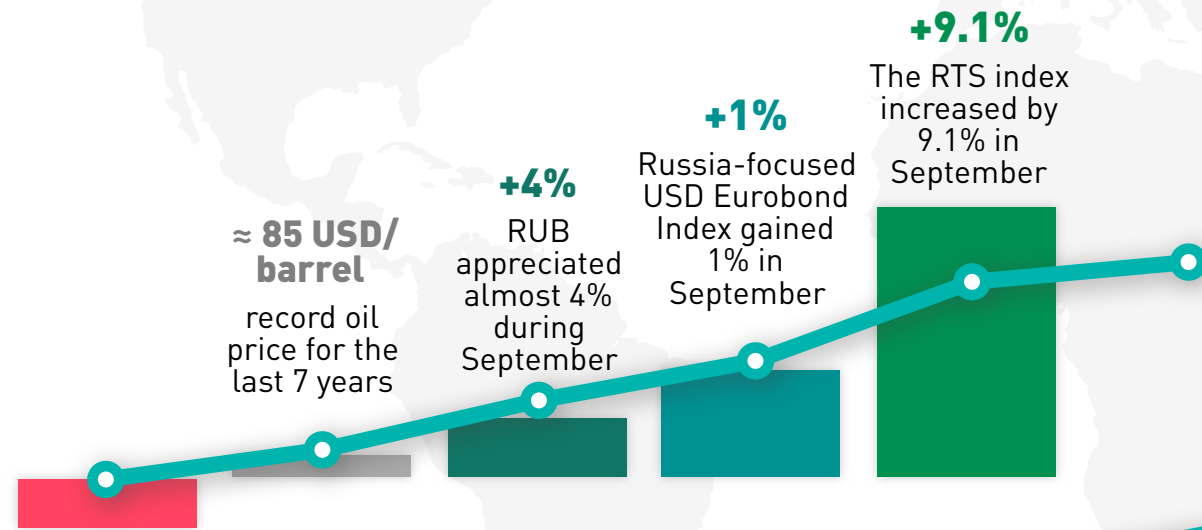


INVESTORS IN RUSSIA MADE PROFIT

The RTS index increased by 9.1% in September outperforming MSCI EM index that was down 0.76% over the same period. The RUB denominated MOEX index hit historic high breaking 2400 level.

Russia-focused USD Eurobond Index gained 1% for the last month vs JP Morgan Emerging Market Bond index up 1.8.



The Russian economy will expand 1.8% in 2018 from 1.5% last year according to Bloomberg survey.

New wave of US sanctions?

≈ 85 USD/barrel
record oil price for the last 7 years

+4%
RUB appreciated almost 4% during September

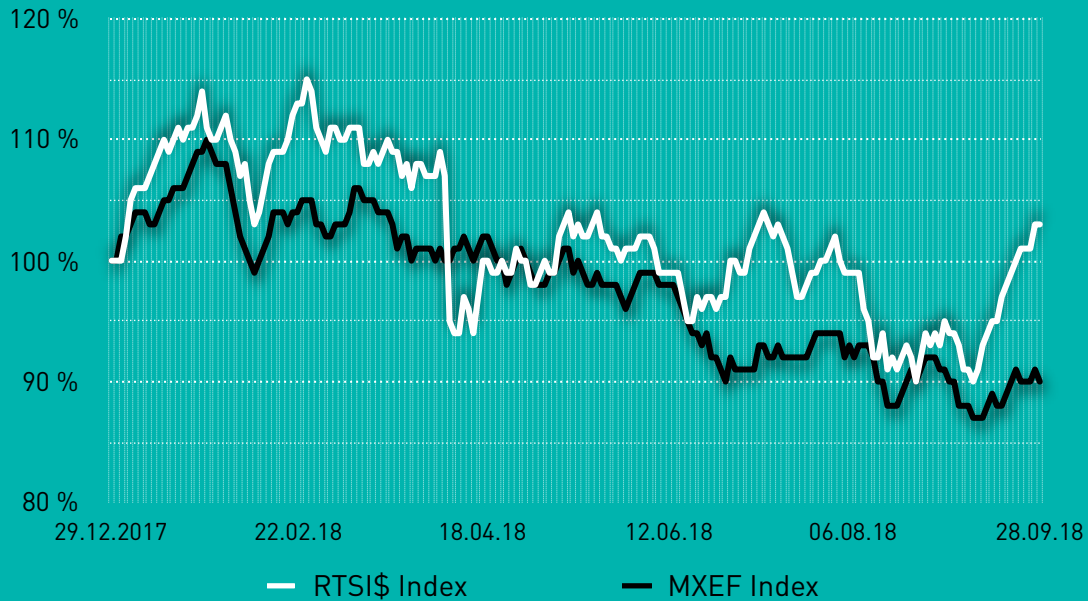
+1%
Russia-focused USD Eurobond Index gained 1% in September

