

**Annual report including audited financial statements
as at 31st December 2019**

KALTCHUGA FUND

Société d'Investissement à Capital Variable
Luxembourg

R.C.S. Luxembourg B 123 323

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KALTCHUGA FUND

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KALTCHUGA FUND

Organisation

Registered office

88, Grand-Rue
L-1660 LUXEMBOURG
(since 1st October 2019)
11, Rue Aldringen
L-1118 LUXEMBOURG
(until 30th September 2019)

Board of Directors

Chairman

Bernard LOZE
LOZE ET ASSOCIES
43, Avenue Marceau
F-75116 PARIS

Directors

Frédéric NEEFS
Partner
SUSSEX PARTNERS UK LTD.
15 Savile Row
LONDON W1S 3PJ

Jean-Marie BILLIOTTE
Conducting Officer
PROBUS CAPITAL MANAGEMENT S.A.
16, Rue Erasme
L-1468 LUXEMBOURG

Kim MÜLLER
Analyst and Chief Investment Officer
PROBUS COMPAGNIE S.A.
1, Place de St-Gervais
CH-1201 GENEVA

Management Company

PROBUS CAPITAL MANAGEMENT S.A.
16, Rue Erasme
L-1468 LUXEMBOURG

Board of Directors of the Management Company

Marco BERNI
Jean-Marie BILLIOTTE
Philippe TOUSSAINT

Conducting officers of the Management Company

Benoît BILLIOTTE
Jean-Marie BILLIOTTE
Bernard BONVIN

Depository

QUINTET PRIVATE BANK (EUROPE) S.A.
(formerly KBL EUROPEAN PRIVATE BANKERS S.A.)
43, Boulevard Royal
L-2955 LUXEMBOURG

KALTCHUGA FUND

Organisation (continued)

**Administrative, domiciliary
and registrar agent**

KREDIETRUST LUXEMBOURG S.A.
88, Grand-Rue
L-1660 LUXEMBOURG
(since 1st October 2019)
11, Rue Aldringen
L-2960 LUXEMBOURG
(until 30th September 2019)

Independent auditor

ERNST & YOUNG
Société Anonyme
35E, Avenue John F. Kennedy
L-1855 LUXEMBOURG

Paying agent

QUINTET PRIVATE BANK (EUROPE) S.A.
(formerly KBL EUROPEAN PRIVATE BANKERS S.A.)
43, Boulevard Royal
L-2955 LUXEMBOURG

**Centralising correspondent
and agent in France**

SOCIÉTÉ GÉNÉRALE
28, Boulevard Haussman
F-75009 PARIS

Representative agent in Switzerland

CARNEGIE FUND SERVICES S.A.
11, Rue du Général-Dufour
CH-1204 GENEVA

Paying agent in Switzerland

BANQUE CANTONALE DE GENEVE
17, Quai de l'Ile
CH-1204 GENEVA

KALTCHUGA FUND

Report on activities of the Board of Directors

FY2019 market recap

After the global meltdown of 4Q18, and despite worries that survived all through 2019 about the commercial standoff between the US and China, global equities rebounded strongly through 2019 and US equities eventually hit new records (the S&P 500 gained 29% in 2019). Monetary and fiscal accommodation came in support whereas the major exporting economies (Germany, Japan, China) kept suffering from lower global demand. Oil prices recovered swiftly in January then stabilized in a \$55-75 range (Brent) for the rest of the year, with OPEC+ countries remaining committed to production cuts. The Brent price per bbl averaged \$64 in 2019 vs \$71 in 2018 (-10% yoy) and ended 2019 at \$66 vs \$54 at the end of 2018 (+22% yoy).

Amid the global equity rally, Russian stocks (MSCI Russia up 42%) strongly outperformed their emerging peers (MSCI EM up 15%). Over a 10Y period, we see that Russian stocks, which had tumbled in 2014, have now caught up with their emerging peers (Fig.1).

In 2019, Kaltchuga Fund – Russia Equities underperformed its benchmark (Kalrusa class A USD +42.2% vs MSCI Russia Net Return +51.9%), mostly because of its underweight allocations in Gazprom (9.3% vs 13.3%) and Sberbank (9.2% vs 20.6%).

