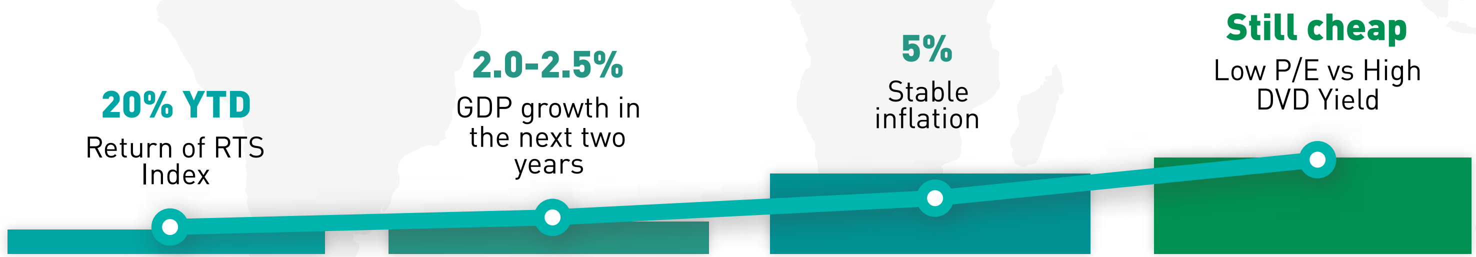
RUSSIAN MARKET: CORRECTION AHEAD?

The Russian market remained in favour in May, with the RTS index surging by 3%, bringing its YTD gain to 20%*. Russia currently has one of the best-performing markets in the world; it has shaken off the big EM selloff (the MSCI EM Index crashed by almost 8% in April), which was triggered by the escalating US–China trade dispute.

One reason the Russian market performed well was that Gazprom's shares price increased substantially after management announced planned changes to the dividend policy, which drastically change the gas giant's investment case. The new policy will set dividend payouts at 50% of IFRS net income. Gazprom's shares increased by 30% in May to their highest levels for eight years. Their weight in the RTS Index is 15%.

ITI Funds' Russia-focused USD Eurobond Index (ITIEURBD) performed in line with its EM peer, the JP Morgan Emerging Market Bond Index, in May, with both indices up 0.5%*.

RUSE gained 20.18% YTD. RUSB gained 7.03% YTD.