+9.1%
The RTS index increased by 9.1% in September

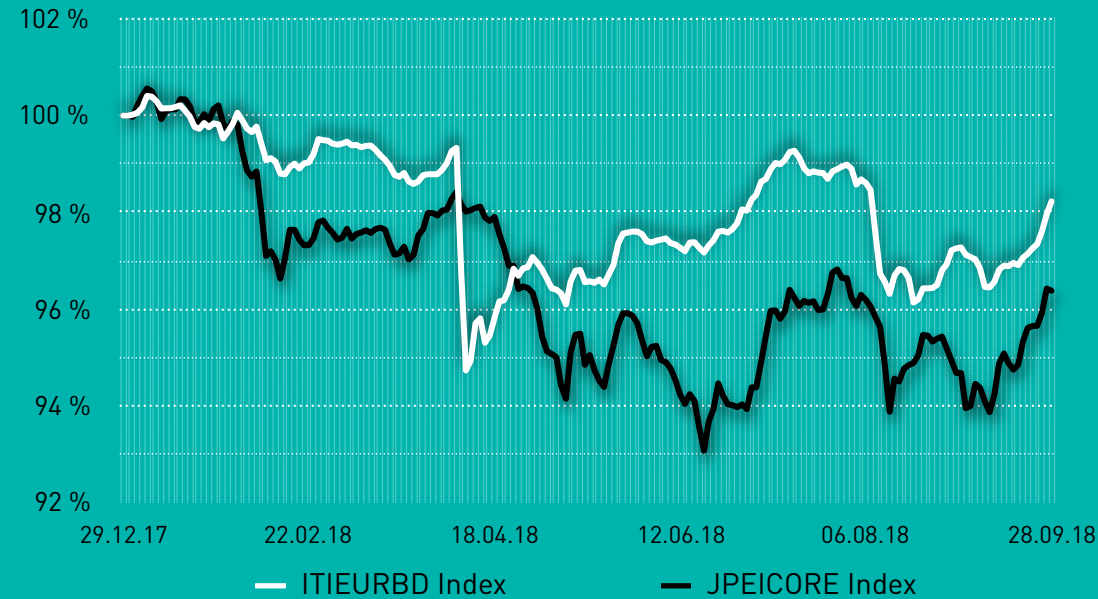


One of the reasons why Russian market was ahead of EM was crude oil price rally. Brent oil jumped above \$85 per barrel, a four-year high, due to U.S. sanctions on Iran's crude exports, which should take effect on Nov 04 and OPEC decision not to increase production despite the anticipated decline in Iranian oil exports. Analyst expect Iranian exports to drop by around 1 million barrels per day. According to FGE, crude prices can rise above \$100 per barrel as earlier as 2Q of next year.

RTS index performance vs MSCI EM



ITIEURBD index performance vs EM



Source: Bloomberg, ITI Funds as of 01/10/2018

WHAT HAPPENED

We believe that recent RUB appreciation as well as this move should improve risk appetite towards RUB currency and assets making carry trade appealing again.