Fig.1 – Kalrusa performance vs MSCI Russia Net Return vs MSCI EM Net Return (10Y)



Source: Bloomberg

2019 Fund strategy

Being consistently bullish on the Russian market, we spent most of 2019 with less than 5% of cash in the portfolio. We kept a quite balanced approach between growth and value stocks. Value stocks (62.5% of our portfolio vs 64% in the MSCI Russia) have deleveraged and completed their large capex programs, their cash flows are now supported by low ruble costs, so they can pay generous dividends, while growth stocks (37.5% of our portfolio vs 36% in the MSCI Russia) are exposed to the recovery of consumer demand on lower inflation and credit expansion.

Because of lower energy prices, revenues and profits of oil & gas companies decreased in 2019, hence our underweight allocation (40% vs 53% in the MSCI Russia), but thanks to stock buyback programs and increased dividend payout, the sector eventually offered excellent cash returns and fared very well in 2019. On the other hand, we were overweight other commodity exporters including fertilizers (Phosagro), steel (MMK, NLMK) and diamond (Alrosa) stocks, which pay dividend yields in excess of 10%, but were overlooked by the market this year because of weak commodity markets. Our bets in the consumer sectors returned mixed results. Fast growing Internet company Yandex and

KALTCHUGA FUND

Report on activities of the Board of Directors (continued)

real estate developer LSR outperformed, while our other real estate and Internet favorites Etalon and Mail.ru, and also child retailer Detsky Mir underperformed, despite the falling borrowing costs and cheap value that make these stocks no less attractive today. Etalon trades on 2020E P/NAV of 0.2x, P/E of 4.8x and 10% DY. Mail.ru trades on 2020E P/E of 15.1x while having a 16% of Russia's fast-growing digital advertising market. Detsky Mir trades on 2020E EV/EBITDA of 6.0x, and 11% DY with revenue and EBITDA growth in excess of 15% per year. In 2019 we also added gold miner Polyus in the portfolio. Driven by recession fears and the yield-curve reversion on the US bond market, gold had a good run. From now on, we expect gold prices to be supported by purchases from central banks engaged in the reduction of their USD holdings (like for example in Russia or China). Gold is also a natural recipient of the abundant liquidity poured on the markets by central banks across the world. Benefitting from one of the lowest cost positions (<\$400 /oz) and a long mine life of c25 years, Polyus does not need to engage into heavy brownfield capex in the near term to expand the resource base. This shall preserve its capacity to generate cash flows (2020E FCF yield of 9%) in the coming years. Polyus trades on 2020E P/E of 8.1x and 4.6% DY.

Outlook for 2020

Covid-19, and specific travel bans, population lockdowns and production shut downs around the globe impact the Russian economy via the current account. The trade balance shrinks as energy prices, Russia's primary source of export revenues, plummet, triggering a depreciation of the Russian rouble and subsequent capital outflows. In our stock universe, both exporters and domestic stocks are hit – exporters by a slump in demand on export markets, particularly oil, and domestic stocks by a slump in domestic demand coupled with rouble depreciation. We therefore assume lower profits at Russian companies, hence lower dividend payments. Luckily Russian companies have low debt levels and are in thus in a better position to sail through this crisis than their emerging peers. Stock price volatility will persist, though, as incertitude remains high on the progression of the epidemics and on the monetary and fiscal measures introduced to accommodate the situation on a global scale.

Luxembourg, 1st April 2020

The Board of Directors

Note: The information in this report represents historical data and is not an indication of future results.



Ernst & Young
Société anonyme

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L-2017 Luxembourg

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Independent auditor's report

To the Shareholders of
KALTCHUGA FUND
Luxembourg

Opinion

We have audited the financial statements of KALTCHUGA FUND (the "Fund") and of its sub-fund, which comprise the statement of net assets and the statement of investments and other net assets as at 31st December 2019, and the statement of operations and other changes in net assets for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund and of its sub-fund as at 31st December 2019, and of the results of their operations and changes in their net assets for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements.

