

2nd quarter 2020 report

// Overview

> Q2 2020 brought a staggering turnaround in financial markets after the Covid-19 induced panic in March. As global central banks stepped in with unprecedented interventions, equity markets staged a rebound of historic proportions. The MSCI World Index, as the broadest measure of equity performance, rallied by 18.8%, leaving the benchmark only 7% below the year end 2019 level. Similarly impressive was the snap back in commodity prices: Brent crude +83% and copper +23% during the quarter. EEII's investments, henceforth, profited alongside the broad market move, albeit to a lesser extent. While KAZ Minerals reacted strongly to the favorable backdrop for commodities (+44.6%), Gazprom shares remained subdued with a recovery of only 16.3%. Ukrnafta meanwhile continued to drift lower in extremely illiquid trading. EEII's NAV finally ended the quarter at CHF 3.26 (Q1 CHF 2.87), 34.3% lower than at the beginning of 2020.

> EEII's portfolio remains highly concentrated with 98% of its investments in three companies: Gazprom (65%), Ukrnafta (25%) and KAZ Minerals (8%).

> FX fluctuations had no material impact on the quarterly results.

// Investments

Portfolio composition and news:

> There are no transactions in the investment portfolio to report.

> Gazprom booked its first quarterly loss since 2015, as the coronavirus pandemic caused its European sales to collapse. The company reported a net loss of USD 1.64 bln for the three months ending March 31st. Revenues dropped 24% as gas sales to Europe plunged by 45%. Nevertheless, Gazprom managed to beat forecasts on a EBITDA level. Core earnings by this measure amounted to USD 7.4 bln. Based on its new dividend policy outlined in 2019 (minimum 40% pay out ratio of adjusted earnings), the company decided to keep a generous dividend payment for the year 2020 of net USD 0.331 per share. It remains to be seen if Gazprom can hold on to this shareholder friendly policy if the current soft pricing environment for crude oil and natural gas continues into 2021.

> Ukrnafta remains a troubled investment with zero visibility. As outlined in our Q1 2020 report, the company is not providing financial results anymore. With the exception of monthly production reports and tax payments, no meaningful news are available. Noteworthy during Q2 were reports, that Ukrnafta suspended its executive search for a new CEO. The share price has been under pressure, falling from UAH 160 in February to as low as UAH 120 with extremely infrequent and low trading volume.

> KAZ Minerals released a solid set of half-year results. Revenues of \$991 mln (H1 2019: \$1'052 mln) were slightly lower, but in light of Covid-19 related operational issues a positive surprise. Falling copper prices (-11%) were offset by increased production (+4%) and higher gold revenues (+16%). EBITDA came in at \$559 mln compared to \$620 mln in 2019. The company expects to achieve its 2020 production guidance. Along with the recovery in copper and strong gold prices (production of 180-200k oz expected), KAZ Minerals should be able to deliver good results in the 2nd half of 2020.

// Economic and political environment

> As expected, the Ukrainian economy has been contracting since Q1 2020 and is expected to shrink at least 5.5% in 2020. There has been little good news out of the country. In fact, it seems, that the government under the leadership of Volodymyr Zelensky has lost some of its earlier focus and momentum. The recent departure of Central Bank Governor Smolii adds to the broader impression, that reform efforts demanded by international creditors, i.e. IMF, are stalling. Nevertheless, in early July, the IMF approved a USD 5 bln loan deal for Ukraine and released an immediate tranche of USD 2.1 bln, a much needed economic lifeline for the government.

> The Russian economy seems to have taken a severe hit in the second quarter 2020. Economic activity shrank more than 10% in April-May as strict lockdown measures forced closures of non-essential businesses. On top of the Covid-19 related domestic slowdown, exports nosedived on depressed energy prices and falling foreign demand. President Putin succeeded in pushing through constitutional changes, essentially opening the possibility that he stays in office until 2036, which underlines the country's political uncertainty and clouded outlook.

> 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	
	> FUJB, 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		5.9	98.1%
Total assets		6.0	100%
NAV (30/06/20)	3.26	5.0	
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	

> Investments (in 1,000 CHF)	at cost	fair value *)	ownership
Donbasenergo	456	9	0.05%
Centreneuro	627	30	0.04%
Zhytomyroblenergo	589	17	0.45%
Kieveneuro	119	4	0.01%
Ukrnafta	6,068	1,503	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%
KAZ Minerals	288	476	0.02%
Gazprom	8,143	3,815	0.00%
Total	17,813	5,885	

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