

3rd quarter 2019 report

// Overview

› Earlier indications of a slowing global economy started to materialize during Q3 2019. While Germany is flirting with a mild recession and negatively impacting the Eurozone, China reported the weakest GDP expansion since 1992 (still +6% yoy). The US meanwhile has been muddling through despite headwinds generated by its global trade war. US GDP growth is expected to decelerate towards 2% during Q3. Given this economic backdrop, investor sentiment remained cautious. Global equities are trending sideways (MSCI World -0.6%) or slightly lower, in the case of commodities dependent markets such as Russia (-4.8%).

› Commodity prices are reflecting the subdued economic outlook for the near future. The CRB Commodity Index fell another 5% (Copper -5.2%, Crude Oil -13.3%). Interestingly, not even the high impact drone attack on Saudi Arabia's main oil infrastructure could sustainably lift oil prices.

› Three major portfolio companies comprise 98% of EEII's investments. As Gazprom's share price is consolidating after the sharp Q2 rerating, the overall allocation remains at 67% (68% in Q2 2019). KAZ Minerals performed poorly during the quarter (-28%) highlighting its outsized dependence on copper prices. During the month of August, the yearly Gazprom dividend payout added CHF 0.20 to the NAV, which closed the quarter a touch lower at CHF 4.57 (-1.1% vs. Q2)

// Investments

Portfolio composition and News:

› There are no changes to report in EEII's portfolio during Q3 2019.

› Gazprom reported half-year results. Revenues climbed 2.6% (H1 2019: 4'076 bln rubles vs. H1 2018: 3'971 bln). Profit for the period surged by 32.6% (H1 2019: 879 bln rubles vs. 663 bln).

› There were no news to report regarding the holdings in the Ukrainian electricity companies.

› The newsflow in Ukrnafta has been light during the reporting period. Production volumes were slightly higher compared to 2018 (+ 5% yoy). According to the latest filing, the company needs to invest an additional USD 100 mln per year in order to keep production growth in the range of 5-7%. Currently, the company spends twice as much on debt and tax servicing as it does on investment.

› There were no current business updates available for KAZ Minerals during the reporting period.

// Economic and political environment

› President Zelensky is using his power to push ahead with a brisk reform strategy. The new government has set extraordinary ambitions. As well as peace in the Donbas region and the end of corruption, it is aiming for cumulative growth of 40 per cent over five years and 5m new jobs in sectors ranging from manufacturing and agriculture to IT in a bid to attract expats to return and persuade others not to leave in the first place. Many questions remain open, but for the moment, Zelensky has the momentum on his side. Consumer sentiment has improved. Wages are rising and as a result, household spending drove growth to a two-year high. The recent IMF mission to the country seems to have been successful, suggesting that the government will likely secure a new loan deal from the Fund. Last but not least, the local currency UAH continued its recovery, up 16% vs. the CHF and 14% vs. the USD since the beginning of the year, confirming the positive bias in the markets.

› In Russia, growth is slumping this year, due to faltering private consumption and a challenging external backdrop. Momentum should pick up next year according to the latest update by the finance ministry. (GDP growth 2019: 1.3% and 2020: 1.7%) The continued threat of sanctions, volatile commodity prices and trade wars threaten the outlook. Contrary to most other countries, monetary policy is rather tight as inflation rates are expected to be in a range of 3-3.5% in 2019 and 2020. The central bank aims to keep inflation near its 4% target, indicating some room to lower interest rates later next year.

› 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	
	› LLC Custodian Garant, Dnipro	
	› FUIB, Kiev	
Auditor	BDO Ltd, Zurich	
Independent Rep. of Shareholders	Philipp Andermatt, Zwicky Windlin & Partner	

› Portfolio	per share	MCHF	%
Net current assets		0.4	5.1%
Investments		7.5	94.9%
Total assets		7.9	100%
NAV (30/09/19)	4.57	7.0	
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	

› Investments (in 1,000 CHF)	at cost	fair value *)	ownership
Donbasenergo	456	12	0.05%
DTEK Kyivski Electro	0	0	0.00%
Centrenergo	627	61	0.04%
Kievenergo	119	5	0.01%
Ukrnafta	6,068	1,897	0.85%
Cherkasyoblenergo	728	18	0.77%
DTEK Dnipro Grids	255	3	0.02%
DTEK Krimenergo	245	1	0.09%
Volynoblenergo	295	14	0.44%
Zhytomyroblenergo	589	21	0.45%
Gazprom	8,143	5,090	0.00%
KAZ Minerals	288	432	0.02%
Total	17,813	7,554	

*) 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.