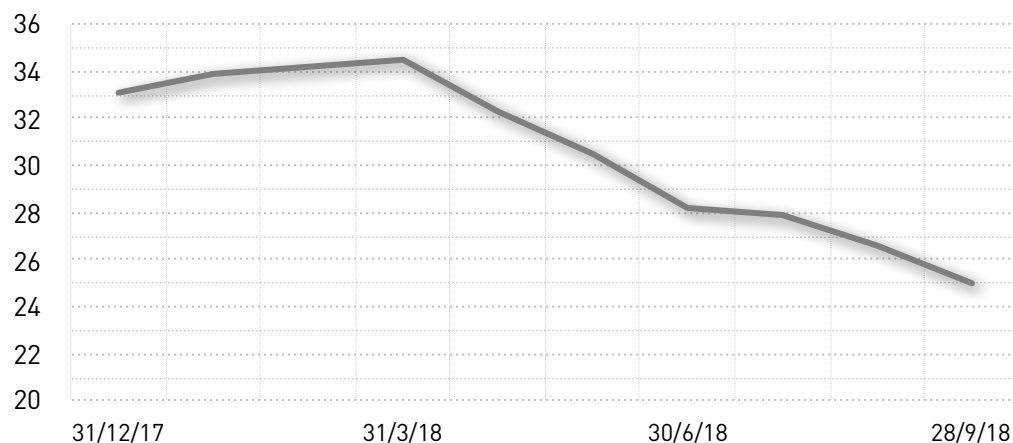
RUB appreciated almost 4% during September. As we mentioned previously Russian currency would win back substantial amount of losses due to possible rate hike. On September, 14 the Bank of Russia raised the key rate by 0.25 bp to 7.50%. The announcement of CBR to extend temporary halt of purchasing of USD for MinFin budget rule till the end of 2018 gave additional support to Russian currency.

In September yields of 10y Russian Federal Bonds (OFZ) spiked to 9.05% from pre-sanction level of 6.95% in April

WHAT TO WATCH FOR

Again, the main focus will be on US sanctions against Russia. We continue to believe that “bill from Hell”, will not become law, otherwise it might cause substantial negative “side effects” on international markets. According to Bloomberg and other news agencies U.S. Congress is unlikely to pass any new sanctions on Russia, including proposals that would affect Russian sovereign debt and energy projects, until after the November elections. Meanwhile Senate could pass this bill before the elections. Nevertheless, the delay means more uncertainty for investors. It was one of the reasons why in September the funds outflow from the Russian internal sovereign bonds (OFZ) market reached record highs. As reported by Bloomberg “foreigners unwilling to wait and see which sanctions will eventually make it into law have pulled more than \$7.5 billion out of Russia’s sovereign debt market since April”. In September share of non-residents in the OFZ market has decreased to approximately 25% from its pick of 35% in April.

OFZ non-resident market share (%)



Source: Bloomberg, ITI Funds

RUSSIA ECONOMIC ACTIVITY

| | 1Q 18 | 2Q 18 | 3Q 18 | 4Q 18 | 2018e |
|---------------------------------|-------|-------|-------|-------|-------|
| RUSSIA ECONOMIC ACTIVITY | | | | | |
| Real GDP (YoY %) | 1,3 | 1,9 | 1,8 | 2 | 1,8 |
| Industrial Production (YoY %) | 1,8 | 3 | 2,6 | 2,9 | 2,5 |
| PRICE INDICES | | | | | |
| CPI (YoY%) | 2,3 | 2,4 | 3,3 | 3,9 | 2,9 |
| LABOR MARKET | | | | | |
| Unemployment (%) | 5,1 | 4,8 | 4,8 | 4,8 | 4,8 |
| INTEREST RATES | | | | | |
| Key Rate | 7,25 | 7,25 | 7,5 | 7,6 | 7,6 |
| EXCHANGE RATES | | | | | |
| USDRUB | 57,34 | 62,78 | 65,56 | 67,04 | 67,04 |

