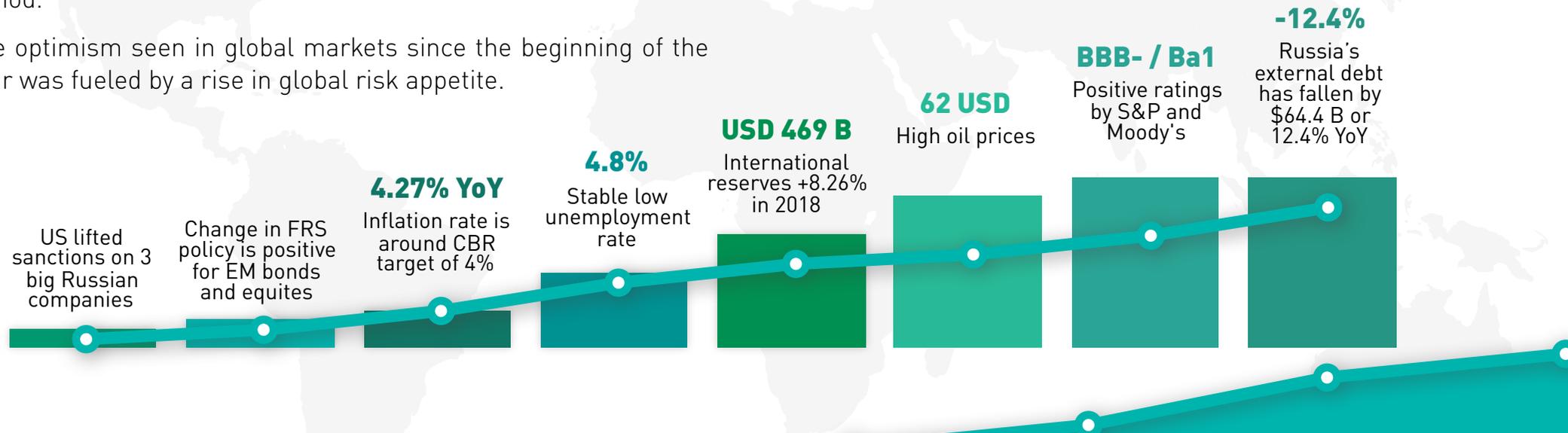


# RUSSIAN MARKET - GOOD NEWS!

The **RTS index gained 14.2% YTD**, while MSCI EM was up +9.1%. 17% rebound since the beginning of the year in oil price has supported the Russian market. The global performances have turned positive on a more supportive FED policy and US/China trade war positive developments.

**Russia-focused USD Eurobond Index gained 1.65% YTD** vs JP Morgan Emerging Market Bond index 4% gain for the same period.

The optimism seen in global markets since the beginning of the year was fueled by a rise in global risk appetite.

