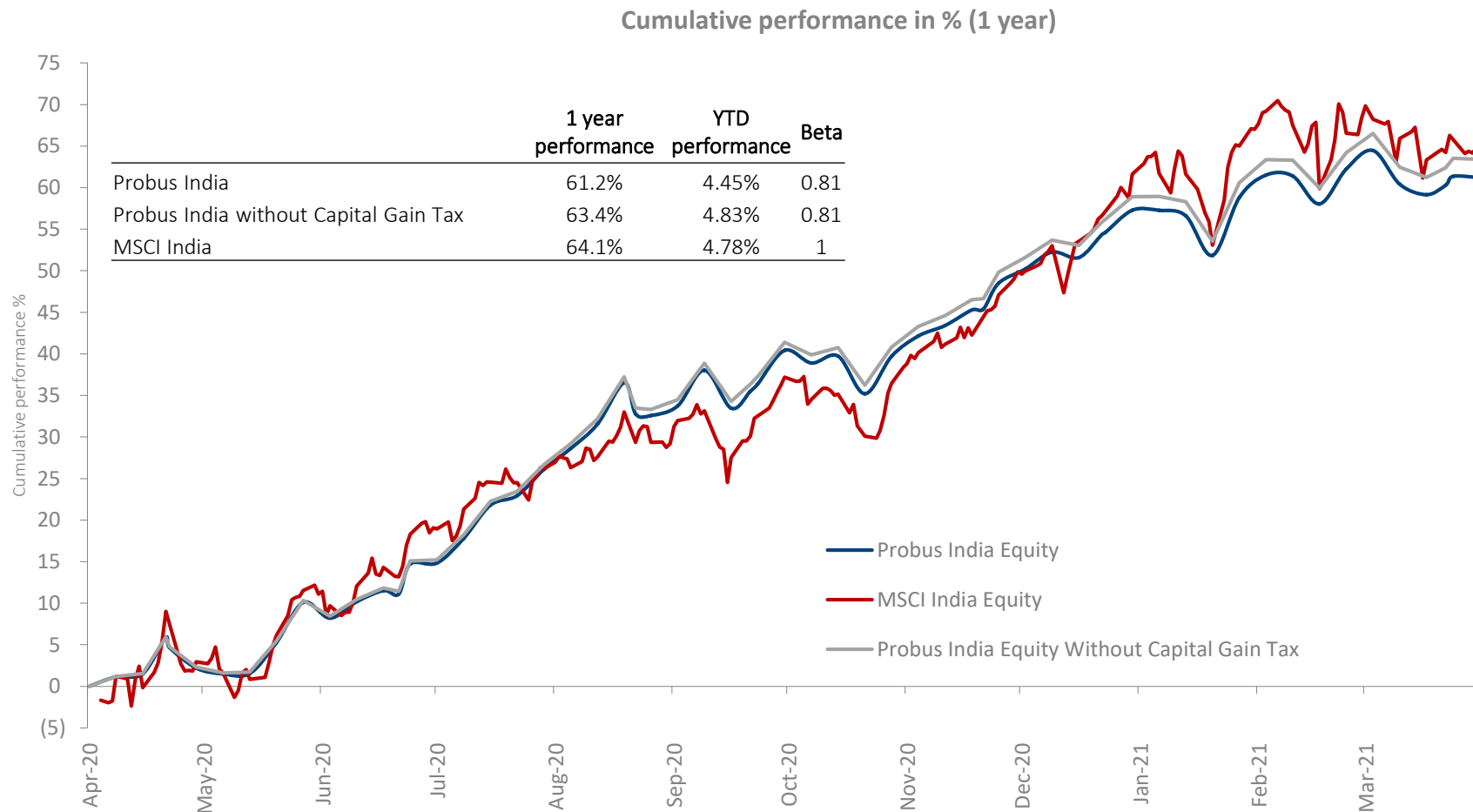
- MCap journey \$ 250 mn to \$ 900 mn over 2 years
- Huge runway for growth:
- Exports move from white label to branded
- Domestic business progressively gets accepted
- Higher bet size was warranted at the time of investment
- Local manufacturing and China+1 strategy aids business



Business transitioning from commodity to value added in the medical consumable industry. Investment up by ~3.5x in 12 months

Source: Bloomberg & Probus Analysis

Fund's performance



Source: Bloomberg & Probus Analysis

Fund's overview

Fund Name	Probus Opportunities SA, SICAV – FIS India Equity Fund
Investment Manager	Probus Middle East Limited
Management Company	Lemanik Asset Management
Investment Advisor	OysterRock Capital
Administrator	European Fund Administration SA
Custodian/Depository	KBL
Auditor	KPMG
Minimum Investment Size	USD 10'000 for Professional or Institutional Investors USD 125'000 for Experienced Investors
Investment Management Fee	1.0% p.a., paid weekly (Class A Share > \$2m) 1.5% p.a., paid weekly (Class B Share < \$2m)
Performance Fee	No performance fee
Redemption Fee	No redemption fee
NAV Calculation	Weekly NAV for trading Monthly NAV for performance reporting (non-trading)

Questions?

Probus Opportunities SA, SICAV-SIF

Mekong Fund

Introduction (and Why You Should Listen to Us)

Background:

- Fund started operations in 4/2011 to allow Probus investors access to a vehicle for long-term investment in the high-potential Mekong region
- Fund migrated from Bermuda to regulated Luxembourg AIF structure in November 2014

How we are different:

- High conviction, concentrated portfolio
- Long-term investment horizon
- Fundamental, bottom-up, valuation driven approach
- On-the-ground with decades of experience in region and local networks
- Listed and unlisted exposure
- Low correlation with global and regional markets

Performance:

- +36% in 2020 vs performance for region: ASEAN -4%, Thailand -12%, Vietnam +19%
- +7.5 in 2021 to end March
- Fund size now above \$50MM

Mekong Region (T+CLMV)

Thailand + Cambodia, Laos, Myanmar, Vietnam:

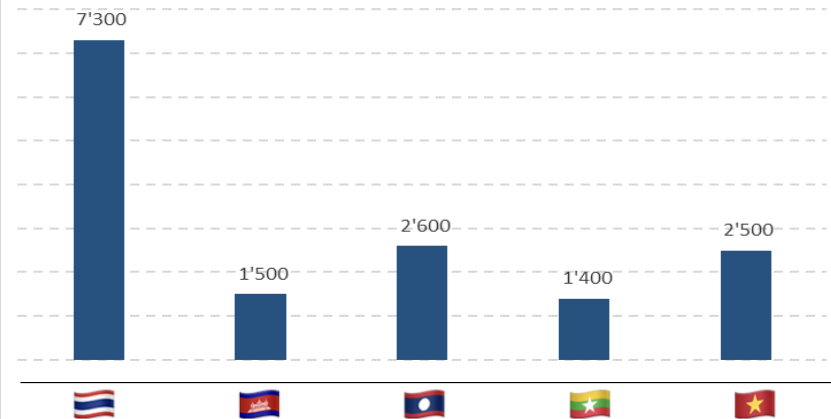
- 250+ million people
- Ca. 32 yr. average age (younger in CLMV)
- Emerging middle class
- Almost \$1TN GDP growing at more than 5% pa
- Cultural, linguistic, and economic similarities
- Increasing regional integration (capital, trade, labour)

CLMV “catching up” to Thailand:

- Template (and know-how and capital) for growth



GNI Per Capita



Source: Bloomberg & Probus Analysis

How We Invest (1)

What are we looking for?

- Cheap assets and earnings
- Cheap for reasons other than value
- Alignment of interests
- Multiple ways to win

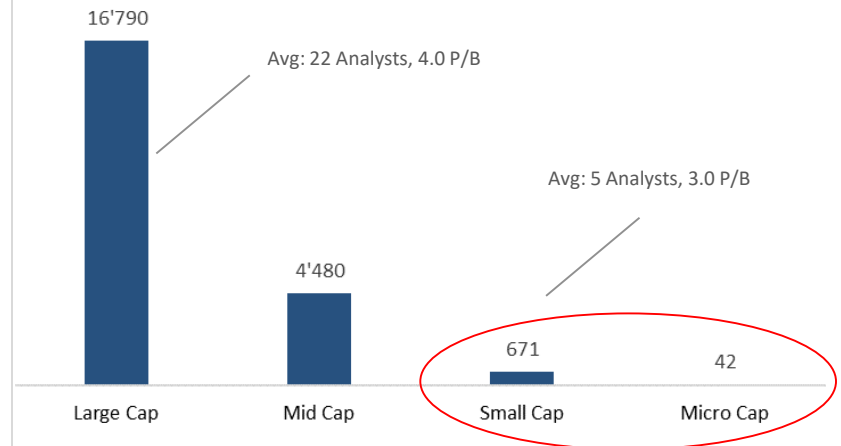
Where are we looking?

