DECEMBER 2018 MONTHLY REPORT

CENTRAL ASIA

Sturgeon Capital

FUND COMMENTARY

2018 turned out to be an eventful year for the Central Asia region. Strong economic growth, structural reform drive and political change have strengthened our belief in the long term prospects of the region. However the external environment remained challenging. The currency crisis in Turkey, economic stagnation in Russia, slow-down in China and weak commodity prices have put pressure on sentiment and prices in Central Asia.

The fund declined by -25.8% in 2018, compared with MSCI Frontier Markets -19.06% and MSCI Emerging Markets -16.64%. As a result of the steep Turkish Lira depreciation, Turkey suffered the biggest decline in our universe, losing 43.34%. US policy both from the Federal Reserve (normalisation of the monetary policy) and from the White House (sanctions against Russia and sanctions threats against Turkey) acted as a strong negative catalysts for Russian and Turkish equities. Strong US Dollar and overall lacklustre appetite for Emerging and Frontier Markets risk have amplified the negative performance. That has led to increased pressure on the EM FX, higher inflation and in some cases higher interest rates, pushing asset values in Dollar terms lower. Whereas commodity exporters (particularly countries that have limited portfolio flows such as Central Asia) should prove better equipped to deal with these type of challenges, they have not been immune. Moreover Turkey and Russia represent the largest regional trading partners and therefore impact the region on both sentiment, currency and the “real economy”. Trade tensions, weak commodity prices have added to the risk aversion in the second half of the year. The challenging conditions have led to a decrease in liquidity especially for the small and mid caps, limiting our ability to rebalance. The Fund ended the year with an elevated amount of cash, at 11%. Valuations now have become more attractive, with KZKAK trading at 2018 P/E of 6.76x (down from 7.73x in 2017), MSCI Russia at 4.85x (down from 7.4x in 2017) and MSCI Turkey at 6.65x (down from 9.23x in 2017).

After a volatile 2018, we look cautiously into 2019. We believe the volatility will continue, but it will offer us opportunities to deploy the cash we created in 2018 at attractive prices. Eventually we expect some multiple re-rating in 2019. Structural reforms and sound economic policies should help the Central Asian and Caucasus countries deliver strong economic growth, despite economic weakness and stagnation in the dominating regional economies of Russia, China and Turkey. Political change in Armenia, liberalisation and continued opening of Uzbekistan, strong FDI’s inflow and reforms in Georgia and further privatisation in Kazakhstan will be the drivers for the region in 2019. Having said that risks are ever present. The main risk coming from an external shock, be it significant slow-down in China, further correction of the US equity market or slump in commodities. Slower reform pace or lack of political will, may have an adverse effect on the economic growth as well.

Georgia should continue showing strong economic growth. According to the IMF, its 2019 GDP growth should be around 5%, after 5.5% forecasted for 2018. The record FDI Inflows and tourism revenues have helped to finance the current account deficit. Politically the country remains stable. During the presidential elections in November pro-government candidate Salome Zurabishvili won the majority, meaning a continuation of the current policies. Georgia has improved in the World Bank Ease of Doing Business ranking to the 6th place, from 9th a year ago. We believe this positive backdrop of economic growth will stay in 2019, helped by political reforms, privatisations and stable political environment. The main risks that remain are a high current account deficit, reliance on foreign capital flows and vulnerability of the Georgian Lari.

Economic recovery continued in Kazakhstan in 2018. According to the IMF forecast, its economy should grow by 3.2% in 2018 and 2.8% in 2019. During the year there was little done to change the dependency of the economic growth rates on oil price and Russian Rouble. The government continued the clean up of the banking sector by facilitating the merger of Halyk Bank and Kazkommertsbank and by injecting EUR 1.1bn into struggling Tsesnabank. As a result Halyk Bank emerged as an undisputed leader in the Kazakh banking sector. In 2018 Kazatomprom was listed on the LSE, the first out of several SOE’s that are planned to be privatised. In 2019 the privatisation program should continue, including Kazmunaigas, the state owned oil company, responsible for nearly a third of the Kazakh oil output. Not much change is expected on the political front, as President Nazarbayev should continue to be in charge. The main risks are lack of economic dynamism, dependence on Russia as the largest trade partner and oil exports.