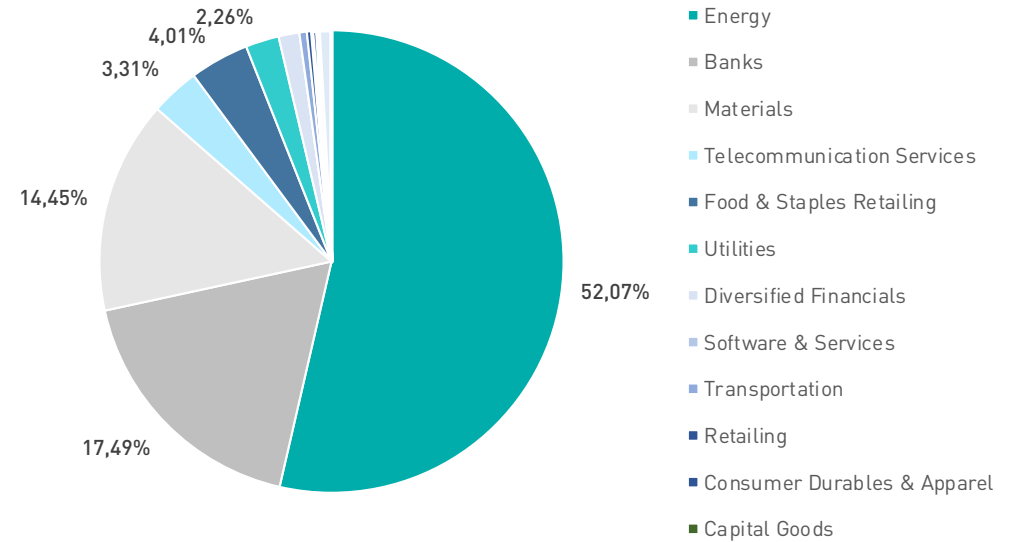
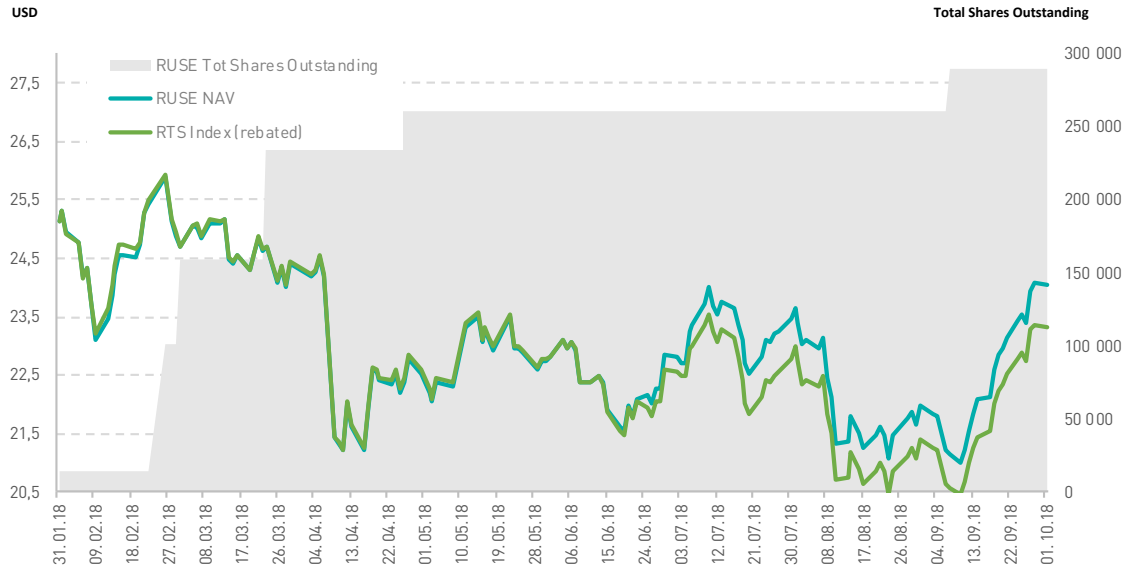
Source: State Statistics Committee, CBR, Bloomberg, ITI Funds

We believe that overhang is thus gone and don't expect selling pressure from international investors in the near future.