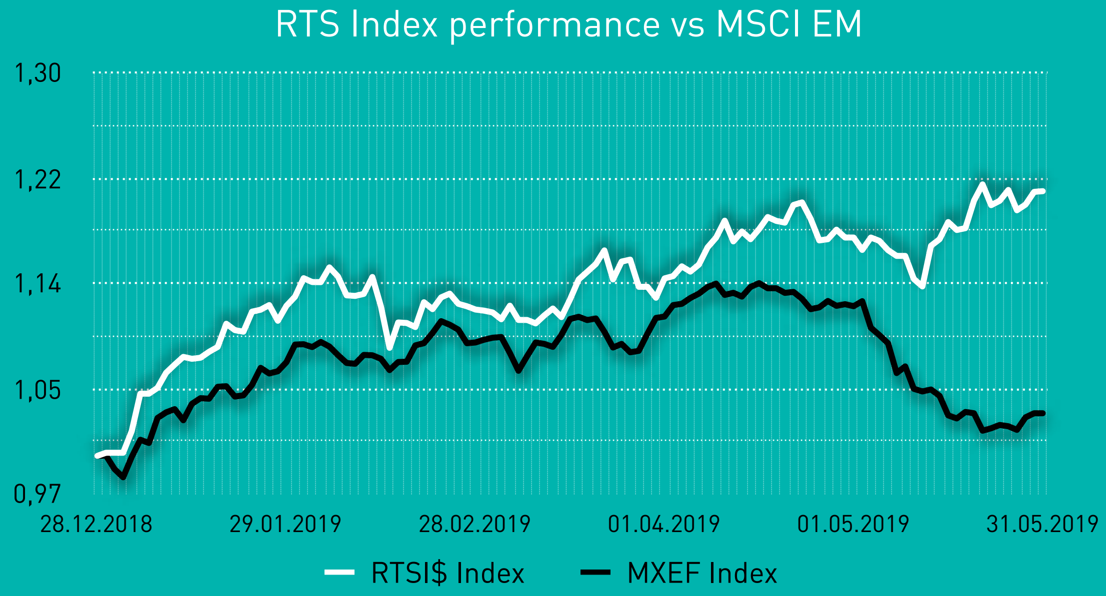


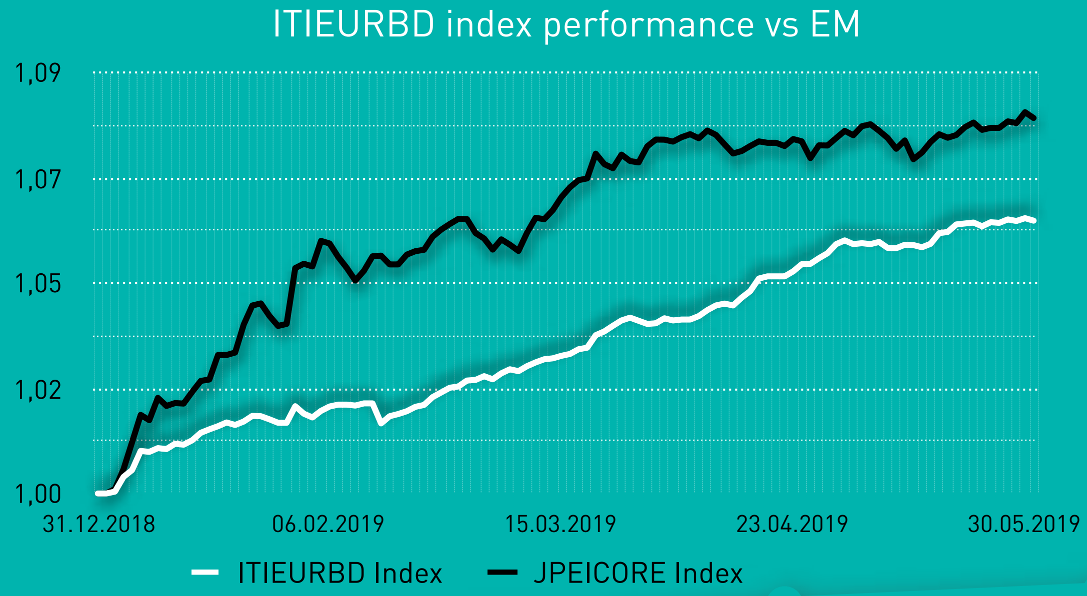
Sources: CRB.ru, ITI Funds Bloomberg

*as of May 31, 2019

ITI FUNDS

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.

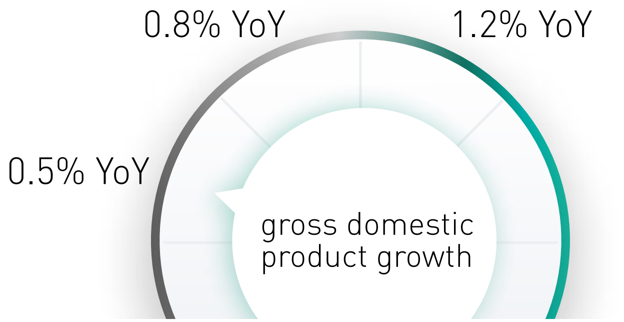




Source: ITI Funds Bloomberg

WHAT HAPPENED

RUSSIAN MACRO OVERVIEW



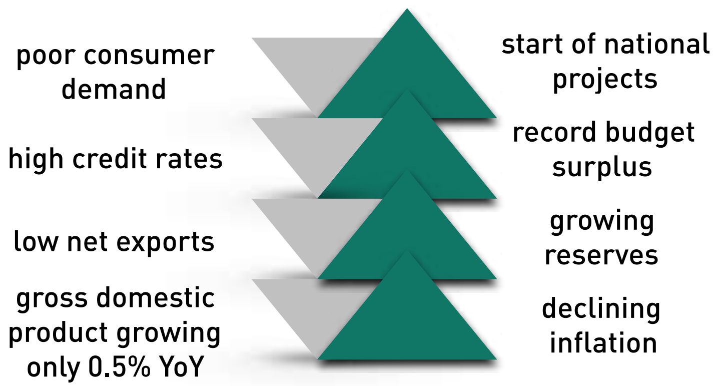
Rosstat's preliminary estimate shows Russia's gross domestic product growing 0.5% YoY in Q1 2019; this was much lower than the consensus of 1.2% and the Economy Ministry's 0.8% estimate (which was the forecast). The GDP-growth slowdown was due mainly to weak domestic demand amidst an increased tax burden and inflation.