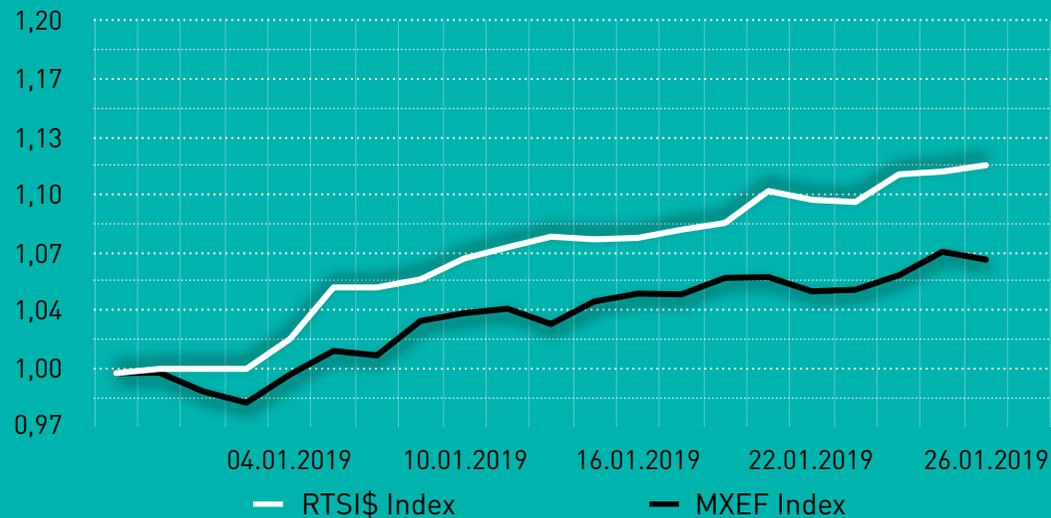


Sources: [CRB.ru](http://CRB.ru), ITI Funds Bloomberg

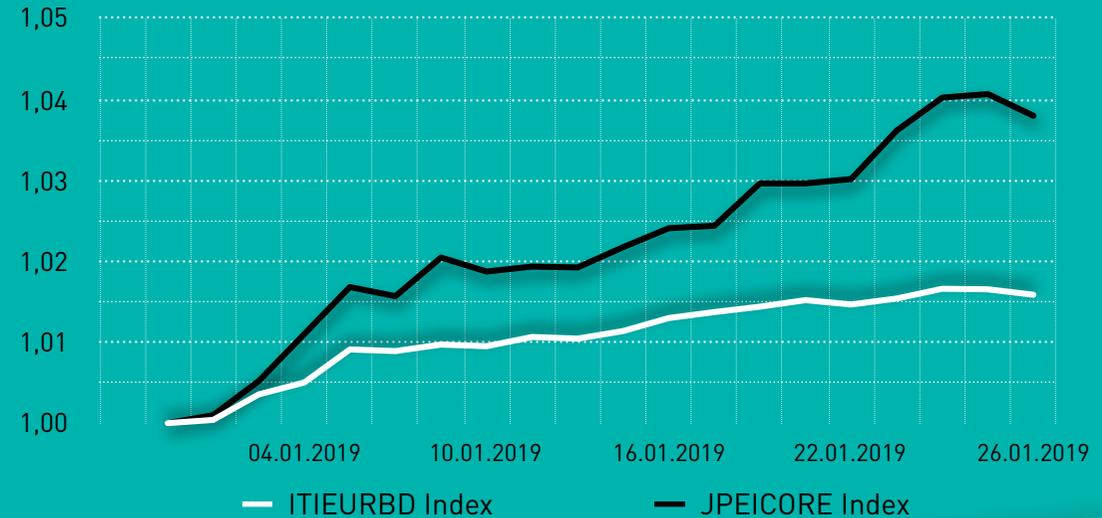


ITI Funds is a European ETF provider specializing in emerging markets. The two UCITS ETFs provide exposure to Russian Equity and Fixed Income Markets. Both ETFs are available for REPO via Central Counterparty at Moscow Exchange, which gives additional opportunities for institutional investors in terms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

## RTS Index performance vs MSCI EM



## ITIEURBD index performance vs EM



Source: ITI Funds Bloomberg as of 27/01/2019

## WHAT HAPPENED

Risk appetite returns to Emerging markets. Global investors plowed money back into stocks and bonds as they regained their appetite for risk, boosted by dovish comments from Federal Reserve Chairman Jerome Powell. Comments from FED stressing that the U.S. central bank can be patient in approving any further rate increases have triggered relief among investors who were concerned about continued rate rise.

EM funds attracted over \$10bn for the first month, according to EPFR Global data. Investors turn their attention to EM due to the combination of recent weak performance of EM and uncertainty in developed markets such as the US. Expectations that Federal Reserve will slow US interest rate increase also makes EMs more attractive.

Russian market was supported by rising oil prices as well as strong macro fundamentals. Brent managed to recover its losses due to production cut by OPEC+ countries as well as improving economic

prospects. Along with oil, ruble is also strengthening, reflecting its strong fundamentals of a strong trade balance.

► **Official sanction removal from Rusal** and EN+ was the main internal news which supported the Russian market. The U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) lifted sanctions imposed on En+ Group plc, UC Rusal, and JSC EuroSibEnergo, following an earlier notification submitted to Congress on December 19, 2018.

Another market driven news was a return of CBR to FX purchases on the open market starting 15 January as well as CBR's announcement that it would begin making up the forgone FX purchases starting 1 February. Purchases will be made evenly over 36 months. As a result, the total volume of interventions will increase by 2.8bn rubles a day. The Central Bank reserves the right to suspend purchases in case of threats to financial stability. The decision was pre-announced and widely expected and most of the analysts took CBR decisions as neutral to RUB.

# WHAT TO WATCH

▶ The U.S. and China will hold a key round of talks in the end of the January an attempt to end their trade war. [According to Bloomberg](#) president Donald Trump and China's Xi Jinping gave their officials until March 1 to work out a deal on "structural changes" to China's economic model. Should they fail, Trump has promised to raise the tariff rate on \$200 billion worth of Chinese imports to 25 percent (from 10 percent). The collapse of talks would dash hopes of a lasting truce that would remove one of the darkest clouds hanging over the world economy.

