

# KALTCHUGA FUND

## Russia Equities C (USD)

Fund fact sheet as of 31 January 2022

### Quick facts

Fund category	Russian Equities
Reco. placement period	10 years
Last NAV (USD)	10 687.70
NAV frequency	Daily
ISIN	LU0462676486
Distributed in	LU, CH, FR
Risk and reward profile	<div style="display: flex; align-items: center;"> <div style="border: 1px solid black; padding: 2px; margin-right: 2px;">1</div> <div style="border: 1px solid black; padding: 2px; margin-right: 2px;">2</div> <div style="border: 1px solid black; padding: 2px; margin-right: 2px;">3</div> <div style="border: 1px solid black; padding: 2px; margin-right: 2px;">4</div> <div style="border: 1px solid black; padding: 2px; margin-right: 2px;">5</div> <div style="border: 1px solid black; padding: 2px; margin-right: 2px;">6</div> <div style="border: 1px solid black; padding: 2px; margin-right: 2px;">7</div> </div> <div style="display: flex; justify-content: space-between; margin-top: 2px;"> <span>Lower Risk</span> <span>Higher Risk</span> </div>

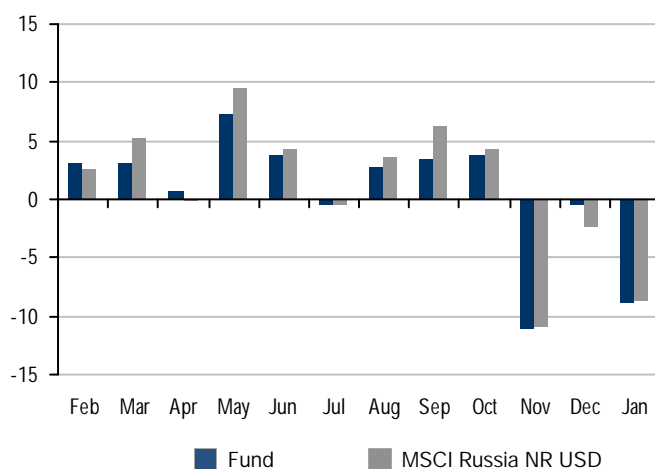
### Investment objective

The Fund's objective is to outperform the MSCI Russia and achieve medium to long-term capital appreciation from long-only investments in liquid Russian equities, mainly Blue Chips. The Fund's strategy combines top down analysis together with a bottom-up stock-picking approach and doesn't use leverage or derivatives.

### Cumulative performance



### Monthly performances over 1 year (%)



### Past performance (%) - Net returns

	Cumulative					Annualised			
	Month-to-date	Year-to-date	1 year	3 years	5 years	Origin	3 years	5 years	Origin
Fund	-8.85%	-8.85%	5.25%	27.66%	38.77%	56.61%	8.48%	6.77%	3.76%
Index*	-8.72%	-8.72%	11.67%	26.37%	50.75%	43.37%	8.11%	8.56%	3.01%

\*MSCI Russia NR USD / Origin: 05/12/2009

### Fund information

Legal form	SICAV UCITS
Fund domicile	Luxembourg
Fund launch date	31/03/2007
Total AUM (USD)	24 208 493.26
Fiscal year end	December 31st
Fund currency	USD
Cut-off time	See prospectus
Management company	Lemanik AM
Investment manager	Probus Middle East Ltd
Custodian bank	Quintet Private Bank
Auditor	E&Y Luxembourg
FATCA status	Reporting FI
Solvency II	TPT file contributor
German tax	Transparent

### Investment team

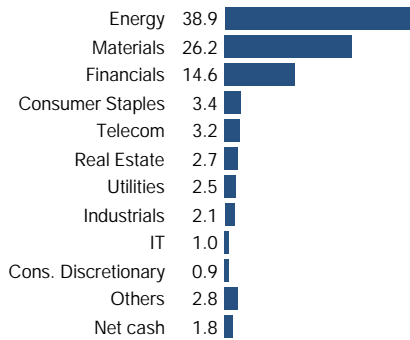
Jean-Louis Tauvy has been managing the Kaltchuga Funds since 1994. After being responsible for the realization of large industrial projects in Singapore, France and the USSR he became a pioneer of the Russian stock market with unique knowledge of the Russian and other FSU markets. He has a MS of Engineering from ENS des Arts et Metiers.