Russian economists report that the current domestic trend reflects weakness in all key GDP indicators: consumer demand remains poor; investment is stagnant (growing by only 0.5% YoY in 1Q19 amidst weak demand and higher credit rates); government spending remains conservative (a tight fiscal policy coupled with delays in implementing national projects); and net exports remain under pressure (rising energy prices being offset by lower exports due to the warm weather and OPEC+ deal). Meanwhile, monetary and fiscal policies focus on lowering inflation, as evidenced by CPI slowing. Annual inflation slowed to 5.17% YoY in April after peaking at 5.25% YoY in March.

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	**1,40**
Industiial Prodaction (YoY %)	2,8	2,2	2,1	2	2,9	**2,10**
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	**7,4**
EXCHANGE RATES						
USDRUB	57,34	62,78	65,56	69,35	69,35	**65,8**

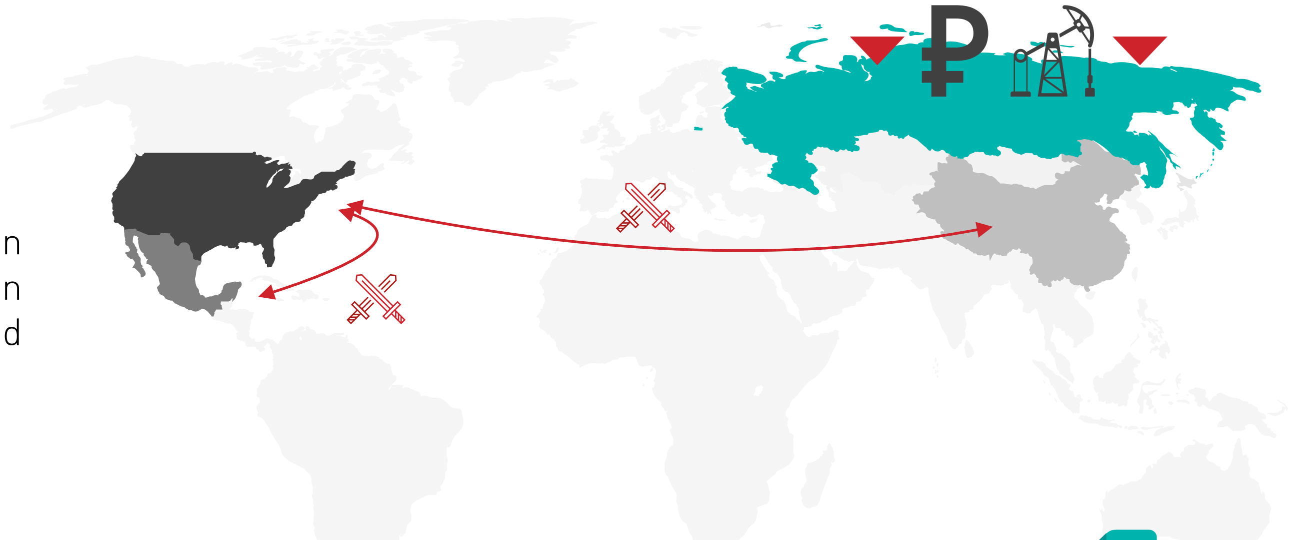
Source: State Statistics Committee, CBR, Bloomberg, ITI Funds



Nonetheless, experts have a generally optimistic view on Russia's economy due to declining inflation, growing reserves, and a record budget surplus. Economists believe that Russian economic growth could accelerate to 2.0–2.5% in the next two years (assuming no new global economic crisis) due to the government starting to implement national projects, primarily in the field of infrastructure.

WHAT TO WATCH FOR

CORRECTION AHEAD?



We continue to expect the Russian Market to correct in the near future (which we believe could present an attractive buying opportunity), due to external and internal factors:

- The escalating US–China trade dispute;
- The potential US–Mexico trade dispute;
- Ruble depreciation;
- Falling oil prices.

