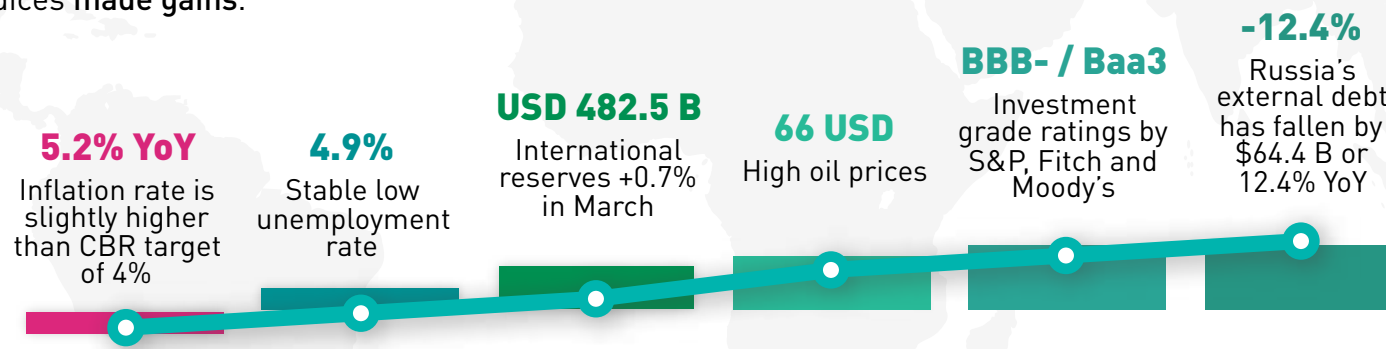


RUSSIAN MARKET - GOOD TREND!

The Russian market has pared all of its February losses thus far in March (the RTS Index lost 2% in February, while the MSCI Emerging Markets Index was flat), bringing its YTD* outperformance of its EM peers to almost 3%. The main reason the RTS Index underperformed in February was resumed sanctions rhetoric from US senators; **the absence of further sanctions developments, as well as the strong ruble, lifted the Russian market in March.**

ITI Funds' **Russia-focused USD Eurobond Index (ITIEURBD)** and JP Morgan's Emerging Market Bond Index were both flat in February, while in March both indices **made gains.**