- ca. 2,500 listed and countless unlisted companies
- Established markets of Thailand and Vietnam
- Newer markets of Laos, Cambodia, Myanmar

Uncovered, unloved, misunderstood:

- Small caps (though we are market cap agnostic)
- Country, industry, company headwinds and short-term noise
- Market structural issues
- Volatility and time arbitrage

T+CLMV by Avg. Market Cap (\$MM)



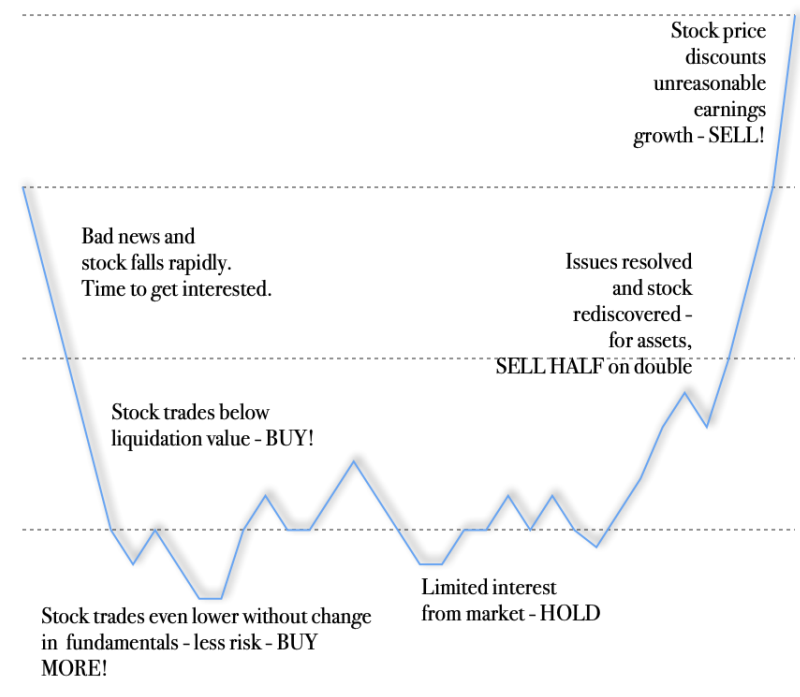
Source: Bloomberg & Probus Analysis

How We Invest (2)

Valuation is central to our approach:

- Anchor when prices move against us (and they do)
- Business/ assets must be understandable (to us) and capable of being valued (by us)
 - Balance sheet/downside first
 - Liquidation/breakup valuation
 - Normalised cash-based valuation 3-5 years out
- Limited value to growth, no value outside of a franchise, but can provide an additional margin of safety
- “Buy on assets, sell on earnings”

Hypothetical Investment Over 3 Years:



Source: Bloomberg & Probus Analysis

How We Invest (3)

Buy discipline:

- Asymmetric reward/risk ratio
- Margin of safety: at least 2x to fair value
- Willingness to hold for 3+ years

Sell discipline:

- Valuation
- We are wrong about thesis or management
- We find better opportunities (continuous upgrade)

Engagement:

- Active engagement with portfolio companies (IR, strategy, M&A, for example) when appropriate

Cash bias:

- Natural hedge in expensive markets + ammunition

Concentration in highest conviction ideas:

- Generally, min allocation 5% for equities
- Max 20% at purchase in any security
- Max 33% at cost in unlisted/pre-IPO
- No sector or geography or size limits

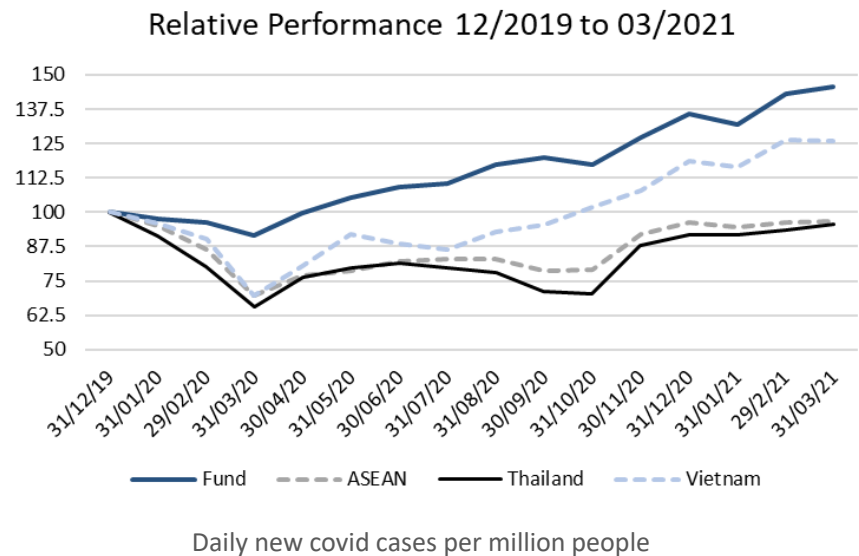
Recent Experience

Covid Pandemic:

- Realisation of cash prior to March lows, including:
 - Sale of positions as situations matured
 - Partial exit of unlisted investment
 - Partial exit of FOL stock in Vietnam
- Looked through short-term noise to buy good quality stocks selling at below liquidation/break-up value

2021

- Market volatility has supported our approach




Source: Bloomberg & Probus Analysis

How We're Positioned

Current Positioning:

- Largely invested with biggest allocation to Vietnam
- Expected near term catalysts in a number of situations to deliver uncorrelated outcomes - KCN, for example
- Potential sale, revaluation within 2021 of our unlisted holdings in Vietnam



Unlisted @ Cost	15.2%
Unlisted @ NAV Px	28.0%
Vietnam	77.9%
Mining and Metals	14.0%
Net Cash	2.3%

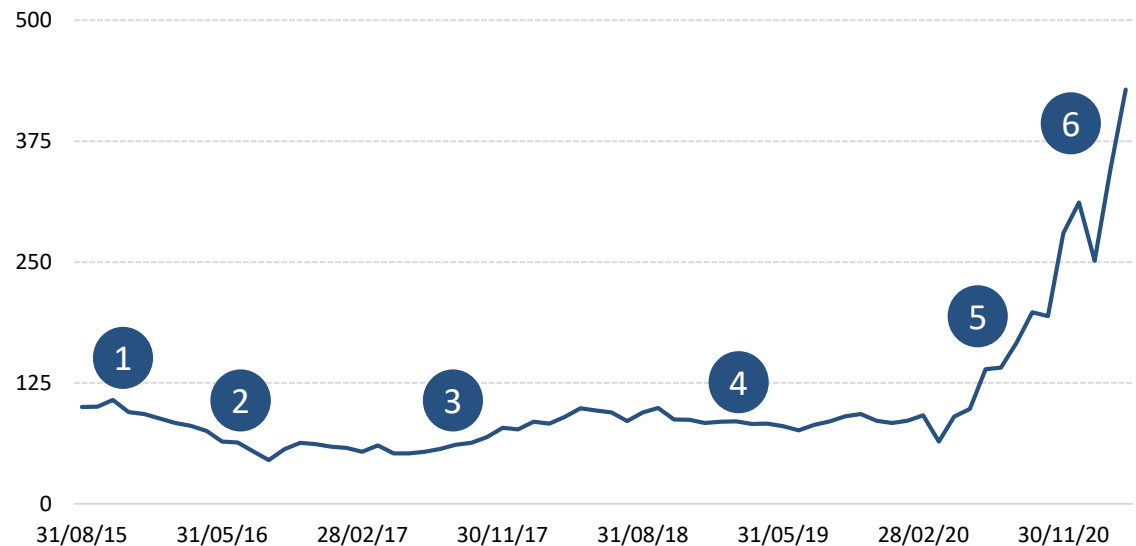
Current Opportunities:

- Vietnam
- Strong unlisted deal flow
- Recaps
- Busted IPOs
- Tourism recovery
- Commodities

Why Vietnam?