Click the link to read report:
We know what Rouble will do this summer!

The global market is continuing to correct due to the US–China trade dispute, and risk appetite is waning due to US trade protectionism. Last week, US President Donald Trump announced the introduction on the 10th June of a 5% tax on goods from Mexico to encourage neighbouring countries to combat illegal migration to the US.

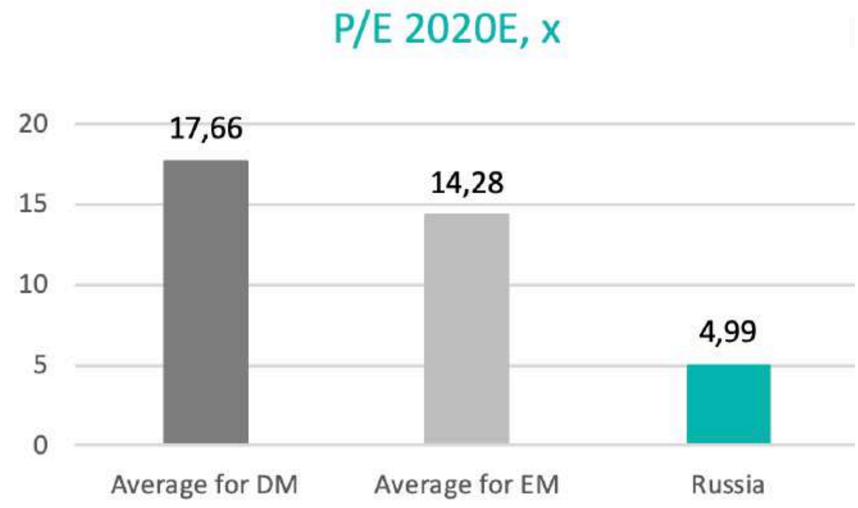
ITI Capital's chief strategist Iskander Lutsko forecast in his recent report that the ruble will depreciate against the US dollar this summer. The main reasons he cited were: FX buying after dividend payments (July and August); a seasonal decrease in FX revenues from exports; external debt payments; Finance Ministry interventions/FX buying; and low FX-market liquidity.

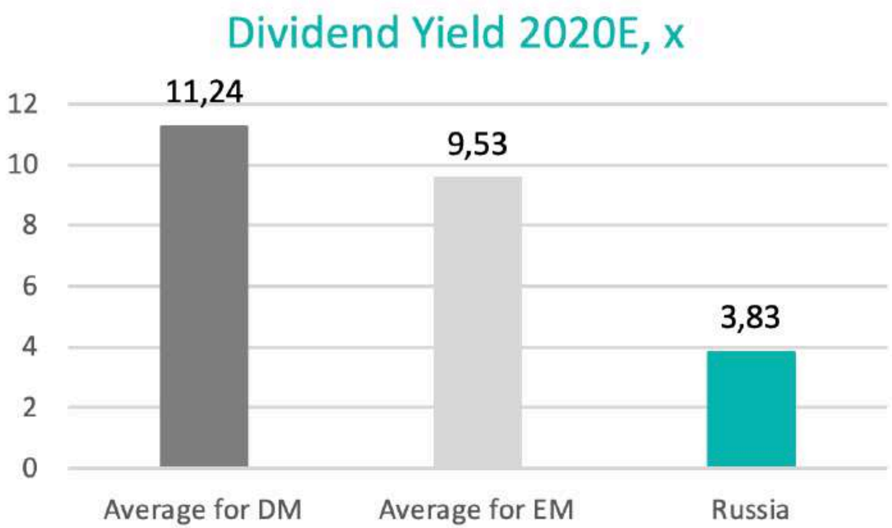
Oil prices fell by more than 11% in April as deepening US trade disputes fanned fears of a global economic slowdown. We believe that the US's escalating trade conflicts with China and the EU, and its potential trade dispute with Mexico, will cap price gains in the runup to the next OPEC+ meeting (scheduled for late June).