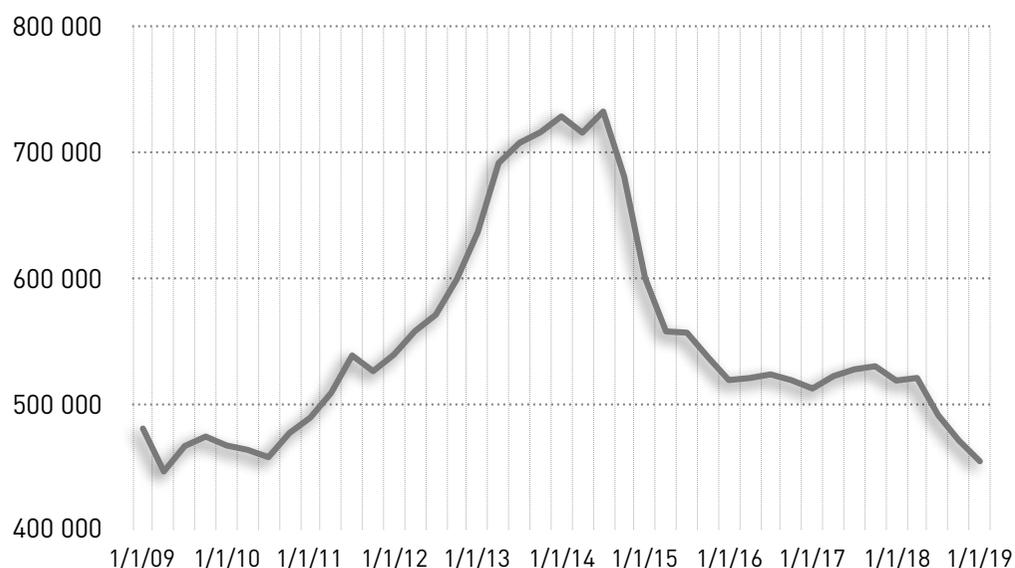
Anyway, most of the analysts consider Russia as resilient to higher US rates and trade wars. Russian market has strong valuation support, companies are paying higher dividends and the geopolitical backdrop has helped catalyze economic reforms designed to make the economy sustainable.

We continue to favor Russia among the EM due to strong macro fundamentals. According to the Fitch Ratings EMs face more downgrades than upgrades this year as foreign debt levels leave them

vulnerable to rising US interest rates and the strength of the dollar. While in Russia the institutional sectors, as well as other areas have contributed to reducing the country's external debt, which now has reached a nearly 10-year low. The CBR has reported a significant drop in the level of external debt over the last year. In the course of 2018 it reduced by \$64.4 billion or 12.4% when compared to the end of 2017. The total amount of Russia's external debt is now \$453.7 billion, which is the lowest level in nearly 10 years.

Russia's external debt has been consistently declining since 2014, when Western sanctions against the country's entities were first introduced. The sanctions have limited Russian banks' ability to get long-term credits abroad and have led to a shift in Russian imports. Some of the goods coming from Western states have either been replaced by domestic products or by imports from other countries not part of the sanctions regime.