- 90+ MM people
- Growing middle class
- GDP growth in 2021 +5%
 - China rotation, FDI

- Small cap - uncovered and under-owned
- High insider ownership
- Distribution network, customer/supplier relationships key off balance sheet asset
- Hard to replace
- Scope to introduce new product and value-added services
- High incremental returns on capital
- Growth as a bailout



1. Pre-IPO investment – BUY

2. Nokia fail

3. Diversification and new category introduction

4. General market decline

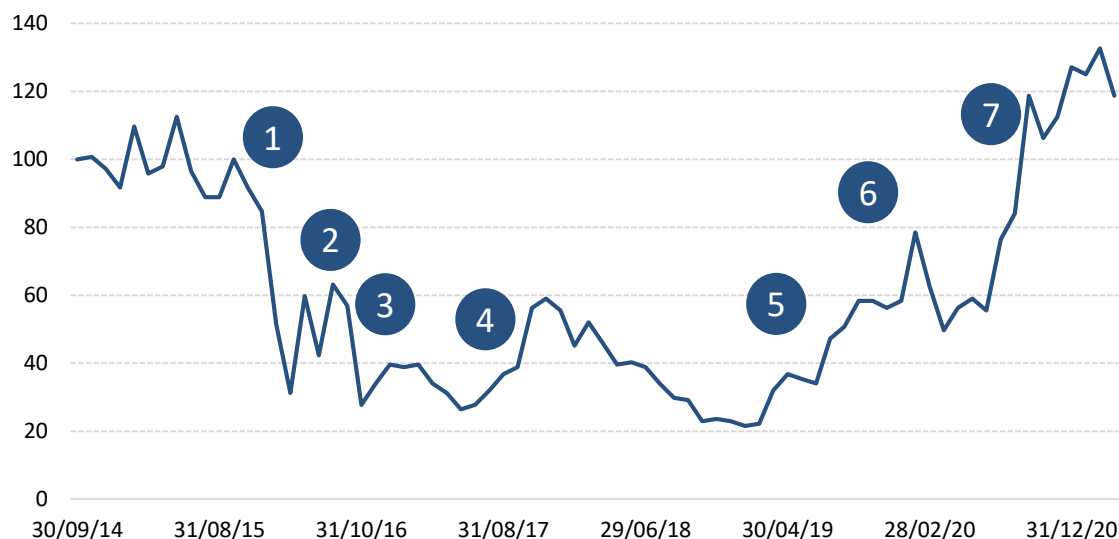
5. Scale and “discovery”

6. Partial exit

Source: Bloomberg & Probus Analysis

Live Case Studies (2): Kingsgate (KCN)

- Company well-known to us
- Reported financials less relevant
- Asymmetric bet
 - Downside protected by cash, South American assets
 - Upside from potential TAFTA award or negotiated outcome
- Incentivised management team
- Increasing Au and PGE prices



1. Alleged expropriation
2. Opportunistic take-over attempt
3. Company debt free
4. Opportunistic activist board spill attempt
5. PRI settlement
6. TAFTA arbitration hearings
7. Potential settlement? - sludge release, permitting, Thai politics

Source: Bloomberg & Probus Analysis

Fund Specifications

Fund Name	Probus Opportunities SA, SICAV – FIS – Mekong Fund
Share Class	
ISIN US\$ Class A / Bloomberg	LU1131273259 / PRINDOU LX
Fund Size / Target	~ USD 53MM / USD 100-150MM
Minimum Investment Size	USD 10'000 for Professional or Institutional Investors USD 125'000 for Experienced Investors
Domicile	Luxembourg
Investment Manager	Probus Middle East Limited (PMEL - Dubai)
Management Company	Lemanik Asset Management
Investment Advisor	Probus Investment Advisory Limited (Thailand)
Administrator	European Fund Administration
Custodian/Depository	Quintet Luxembourg Private Bank (fka KBL)
Auditor	Mazars
Investment Management Fee	1.5% p.a., paid monthly
Performance Fee	10% over 10%/12 p.m. and 20% over 20%/12 p.m., subject to HWM
Redemption Fee	2%, for the benefit of the Fund
Subscriptions and redemptions	Monthly, with 5 business days notice for redemptions and 2 for subscriptions
Distribution	Fund registered for distribution in Luxembourg, France, Sweden, Switzerland, UK and US

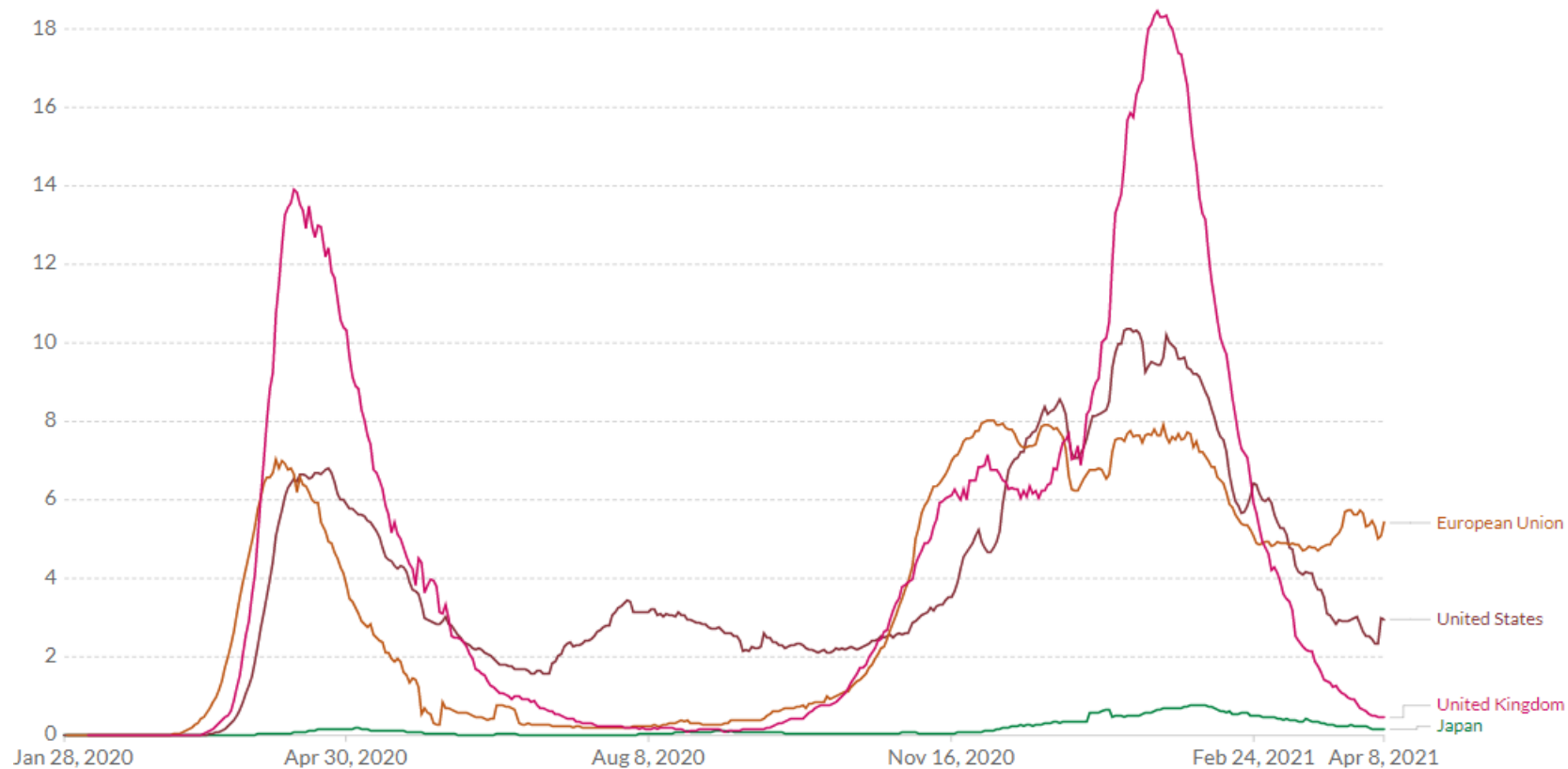
Questions?