*as of March 22, 2019

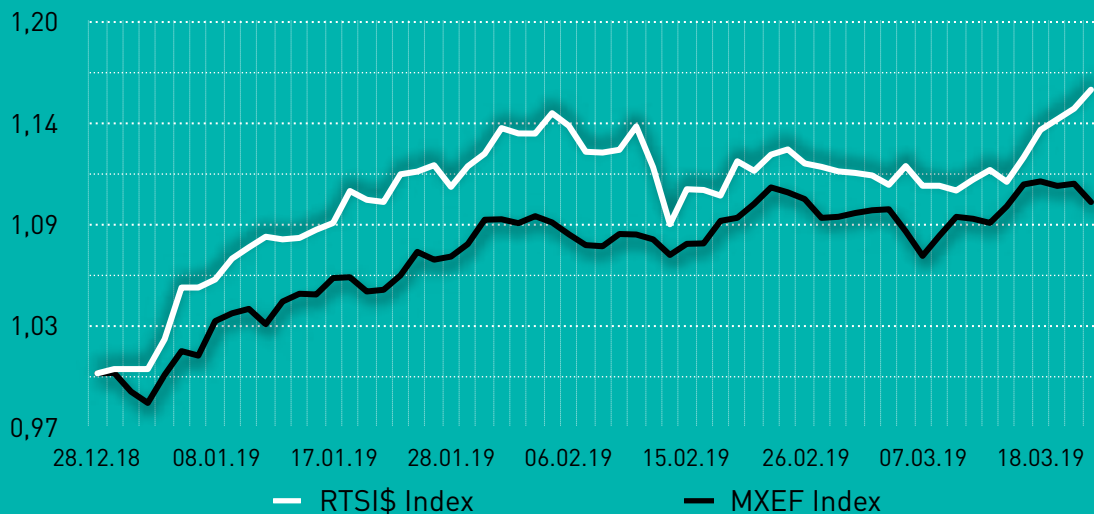


Sources: CRB.ru, ITI Funds Bloomberg

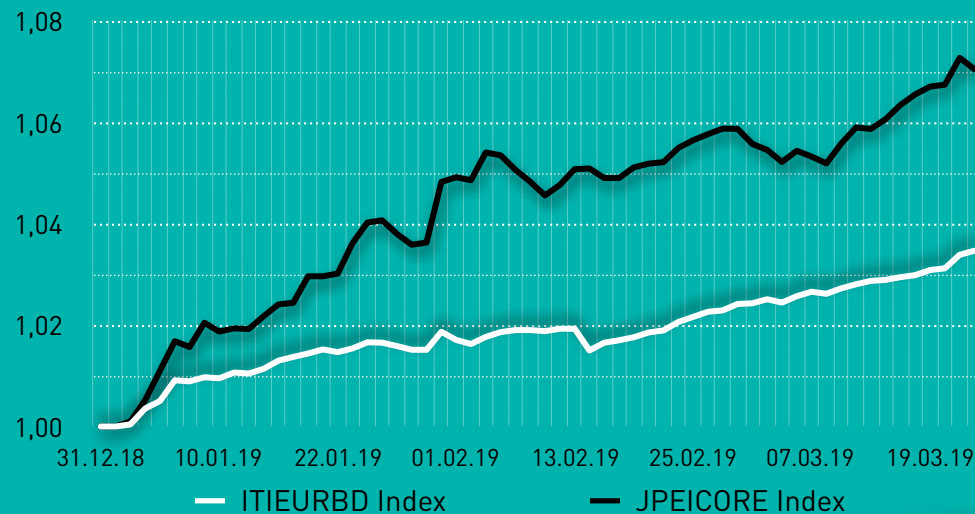


ITI Funds is a European ETF provider specializing in emerging markets. The two UCITS ETFs provide exposure to Russian Equity and Fixed Income Markets. Both ETFs are available for REPO via Central Counterparty at Moscow Exchange, which gives additional opportunities for institutional investors in terms of leverage and position management.

RTS Index performance vs MSCI EM



ITIEURBD index performance vs EM



Source: ITI Funds Bloomberg

WHAT HAPPENED

On 13 February, US senators introduced bipartisan legislation entitled the Defending American Security from Kremlin Aggression Act (DASKA), which is essentially an updated version of a previous bill (that had been dubbed the "sanctions bill from hell"). The previous version of the bill provided for sanctions against Russia's sovereign debt and state banks. The key difference between the two is that the revised legislation does not contain a list of banks that could be the target of new sanctions; this time, the president himself will determine which banks are to be sanctioned. The new legislation includes a requirement to submit reports on Russia- and Ukraine-related issues to the US administration.



ITI Capital's chief strategist Iskander Lutsko commented that "sanctions against Russia will get tougher and there is at least a 60% chance that they will include sanctions against OFZs on the primary market (unprecedented). Other sanctions' provisions would have a neutral impact. The banking targets will be limited to non-systemic lenders such as Promsvyazbank. We think the immediate impact will be quite painful, but in the medium term the market will partially restore and consolidate, albeit remaining in the lower boundary range. Recovery is conditional on whether there will be further sanctions, as was the case in 2014, or not. We estimate that the US sanctions will be announced before April and hence recommend taking hedging positions before that".

<https://iticapital.ru/analytics/analytical-research/11330/>

MOODY'S **Baa3**

FitchRatings **BBB-**

► Nevertheless, Moody's upgraded Russia's credit rating to investment grade in early February, raising it to Baa3 from Ba; the agency said that the country's vulnerability to external shocks, including US sanctions, had "materially diminished". Moody's still sees a "reasonably high likelihood" that the US might impose further sanctions, but believes the government's ability to resist external shocks has improved since 2015, when the agency cut Russia's rating to junk status.