Basis for Opinion

We conducted our audit in accordance with the Law of 23rd July 2016 on the audit profession (the "Law of 23rd July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the Law of 23rd July 2016 and ISAs are further described in the "responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements" section of our report. We are also independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors of the Fund is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our report of the "réviseur d'entreprises agréé" thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material

Independent auditor's report (continued)

misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors of the Fund for the financial statements

The Board of Directors of the Fund is responsible for the preparation and fair presentation of these financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the financial statements, and for such internal control as the Board of Directors of the Fund determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors of the Fund is responsible for assessing the Fund's and its sub-fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of the Fund either intends to liquidate the Fund or its sub-fund or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23rd July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Law of 23rd July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of the Fund.
- Conclude on the appropriateness of Board of Directors of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's or its sub-fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the

Independent auditor's report (continued)

"réviseur d'entreprises agréé". However, future events or conditions may cause the Fund or its sub-fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young
Société anonyme
Cabinet de révision agréé



Jean-Marc Cremer

Luxembourg, 14th April 2020

KALTCHUGA FUND

Combined statement of net assets (in EUR) as at 31st December 2019

Assets

Securities portfolio at market value	24,134,597.77
Cash at banks and term deposits	1,357,114.68
Income receivable on portfolio	163,981.28
Unrealised gain on forward foreign exchange contracts	10,142.35
Prepaid expenses	6,958.30
	<hr/>
Total assets	25,672,794.38
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Liabilities

Payable on redemptions of shares	142,149.28
Expenses payable	79,452.97
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Total liabilities	221,602.25
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Net assets at the end of the year	25,451,192.13
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The accompanying notes are an integral part of these financial statements.

KALTCHUGA FUND

Combined statement of operations and other changes in net assets (in EUR) from 1st January 2019 to 31st December 2019

<u>Income</u>	
Dividends, net	1,525,261.12
Bank interest	3,753.35
Total income	1,529,014.47
<u>Expenses</u>	
Management fees	410,799.73
Depository fees	13,937.95
Banking charges and other fees	66,667.83
Transaction fees	15,199.43
Central administration costs	57,682.68
Professional fees	15,945.05
Other administration costs	59,340.55
Subscription duty ("taxe d'abonnement")	11,271.72
Bank interest paid	137.65
Other expenses	20,943.28
Total expenses	671,925.87
Net investment income	857,088.60
<u>Net realised gain/(loss)</u>	
- on securities portfolio	1,740,006.14
- on forward foreign exchange contracts	-115,398.32
- on foreign exchange	-9,372.51
Realised result	2,472,323.91
<u>Net variation of the unrealised gain/(loss)</u>	
- on securities portfolio	5,312,614.30
- on forward foreign exchange contracts	15,613.99
Result of operations	7,800,552.20
Subscriptions	1,771,389.41
Redemptions	-6,537,567.19
Total changes in net assets	3,034,374.42
Total net assets at the beginning of the year	22,018,688.75
Revaluation difference	398,128.96
Total net assets at the end of the year	25,451,192.13

The accompanying notes are an integral part of these financial statements.

KALTCHUGA FUND - RUSSIA EQUITIES

Statement of net assets (in USD)

as at 31st December 2019

Assets

Securities portfolio at market value	27,095,912.92
Cash at banks and term deposits	1,523,632.65
Income receivable on portfolio	184,101.78
Unrealised gain on forward foreign exchange contracts	11,386.82
Prepaid expenses	7,812.08
Total assets	28,822,846.25

Liabilities

Payable on redemptions of shares	159,591.00
Expenses payable	89,201.85
Total liabilities	248,792.85
Net assets at the end of the year	28,574,053.40

Breakdown of net assets per share class

Share class	Number of shares	Currency of share class	NAV per share in currency of share class	Net assets per share class (in USD)
A USD	1,337.850	USD	10,781.99	14,424,685.01
B EUR	44.540	EUR	5,882.74	294,166.54
C USD	1,130.274	USD	10,653.54	12,041,418.28
D EUR	276.363	EUR	5,845.77	1,813,783.57
				28,574,053.40

The accompanying notes are an integral part of these financial statements.