Probus Investment Fund UCITS

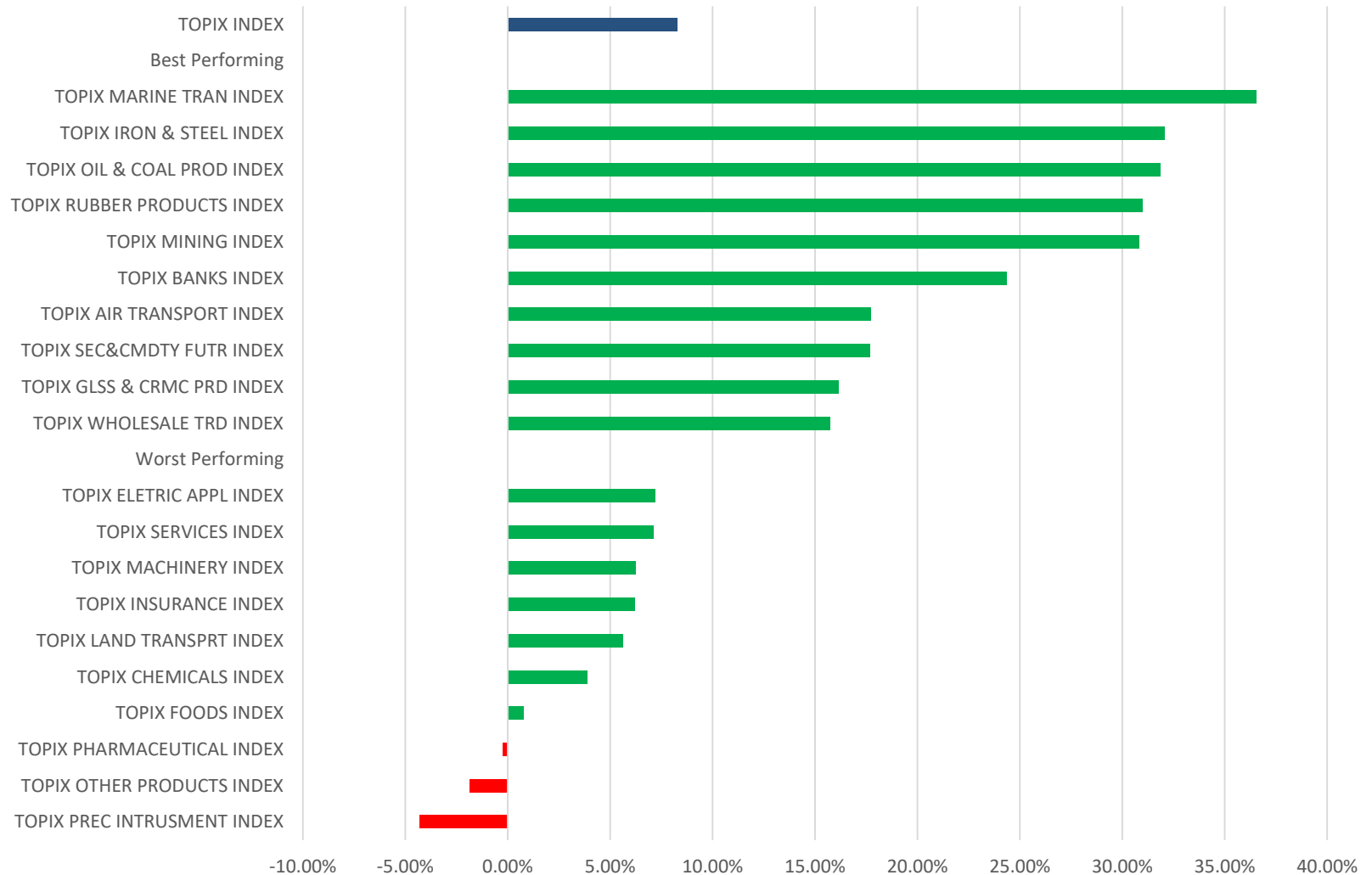
Saisei Japan Equity

Covid new cases per million population (7D MAV)



Source: Johny Hopkins University

Topix Sectors QTD



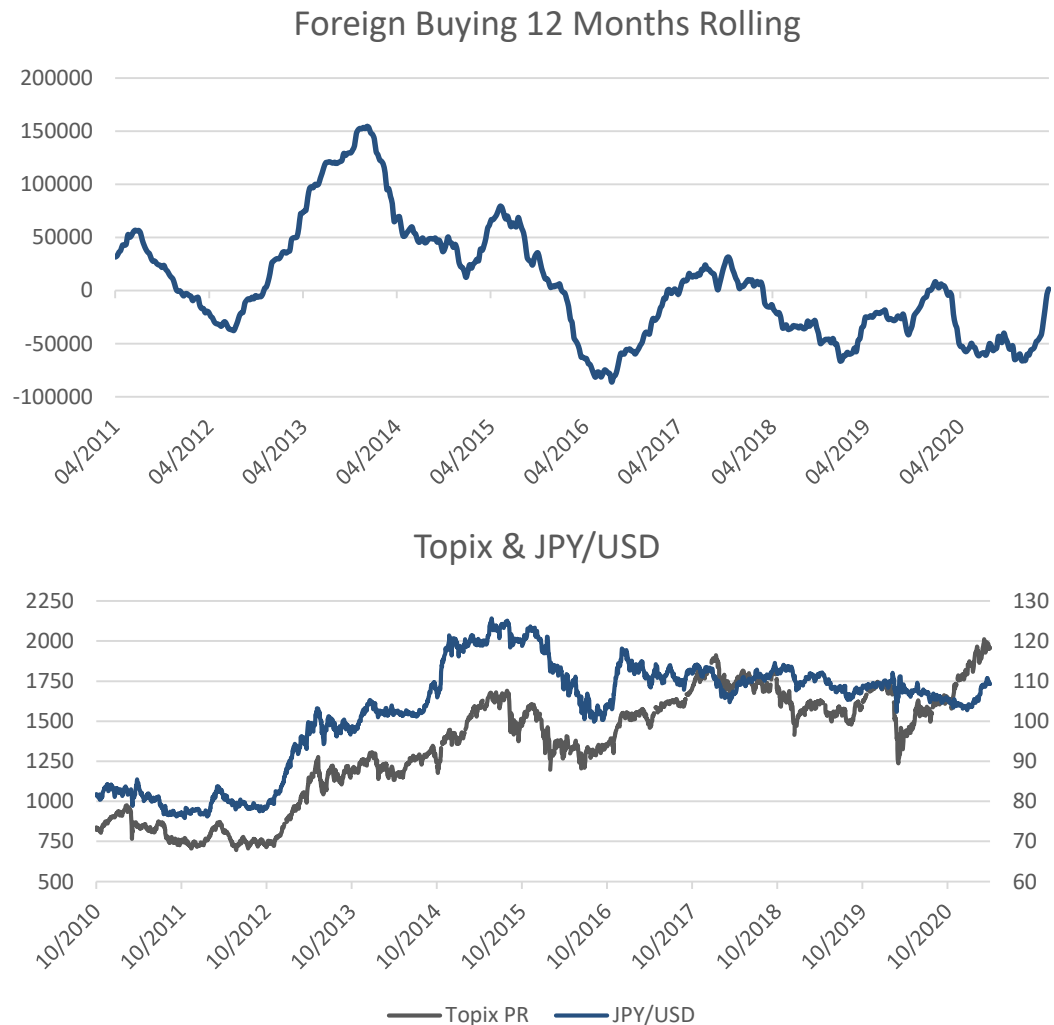
Source: Bloomberg & Probus Analysis

Foreign investors & Japan

Foreign investors have been net sellers of Japanese equities since 2015 for a record of 250 billion USD.

Probably on the (mis)perceived impression that Topix cannot grow if the JPY does not weaken.

Which according to the chart, does not seem true as the correlation (if any) is totally broken.



Source: Bloomberg & Probus Analysis

EPS Topix & S&P500

Earnings growth in Japan compares well to the US.

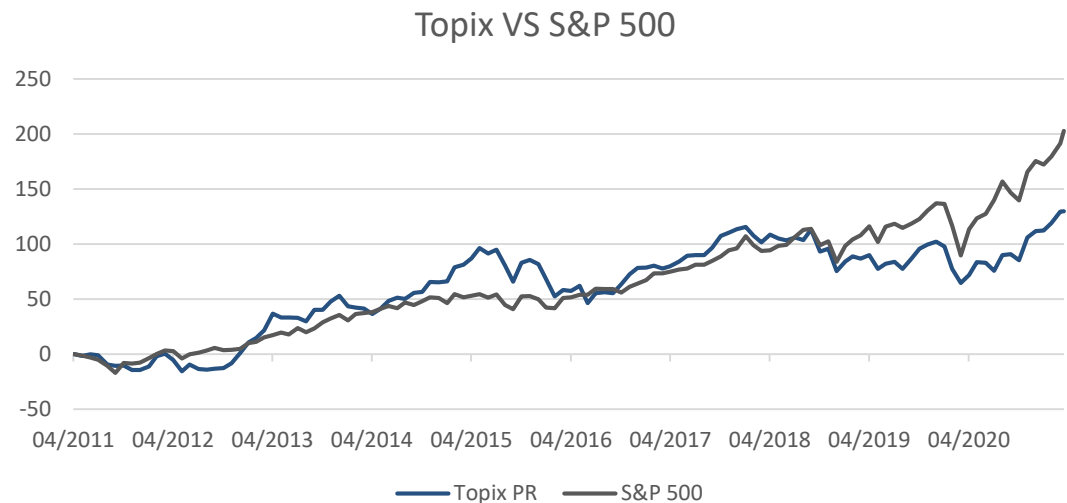
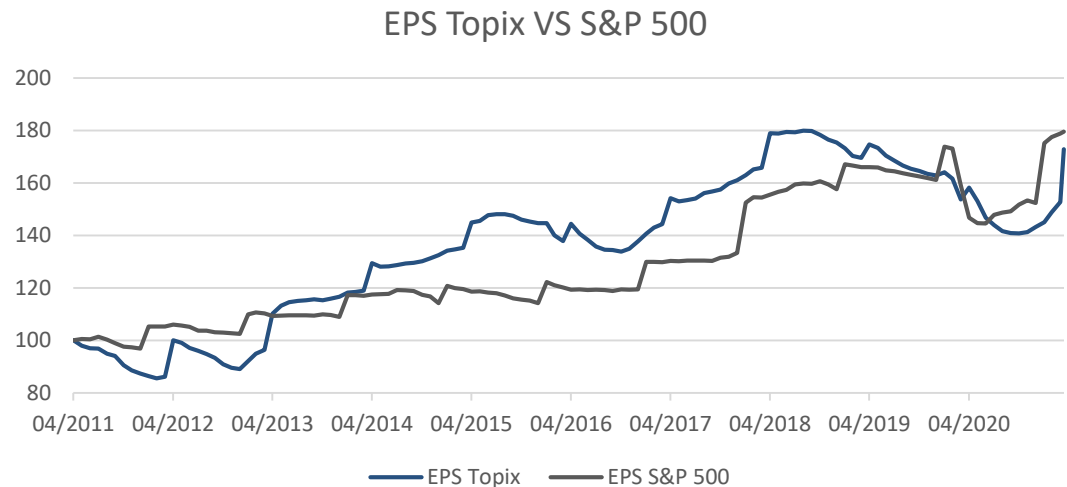
Yet, Japan has continued to trade at a discount.