Fitch Ratings also affirmed Russia's investment grade credit rating of BBB-, citing a strong sovereign balance sheet and robust external finances, and kept its outlook as positive. However, Fitch noted that "the prospect of harsher additional US sanctions remains high, maintaining risks for sovereign financing flexibility, private sector access to international financing and macroeconomic volatility, as well as weighing on growth prospects". Russia's bonds are now rated investment grade by all three major rating agencies.

We remain positive on Russia's outlook for financial investors, as its fundamentals are still strong.

With the US Federal Reserve pledging to be "patient" with future rate hikes, EMs should do better this year, in our view, and may even experience a rally. As such, some analysts have recommended looking at assets of countries with strong fundamentals, such as Russia, whose economy is doing fairly well despite geopolitical tensions persisting. Russia's GDP growth reached 2.3% in 2018, accelerating from 1.6% in 2017, according to Rosstat's initial estimate. This is the highest rate in six years, and significantly exceeds all market expectations, including those by the government and the IMF.

The ruble has appreciated by 7.6% YTD due to strong foreign demand for Russian treasury bonds at auction and higher oil prices.

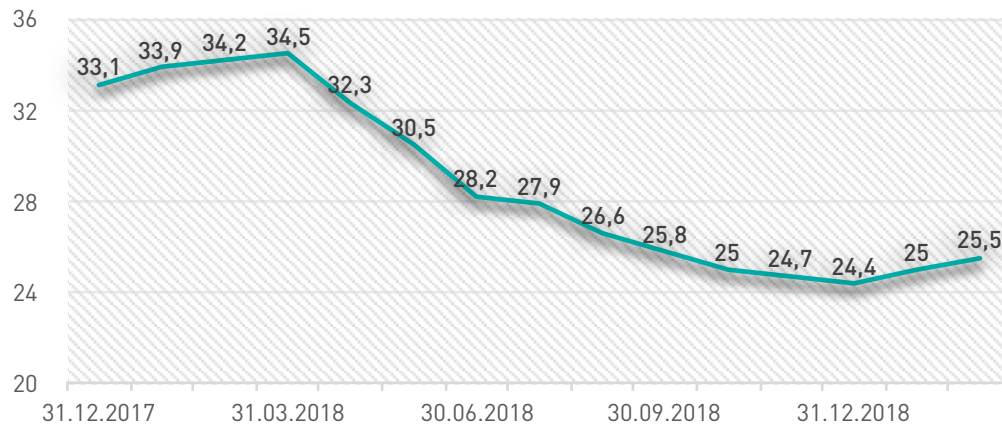
RUSSIA ECONOMIC ACTIVITY

	1Q 18	2Q 18	3Q 18	4Q 18	2018	2019
RUSSIA ECONOMIC ACTIVITY						
Real GDP (YoY %)	1,3	1,8	1,5	1,9	2,3	1,50
Industrial Production (YoY %)	2,8	2,2	2,1	2	2,9	2,20
PRICE INDICES						
CPI (YoY%)	2,3	2,4	3	3,9	4,2	5
LABOR MARKET						
Unemployment (%)	5,1	4,8	4,6	4,8	4,8	4,8
INTEREST RATES						
Key Rate	7,25	7,25	7,5	7,75	7,75	7,65
EXCHANGE RATES						
USDRUB	57,34	62,78	65,56	69,35	69,35	67

