

RUSSIAN MARKET: CLEAR BLUE SKY

The Russian market continued to perform well in April: the MOEX Russia index reached a new historical maximum, while the RTS index surpassed its one year high. The RTS index gained 17% YTD*, while MSCI EM was up +12%. One of the reasons of Russian market solid performance was rising oil prices. Brent oil price climbed more than 10% in April as the United States officially confirmed that all buyers of Iranian oil must end their imports.

ITI Funds' Russia-focused USD Eurobond Index (ITIEURBD) outperformed its EM peer (JP Morgan Emerging Market Bond) by 1.3% in April*.



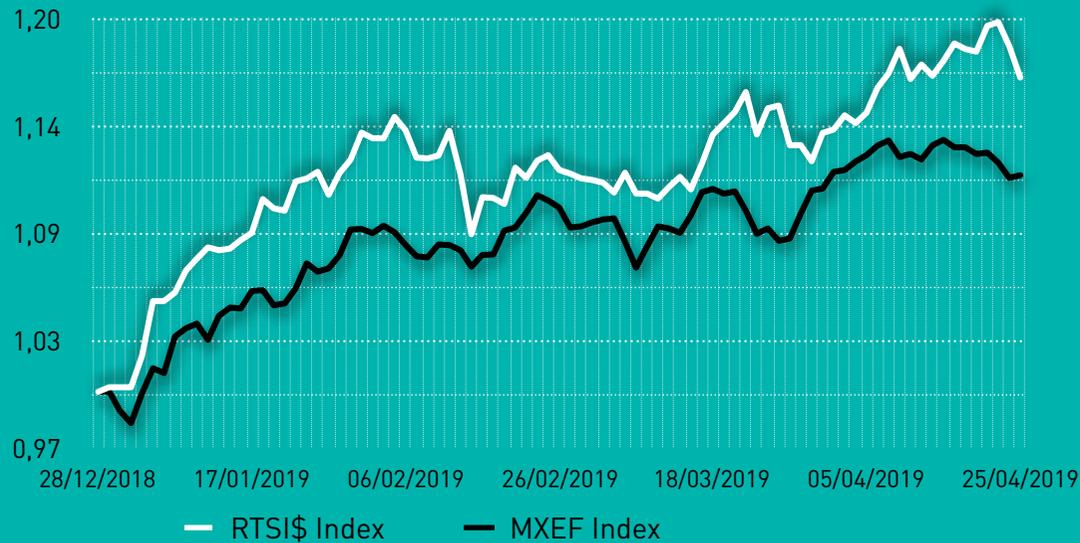
Sources: CRB.ru, ITI Funds Bloomberg

*as of April 25, 2019

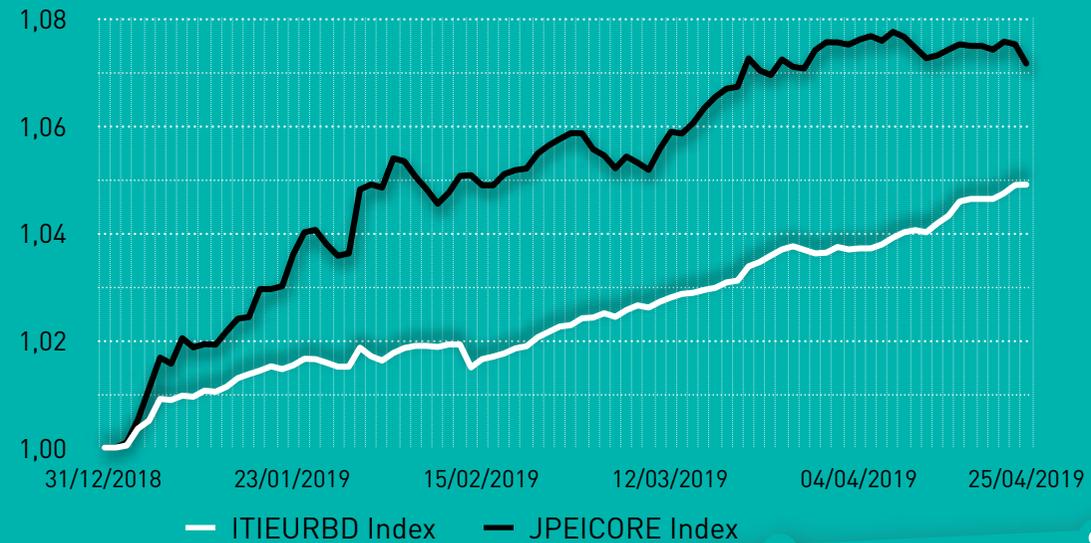


ITI Funds is a European ETF provider specializing in emerging markets. The two UCITS ETFs provide exposure to Russian Equity and Fixed Income Markets. Both ETFs are available for REPO via Central Counterparty at Moscow Exchange, which gives additional opportunities for institutional investors in terms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