KALTCHUGA FUND - RUSSIA EQUITIES

Statement of operations and other changes in net assets (in USD)

from 1st January 2019 to 31st December 2019

<u>Income</u>	
Dividends, net	1,712,410.66
Bank interest	4,213.89
Total income	1,716,624.55
<u>Expenses</u>	
Management fees	461,204.86
Depository fees	15,648.14
Banking charges and other fees	74,847.97
Transaction fees	17,064.40
Central administration costs	64,760.35
Professional fees	17,901.51
Other administration costs	66,621.64
Subscription duty ("taxe d'abonnement")	12,654.76
Bank interest paid	154.54
Other expenses	23,513.02
Total expenses	754,371.19
Net investment income	962,253.36
<u>Net realised gain/(loss)</u>	
- on securities portfolio	1,953,504.89
- on forward foreign exchange contracts	-129,557.69
- on foreign exchange	-10,522.52
Realised result	2,775,678.04
<u>Net variation of the unrealised gain/(loss)</u>	
- on securities portfolio	5,964,472.08
- on forward foreign exchange contracts	17,529.83
Result of operations	8,757,679.95
Subscriptions	1,988,738.89
Redemptions	-7,339,726.68
Total changes in net assets	3,406,692.16
Total net assets at the beginning of the year	25,167,361.24
Total net assets at the end of the year	28,574,053.40

The accompanying notes are an integral part of these financial statements.

KALTCHUGA FUND - RUSSIA EQUITIES

Statistical information (in USD)

as at 31st December 2019

Total net assets	Currency	31.12.2017	31.12.2018	31.12.2019
	USD	44,350,745.06	25,167,361.24	28,574,053.40

Net asset value per share	Currency	31.12.2017	31.12.2018	31.12.2019
A USD	USD	8,326.51	7,625.20	10,781.99
B EUR	EUR	4,849.39	4,295.54	5,882.74
C USD	USD	8,178.10	7,511.79	10,653.54
D EUR	EUR	4,793.04	4,248.22	5,845.77

Number of shares	outstanding at the beginning of the year	issued	redeemed	outstanding at the end of the year
A USD	1,363.005	-	-25.155	1,337.850
B EUR	44.540	-	-	44.540
C USD	1,480.293	162.041	-512.060	1,130.274
D EUR	707.587	60.723	-491.947	276.363