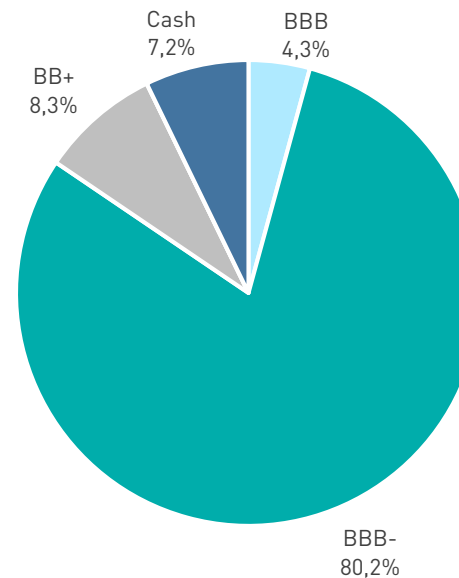
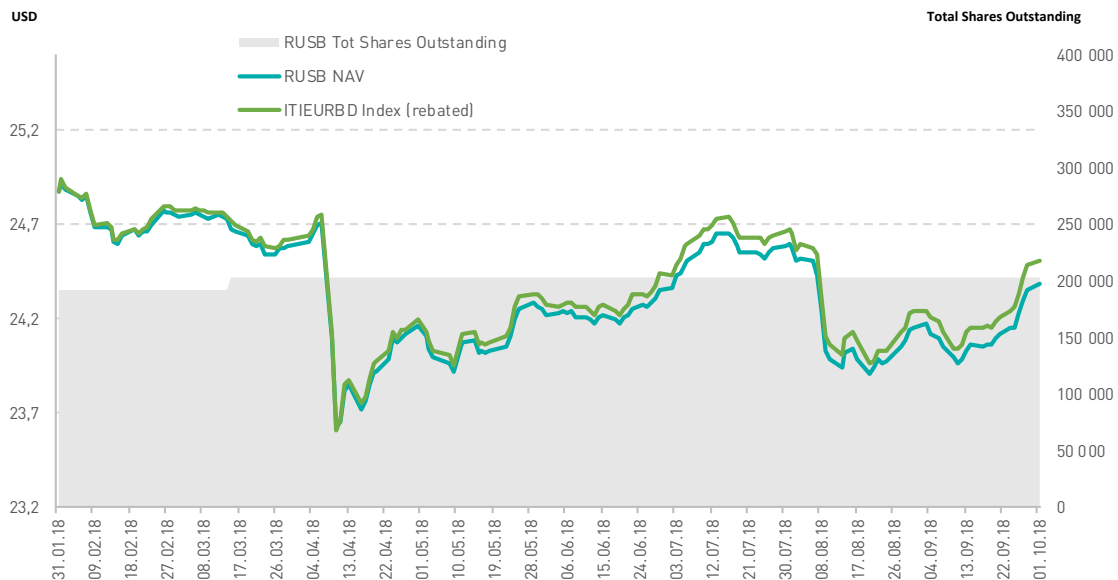
Furthermore emerging market Bond ETF soared to record size in September as investors are reallocating back to riskier assets, we consider that international investors should come back to Russian market as well causing a rally once situation with sanctions clarifies to the positive side

ITI FUNDS ETFS

ITI Funds Russia Equity ETF (RUSE)



ITI Funds Russia Bond ETF (RUSB)



Source: Bloomberg, ITI Funds

Russia Equity UCITS ETF

RUSE LN / RUSE RX

ITI Funds RTS Equity UCITS ETF is an open-ended Exchange Traded Fund, which aims to replicate the return of the RTS Index, Russia's oldest and most traded index. The ETF invests in 41 physical shares traded on Moscow Exchange, providing diversified exposure to 13 industries.

- Diversified exposure to Russian equity markets
- Physical replication to 41 largest and most liquid Russian equities
- Low cost access to local Russian securities
- USD denominated
- Euroclear settlement
- Listing on the London and Moscow Exchanges

Russia Bond UCITS ETF

RUSB LN / RUSB RX

ITI Funds Russia-focused USD Eurobond UCITS ETF is an open-ended Exchange Traded Fund, which aims to replicate the return of the ITIEURBD Index. The ETF offers unique opportunity to have physical access to 22 Russian USD Eurobonds, issued by top quality sovereign, quasi-sovereign and corporates.