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

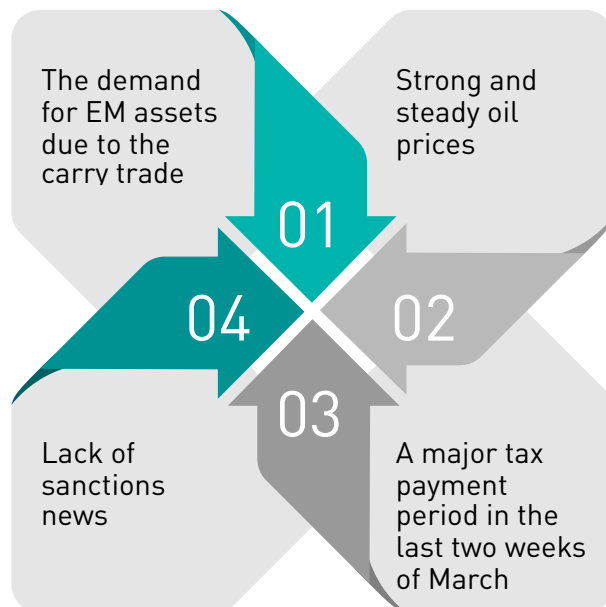
Foreign investors owned 25.5% of Russian OFZs as of 1 March, up 0.5% MoM. February was the second month of growth after nine months of downsizing. The increase, though small, shows that investors still take a constructive view of Russia.

OFZ Non-resident Market Share (%)



The Finance Ministry sold a record volume of OFZs on 13 March, placing securities worth 92 bln rubles, the equivalent of \$1.4 bln. Total demand reached 144 bln rubles, with 1.5 times oversubscription; more than half of the demand came from foreign investors.

We expect the ruble to continue appreciating over the coming weeks, taking into account:



- 2.3% Russia's GDP growth in 2018
- The ruble has appreciated by 7.6% YTD
- Foreign investors own 25.5% of Russian OFZs
- The Finance Ministry sold a record volume of OFZs: \$1.4 B

WHAT TO WATCH: EM RALLY TO CONTINUE

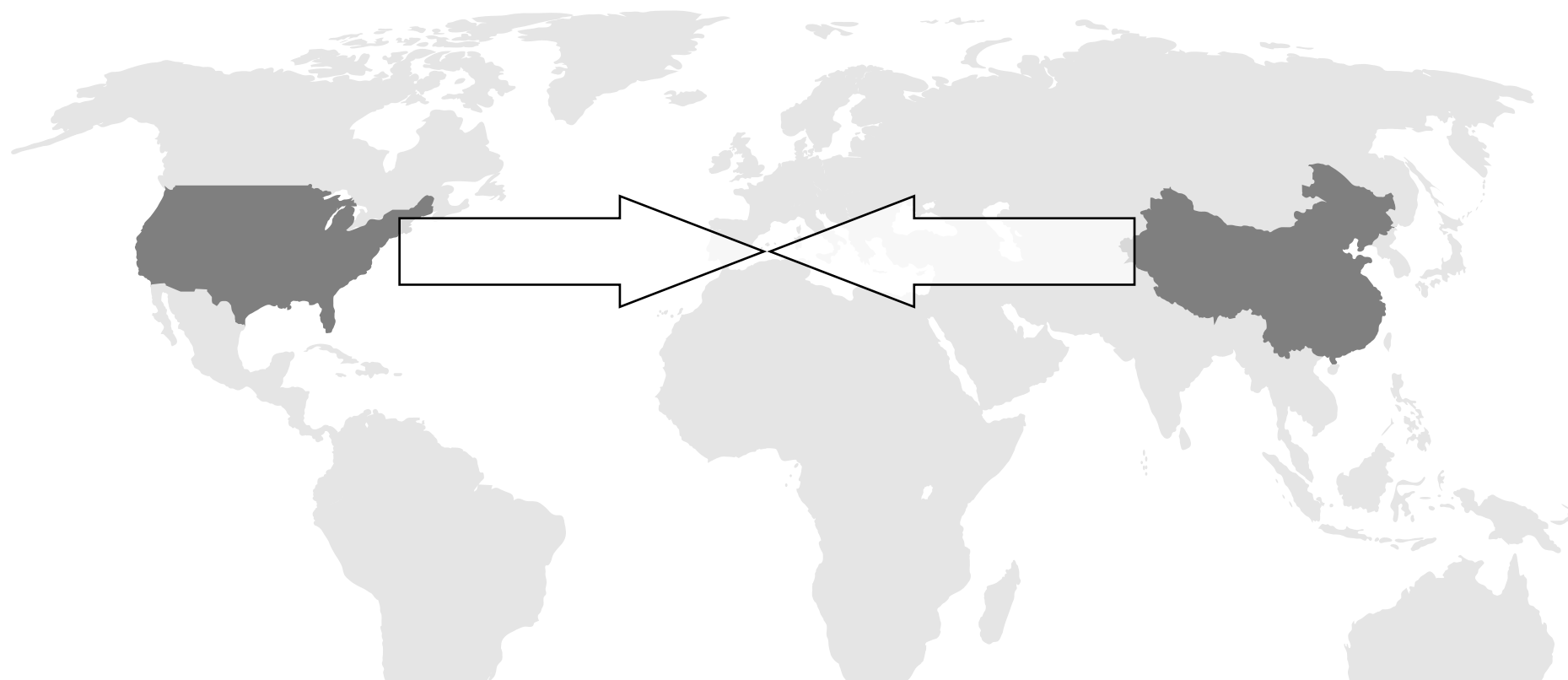
Bloomberg reports that some analysts are becoming cautious on EM assets as their performance seems to have been exhausted, especially local bonds and shares.