KALTCHUGA FUND - RUSSIA EQUITIES

Statement of investments and other net assets (in USD) as at 31st December 2019

Currency	Number / nominal value	Description	Cost	Market value	% of total net assets
Investments in securities					
Transferable securities admitted to an official stock exchange listing					
Shares					
USD	238,293	Etalon Group PCL GDR repr 1 Shares Reg S	607,261.76	415,106.41	1.45
USD	25,000	Gazprom PJSC spons ADR repr 2 Shares	112,550.00	205,700.00	0.72
USD	47,867	Global Ports Investments Plc GDR repr 3 shares Reg S	681,032.39	181,894.60	0.64
USD	47,000	Globaltrans Investment Plc GDR repr 1 Sh Reg S	190,214.06	415,950.00	1.46
USD	259,583	LSR Group PJSC GDR repr 1 Share Reg S	768,269.56	647,659.59	2.27
USD	109,413	Magnitogorsk Iron Stl Wks PJSC GDR repr 13 Shares	441,660.06	947,516.58	3.32
USD	22,000	Mail.RU Group Ltd spons GDR Repr 1 Sh Reg-S	397,936.10	490,600.00	1.72
USD	10,000	MMC Norilsk Nickel PJSC spons ADR repr 1 Share	166,621.17	305,500.00	1.07
USD	18,000	Mobile Telesystems PJSC ADR repr 2 Shs	210,875.75	182,700.00	0.64
USD	500	NovaTek Joint St Co spons GDR repr 10 Shares	52,557.28	101,500.00	0.36
USD	38,000	Novolipetsk Steel (NLMK) GDR repr 10 Shares	479,585.70	875,520.00	3.06
USD	3,700	Oil Co Lukoil PJSC spons ADR repr 1 Share	172,220.20	366,966.00	1.28
USD	60,000	Phosagro PJSC spons GDR repr 1/3 Reg Shares	615,650.00	762,000.00	2.67
USD	63,000	Rosneft Oil Co GDR repr 1 Share Reg	506,233.91	454,104.00	1.59
USD	90,000	Veon Ltd spons ADR repr 1 share	725,316.82	227,700.00	0.80
USD	230,000	VTB Bank PJSC GDR spons GDR repr 2000 Shares	325,607.22	336,490.00	1.18
USD	15,000	X5 Retail Group NV spons GDR repr 1/4 Reg S	352,821.00	517,500.00	1.81
USD	13,000	Yandex NV A Reg	433,080.70	565,370.00	1.98
Total shares			7,239,493.68	7,999,777.18	28.02
Transferable securities dealt in on another regulated market					
Shares					
RUB	400,000	Surgutneftegas PJSC Pref	617,882.22	242,941.58	0.85
RUB	3,424,365	Territorial Generat Co 1 PJSC	22,429.95	710.41	0.00
RUB	92,017	Unipro PJSC	29,920.21	4,118.37	0.01
			670,232.38	247,770.36	0.86
USD*	770,000	Alrosa PJSC	1,088,286.95	1,047,817.69	3.67
USD*	450,000	Detsky mir PJSC	643,469.04	726,234.57	2.54
USD*	26,000,000	Enel Russia PJSC	594,445.63	386,872.20	1.35
USD*	591,000	Gazprom PJSC	1,552,404.12	2,445,512.61	8.56
USD*	17,851	LSR Group PJSC	248,793.79	220,100.14	0.77
USD*	3,000	Magnit PJSC	327,432.52	165,823.56	0.58
USD*	3,200	MMC Norilsk Nickel PJSC	632,306.63	986,491.22	3.45
USD*	94,909	Mobile Telesystems PJSC	394,615.71	490,065.26	1.71
USD*	360,000	Moscow Exchange Micex-Rts PJSC	514,091.52	626,014.19	2.19
USD*	84,500	NovaTek Joint St Co	1,021,912.31	1,720,998.41	6.02
USD*	21,300	Oil Co Lukoil PJSC	1,186,606.15	2,120,600.10	7.42
USD*	3,701	Phosagro PJSC Reg	139,681.29	143,826.85	0.50
USD*	4,000	Polyus PJSC	362,764.40	458,560.65	1.60
USD*	108,000	Rosneft Oil Co	537,478.65	783,810.44	2.74
USD*	540,000	Sberbank of Russia PJSC	1,740,628.32	2,220,099.08	7.77
USD*	140,000	Sberbank of Russia PJSC Pref	219,136.00	515,820.21	1.81
USD*	1,230,000	Surgutneftegas PJSC	556,154.40	1,001,850.25	3.51
USD*	290,000	Surgutneftegas PJSC Pref	194,764.64	176,559.71	0.62
USD*	81,000	Tatneft PJSC	991,378.90	993,096.73	3.48
USD*	30,000	Tatneft PJSC Pref	88,462.40	355,370.78	1.24
USD*	2,396,575,635	Territorial Generat Co 1 PJSC	894,678.92	498,487.73	1.74
USD*	10,431,983	Unipro PJSC	855,289.08	468,033.00	1.64
USD*	400,000,000	VTB Bank PJSC	312,400.00	296,320.00	1.04
			15,097,181.37	18,848,365.38	65.95
Total shares			15,767,413.75	19,096,135.74	66.81
Total investments in securities			23,006,907.43	27,095,912.92	94.83

The accompanying notes are an integral part of these financial statements.

KALTCHUGA FUND - RUSSIA EQUITIES

Statement of investments and other net assets (in USD) (continued) as at 31st December 2019

Currency	Number / nominal value	Description	Cost	Market value	% of total net assets
<u>Cash at banks</u>					
Term deposits					
USD	1,400,000.00	KBL Europ. Private Bankers SA 1.5500% 02.01.2020	1,400,000.00	1,400,000.00	4.90
Total term deposits			1,400,000.00	1,400,000.00	4.90
Current accounts at bank			123,632.65	123,632.65	0.43
Total cash at banks			1,523,632.65	1,523,632.65	5.33
Other net assets/(liabilities)				-45,492.17	-0.16
Total				28,574,053.40	100.00

*The reference currency of the security on the Moscow Exchange is RUB but the Sub-Fund's transactions on the security are expressed in USD

The accompanying notes are an integral part of these financial statements.