Alexandre Starinsky is Head of Research. MSc in Physics from Univ. Paris VI. MA in Economics & Finance and postgraduate in Post Soviet Studies from Sciences Po Paris. He has worked in Russia and Ukraine since 1993. He joined the Group in 2006.

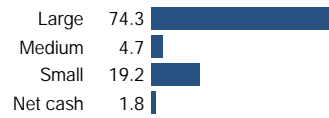
### NAV analysis

3 years figures (ann.)	Fund	Index	Value	Date
Annual volatility	24.90	28.14	52-week NAV high	13 831.96 / 26/10/2021
Beta	0.87		52-week NAV low	9 684.67 / 24/01/2022
Tracking error	5.78		Max drawdown (%)	-47.85 / 21/01/20-18/03/20
Sharpe	0.42	0.39		
Information ratio	0.06			

### Sectorial allocation (%)



### Market cap breakdown (%)



### Asset class breakdown (%)



### Top 10 holdings (%)

Gazprom	9.9	Novatek	4.8
Lukoil	9.7	Tatneft	4.0
Sberbank	7.8	Surgutneftegas	3.8
MMC Norilsk Nickel	7.7	Alrosa	3.6
Rosneft	4.9	PhosAgro	3.5
Top 5 positions	40.0	Top 10 positions (%)	59.6

### Available share classes

Class Name	ISIN	BLMG ticker	Curr.	Type	Launch date	Min. invest.	Mgt. fees	Perf. fees	OGC	Front / back load
A USD	LU0290813871	KALRUSA LX	USD	A	30/03/2007	None	2.00%	None	3.54%	Closed for subs/up to 1%
B EUR	LU0290814093	KALRUSB LX	EUR	A	16/07/2007	None	2.00%	None	3.54%	Closed for subs/up to 1%
C USD	LU0462676486	KALRUSC LX	USD	A	04/12/2009	None	1.70%	None	3.21%	Up to 2%/up to 1%
D EUR	LU0462681726	KALRUSD LX	EUR	A	04/12/2009	None	1.70%	None	3.24%	Up to 2%/up to 1%

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### Commentary

With tighter monetary policy looming ahead, developed markets had a rocky start to the year (S&P 500 -5.5%). Some emerging markets outperformed with a strong start to the year for commodities as well as signs that China will fire up its economy in 2022 following last year's reset. Unfortunately, the geopolitical context did not allow Russian stocks (MSCI Russia -9.3%) to align with their best performing emerging peers (MSCI EM -1.2%). The RTS (-10.1%) briefly dropped under 1300 to its lowest level since November 2020 (a -33% drawdown from last October's high), before rebounding firmly in the last week of the month, as senior Russian officials seemed to be favoring a diplomatic path to diffuse tensions with Ukraine, the US and NATO. Meanwhile, crude prices soared (Brent +17% @ 91+) as tight global supplies added to geopolitical tensions. Not enough to prevent the rouble from sliding by 3% vs the USD, though. The Fund (C USD) ended January down 8.9% (vs MSCI Russia NR -8.7%).

Despite the strong oil and gas prices (Brent +17%, TTF gas +22%), oil & gas stocks sold off – Rosneft (ex-dividend), Surgut and Novatek -8%, Gazprom -7%, Tatneft (ex-dividend) -5%. Lukoil (flat) bucked that trend though, bolstered by the extension of its share buyback scheme and proposal of the Finance Ministry to reduce the tax on production of highly-viscous oil in the Komi Republic. With the Brent hovering now above \$90 and RUB/USD at 76, Russian oil & gas blue chips now provide for an average spot dividend yield in excess of 20% on their 2022E earnings.

The picture with metal & mining stocks is very much similar. Base metals enjoy strong support from low inventory levels, tight market balances and expectations of some stimulus from China to drive demand. Despite Nickel (+9%), Aluminium (+8%) and Palladium (+24%) leading the gains, and very resilient Copper prices (-2%), Norilsk lost 8%, and Rusal 3%. We continue to top up our position in the latter and thus increase our leverage to the aluminium market. Rusal enjoys cheap hydroelectricity costs (cash cost around \$1600 /ton). It will increase its production by 20% thanks to the launch of its new Taishet plant. Healthy cash generation allows for faster deleveraging and resumption of dividend payments. When taking into consideration Rusal's 26% stake in Norilsk Nickel, its valuation compares favorably to its major global peers. It trades on 2022E P/E of 5.1x and EV/EBITDA of 2.1x vs Alcoa 10.6x and 3.7x.