Nonetheless, not everyone is being so cautious: JP Morgan Asset Management, Amundi Asset Management and Hermes Investment Management believe that the outlook for EM stocks is brighter. Optimism is growing over a potential resolution to the US-China trade dispute, with the Fed looking likely to keep rates on hold. Slower US inflation and the outlook for less hawkish US policy has sparked a recovery in riskier assets. One of the main

arguments proffered by EM supporters is that bonds and currencies started this year's rally with cheaper valuations than a year ago, and that high-yield EM assets are still undervalued.

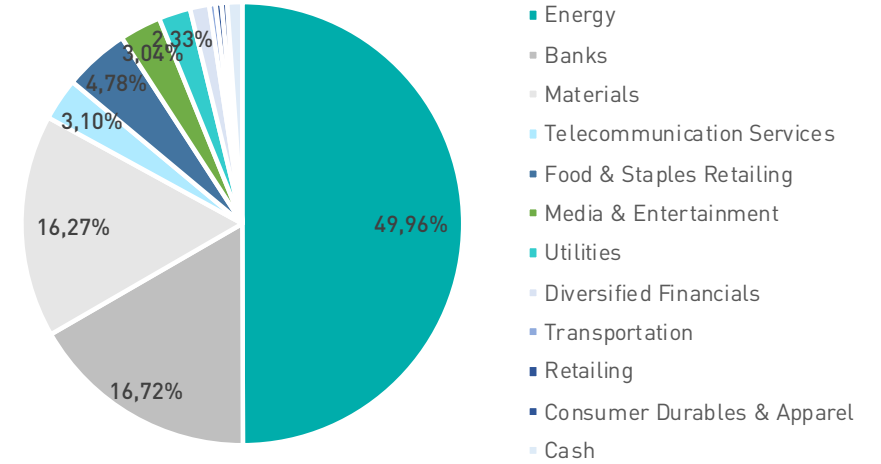
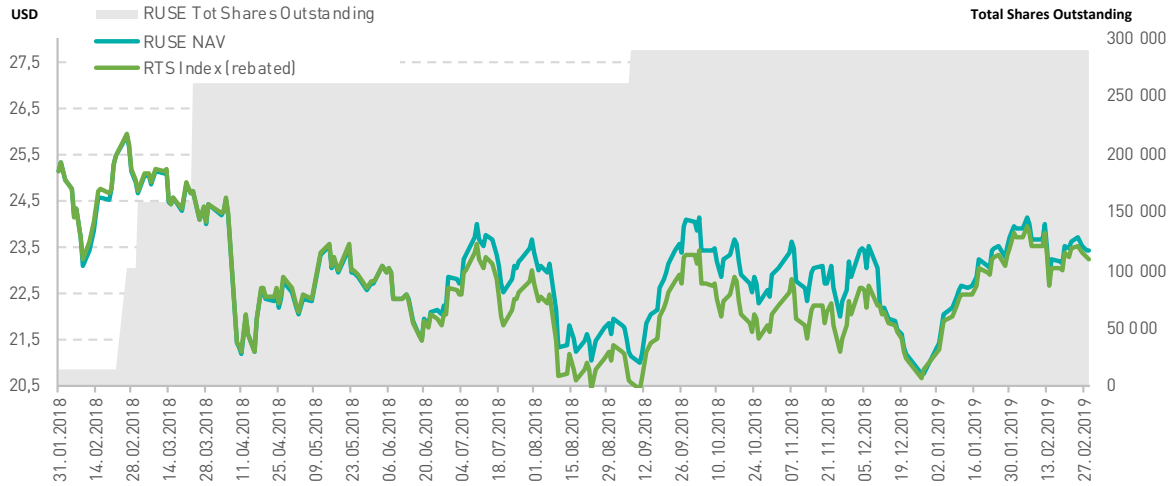
We believe that one of the catalysts could be a potential resolution to the US China trade dispute, with further developments expected in April.