Even though balance sheet seem safer in Japan vs the US.

With 56% of Topix being net cash, while PBR is a fraction of the US.

Indeed, multiples have continued to compress in Japan, while they expanded in the US.

SAISEI believes this will adjust over time.



Source: Bloomberg & Probus Analysis

TOPIX Pretax profits & CAPE

Earnings past the worst following COVID-19 drama

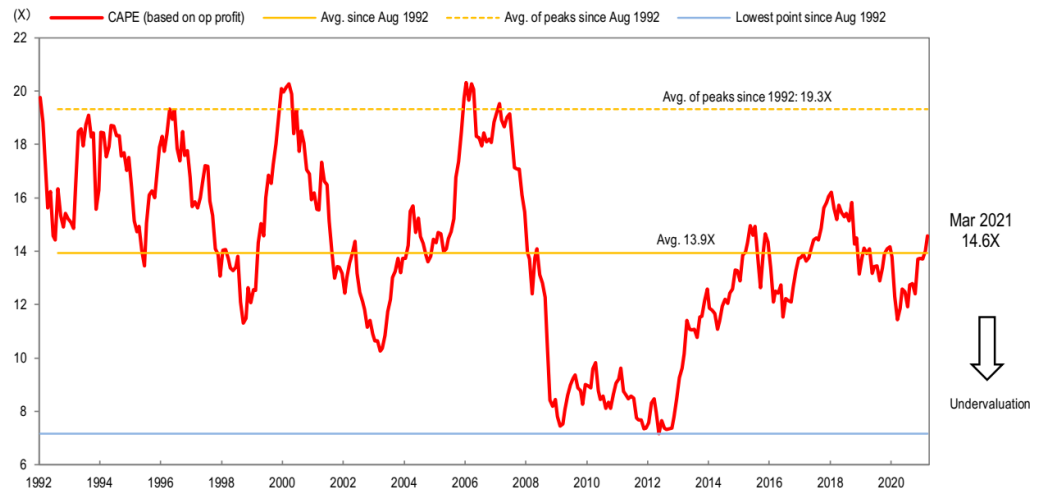
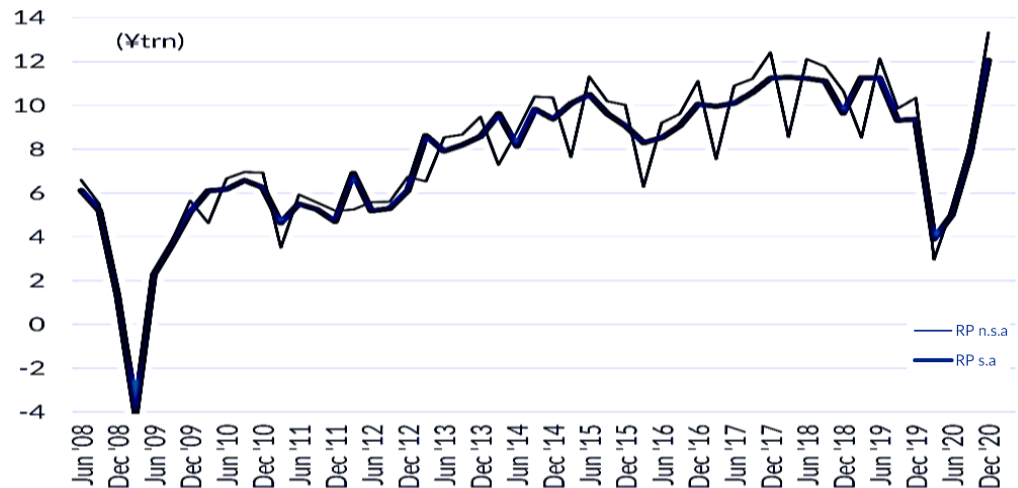
Fiscal March 2022 shall see a strong +48% rebound to reach all-time highs.

Growth to come from global economic pick-up first followed by domestic

As usual, multiples not stretched

To compare with S&P 500 CAPE at a stretched 35.2x

With the return of foreign investors (highest net selling on record in 2020), multiples can expand



Source: CLSA

Investment process

- The Fund adopts a pure bottom-up approach.
- A universe of more than 4'000.
- Minimum 50% in large cap (> 5 billion USD)
- Not thematic, but attentive to particular situation
- Strives to hold leaders in their respective industry
- Principal metrics such as ROE, GARP, are mainly used.
- A high conviction concentrated portfolio.
- At least once a year visit to Japan to meet Fund's constituents



Saisei Japan Equity – Allocation metrics

Characteristics	Port	Bench	+/-
Wgt	100.00	100.00	0.00
Equity	Port	Bench	+/-
Beta	1.03	1.03	
Dividend Yield	1.33	1.78	-0.45
Best P/E	18.833	16.567	2.265
Best ROE	14.820	11.162	3.658
LF Return on Invested Capital	9.149	5.427	3.722
ROA	2.94	0.71	2.23
Price to Book Ratio (P/B)	2.05	1.37	0.68
Net Debt/Equity	-20.68	18.88	-39.56
Quick Ratio	0.86	0.80	0.06
Altman's Z-score	11.96	8.79	3.17

Sector	Port	Bench	+/-
Not Classified	0.86		0.86
Financials	3.89	9.05	-5.16
Real Estate	5.45	2.26	3.19
Materials	5.68	6.58	-0.90
Consumer Staples	6.36	7.68	-1.33
Health Care	8.54	8.89	-0.35
Communication Services	12.60	9.26	3.34
Industrials	17.08	22.93	-5.85
Information Technology	17.35	13.50	3.85
Consumer Discretionary	22.20	17.87	4.30
Energy		0.67	-0.67
Utilities		1.32	-1.32

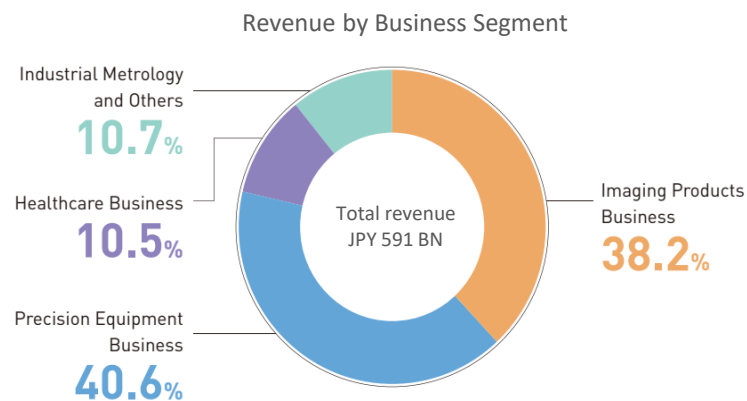
Top 10 Holdings	Value
NIKON CORP	4.30
HOYA CORP	4.08
SONY GROUP CORP	3.99
SBI HOLDINGS INC	3.89
BRIDGESTONE CORP	3.82
NEC CORP	3.57
KOBE BUSSAN CO LTD	3.37
Z HOLDINGS CORP	3.13
KATITAS CO LTD	3.10
TAIHEIYO CEMENT CORP	3.09

At December end 2020, stock traded at 30 years low.

Management proactive in restructuring with manufacturing based transferred to Thailand.

Already offloaded 10% of its workforce.

Still, Intel (Nikon largest customer) announced large capex increase of 20 bn USD to build two new factories in Arizona, which will undoubtedly benefit Nikon's state of the art semiconductor lithography.



Source: Bloomberg & Probus Analysis

One of the most profitable company in Japan

Company operates a web service from shopping, service (Kakaku.com), to restaurant promotion, advertising, etc... (Tabelog), and New Media and Solutions, i.e. entertainment, travel, real estate, recruiting

Its restaurant reservation system (through the internet) rebounding strongly, even though the COVID-19 still a headwind for eating out.