RTS Index performance vs MSCI EM



ITIEURBD index performance vs EM



Source: ITI Funds Bloomberg

WHAT HAPPENED



On April 18th Special Counsel Robert Mueller's redacted report into Russian interference in the 2016 US presidential election has been released. The investigation did not find that US president Donald Trump or members of his campaign worked with Russia during the 2016 US president election. However, the report appeared to paint a picture of a president taking steps to control the investigation and not fully co-operating with the probe.



What does it mean for the Russia? Most of the analysts assume that Congress might focus on attempts by President Donald Trump to alter the course of the investigation rather than issues regarding to Russia, which should be positive for Russian Market and take the risk of further sanctions from US senators out of the scope.

But despite pretty lousy sentiment on all things Russia-related, **the Moscow Russia Index is up over 100%** in rubles in the last five years. It's now at a record high.

Now it seems that Russian economy managed to cope with all external shocks. The international reserves of the Russian Federation reached \$ 487.8 billion with the country's external debt at 17.4% of GDP. The **experts concluded that Russia could easily survive the global financial turmoil**, despite the low economic growth.

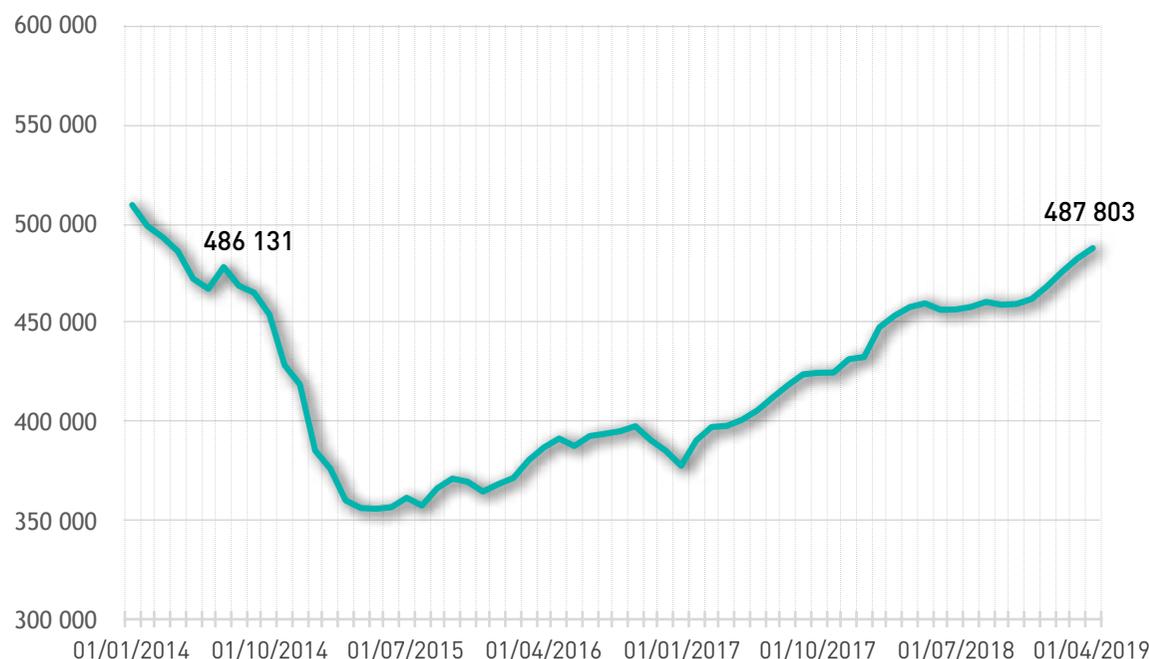
The volume of international reserves of the Russian Federation as of April, 1 2019 was \$ 487.8 billion against \$ 482.6 billion as of 1st of March, according to materials from the Central Bank of the Russian Federation. Over the month, the international reserves of Russia increased by another 5.2 billion dollars and reached the highest level in the last 5 years. Russia has not had such a volume of foreign exchange reserves since mid-March 2014, when sanction against Russia over Crimea were imposed.



