

# KALTCHUGA FUND

## Russia Equities A (USD)



Fund fact sheet as of 31 March 2021

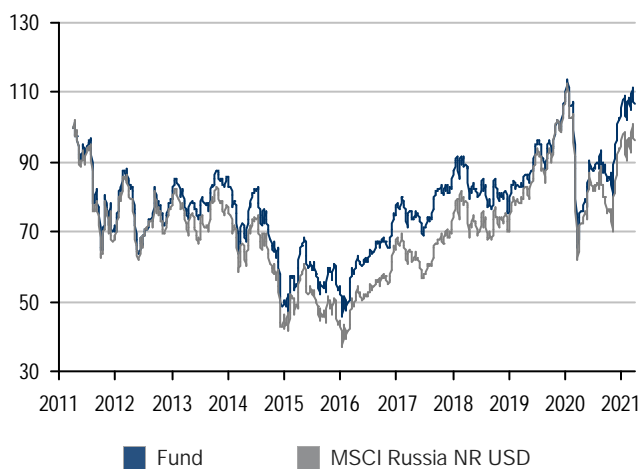
### Quick facts

Fund category	Russian Equities
Reco. placement period	10 years
Last NAV (USD)	10,870.26
NAV frequency	Daily
ISIN	LU0290813871
Distributed in	LU, CH, FR
Risk and reward profile	<div> <div>1</div> <div>2</div> <div>3</div> <div>4</div> <div>5</div> <div>6</div> <div>7</div> </div> <div>Lower Risk Higher Risk</div>

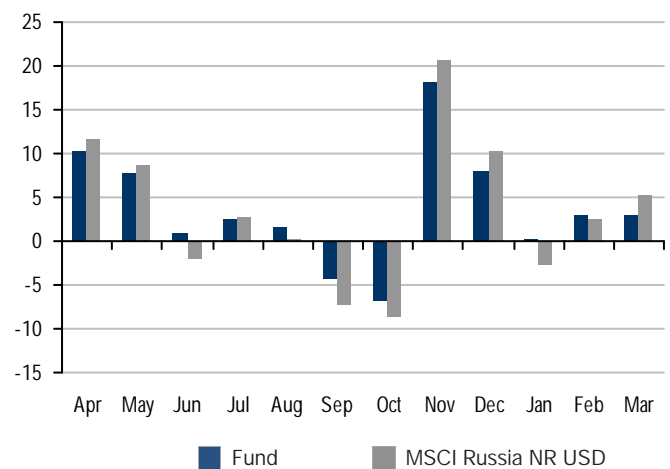
### Investment objective

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	3.05%	6.38%	51.14%	22.51%	81.78%	9.50%	7.00%	12.70%	0.91%
Index*	5.22%	4.93%	44.31%	26.22%	94.26%	-0.26%	8.07%	14.20%	-0.03%

\*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)	25,125,822.65
Fiscal year end	December 31st
Fund currency	USD
Cut-off time	See prospectus
Management company	Lemanik AM
Investment manager	Probus Middle East Ltd
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 Metiers.

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

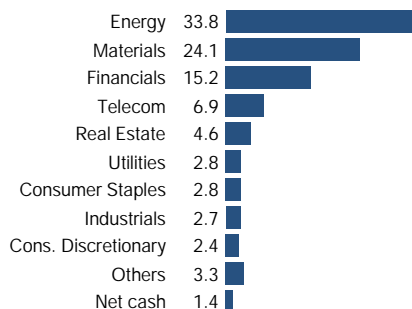
3 years figures (ann.)	Fund	Index	Value	Date
Annual volatility	25.39	28.46	52-week NAV high	11,353.32 16/03/2021
Beta	0.88		52-week NAV low	7,076.29 01/04/2020
Tracking error	5.71		Max drawdown (%)	-47.87 21/01/20-18/03/20
Sharpe	0.34	0.37		
Information ratio	-0.19			