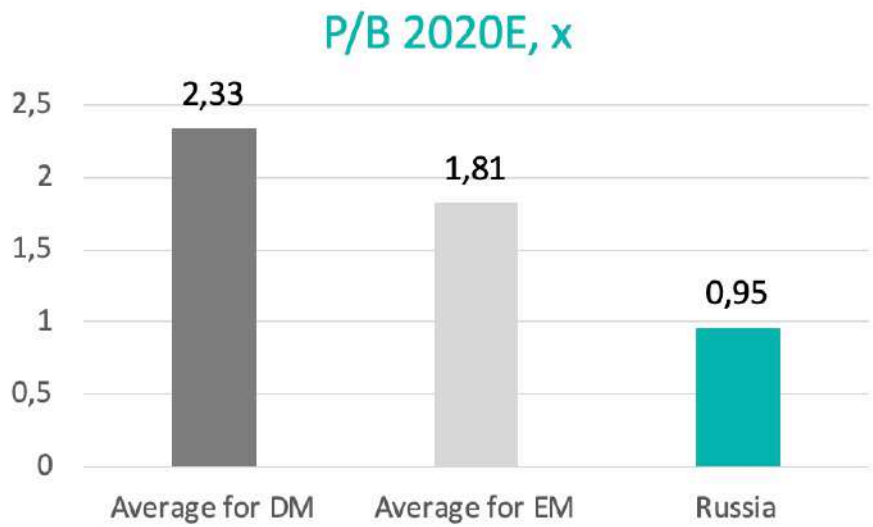
Global markets have skidded in recent weeks on concerns that the economy could stall amidst rising trade tensions between the US and China, the world's two largest economies and energy consumers. Trade fears intensified when Trump announced punitive tariffs against Mexico, a major oil supplier to the US.

We believe that sooner rather than later, the Russian market will follow the global risk-aversion trend, possibly triggering a correction. However, we would not expect it to be deep, as the Russian market remains undervalued in our view: Russia's P/E makes it one of the cheapest in the world, at half the level of other EMs, while its dividend yield is among the highest.

- A recent article published by intellinews.com stated that Russian dividend yields are over 7%, more than twice the benchmark MSCI EM Index's 3.2% and on a par with typical long-term equity-investment returns. The article indicated that profits paid out as dividends in many Russian names could provide a healthy return even if the stock price did not move.







ITI FUNDS ETFS

NAME

Russia Equity UCITS ETF
RUSE LN / RUSE RX

Russia Bond UCITS ETF
RUSB LN / RUSB RX

INVESTMENT OBJECTIVE

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.

KEY BENEFITS

Russia Equity UCITS ETF:

- 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

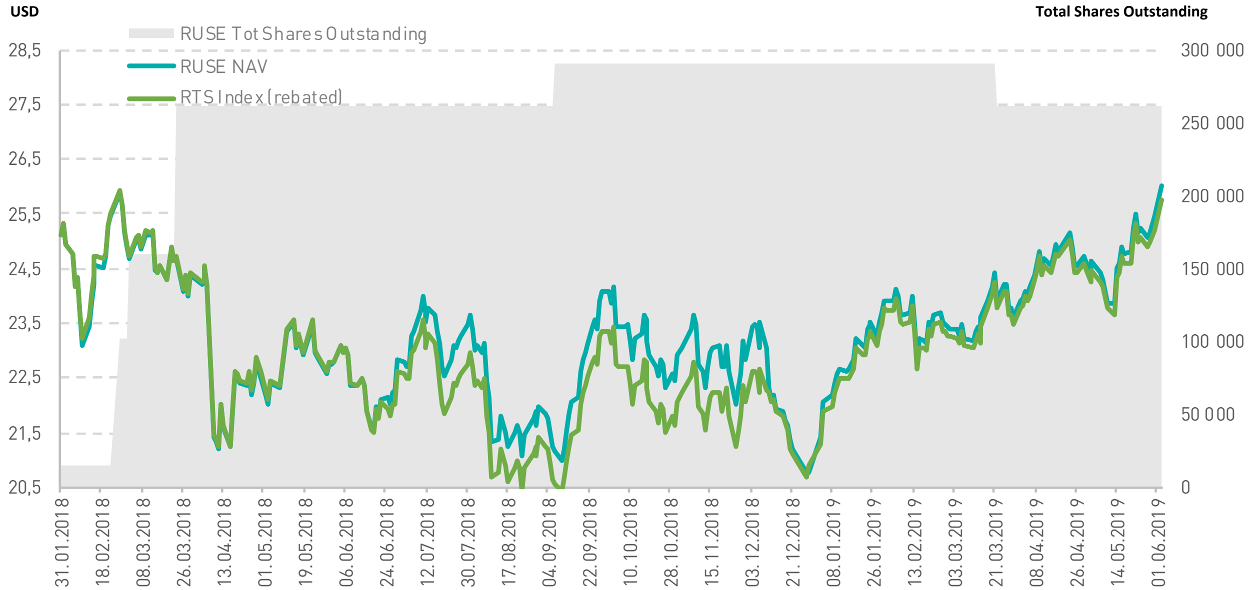
Russia Bond UCITS ETF:

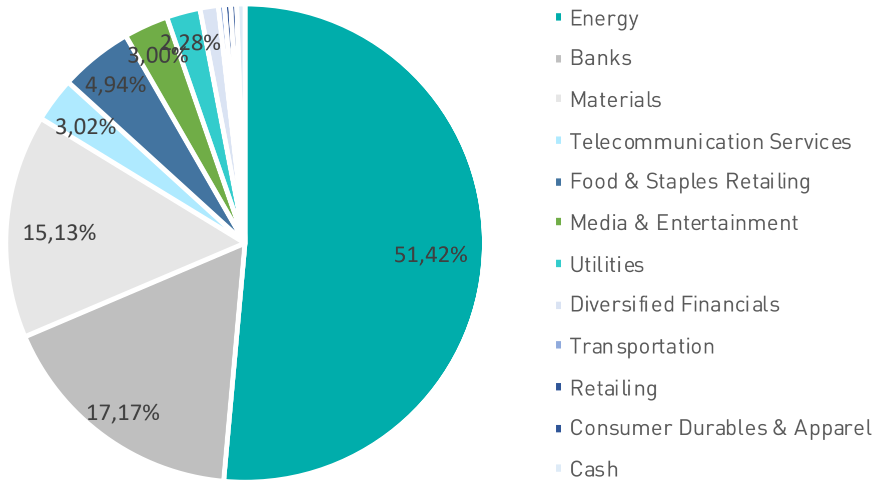
- Diversified exposure to Russian USD Eurobonds
- Access to bonds with credit rating equal to Russia's sovereign rating (Baa3/BBB-)
- No sanctioned issues
- USD exposure
- Euroclear settlement
- Listing on the London and Moscow Exchanges

KEY DATA

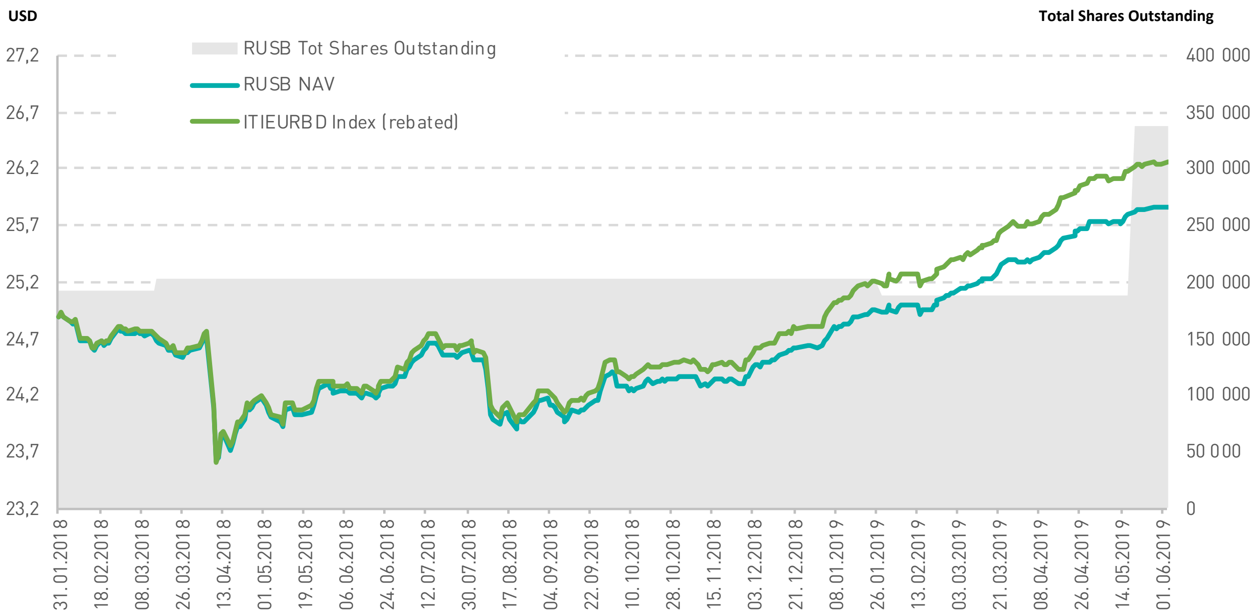
Fund Type:	UCITS ETF	UCITS ETF
Asset Class:	Equity	Fixed Income
Geo Focus:	Russia	Russia
ISIN:	LU1483649312	LU1483649825
RIC:	ITRUSE.L / RUSE.MM	RUSB.L / RUSB.MM
Bloomberg:	RUSE LN / RUSE RX	RUSB LN / RUSB RX
Exchanges:	London / Moscow	London / Moscow
Fund base currency:	USD	USD
Underlying currency:	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