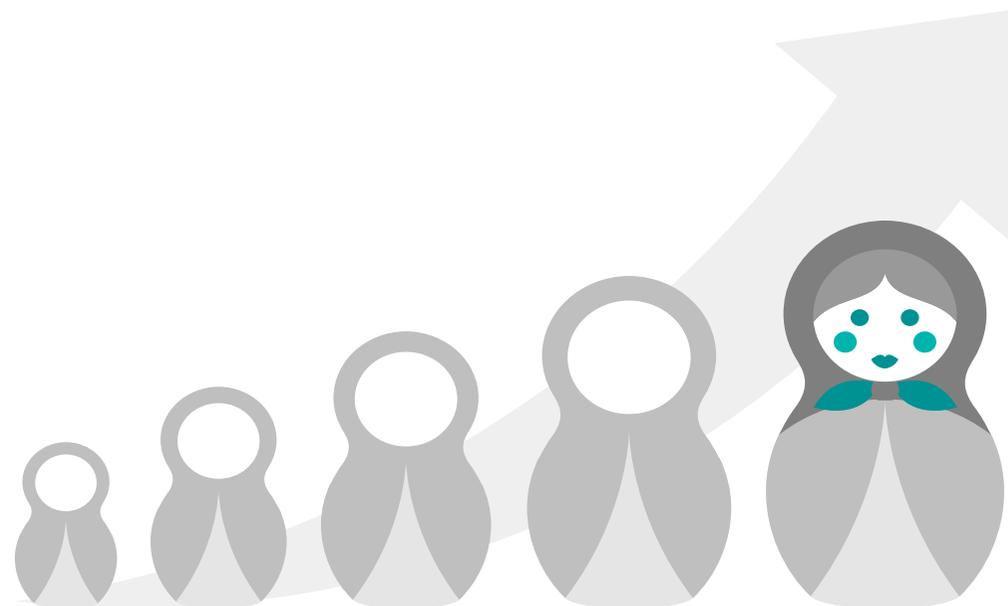
"It's actually amazing how well Russia has done given sanctions and sentiment," says Chris Gaffney, president of world markets at TIAA Bank. "It makes you wonder what would happen if Russia had sanctions reprieve. I think the market would grow like a monster. And if you consider Trump possibly starting a trade war with Europe, then Europe may be the first to lift its sanctions on Russia in retaliation," Gaffney says, thinking out loud on the possibilities for Russian securities should investor sentiment improve.

<https://www.forbes.com/sites/kenrapoza/2019/04/23/russias-stock-market-keeps-breaking-records/#417b0e834232>

International reserves of the Russian Federation (mln \$)



In April the Russian rouble strengthened to its highest level in nearly a month against the dollar after strong demand in government bond auctions that serve as a gauge of global market sentiment toward Russian assets. The Finance Ministry sold a record volume of OFZs in April, placing securities worth 404bln rubles. Demand for OFZ bonds was on the rise after months of uncertainty surrounding possible new U.S. sanctions on Russian debt holdings. More than a quarter of OFZ bonds are currently held by foreign investors. Central Bank Governor Elvira Nabiullina said that non-residents were expected to increase their share of holdings in the bonds to 34.5%. As of now the share of non-resident investors' holdings of Russian treasury bonds has increase to 26.7%.



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	4,9
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	7,55
EXCHANGE RATES						
USDRUB	57,34	62,78	65,56	69,35	69,35	66,5

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

WHAT TO WATCH

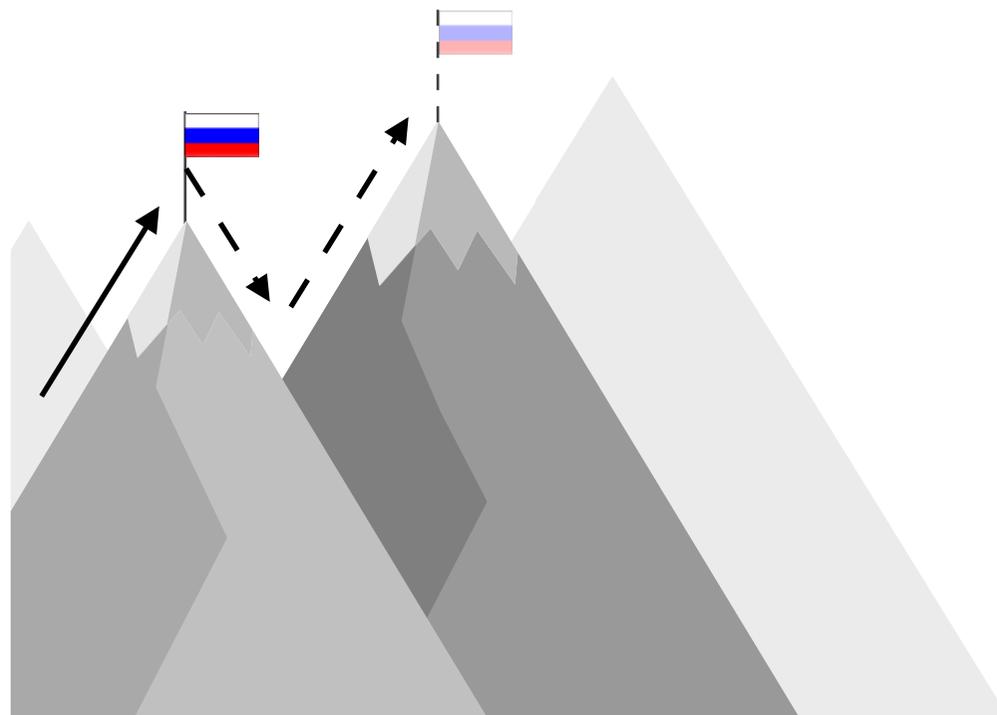
ITI Capital's chief strategist Iskander Lutsko expected that rouble and Russian market might face a tumble in May due to several reasons:

1. Most Russian assets have been in demand from both local players and foreign investors year-to-date. During the period, RTS climbed 17% in dollars, the rouble surged 9% against the dollar, sovereign eurobonds gained 5–6%, OFZ — 3–4%.
2. The dollar has been strengthening since March due to higher treasuries yields, reversing earlier weakness.
3. Majority of key growth factors are priced-in and the market waits for new triggers. However, before they emerge, we will witness a short-term technical correction in May.



Click the link to read the full story:

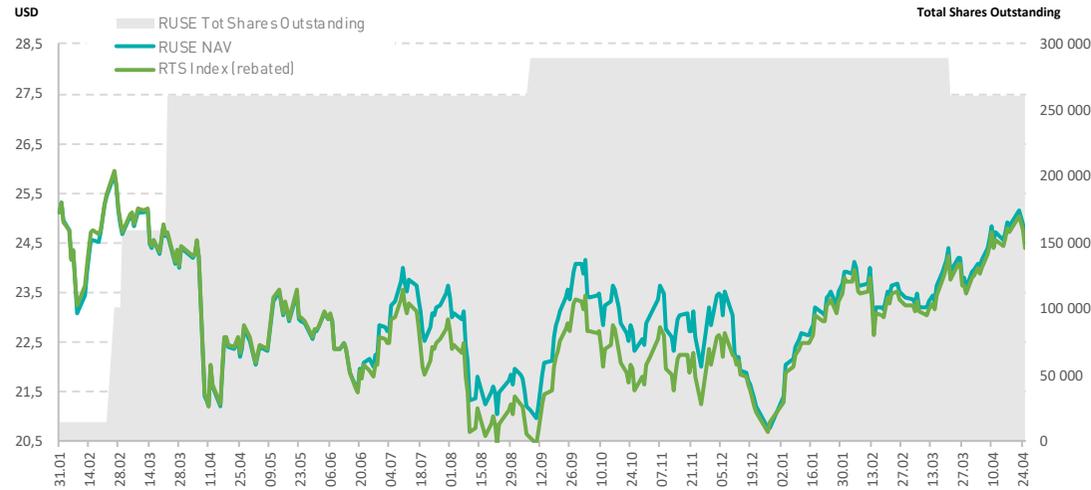
<https://iticapital.ru/analytics/analytical-research/11457/>