# KALTCHUGA FUND

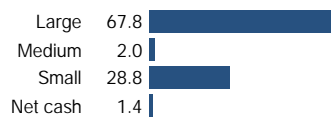
## Russia Equities A (USD)

March 2021

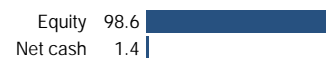
### Sectorial allocation (%)



### Market cap breakdown (%)



### Asset class breakdown (%)



### Top 10 holdings (%)

Sberbank	8.7	Magnitogorsk	4.5
Gazprom	8.4	Rosneft	4.1
Lukoil	7.7	PhosAgro	3.9
MMC Norilsk Nickel	5.8	Surgutneftegas	3.7
Novatek	4.8	Alrosa	3.6
Top 5 positions	35.4	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	3.54%	Closed for subs/up to 1%
B EUR	LU0290814093	KALRUSB LX	EUR	A	16/07/2007	None	2.00%	None	3.54%	Closed for subs/up to 1%
C USD	LU0462676486	KALRUSC LX	USD	A	04/12/2009	None	1.70%	None	3.21%	Up to 2%/up to 1%
D EUR	LU0462681726	KALRUSD LX	EUR	A	04/12/2009	None	1.70%	None	3.24%	Up to 2%/up to 1%

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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](http://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](http://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.securites-services.societegenerale.com/fr](http://www.securites-services.societegenerale.com/fr). DIFC

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### Commentary

Despite some covid angst still in the air and UST yields spiking to 1.77%, the Fed's resolute promise to remain accommodative at least through 2023 pushed global markets up again in March. Shrugging off the new US sanctions for the poisoning of Navalny, which were softer than expected, and Biden describing Putin as a killer, Russian stocks (RTS +4.6%, MSCI Russia +5.2%) outperformed their emerging (MSCI EM -1.7%) developed peers (S&P500 +4.2%). There was a sharp plunge in oil prices on concerns new lockdown restrictions in Europe and a slowing Chinese economy will hamper demand, but oil then managed to claw back some of its losses, and the Brent settled just 4% lower on the month (closing around \$64 and above its 60D moving average). Despite a 25-bp rate hike by the Central Bank of Russia and a more hawkish tone from the central bank chief, the rouble weakened (RUB:USD -1%). This can be explained by the decline in crude prices, but also by some possible contagion from the Turkish lira and subsisting sanctions fears. In March, the Fund gained 3.1% (vs MSCI Russia NR +5.2%) and is now up by 6.4% YTD (vs +4.9% MSCI Russia NR).

Investors keep capitalizing on the reflation trade and cyclicals outperformed vs retailers and techs. Oils were strong despite the slump in crude prices. Tatneft (+12%) outperformed its peers (Lukoil +8%, Rosneft +7%, Surgut +5%) on expectations it may resume dividend payments at the level of 100% of its FCF thanks to the higher oil prices. As the State Duma agreed to revisit high-viscosity oil tax breaks, this could imply approx. 5% and 7.5% upside potential to 2021E EBITDA of Lukoil and Tatneft, respectively.

Steel prices (HRC FOB Black Sea +12% to \$835.00) continue to rally but iron ore prices have come under pressure, with the SGX (Singapore) contract falling below \$150 /ton, as a result of further announcements regarding steel production cuts in China. This clearly favors MMK (+10%) over its vertically-integrated peers (NLMK +8%) and we can expect much higher dividends on FY21 profits than on FY20.

Norilsk (closing flat) had a bumpy ride through the month. News that Tsingshan has found a way to convert nickel laterite ores to nickel pig iron brought an abrupt end to the strong rise in nickel prices (-14% mom) that has taken place since April last year, with nickel prices reaching a 6-year high just a few weeks earlier. Palladium prices, on the contrary, gained 13%. Following the diesel spill last year, new incidents at the Norilsk concentrator and flooding at the Taymyrsky and Oktyabrsky mines have highlighted the need for urgent modernization of facilities and prompted shareholder Interros to advocate a reallocation of cash flows into modernization rather than dividend payments. Norilsk second shareholder Rusal continues to block this initiative though, and the investment case remains solid.