KALTCHUGA FUND - RUSSIA EQUITIES

Industrial and geographical classification of investments as at 31st December 2019

Industrial classification

(in percentage of net assets)

Energy	38.39 %
Raw materials	19.34 %
Financials	13.99 %
Utilities	4.74 %
Cyclical consumer goods	3.99 %
Technologies	3.70 %
Telecommunications services	3.15 %
Real estate	3.04 %
Non-cyclical consumer goods	2.39 %
Industrials	2.10 %
Total	<u>94.83 %</u>

Geographical classification**

(by domicile of the issuer)

(in percentage of net assets)

Russia	86.78 %
Cyprus	3.55 %
The Netherlands	2.78 %
British Virgin Islands	1.72 %
Total	<u>94.83 %</u>

**All companies conduct their business activities in Russia and CIS

KALTCHUGA FUND

Notes to the financial statements

as at 31st December 2019

Note 1 - General information

KALTCHUGA FUND (the "Fund") is organised as a "Société d'Investissement à Capital Variable" ("SICAV") with multiple Sub-Funds organized under Luxembourg law. The SICAV is governed under the Council Directive 2009/65/EC as amended and the provisions of Part I of the law of 17th December 2010 as amended.

The Net Asset Value per Share is determined each Bank Business Day in Luxembourg and Moscow (referred to as the "Valuation Day").

The Net Asset Value as well as the issue and redemption prices are available to the interested persons as of each Valuation Day at the registered office of the Fund.

A copy of the articles of incorporation, the full prospectus and the KIID, the most recent unaudited semi-annual report and the most recent annual report including audited financial statements are made available free of charge at the registered office of the Fund, 88, Grand-Rue, L-1660 LUXEMBOURG.

Note 2 - Significant accounting policies

a) Presentation of the financial statements

The financial statements of the Fund are prepared in accordance with the Luxembourg legal and regulatory requirements concerning undertakings for collective investment and with generally accepted accounting principles in Luxembourg. The financial statements of the Fund have been prepared on a going concern basis.

b) Valuation of assets

The value of any cash in hand or on deposit, discount notes, bills and demand notes and accounts receivable, prepaid expenses, cash dividends and interest declared or accrued as aforesaid and not yet received, is deemed the full amount thereof, unless in any case the same is unlikely to be paid or received in full, in which case the value thereof is arrived at after making such discount as the Board of the Fund may consider appropriate in such case to reflect the true value thereof.

The value of all portfolio securities which are listed on an official Stock Exchange or traded on any other regulated market is valued at the last available price in Luxembourg on the principal market on which such securities are traded, as furnished by a pricing service approved by the Board. If such prices are not representative of the fair value, such securities as well as other permitted assets, including securities which are listed on a Stock Exchange or traded on a regulated market, are valued at a fair value at which it is expected that they may be resold, as determined in good faith by and under the direction of the Board.

The value of securities which are not quoted or dealt in on any regulated market is valued at the last available price in Luxembourg, unless such price is not representative of their true value; in this case, they are valued at a fair value at which it is expected that they may be resold, as determined in good faith by and under the direction of the Board.

The value of other assets is determined prudently and in good faith by and under the direction of the Board in accordance with generally accepted valuation principles and procedures.

KALTCHUGA FUND

Notes to the financial statements (continued)

as at 31st December 2019

c) Acquisition cost of securities in the portfolio

The acquisition cost of the securities held by the Sub-Fund that are denominated in a currency other than the reference currency of the Sub-Fund is converted into this currency at the exchange rate prevailing on the date of purchase.

d) Net realised gain/(loss) on securities portfolio

The realised gains and losses on securities portfolio are calculated on the basis of the average acquisition cost and are disclosed net in the statement of operations and other changes in net assets.

e) Investment income

Dividend income is recorded at the ex-date, net of any withholding tax.