## RUSSIAN EXTERNAL DEBT



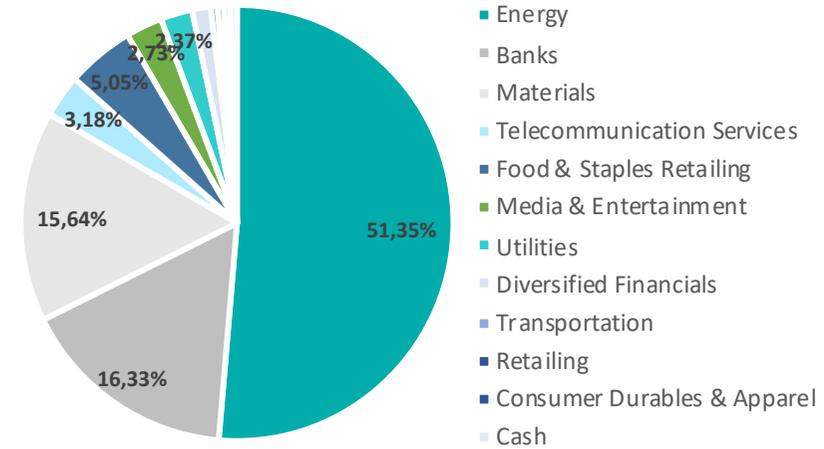
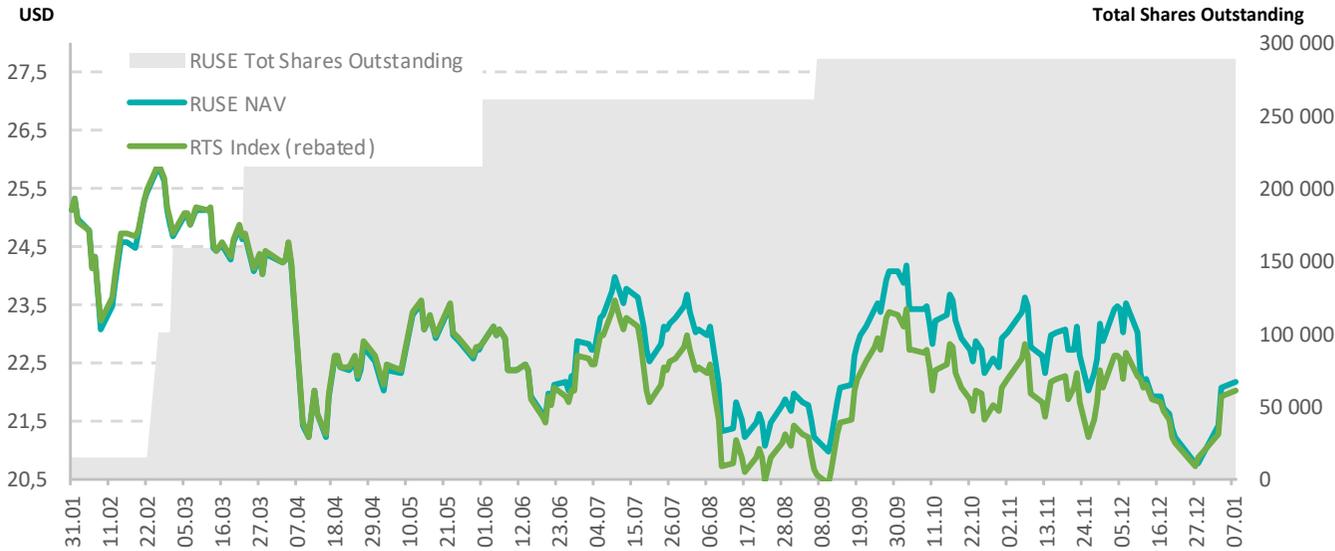
## RUSSIA ECONOMIC ACTIVITY

	1Q 18	2Q 18	3Q 18	4Q 18	2018	2019
<b>RUSSIA ECONOMIC ACTIVITY</b>						
Real GDP (YoY %)	1,3	1,8	1,5	<b>1,80</b>	<b>1,60</b>	<b>1,50</b>
Industrial Production (YoY %)	2,8	2,2	2,1	2	2,9	<b>2,20</b>
<b>PRICE INDICES</b>						
CPI (YoY%)	2,3	2,4	3	<b>3,9</b>	<b>4,2</b>	<b>4,8</b>
<b>LABOR MARKET</b>						
Unemployment (%)	5,1	4,8	4,6	4,8	<b>4,8</b>	<b>4,8</b>
<b>INTEREST RATES</b>						
Key Rate	7,25	7,25	7,5	7,75	7,75	<b>7,4</b>
<b>EXCHANGE RATES</b>						
USDRUB	57,34	62,78	65,56	69,35	69,35	<b>67</b>