- Diversified exposure to Russian USD Eurobonds
- Access to bonds with credit rating equal to Russia's sovereign rating (Ba1/BBB-)
- No sanctioned issues
- USD exposure
- Euroclear settlement
- Listing on the London and Moscow Exchanges

| | | |
|-----------------------------------|-------------------------------|-------------------------------|
| Fund Type: | UCITS ETF | UCITS ETF |
| Asset Class: | Equity | Fixed Income |
| Geo Focus: | Russia | Russia |
| ISIN: | LU1483649312 | LU1483649825 |
| RIC: | ITRUSE.L / RUSE.MM | RUSB.L / RUSB.MM |
| Bloomberg: | RUSE LN / RUSE RX | RUSB LN / RUSB RX |
| Exchanges: | London / Moscow | London / Moscow |
| Fund base currency: | USD | USD |
| Underlying currency: | RUB | USD |
| Benchmark: | RTSI\$ Index | ITIEURBD Index |
| Replication Method: | Physical - Fully | Physical - Fully |
| Distribution: | Annually | Capitalization |
| Rebalance Frequency: | Quarterly | Quarterly |
| Total expense ratio (TER): | 0.65 % | 0.5 % |
| Fund domicile: | Luxembourg | Luxembourg |
| Custodian: | Edmond de Rothschild (Europe) | Edmond de Rothschild (Europe) |
| Management Company: | Fuchs Asset Mgmt. | Fuchs Asset Mgmt. |
| Investment Manager: | Da Vinci Capital Mgmt. | Da Vinci Capital Mgmt. |
| Auditor: | KPMG | KPMG |



London
Stock Exchange



MOSCOW
EXCHANGE

Both ETFs - RUSE and RUSB - are available on London Stock Exchange and Moscow Stock Exchange.

Both RUSE and RUSB are available for **REPO** via **Central Counterparty** at Moscow Exchange, which gives additional opportunities for institutional investors in terms of leverage and position management.

TRADING IDEA

Our previous call to buy RUSE LN has performed nicely +8,5% in two months. We close this idea and open a new one. We recommend to buy RUSB. We assume that RUSB should perform due to several reasons:

1. Selling pressure has gone from international and local investors
2. Corporates announced buyback programs – it will give natural downside protection to bond prices
3. Investors are returning to the EM Bond ETF - the inflow of one of the biggest fund targeting EM Bond has exceeded \$169 million making total AuM of \$14.31 billion.



ITI
FUNDS

ITI FUNDS SPECIFIC NEWS

RUSE (Equity ETF)

We are pleased to announce that combined volume traded on LSE and MOEX has increased 2 times in September vs August. AUM has also increased by 20%.

On September 21 Russian RTS Index quarterly composition rebalancing occurred. List of equities remained the same. Please, follow the link to see top-10 portfolio holdings:

<https://itifunds-etf.com/products/rts/>



RUSB (Bond ETF)

On September 17 ITI Funds Russia-focused USD Eurobond Index was regularly rebalanced. List of eurobonds remained the same. Please, follow the link to see top-10 portfolio holdings:

<https://itifunds-etf.com/products/itieurbd/>



October 22-25, 2018 partners and senior members of ITI Funds and Da Vinci Capital come on a business visit to China and Hong Kong.

We are pleased to note the growing interest to our product line in the region. ITI Funds is represented in Asia throughout Hong Kong office of its parent company Da Vinci Capital.

If you want to plan a meeting you can contacts us:

+44 (0) 2075628081
info@itifunds.com



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UCITS ETFs units/shares purchased on the secondary market cannot usually be sold directly back to UCITS ETF. Investors must buy and sell units/shares on a secondary market with the assistance of an intermediary (e.g. a stockbroker) and may incur fees for doing so. In addition, investors may pay more than the current net asset value when buying units / shares and may receive less than the current net asset value when selling them.

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