Interest income accrued is disclosed net of any withholding tax.

f) Valuation of forward foreign exchange contracts

Forward foreign exchange contracts are valued at forward market rates for the remaining period from valuation date to the maturity of the contracts. Net unrealised gains or losses are disclosed in the statement of net assets. Net variation of the unrealised gains or losses and net realised gains or losses are disclosed in the statement of operations and other changes in net assets.

g) Formation expenses

Formation expenses were amortised on a straight line basis over a period of 5 years.

h) Conversion of foreign currencies

Cash at banks, other net assets, liabilities and the market value of the securities in portfolio expressed in currencies other than the reference currency of the Sub-Fund are converted into this currency at the exchange rate prevailing on the date of the financial statements. Income and expenses expressed in currencies other than the reference currency of the Sub-Fund are converted into this currency at the exchange rate prevailing on the date of the transaction. Net realised gains or losses on foreign exchange are disclosed in the statement of operations and other changes in net assets.

i) Combined financial statements

The combined financial statements of the Fund are expressed in EUR and are equal to the corresponding items in the financial statements of the Sub-Fund converted into this currency at the exchange rate prevailing at the date of the financial statements.

At the date of the financial statements, the exchange rate used for the combined statements is the following:

1	EUR	=	1.1227000	USD	US Dollar
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j) Revaluation difference

The item "Revaluation difference" in the combined statement of operations and other changes in net assets represents the valuation difference of the net assets of the Sub-Fund at the beginning of the year with the exchange rate applicable at the date of the financial statements.

KALTCHUGA FUND

Notes to the financial statements (continued)

as at 31st December 2019

k) Transaction fees

Transaction costs disclosed under the item "Transaction fees" in the expenses of the statement of operations and other changes in net assets are mainly composed of broker fees incurred by the Fund and of fees relating to liquidation of transactions paid to the depositary as well as of transaction fees on financial instruments and derivatives and of fees relating to term deposits.

Note 3 - Management fees

The Board of Directors of the Fund has appointed PROBUS CAPITAL MANAGEMENT S.A. as its management company (the "Management Company") to provide management, administration and distribution services. The Management Company is registered as a management company pursuant to the stipulations of Chapter 15 of the amended Law of 17th December 2010 relating to Undertakings for Collective Investment.

The Sub-Fund pays a monthly management fee in arrears of the average Net Asset Value of the Sub-Fund and amounting:

for the Classes A and B Shares: 2% per annum
for the Classes C and D Shares: 1.7% per annum.

Note 4 - Central administration costs

The item "Central administration costs" disclosed in the statement of operations and other changes in net assets is mainly composed of the administrative agent and the transfer agent fees.

Note 5 - Subscription duty ("*Taxe d'abonnement*")

The Fund is governed by Luxembourg law.

Pursuant to the legislation and regulations in force, the Fund is subject to an annual "*taxe d'abonnement*" of 0.05% which is payable quarterly and calculated on the basis of the net assets of each sub-fund on the last day of each quarter.

Pursuant to Article 175 (a) of the amended law of 17th December 2010 the net assets invested in undertakings for collective investment already subject to the "*taxe d'abonnement*" are exempt from this tax.

Note 6 - Forward foreign exchange contracts

As at 31st December 2019, the Sub-Fund is committed in the following forward foreign exchange contracts with QUINTET PRIVATE BANK (EUROPE) S.A. (formerly KBL EUROPEAN PRIVATE BANKERS S.A.):

KALTCHUGA FUND - RUSSIA EQUITIES						
Currency	Purchases	Currency	Sales	Maturity	Unrealised result (in USD)	
Forward foreign exchange contracts linked to Class B EUR Shares						
EUR	261,518.52	USD	292,600.00	31.01.2020	<u>1,524.67</u>	
					1,524.67	
Forward foreign exchange contracts linked to Class D EUR Shares						
EUR	1,688,876.97	USD	1,889,600.00	31.01.2020	9,846.30	
USD	81,100.00	EUR	72,095.30	31.01.2020	<u>15.85</u>	
					9,862.15	

KALTCHUGA FUND

Notes to the financial statements (continued)

as at 31st December 2019

Note 7 - Change in investment

The statement of change in investment for the reporting period is available free of charge at the registered office of the Fund.

Note 8 - Subsequent events

With effect from 16th January 2020, KBL EUROPEAN PRIVATE BANKERS S.A. changed its name to QUINTET PRIVATE BANK (EUROPE) S.A..