Some analysts expect inflows to the Russian market to resume if US sanctions are not expanded in the coming months.

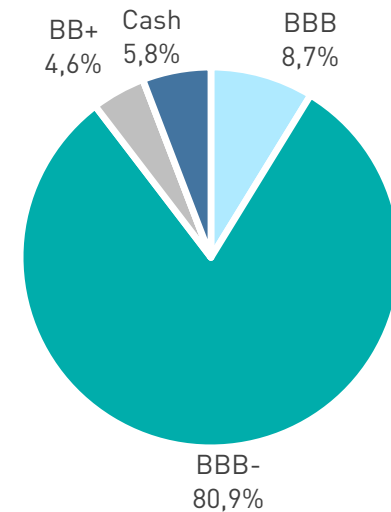
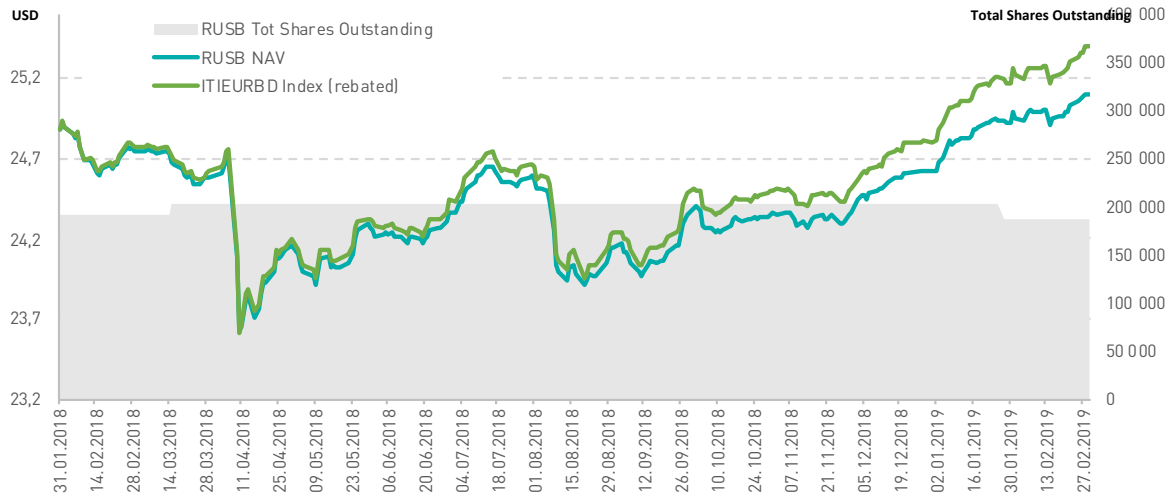


ITI FUNDS ETFS

ITI Funds Russia Equity ETF (RUSE)



ITI Funds Russia Bond ETF (RUSB)



Russia Equity UCITS ETF

RUSE LN / RUSE RX

Russia Bond UCITS ETF

RUSB LN / RUSB 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 12 industries.