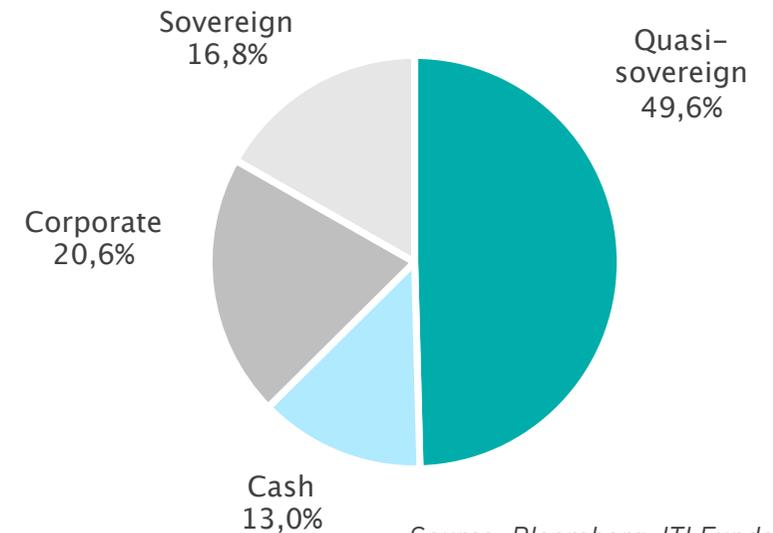
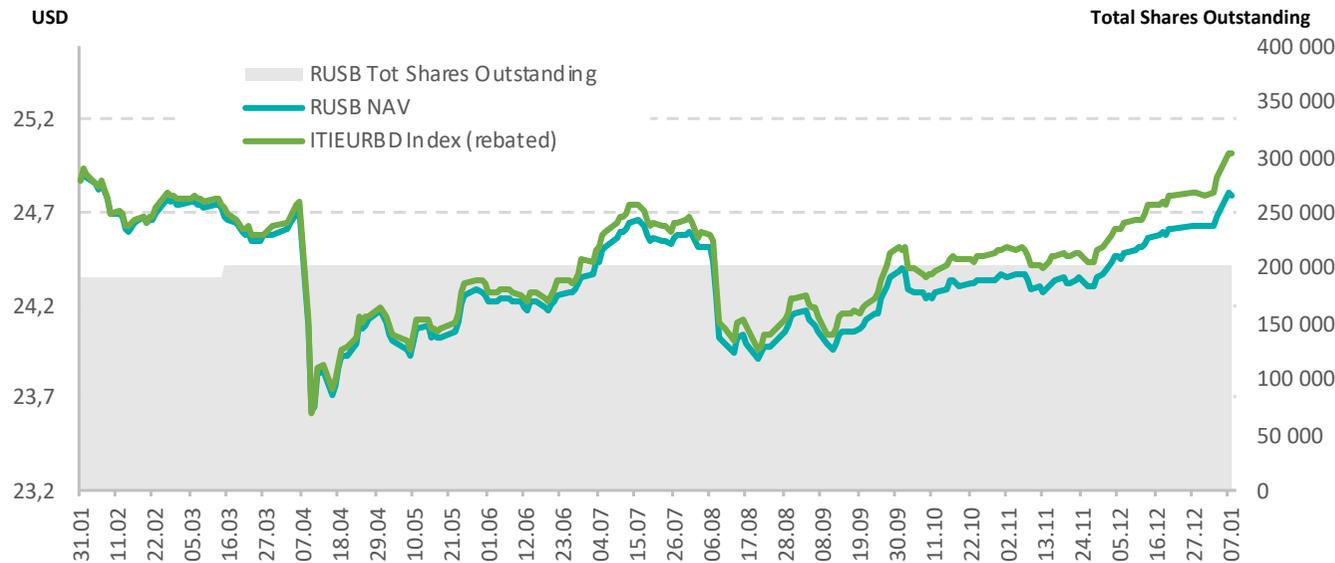
Source: State Statistics Committee, CBR, Bloomberg, ITI Funds

# 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 12 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 21 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

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

## TRADE IDEA

- ▶ Based on [ITI Capital recent report](#) Russian assets are back to the global investors' radars.

Suspended sanctions against Russia and ongoing US—China trade talks provide a favorable backdrop for EM growth. Taking into account that Russian stocks dividends and yields are set to hit unprecedentedly high levels: dividend payments could reach up to 10% of market cap, while dividend yield may hit an average of 7% (Russia's record and world's highest), **we recommend ITI Funds RTS Equity UCITS ETF as part of dividend strategy**. RUSE aims to replicate the return of the RTS Index. Thus, by buying ITI Funds RTS Equity UCITS ETF investor will have access to all top picks include Surgutneftegas, Alrosa, Norilsk Nickel, Severstal, FSK, Sberbank pref shares.

Russian stocks trade at a 50% discount to emerging markets (MSCI EM) based on their P/E. However, Russia's average dividend pay-out ratio (30%) still lags behind the global average (50%), suggesting a strong upside potential in contrast to other markets.