Despite the strong steel prices (Black Sea HRC FOB +8% to \$825 per ton), steel mills depreciated too – NLMK -5%, Severstal -7%. MMK (ex-dividend, (-15%)) will pay a dividend of \$0.469144 per GDR on 3Q21 earnings (3.6% quarterly dividend yield).

Despite gold prices being remarkably resilient (Au -2%) against a backdrop of rising interest rates, gold miner stocks underperformed. Polyus (-11%) unexpectedly announced a share buyback of up to 200 mln\$ (c1% of market cap) and not to exceed 1.4% of the company's share capital. The buyback can take place over the next 6 months. It is a very welcome complement to the current policy of 30% EBITDA dividend payout. Polymetal (-19%) is now trading on a 2022E 9% FCF and dividend yield.

Consumer stocks underperformed such as retailer X5 (-14%), Internet holding Yandex (-22%) and banks – Sberbank -13%, VTB and Tinkoff -14%. Sberbank published December and FY21 RAS results. FY21 earnings rose 74% yoy to 1,237 blnR, with 24.8% ROE. Loan growth remained strong in 2021, especially in retail, which increased by 26% yoy. Mortgages were very robust at 29% yoy, while consumer loans grew 25% yoy. Corporate loans grew 10.5% yoy. The share of NPLs in the total loan portfolio was stable at 2.3%. Retail deposits were up 9.1% FX-adjusted yoy, corporate deposits +15.2% FX-adj yoy. Opex was up 9% yoy and C/I ratio was stable at c30%. Sberbank trades on 4.8x 2022E P/E, 1.1x current P/BV and 12% dividend yield.

The Bank of Russia cut purchases of hard currency in a bid to ease pressure on the rouble which retreated on geopolitical tensions. Previously to this decision, it was purchasing foreign currency and gold at a record pace of 36.6 blnR (c500 mln\$) per day to top up reserves and sterilize excess revenues from oil exports in the federal budget. Overall, in 2021, the Central Bank topped up its reserves by 35 bln\$ to a historical record of 631 bln\$. We now see the Russian economy revert to its pre-coronavirus stability-over-growth model, meaning sluggish growth (around 2% vs 4.5% in 2021), weak investment and continued pressure on households. The government is targeting a budget surplus in 2022 of around 1% of GDP (2021 budget surplus was almost 0.5% of GDP). Inflation remains a major issue though. It reached a 6-yr maximum of 8.4% at the end of 2021, which will likely prompt the Central Bank to keep raising its benchmark rate in February (from 8.50% currently) given its challenging commitment to curbing inflation to 4.0-4.5% by the end of 2022.

While geopolitical noise surrounding Ukraine continues to rumble in the background, both Russia and its western opponents seem willing to keep diplomacy as their favored way of dealing though. As tensions ease, and on the background of strong oil and other commodities prices, we see buyers starting to come back, attracted by Russia's cheap valuations and strong dividend payments. Russia's 2022E P/E is now under 5.0x (a 60% discount to EM peers) with the average dividend yield above 12%.

We assume oil prices will remain well supported in this first quarter of 2022, as OPEC+ shall likely remain in control of the

supply-demand balance. Indeed, even as the global oil market faces supply tightness and as higher prices increase economic incentives to support production, US drillers continue to add oil rigs only at a cautious pace. We are similarly bullish on prices of the LME metal complex, thanks to the re-orientation of China's Politburo in favor of growth this year. Therefore, there will be a lot of catching up to do for Russian stocks after the geopolitical risks are removed.

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France: The centralising correspondent is Société Générale, 29 Boulevard Haussman - 75009 Paris. The official prospectus as well as the Key Investor Information Documents for France and the annual and semi-annual reports in French are available free of charge from Société Générale, 29 Boulevard Haussman - 75009 Paris, web: [www.securities-services.societegenerale.com/fr](http://www.securities-services.societegenerale.com/fr).

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Source: Probus Group & MorningStar for performance figures.

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