

1st quarter 2019 report

// Overview

› Q1 2019 was a mirror image of the last three months in 2018 – instead of falling 13.7%, global equities recovered strongly during the period by 12% (MSCI World). Some of the main reasons for the significant U-turn were remarks by Chairman Powell, that the Fed would refrain from further monetary tightening and expectations for a comprehensive trade deal between China and the US. The generally favourable market conditions provided a significant boost to the value of EEII's investment portfolio. The NAV finished the quarter at CHF 3.65 (+ 15.8%).

› All three major portfolio investments were contributing to the recovery in the NAV. Ukrnafta shares jumped based on hopes of a significant dividend payout after strong FY2018 results. The company's shares finished the quarter at UAH 190 (+35%), the best level since 2015. KAZ Minerals meanwhile continued its slow recovery from the badly received takeover of the Baimskaya project in July 2018. The shares traded higher by 22.7%. The value of the Gazprom holding improved slightly by CHF 100k to CHF 3.3 mln or 53% of the overall investments.

// Investments

Portfolio Composition and News:

- › There are no changes to report in EEII's portfolio during Q1 2019.
- › Gazprom reported that its net profit for the year 2018 more than doubled as total hydrocarbon production rose by 4.8% to 3.72 bln barrels of oil equivalent. The oil and gas giant made a profit of 1.46 trln rubles (USD 22.5 bln), up from 0.714 trln rubles in 2017. The fundamentals remain positive with oil and gas prices trending higher.
- › There were no news regarding the holdings in the Ukrainian electricity companies to report.
- › As mentioned, Ukrnafta's share price rose on renewed and sudden expectations of a potential dividend payout of UAH 107 per share, apparently based on legal grounds requiring the company to pay out 30% of its yearly profit as a dividend. The government increased this percentage to 90% by decree. On the other hand, Ukrnafta still holds a huge tax debt on its balance sheet. The on-going power struggle behind the scenes is intransparent and the outcome unpredictable, with the parties involved, i.e., the government (50% + 1 share), Privat Group (42%) and Ukrnafta management, all having different agendas. However, even with this price hike, the shares remain grossly undervalued.
- › KAZ Minerals provided a production update during the reporting period. The company posted a rise in Q1 2019 copper production and claimed to be on track to meet full-year production guidance. The copper miner said production in the 3M ended March 31 rose to 70'000 tons from 67'300 tons in the year earlier period. Expectations to deliver copper output of 300k tons for the full year were confirmed (2017: 259k / 2018: 295k). The main driver for earnings for now is clearly the copper price as the steep volume growth is leveling off.

// Economic and political environment

- › On April 21st 2019, Volodymyr Zelensky, a comedian with no former political experience, was elected as Ukraine's new president. Running on an anti-corruption platform, Zelensky received an overwhelming mandate with 73% of the vote. Given the new president's missing credentials, it is unclear in which direction the country will move in the near future. Zelensky will take office amidst looming new elections of parliament and continued pressure from the IMF over loan conditions. Furthermore, relations with Russia have not improved. Despite the political turbulence, growth appears to have remained healthy in the first quarter of the year.
- › In Russia, growth is expected to have slowed significantly in the first quarter 2019. Consumption indicators point to a moderate expansion in part due to a hike in the VAT at the beginning of the year. Despite firmer oil prices, the energy sector is expected to have disappointed after the OPEC+ production cut deal and a mild European winter hampered gas exports. With inflation in check, the Central Bank may soon start to ease rates. The equity market performed in line with global equities. Going forward, the outlook for looser monetary policy together with steady energy prices, the market remains well supported.

› Facts and figures

History	› Inception	8/97
	› Public listing (SWX)	1/99
	› Capital reduction	4/03
	› Capital decrease	8/14
Capital structure	› 1,527,510 bearer shares	
	› par value of CHF 7.10	
	› Last payment to the share-holders of CHF 1.12 derived from the capital decrease (ex-date 26/08/2014)	
Board of directors	› Victor Gnehm (Chairman)	
	› Christoph Offenhäuser	
Advisory fee	Flat fee, payable quarterly	
Share identification	› Valor 716 295	
	› ISIN CH0007162958	
Bloomberg	EEII SW Equity	
Registered office	EEII AG Alpenstrasse 15 P.O. Box 7863, 6302 Zug	
CEO	› Marcus H. Bühler	
Advisor	Weissenstein & Partner AG, Zurich	
Administrator	MOORE STEPHENS ZUG AG, Zug	
Custodians	› UBS AG, Zug › FUIB, Dnipro	
Auditor	BDO Ltd, Zurich	
Independent Rep. of Shareholders	Philipp Andermatt, Zwicky Windlin & Partner	

› Portfolio	per share	MCHF	%
Net current assets		0.1	1.6%
Investments		6.3	98.4%
Total assets		6.4	100%
NAV (31/03/19)	3.65	5.6	
NAV (31/12/18) audited	3.15	4.8	
NAV (30/09/18)	3.25	5.0	
NAV (30/06/18)	3.22	4.9	
NAV (31/03/18)	3.46	5.3	

› Investments (in 1,000 CHF)	at cost	fair value *)	ownership
Donbasenergo	456	11	0.05%
DTEK Kyivski Electro	0	0	0.00%
Centrenerg	627	61	0.04%
Kievenergo	119	4	0.01%
Ukrnafta	6,068	2,127	0.85%
Cherkasyoblenergo	728	15	0.77%
DTEK Dnipro Grids	255	3	0.02%
DTEK Krimenergo	245	1	0.09%
Volynoblenergo	295	12	0.44%
Zhytomyroblenergo	589	18	0.45%
Gazprom	8,143	3,337	0.00%
KAZ Minerals	288	691	0.02%
Total	19,153	6,280	

*) As of December 31, 2018 (audited). The fair values of the following companies (Cherkasyoblenergo, Volynoblenergo, Krimenergo, Zhytomyroblenergo, DTEK Dnipro Grids and Kievenergo) are determined by the bid price published at www.kinto.com, adjusted by a liquidity discount of 50%. The fair value of all other companies are market prices.