See analytical research for institutional clients by ITI Capital:

<https://iticapital.ru/analytics/analytical-research/11265/>



Download report «Dividend Strategy for 2019 - Russia: the land of generosity»:

[https://itifunds-etf.com/docs/Russia&CIS\\_Dividend\\_Strategy\\_for\\_2019.pdf](https://itifunds-etf.com/docs/Russia&CIS_Dividend_Strategy_for_2019.pdf)



More about RUSE:

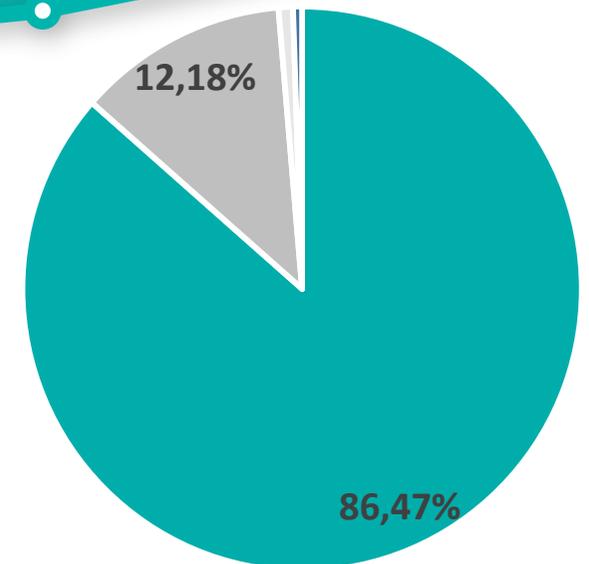
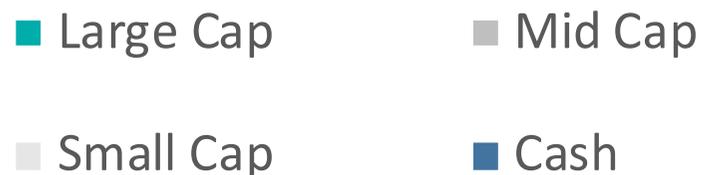
<https://itifunds-etf.com/products/rts/>

# RUSE LN TOP HOLDINGS

#	ISIN	Security Name	Currency	Country	Weight	Industry	3M Daily Traded Value USD
1	RU0009024277	LUKOIL PJSC	RUB	RU	16 %	Energy	70,352,574
2	RU0009029540	Sberbank of Russia PJSC	RUB	RU	14 %	Financials	191,325,483
3	RU0007661625	Gazprom PJSC	RUB	RU	13 %	Energy	57,845,012
4	RU000A0DKVS5	Novatek PJSC	RUB	RU	6 %	Energy	13,062,010
5	RU0007288411	MMC Norilsk Nickel PJSC	RUB	RU	6 %	Materials	24,267,331
6	RU0009033591	Tatneft PJSC	RUB	RU	5 %	Energy	13,401,323
7	RU000A0J2Q06	Rosneft Oil Co PJSC	RUB	RU	5 %	Energy	25,263,659
8	NL0009805522	Yandex NV	RUB	RU	3 %	Communication Services	10,716,069
9	RU000A0JKQU8	Magnit PJSC	RUB	RU	3 %	Consumer Staples	17,533,323
10	RU0007252813	Alrosa PJSC	RUB	RU	3 %	Materials	15,301,546

Source: ITI Funds Bloomberg as of 27/01/2019

## RUSE LN MARKET CAP BREAKDOWN



# ITI FUNDS ETF SPECIFIC NEWS

- ▶ **The U.S. Treasury Department lifted sanctions** on three firms tied to Oleg Deripaska - Rusal, En+ Group and EuroSibEnergo. Rusal's shares rose as much as 9.7 percent in Hong Kong on Monday, gaining for an eighth straight day. "This action ensures that the majority of directors on the En+ and Rusal boards will be independent directors, including US and European persons, who have no business, professional, or family ties to Deripaska or any other specially designated individuals, and that independent US persons vote a significant bloc of the shares of En+," the Treasury's Office of Foreign Assets Control said in a statement.

We think that this is yet another step towards reducing sanctions pressure on Russia that will at the end help Russian asset to perform after years of underperformance in line with other healthy emerging markets peers.

**Board of Directors of ITI Funds UCITS SICAV S.A. voted to reinclude Rusal shares into ITI Funds RTS Russia Equity ETF** (tickers RUSE LN / RUSE RX).

**RUSE +12.09% in January 2019\*** | **RUSB +1.31% in January 2019\***

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



\*market price

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[info@itifunds.com](mailto: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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