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 20 Russian USD Eurobonds, issued by top quality sovereign, quasi-sovereign and corporates.

- 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

- 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.

Both ETFs are available via marketplaces of major Russian banks and brokers: Sberbank, Tinkoff, VTB, BCS, ITI Capital.

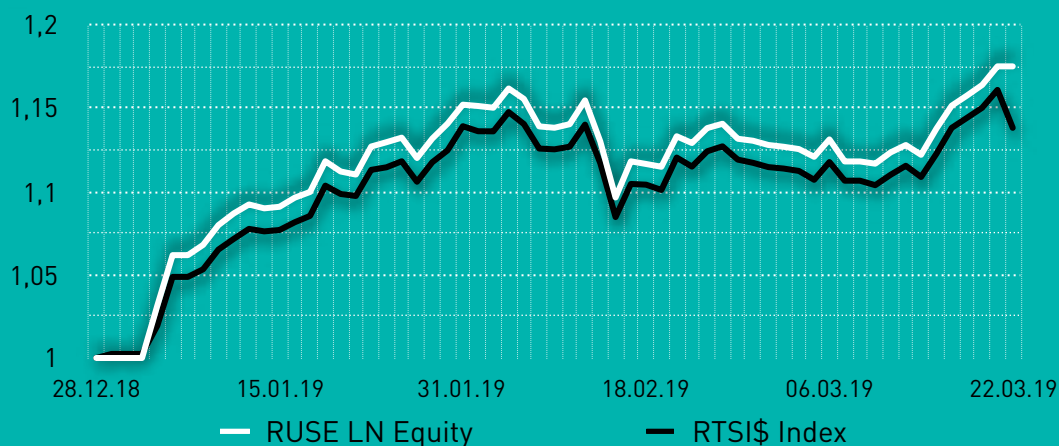


Tinkoff



TRADING IDEA

RUSE Performance



We recommend having a close look at ITI Funds RTS Equity UCITS ETF (RUSE:LN), 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 12 industries. RUSE's performance has almost fully recovered after a drawdown in February, which was caused by the resumption of sanctions rhetoric from US senators. We expect RUSE to continue growing due to the strong ruble.

ITI FUNDS ETF SPECIFIC NEWS

RUSE +11.57% YTD*

RUSB +2.94% YTD*

- Due to Rusal and En+ sanctions lifting at 01/27/2019 the fund has purchased RUAL equity, which is the member of tracked index. As the result ITI Funds RTS Equity ETF (RUSE) replicates RTS Index in full.
- At 02/04/2019 the new market-maker ITI Funds Russia-focused USD Eurobond ETF (RUSB) on Moscow Exchange was set up.
- At 02/22/2019 the setup of SOVA Capital Limited as executing broker for sub-fund was completed. SOVA Capital became the third executing broker on ITI Funds UCITS ETF SICAV platform.
- At 03/15/2019 ITI Funds Russia-focused USD Eurobond Index was rebalanced. As the result of rebalance VEBBNK 6.902 07/09/20, ALFARU 7 3/4 04/28/21 and PGILLN 5.25 02/07/23 were excluded from the index, while VEBBNK 6.8 11/22/25 was included into the index. The new composition of the index consists of 20 members. ITI Funds Russia-focused USD Eurobond ETF (RUSB) portfolio was adjusted in accordance to these changes.
- At 03/21/2019 RTS index was rebalanced. As the result of rebalance Mechel (MTLR) equity was excluded from the index. The new composition of the index consists of 41 members. ITI Funds RTS Equity ETF (RUSE) portfolio was adjusted in accordance to these changes.
- At 03/26/2019 the on the Annual Board Meeting the Board approved financials for 2018 financial year.



*market price, as of March 26, 2019

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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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