We increased our allocation into Alrosa (+5%), which 4Q20 IFRS EBITDA missed estimates while FCF surprised on the upside. The company's debt position improved as of YE20 to a net debt/EBITDA of 0.4x, supported by the robust free cash flow generation. The management delivered positive 2021 outlook (assuming diamond production up 5% yoy to 31.5 mln cts and sales +6-12% to 34-36 mln cts. The final 2H20 dividend recommendation is expected in April. The management proposes to change the dividend policy to a more flexible one and pay 70-100% of FCF at 0-1x Net debt/EBITDA ratio. Globaltrans 2020 IFRS results showed EBITDA 16% above consensus. 2H20 attributable FCF increased by more than 70% yoy to 7.3 blnR, which implies a 2H20 dividend contribution of R 28.0 /GDR, suggesting a 6.3% dividend yield. As a result, the total dividend declared for 2020 amounts to R 74.55 /GDR, reflecting a robust 16.2% dividend yield. The company also established a minimum interim 2021 dividend target of 3.0 blnR (~R 16.8 /GDR, 3.3% dividend yield at current prices), reflecting a conservative financial policy along with ongoing pricing pressure in the gondola segment.

We closed our position in Sistema, which has returned over 110% since last June (vs +20% for our benchmark index) and reallocated into online retailer Ozon and Alrosa. We also swapped our position in Magnit into X5 (-1%).

Etalon (-6%) announced plans to issue up to 30% of new shares to increase its land bank. We trimmed our position to take some profits (it has outperformed the index by c30% since we entered in June last year).

Techs slipped lower (Mail -15%, Yandex -13%), although Mail issued strong 4Q20 top line and EBITDA, with 2021E guidance implying upside risks too (revenues +18-21% to 127-130 blnR). MTS (-6%) approved a new share repurchase program in the amount of up to 15 blnR through the end of 2021.

Sberbank (+6%) CEO announced that dividend payout on FY20 earnings will be 56%, keeping the dividend flat yoy at R 18.7 ps, implying 7% dividend yield. This clearly sends the signal that Sberbank is willing to distribute excess capital making 50% payout a "floor". TCS (+11%) rallied on strong earnings. FY20 net income grew 22% yoy to 44.2 blnR, with 40.6% ROE, and total customers rose from 10.2 mln to 13.3 mln. The management gave also strong 2021 guidance and assuming 55 blnR net income in 2021 the stock trades on 15x 2021E P/E.

The Central Bank of Russia raised the benchmark rate by 25 bps to 4.50%, closer to what they call the "neutral range" of 5-6%. Since the CBR now expects inflation to remain above their target of 4% all through 2021 (it is 5.7% now), our base case now is that the key policy rate will come at 5.0% by the end of the year.

In the US, the Federal Reserve maintained its dovish stance while deciding not to act to tame the recent rise in nominal bonds yields. Rising UST yields are much less of a concern for Russia, thanks to its much stronger balance sheet, than for other emerging countries. And a dovish Fed reinforces the reflation trade and boost cyclical stocks that make two thirds of the Russian stock universe.

Russian stocks and the rouble started April on the back foot as geopolitical risks simmer again in the background with Russian troops heading again towards the Ukrainian border. We do not believe Russia will start a full-fledged military intervention in Ukraine, which risk-reward factor would be clearly on the negative side. Putin was upset by Zelensky's recent crackdown on the assets of his associate Medvechuk, and the closure of three TV channels that were actively used by the Kremlin to influence the mass opinion in Ukraine. Russia is therefore called to use other levers, such as more action on the frontline in Donbas implying more Ukrainian soldiers killed and more pressure on Zelensky to have him capitulate on Russia's terms for the resolution of the Donbas conflict.

While more sanctions are also on the way for Russia for alleged meddling in the US election, our take remains that any further sanctions are likely to target individuals and state entities rather than private listed companies or sovereign debt.