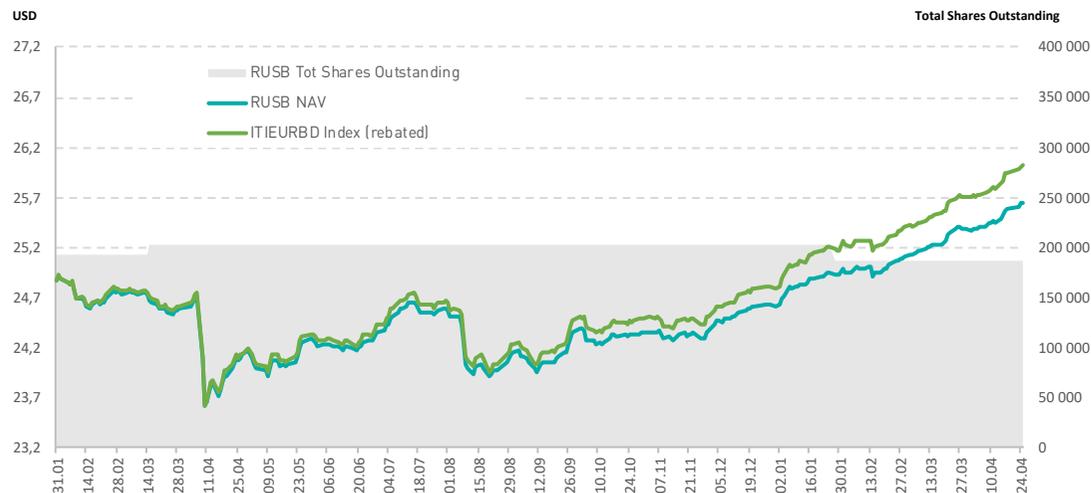
TRADING IDEA

For those who shared optimism over Russia that we expressed in previous newsletters, we think it will be prudent fix some gains. But long term we still have positive view on Russia: investors should use any selloffs as a buying opportunity.

ITI Funds Russia Equity ETF (RUSE)



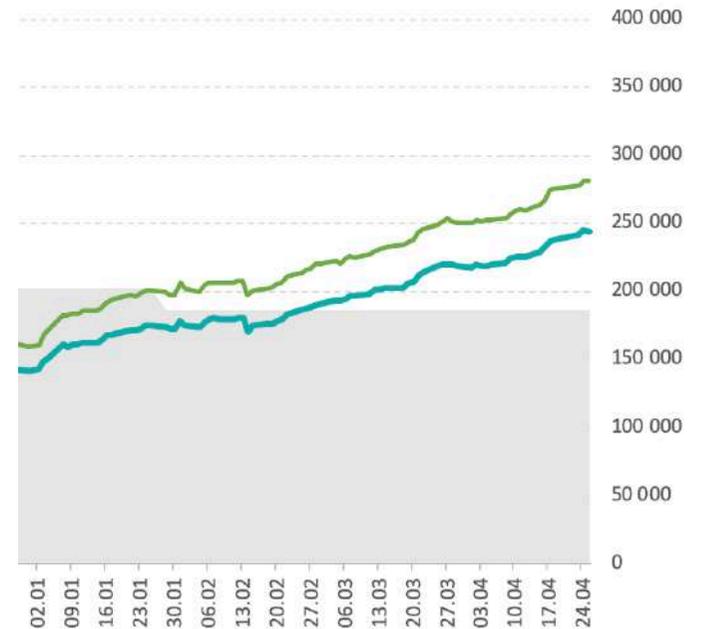
ITI Funds Russia Bond ETF (RUSB)



RUSE LN +14.75% YTD



RUSB LN +5.67% YTD



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 (Baa3/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, Alfa Bank, BCS, ITI Capital.



ITI FUNDS ETF SPECIFIC NEWS

At the 10th of April 2019 the Annual Shareholders meeting took place. Activities Reports, Consolidated Financial statement in accordance with International Financial Reporting Standard and Auditors conclusion for the period from August 4, 2017 to December 31, 2018 was presented to shareholders at the Meeting. According to the statement at the end of the period ITI Funds UCITS ETF SICAV net assets has reached approximately EUR 9,8 mln. Financial statement were approved by the Auditor (KPMG). Presented Reports on the Activities, Financial statement and Auditors conclusion have been accepted by the Meeting. The Meeting has also renewed the Board of Directors and the Auditor mandates.

RUSE +14.75% YTD*

RUSB +5.67% YTD*

At 29th of April 2019 the Moscow Exchange approved the admission of RUSE and RUSB ETFs to trading in USD on T+2 settlement basis. It will be more convenient and reduce costs for investors as they will no longer need to convert currency to trade ITI Funds ETFs. The USD trading with T+2 settlement on Moscow Exchange starts at 6th of May.

At the end of April the contract with one of Market Makers on Moscow Exchange has expired. ITI Funds UCITS ETF SICAV continues to seek for market-makers which are ready to provide good spreads for products at Moscow Exchange.

*market price, as of April 29, 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.

ITI Funds UCITS ETF SICAV S.A. is an open-ended investment company organised under the laws of Luxembourg as a société d'investissement à capital variable (SICAV), under the form of a public limited liability company (société anonyme) and authorised under part I of the 2010 Act. The Company has an umbrella structure consisting of several Sub-Funds. A separate portfolio of assets is maintained for each Sub-Fund and is invested in accordance with the investment objective and policy applicable to that Sub-Fund. ITI Funds UCITS ETF SICAV are authorised in Luxembourg and regulated by the Commission de Surveillance du Secteur Financier.