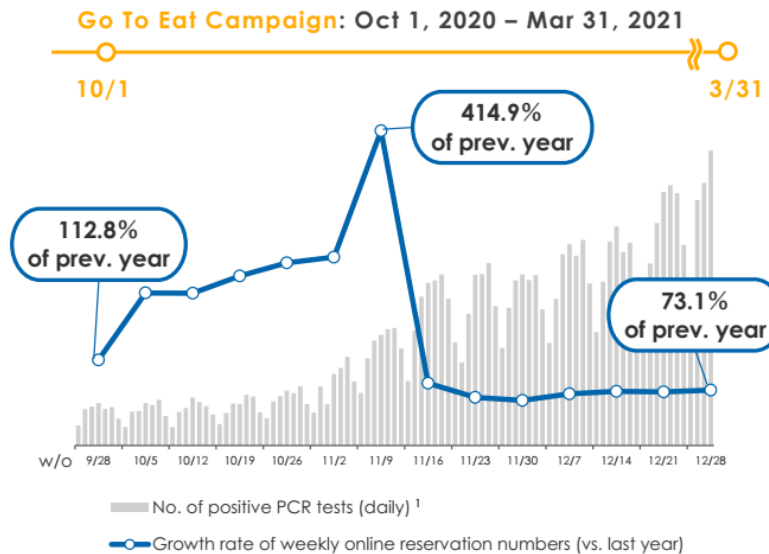
Its financial stand out, despite the pandemic:

- ROE average 5 years at 44.8%
- ROIC 25.6%
- OPERATING MARGIN average 3 years at 46.4%
- Net cash
- Total return ratio in 2020 88.8% (including share buy-back)

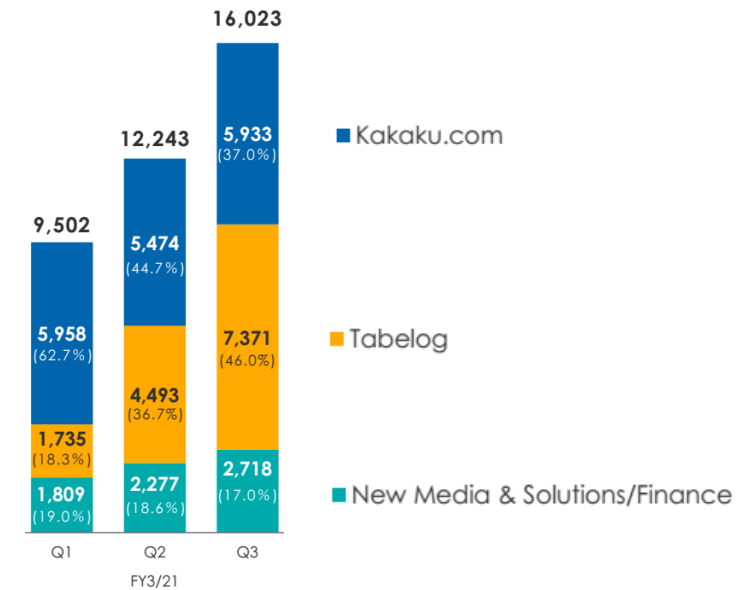
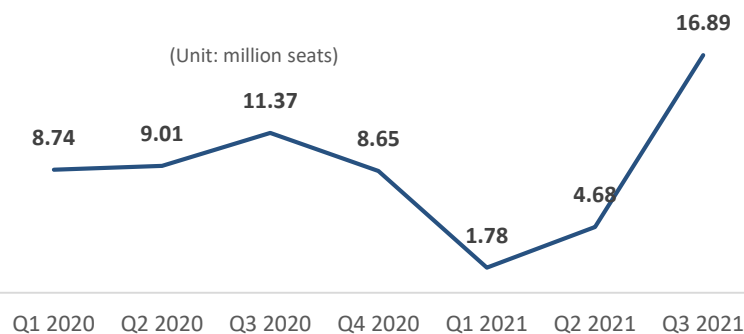


Internet Media	Kakaku.com	Shopping Commission from registered shops, based on the number of clicks and sales performance. 【Clients】 EC Malls and Shops, Electronics Retail Stores, etc.	Service Commission based on the number of contracts for personal finance and telecommunications etc. 【Clients】 Service Providers, etc.	Advertising Advertising revenue from banner and text ads, content and search-based advertising. 【Clients】 Consumer Electronics Manufacturers, etc.
	Tabelog	Restaurant Promotion Monthly fees for promotional services for restaurants as well as commissions based on online reservations. 【Clients】 Restaurants	Premium Memberships User fees for access to premium content. 【Clients】 Users	Advertising Advertising revenue from banner and text ads, content and search-based advertising. 【Clients】 Beverage companies, local governments, etc.
	New Media and Solutions / Finance	New Media and Solutions Revenue generated by sites and service, such as Kyujin-box, Sumaitly, Kinarino, Bus Hikaku Navi operated by LCL, Inc or Dynamic package reservation system developed by Time Design Co., Ltd.		
Finance		Finance Commission from general insurance business for life insurances and non-life insurance, etc. operated by Kakaku.com Insurance, Inc.		

Number of seat reservations (weekly)

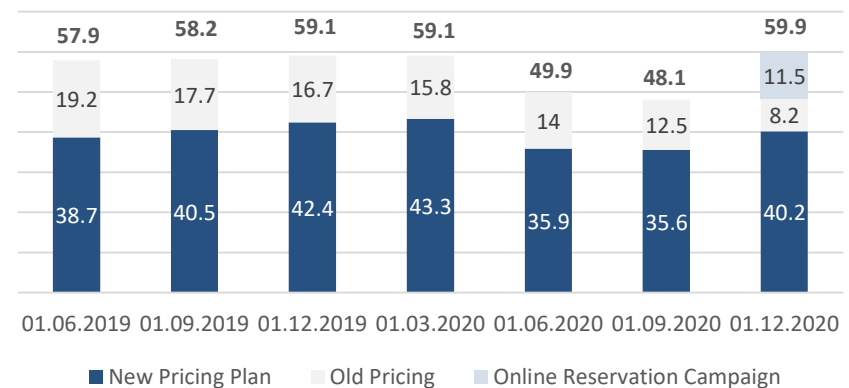


Number of seat reservations (quarterly total)



Number of fee-paying restaurants

(Unit: thousand restaurants)



Source: Kakau.com & Probus Analysis

Saisei Japan Equity - Performance



Questions?

Kaltchuga Fund (UCITS V)

Russia Equities

What can boost Russian stock prices

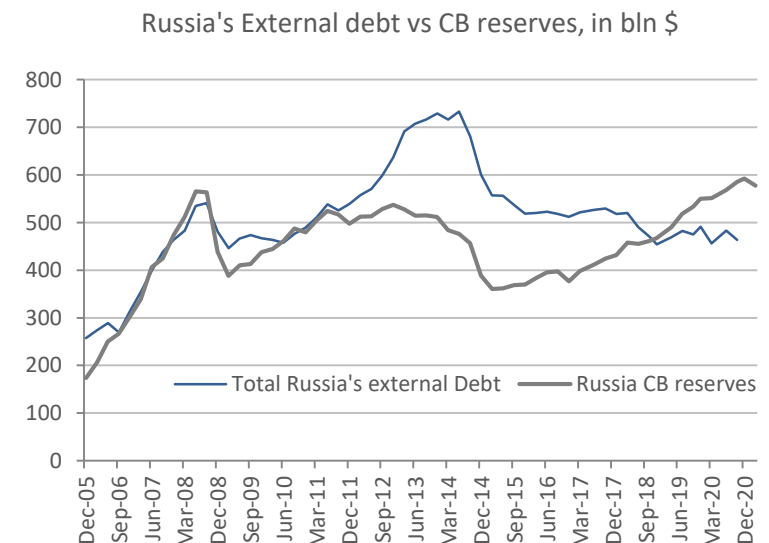
- Reflation trade
- Commodity supercycle
- Inflow of domestic savings into high-yielding Russian stocks

Our four main macro indicators	View
Flows towards EM	Neutral
Oil prices	Positive
Russian economy	Neutral
Valuation of Russian stocks	Positive

- Covid-19 triggered massive monetary and fiscal support in developed economies that feeds the **reflationary trade**.
- Reflation drags money flows into assets exposed to faster economic growth, price inflation and higher yields → **commodities, cyclical stocks**.
- The ongoing market **rotation into cyclical** and value stocks also benefits emerging markets and sends commodity prices higher.
- We assume central banks have little choice but accommodate the 6-tn\$+ inflation of sovereign balance sheets triggered by the Covid-19 crisis by keeping **rates** durably on the low side.
- Financial flows to Russia remain constrained by EU and US **sanctions** but not dramatically. The rate for RUS 10Y has decreased to as low as 2,00%. Investors on the NASDAQ rushed to buy shares of Ozon during its November IPO.
- Controlled output recovery by the OPEC+ cartel keeps **oil prices** above \$60 (Brent).

Russia's **economy** did relatively well in 2020 posting a GDP contraction of 3.0% yoy only, while support from the state at less than 5% of GDP was quite modest. **Russia is all about value** – strong balance sheet, strong budget control.

Central Bank of Russia's **FX reserves (578 bln\$** as of 26 Mar 2021, up 12 bln\$ yoy) are higher than Russia's total external debt (sovereign + corporate + banks) of 463 bln\$.

