

2nd quarter 2019 report

// Overview

The strong rally in global equities in Q1 2019 on the basis of expectations for a trade deal between the US and China and a significant shift in US monetary policy fizzled out during the reporting period. Quite to the contrary, pessimism started to weigh on market sentiment as trade tensions continued and signs of a related global growth slowdown became apparent. One of the leading economic indicators for growth expectations, commodity prices, started to turn down with the CRB Commodity Index falling by 4.5% (Copper -8%, Crude Oil -3%). Rising risk aversion also led to renewed CHF strength (USD -2%, GBP -4.4%). Despite the generally subdued trading environment, EII's investment portfolio increased significantly in value after an exceptional performance of Gazprom. The NAV closed the quarter at CHF 4.62 (+ 26.6%).

The three major portfolio companies comprise 99% of EII's investments. Gazprom's share of the total allocation stands now at 68% (53% in Q1 2019) after the recent rerating. In fact, the value of the holding in the Russian energy company jumped from CHF 3.3 Mio (Q1 2019) to CHF 5.3 Mio in Q2. Meanwhile, the stakes in Ukrnafta and KAZ Minerals contributed negatively to the NAV with a combined loss of CHF 0.4 Mio.

// Investments

Portfolio composition and News:

- There are no changes to report in EII's portfolio during Q2 2019.
- Gazprom shares reacted strongly to the surprising news, that the company would raise dividends for last year to Rbs 16.61, more than twice the payout in 2017. After an initial surge of 16%, the strength in the share price continued and the stock has been trading in a new range around USD 7 after being stuck between USD 4 and 5 for many years. We expect this rerating to be sustainable as management is clearly signaling that dividend payouts are prioritized in coming years. The dividend yield is still attractive at around 7%.
- There were no news regarding the holdings in the Ukrainian electricity companies to report.
- Ukrnafta reported poor H1 2019 results. Revenues dropped 17.2% to UAH 16.7bn compared to H1 2018 and the company just managed to avoid a loss (profit -99% to UAH 18 mln). Weighing on the share price is clearly the departure of CEO Mark Rollins who was guiding Ukrnafta through the transition period of the past years. No permanent replacement has been announced so far.
- KAZ Minerals reported an 18% fall in first-half net profit after an increase in copper sales was offset by lower metals prices. The mining company made a profit of USD 227 million in the six months ended June 30, compared with USD 276 last year. The company's management said the short-term copper market outlook remains uncertain due to trade pressures and concerns about a slowdown in China. The long-term outlook is still strong and KAZ is on track to meet its full-year production guidance for copper and gold.

// Economic and political environment

- The focus in Ukraine remains on the political side. President Zelensky's party came out on top in the July parliamentary election with 43% of the vote and an absolute majority. The victory gives Zelensky the muscle to push through sweeping reforms and legislation. That said, uncertainty over future policy still persists given the President's lack of political experience. Beyond politics, economic indicators suggest that the economy gained modest ground in recent months. Consensus estimates point to 2.8% GDP growth in 2019.
- In Russia, lower oil prices and higher taxes are slowing economic growth. The medium-term outlook remains modest unless deeper structural reforms are tackled. As the IMF pointed out in its recent country report: "...ambitious structural reforms will be important to raise growth. The government should prioritize the creation of a more vibrant private sector and reduce the footprint of the state..." Given the track record of the current administration, expectations for a fundamental change in economic policy are low. The country remains dependent on the prospects of its outsized commodity complex.

› 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	EII SW Equity	
Registered office	EII 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	
	› LLC Custodian Garant, Dnipro	
	› FUJB, Kiev	
Auditor	BDO Ltd, Zurich	
Independent Rep. of Shareholders	Philipp Andermatt, Zwicky Windlin & Partner	

› Portfolio	per share	MCHF	%
Net current assets		0.2	2.5%
Investments		7.8	97.5%
Total assets		8.0	100%
NAV (30/06/19)	4.62	7.1	
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	

› Investments (in 1,000 CHF)	at cost	fair value *)	ownership
Donbasenergo	456	11	0.05%
DTEK Kyivski Electro	0	0	0.00%
Centrenergo	627	62	0.04%
Kievenergo	119	4	0.01%
Ukrnafta	6,068	1,810	0.85%
Cherkasyoblenergo	728	16	0.77%
DTEK Dnipro Grids	255	3	0.02%
DTEK Krimenergo	245	1	0.09%
Volynoblenergo	295	12	0.44%
Zhytomyroblenergo	589	19	0.45%
Gazprom	8,143	5,300	0.00%
KAZ Minerals	288	607	0.02%
Total	19,153	7,845	

*) 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.