

1st quarter 2020 report

// Overview

On January 30th 2020, the WHO declared the outbreak of the new coronavirus SARS-Cov2 a global pandemic. At this point, EEII's net asset value per share (NAV) was CHF 4.43 or 10.7% below the year end level 2019 of CHF 4.96. As it turned out, market dislocations only started to materialize in earnest by February/March, culminating in a full collapse of oil prices following a stand-off between Russia and Saudi Arabia with regards to production cuts, or the lack thereof. During the quarter, global equity markets as measured by the MSCI World dropped 21%, Russia's commodity heavy RTS Index lost 35% in USD terms and most importantly for EEII, the price of Brent crude suffered a 65% deep dive down to USD 23 per barrel. As per March 31st 2020, the NAV fell by 42.1% to CHF 2.87.

EEII's portfolio remains highly concentrated with 99% of its investments in three companies: Gazprom (64%), Ukrnafta (28%) and KAZ Minerals (7%). The 44% drop in the CHF value of the Gazprom investment alone resulted in a loss of CHF 2.6 mln, or CHF 1.70 per share, resp.

Foreign exchange volatility had an additional, albeit minor, negative impact on the CHF value of the portfolio investments. The Ukrainian Hryvnia lost 15% against the CHF while the GBP also dropped by 7% against the reporting currency.

// Investments

Portfolio composition and news:

- There are no transactions in the investment portfolio to report.
- Gazprom reported financial results for fiscal year 2019. Revenues fell 7% to 7.66 tln rubles, EBITDA dropped 29% to 18.84 tln rubles and net income was down 17% from a year earlier to 1.2 tln rubles (USD 16.3 bln). Results were affected by lower sales prices realized in Europe and Turkey, its main markets. The average price for 1'000 cubic meters of natural gas dropped by 15% to USD 120.6. In response to the Covid-19 crisis, the company is slashing its capex budget in 2020 by around 20% to 1.6 tln rubles. Despite the market turmoil, management reiterated its commitment to the new dividend policy with a target payout ratio of 50%.
- Ukrnafta news have been infrequent and lacking financial substance in recent months. No financial statements neither for Q4 2019 nor Q1 2020 have been made public. The company is regularly updating on the amount of taxes it is paying (UAH 5 bln in Q1 2020), production volumes and most recently a call from the management that the government should provide financial support. Since the abrupt management changes last year, the communication surrounding Ukrnafta has become very intransparent again.
- KAZ Minerals updated on production for Q1 2020. Copper output increased 7% to 74'900 metric tons compared to 2019. On top of that, the company confirmed its guidance for 2020 production of between 280'000 and 300'000 tons of copper. Also noteworthy is an increase in gold production by 28% to 55'400 ounces. Given its operational strength, KAZ would be well positioned to profit from an eventual rebound in global economic activity.

// Economic and political environment

The outbreak of Sars-Cov-2 is a big blow for Ukraine in every respect. Just as confidence started to slowly build up again, the economy hit the Covid-19 roadblock. GDP likely contracted in the first quarter on lockdown measures to curtail the spread of the pandemic. In March, the sharpest fall in industrial output since the end of the 2014/15 economic crisis evidences the toll Covid-19 is taking. Renewed capital flight seems to have undercut fixed investment, while downbeat consumer sentiment hints at weakening consumption. The fall in activity likely steepened at the outset of Q2 on prolonged restrictions on travel and non-essential trade. In a sign of renewed investor concern towards the viability of the country's economic recovery, the 10Y EUR denominated 4.375% government bond launched in January has been yielding 7.2% by the end of March 2020.

Russia has been late to combat Covid-19 with lockdown measures which only came into effect late in March. Even before that, economic activity took a severe hit due to collapsing oil prices. Given the fact that the country has been struggling to contain the pandemic, economists expect a serious decline in household spending and evaporating investment activity, as highlighted by the example of Gazprom. GDP is expected to shrink at least 4% this 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	MSZ Group 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		0.1	1.9%
Investments		5.2	98.1%
Total assets		5.3	100%
NAV (31/03/20)	2.87	4.4	
NAV (31/12/19)	audited 4.96	7.6	
NAV (30/09/19)	4.57	7.0	
NAV (30/06/19)	4.62	7.1	
NAV (31/03/19)	3.65	5.6	

> Investments (in 1,000 CHF)	at cost	fair value *)	ownership
Donbasenergo	456	10	0.05%
Centrenergo	627	34	0.04%
Zhytomyroblenergo	589	17	0.45%
Kievenergo	119	4	0.01%
Ukrnafta	6,068	1,436	0.85%
Cherkasyoblenergo	728	15	0.77%
DTEK Dnipro Grids	255	3	0.02%
DTEK Krimenergo	245	1	0.09%
Volynoblenergo	295	11	0.44%
KAZ Minerals	288	340	0.02%
Gazprom	8,143	3,322	0.00%
Total	17,813	5,193	

*) As of December 31, 2019 (audited). The fair values of the following companies (Cherkasyoblenergo, Volynoblenergo, Krimenergo, Zhytomyroblenergo, DTEK Dnipro Grids, 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.