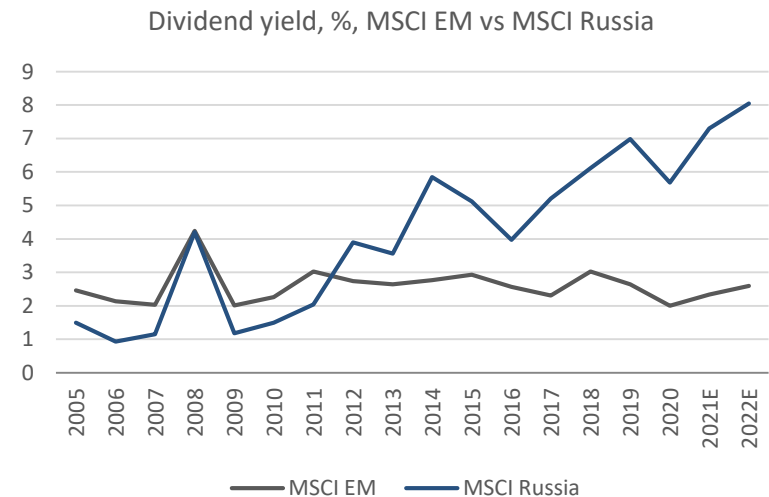
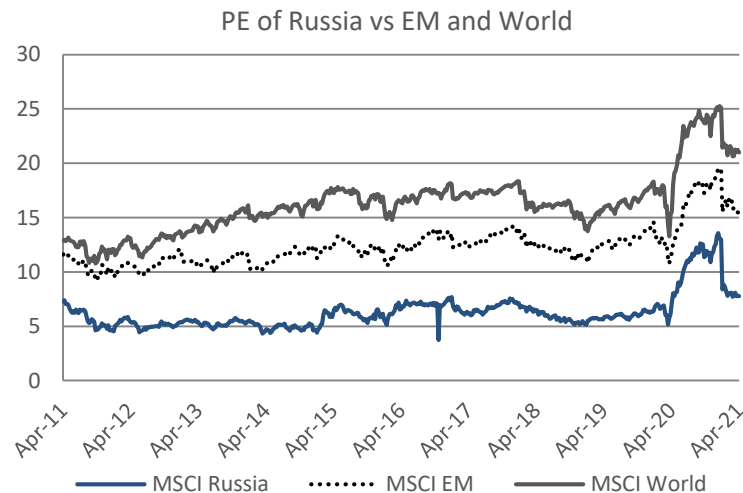
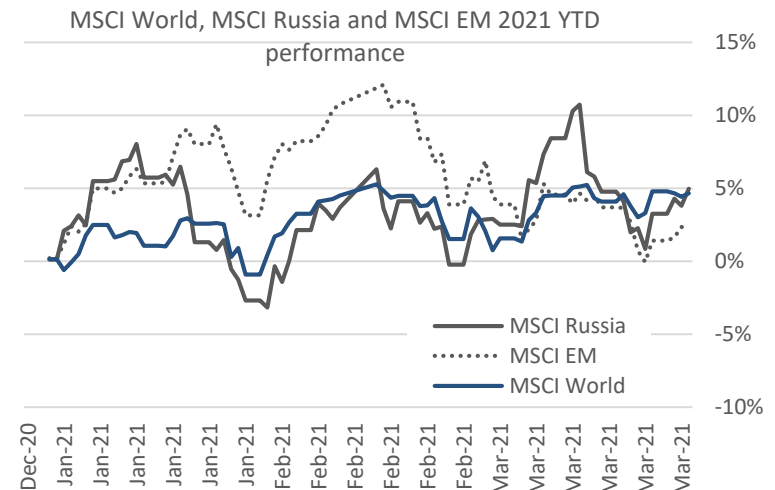


Sources: Probus Analysis, CBR

Russian stocks have underperformed their EM and DM peers in 2020, but they have started to catch up in November as the oil prices were rebounding strongly.

Russian stocks are priced on an average 12M forward **P/E of 7.8x** (MSCI Russia) and an average 12M forward **Dividend Yield of 7.3%**. This compares favorably to emerging (MSCI EM P/E of 15.4x and DY of 2.3%) and developed peers (MSCI World P/E of 21.0x and DY of 1.9%).

Value stocks account for 68% of our portfolio.



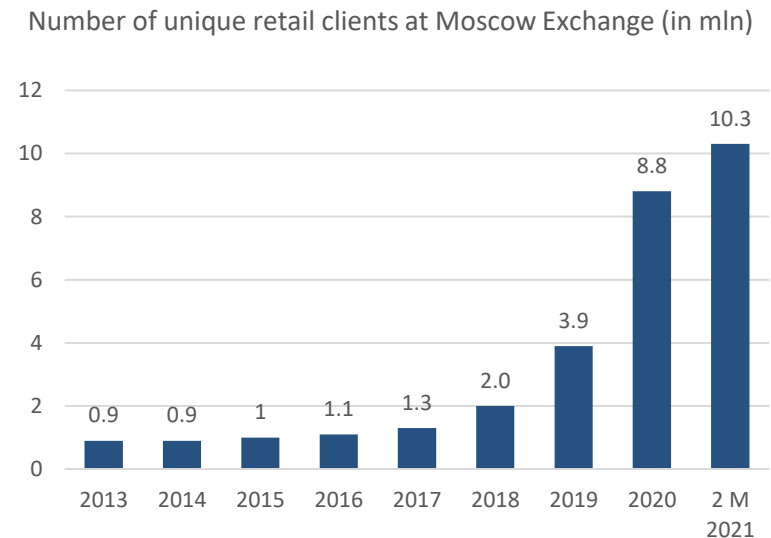
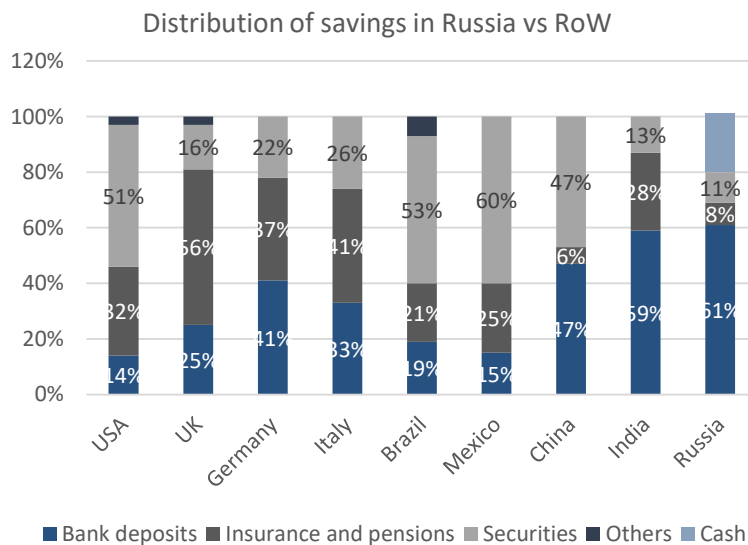
Source: Probus Analysis, Bloomberg

With interest rates on the downslope, Russian household savings has started to migrate from bank deposits into securities market.

The number of retail accounts on Moscow Exchange increased almost 4 times over the past 2 years.

In 2019 and 2020, local retail inflows helped to absorb international investor outflows. They are a new factor of market volatility reduction.

Russians still hold majority (80%) of savings in banks and cash. Therefore, there is a huge potential to see more savings swapped from cash and bank deposits into the stock market.

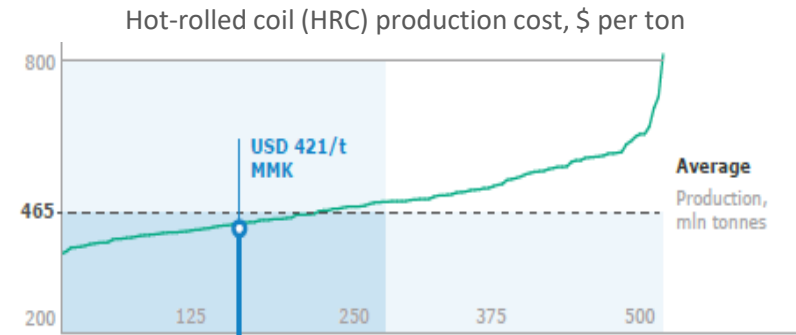
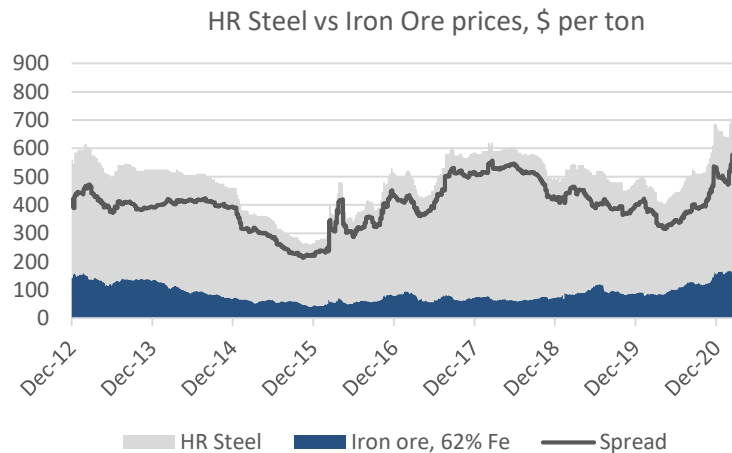


Sources: World Bank, Allianz, CBR & Moscow Exchange

Being only 17% self-sufficient in iron-ore, MMK is a major beneficiary of the widening spread of iron ore and steel prices, which should support better earnings momentum vs peers in the mid-term.