Covid-19, and specific travel bans, population lockdowns and production shut downs around the globe impact the Russian economy via the current account. The trade balance shrinks as energy prices, Russia's primary source of export revenues, plummet, triggering a depreciation of the Russian rouble and subsequent capital outflows. In our stock universe, both exporters and domestic stocks are hit – exporters by a slump in demand on export markets, particularly oil, and domestic stocks by a slump in domestic demand coupled with rouble depreciation. We therefore assume lower profits at Russian companies, hence lower dividend payments. Luckily Russian companies have low debt levels and are thus in a better position to sail through this crisis than their emerging peers. Stock price volatility will persist, though, as uncertainty remains high on the progression of the epidemics and on the monetary and fiscal measures introduced to accommodate the situation on a global scale.

KALTCHUGA FUND

Additional information (unaudited)

as at 31st December 2019

1 - Risk management

As required by Circular CSSF 11/512, as amended, the Board of Directors of the Fund needs to determine the global risk exposure of the Fund by applying either the commitment approach or the VaR (“Value at Risk”) approach.

In terms of risk management, the Board of Directors of the Fund decided to adopt the commitment approach as a method of determining the global exposure.

2 – Remuneration

a) Summary

Probus Capital Management S.A. (hereafter the “Management Company”) remuneration policy is meant to support ambitious performance objectives, matching the longer-term interests of the Management Company and its shareholders and the fair acknowledgement of the individual contributions.

The remuneration policy is built on three key elements: a fixed annual remuneration, a pension plan, and a variable remuneration. The calculation of the latter is based on a model that integrates the collective performance of the Management Company and the individual contribution of each employee of the Management Company. The performance appraisal is multi-annual and takes into account the duration of the holding period as recommended to the investors of the UCITS managed by the Management Company. This ensures that the remuneration is linked to the long-term performance of the UCITS and the investment risk and that the effective payment of the components of the remuneration depending on the performance is scheduled over the period.

The evaluation criteria are qualitative and quantitative. The individual variable remuneration is determined on the basis of the annual appraisal of the employee. With regard to individuals employed in control functions, the attribution criteria are independent from the results of the areas controlled by these functions. The assessment grid uses between 5 and 10 indicators and objectives for each employee. The qualitative and quantitative criteria are balanced, 50% relating to the collective performance and 50% to the individual performance and compliance with the internal rules. There is a fair balance between the fixed and variable components of the global remuneration, the fixed component representing a part of the global remuneration important enough so that a flexible policy could be enforced concerning the variable components of the remuneration, in particular the possibility that no variable component is paid.

The calculation of the variable remuneration is based upon fully reliable data controlled by the Compliance Officer of the Management Company. The internal audit checks the adequacy of the controls on a yearly basis.

The Chairman of the Board of the Management Company is responsible for setting up the remuneration policy and for awarding the remuneration and benefits, upon recommendations from the Board members.

KALTCHUGA FUND

Additional information (unaudited) (continued)

as at 31st December 2019

b) Allocated remuneration by category of staff

The table below represents the allocation of total remuneration of the employees of the Management Company based on the Assets Under Management of all UCITS, by category of staff:

Type of staff	Number of beneficiaries	Total Remuneration (in EUR)	Fixed Remuneration paid (in EUR)	Variable Remuneration paid (in EUR)
Senior Management*	1	76,311	76,311	-
Identified staff **	6	98,127	98,127	-
Other staff	3	24,109	24,109	-
Total	10	198,547	198,547	-

* The Senior Management is composed of three people but only one is employee of the Management Company

** Identified staff is composed of one portfolio manager, the compliance officer and four operation officers (this amount does not include 6 months of outsourcing).

All figures refer to the 2019 calendar year.

c) Carried interest paid by UCITS

No employee of the Management Company receives carried interest paid by any UCITS.

d) Remuneration Policy Review

The Remuneration Policy is at least subject to an annual review. The Remuneration Policy was reviewed in 2020.

The Remuneration Policy was approved by the Board of Directors of PCM on 29/01/2020.

3 - Information concerning the transparency of securities financing transactions and of reuse of cash collateral (regulation EU 2015/2365, hereafter "SFTR")

During the reporting period, the Fund did not engage in transactions which are subject to the publication requirements of SFTR. Accordingly, no information concerning the transparency of securities financing transactions and of reuse of cash collateral should be reported.