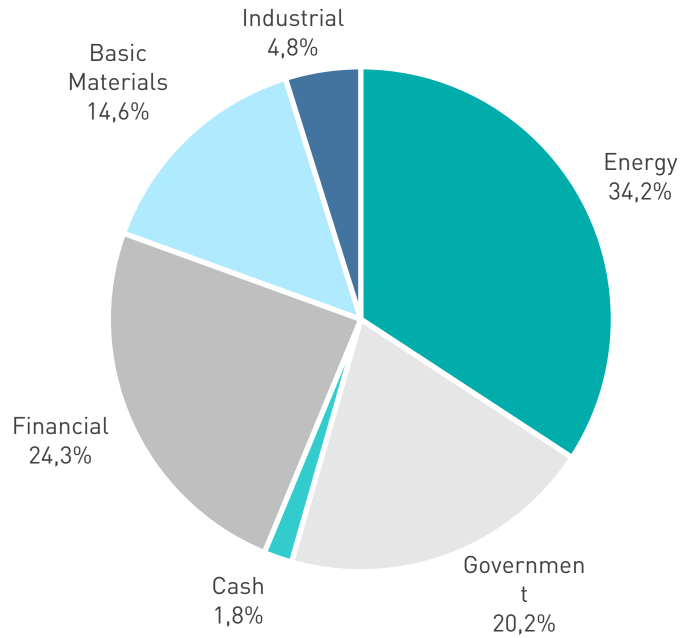
Russia Equity UCITS ETF (RUSE)





Russia Bond UCITS ETF (RUSB)





Both ETFs - RUSE and RUSB - are available on London Stock Exchange and Moscow Stock Exchange. LSE: main market, USD settlement trading mode. MoEx: main market, premium listing, USD/RUB settlement trading mode.

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

During May RUSB sub-fund has grown on 0.5% in NAVpS and reached USD 8.7 mln in total assets.

RUSE has grown on 3.41% in NAVpS during May.

Latest statistics is always available online: https://itifunds-etf.com/

- Moscow Exchange launched USD trading in ITI Funds UCITS ETF SICAV funds: Russian equities (RUSE) and Russian eurobonds (RUSB).

  Following trading modes are now available:

  - USD T+2
  - Negotiated deals T+2, T+1, T+0 in USD
  - Negotiated deals with Central counterparty T+2, T+1, T+0 in USD

  These trading modes will allow purchasing USD denominated ETFs for native currency and will improve arbitrage opportunities between London and Moscow exchanges. Both ETFs are listed on LSE and MOEX with the same ticker and ISIN.

- ITI Funds Equity ETF (RUSE) gained 20.18% YTD.
  ITI Funds Eurobond ETF (RUSB) gained 7.03% YTD.

- We have launched a special channel where you can ask questions about ETFs, join us via WhatsApp, it's free: https://wa.me/352661309214

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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 ands 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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