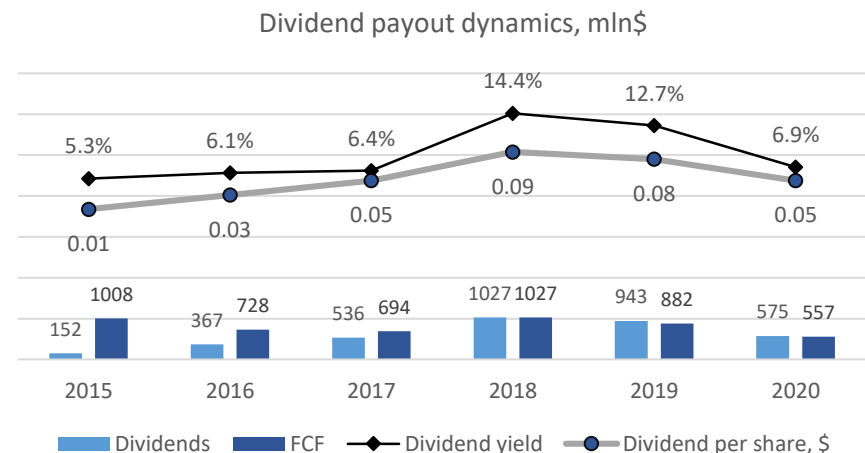
While China's focus on its green agenda curbs global supply and supports higher steel prices, iron ore prices have come under pressure, with the SGX contract falling below \$150 /ton.

Trades on P/E of 9.0x, 2021E EV/EBITDA of 3.5x.



MMK is in the first quartile of the cost curve

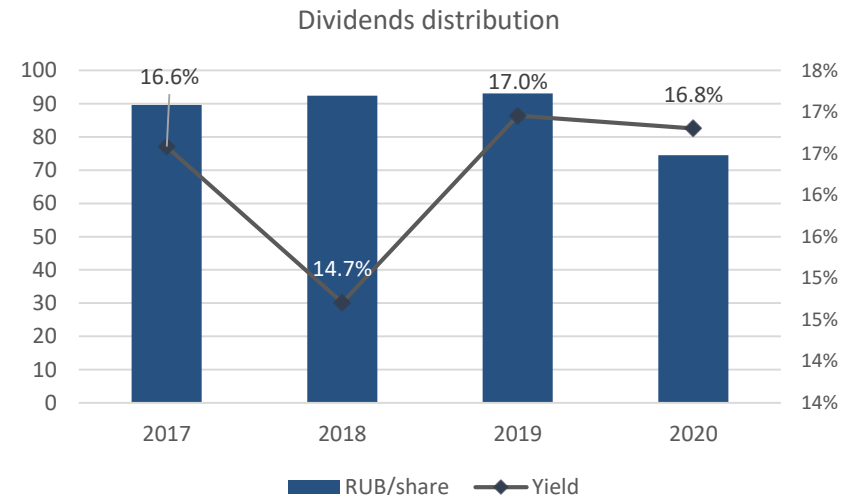
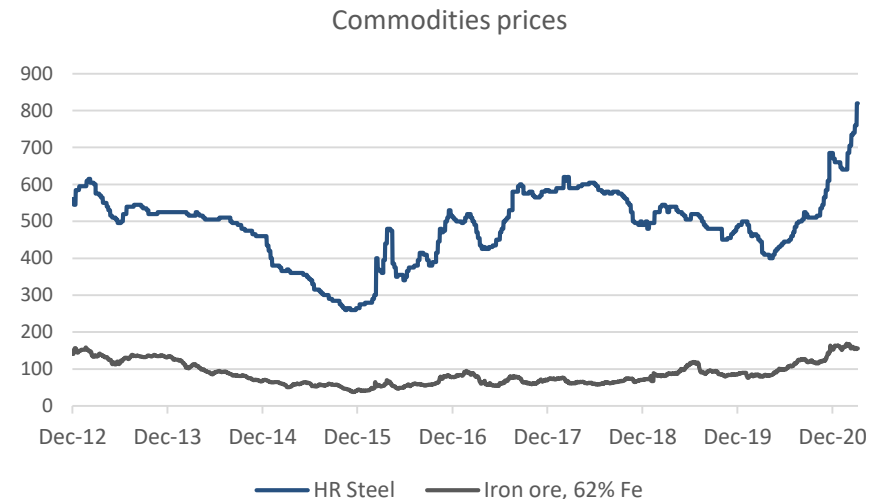
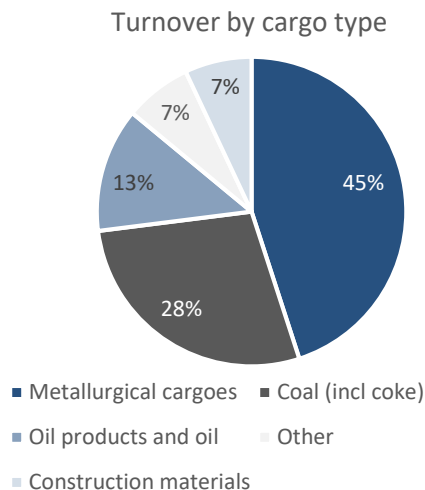
MMK was net cash positive at YE20, a prerequisite for stable **dividend** payout (DY > 10%). Its new dividend policy stipulates payment of $\geq 100\%$ of FCFE if net debt/EBITDA is below 1.0x.



Globaltrans is a bet on global trade recovering hence rising demand and pricing on the railway market.

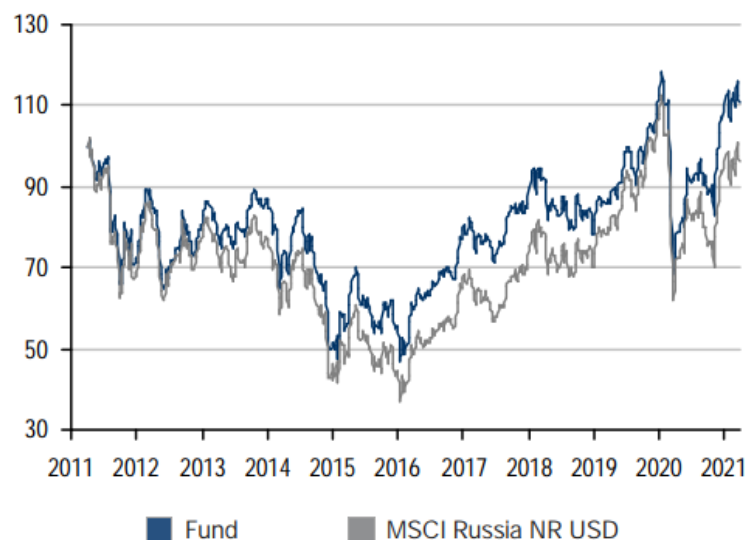
Considering its relatively young fleet in operation and low capex requirements, Globaltrans can preserve high cash flows and commit to remaining one of the best dividend opportunities on the Russian stock market (DY > 10%).

Trades on 2021E P/E of 5.5x, EV/EBITDA of 4.5x.

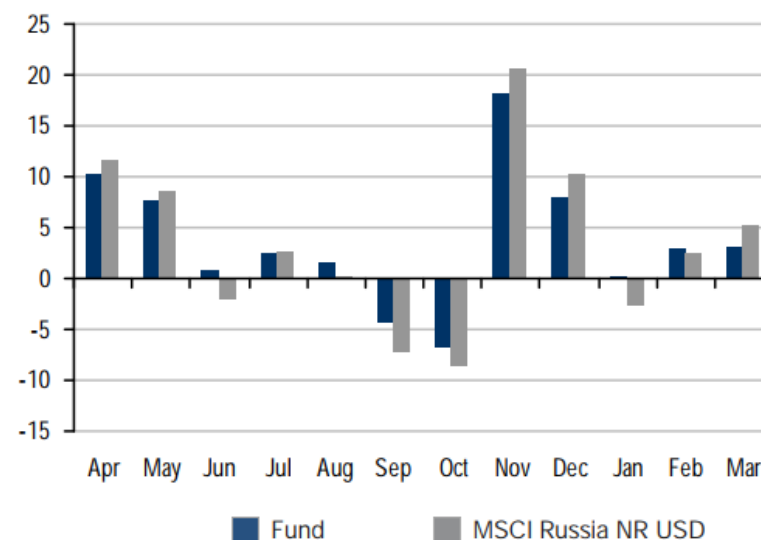


Source: Bloomberg & Probus Analysis

Cumulative performance



Monthly performances over 1 year (%)



Past performance (%) - Net returns

	Cumulative					Origin	Annualised		
	Month-to-date	Year-to-date	1 year	3 years	5 years		3 years	5 years	Origin
Fund	3.08%	6.45%	51.59%	23.62%	84.52%	57.98%	7.32%	13.04%	4.12%
Index*	5.22%	4.93%	44.31%	26.22%	94.26%	38.49%	8.07%	14.20%	2.92%

*MSCI Russia NR USD / Origin: 05/12/2009

Questions?

Thank you and let's keep in touch – by Bernard Bonvin

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