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INVESTMENT OBJECTIVE

Long bias Equity Fund
Investing across the Silk Road region

PERFORMANCE USD I SHARE CLASS

Returns	Central Asia Fund
Last Month	-6.35%
Year to Date	-25.8%
NAV	757.70

FUND DETAILS

Structure	UCITS
Domicile	Luxembourg
Launch Date	Oct. 2012
Fund Size USD	$16m
Units in Issue (USD I)	21,173.97
Number of Holdings	31
Dealing	Weekly

TOP 10 HOLDINGS

Company Name		%
1	Liberty Bank Ord	13.9%
2	Halyk Savings Bank GDR	8.8%
3	TCS Group	8.3%
4	Steppe Cement	4.2%
5	TBC Bank	3.5%
6	KazTransOil	3.3%
7	Centerra Gold	3.1%
8	Georgia Healthcare Group	2.9%
9	Ros Agro	2.8%
10	DP Eurasia	2.8%

MONTHLY PERFORMANCE SINCE INCEPTION

I USD	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Year
2018	6.88%	-1.22%	0.28%	-6.82%	-6.05%	0.63%	-2.55%	-9.15%	1.10%	-5.29	0.23%	-6.35%	-25.8%
2017	3.83%	2.57%	-0.23%	4.61%	2.03%	3.44%	4.53%	3.61%	4.83%	-0.42%	-1.69%	3.60%	35.1%
2016	-9.26%	6.23%	8.07%	2.89%	5.56%	2.51%	6.39%	0.23%	3.21%	1.35%	0.13%	2.94%	33.3%
2015	-9.99%	1.74%	-1.25%	8.40%	0.11%	1.79%	-7.74%	-9.83%	-2.90%	-0.70%	-3.02%	-5.77%	-26.8%
2014	-4.66%	2.62%	-2.31%	2.39%	2.90%	4.20%	4.53%	-0.12%	-4.48%	-8.66%	-6.55%	-6.14%	-16.2%
2013	4.30%	-3.18%	-2.54%	-5.60%	-1.13%	-8.77%	6.80%	1.28%	-0.41%	1.24%	0.65%	1.98%	-6.2%
2012										-1.31%	-1.88%	1.70%	-1.5%

* 2012 performance starts from October – when the Fund’s first NAV was struck. Performance figures are for a day-1 investor, net of fees

FUND COMMENTARY (CONTINUED):

Uzbekistan continued reforms under the President Mirziyoyev, opening the country to international investors and lifting currency controls. As a result, the economy is forecasted by the IMF to grow by 5% in both 2018 and 2019. As a result, inflationary pressures have increased and IMF forecasts inflation to be around 17% in 2019. The country should continue with the reforms and has obtained its first sovereign rating in 2019 at BB- with stable outlook, which will likely lead to the decrease in the borrowing costs for the corporates.

December recap.

December proved to be a difficult month for global equities. Worries over economic growth, trade disputes between China and the United States and a slump in the oil price have weighed negatively over equity markets. In such an environment Central Asia equity markets remained resilient and have outperformed developed markets. The Kazakh Index KZKAK gained 0.36%, MSXI Russia and MSCI Turkey lost 3.96% and 4.98% respectively, compared with a loss of 2.96% for MSCI Frontier Markets and 9.18% loss for S&P500. In the FX space, owing to the sharp correction of the oil price, Kazakh Tenge and Russian Rouble lost the most, 2.08% and 3.83% respectively. Turkish Lira and Uzbek Sum lost around 1% and the Georgian Lari appreciated by 0.41%.

Armenia held snap general elections on the 9th of December. The My Step Alliance, backed by the new president Nikol Pashinyan has decisively won the elections, gaining more than 70% of the vote. The elections followed the “Velvet Revolution” – mass protests against corruption and economic stagnation earlier in 2018 led by Pashinyan.

In Kazakhstan, Kazakhtelecom acquired 75% of KCELL, the leading mobile operator. The transaction follows the decision by Telia Company and Turkcell to exit the business in Kazakhstan. Kazakhtelekom paid USD 446m for the stake, implying EV of USD 771m. Following the announcement we sold our position in Kcell, as we don’t see any further upside potential in the stock.

Under the Chinese Belt and Road Program, China National Machinery Import and Export Corporation acquired 51% of Saryarka AvtoProm, the largest Kazakh automobile producer. The Chinese company is to invest USD 1.1bln into the enterprise, which should produce cars under Chinese brands for export, mainly to China. Further details will be announced later.

The biggest positive contributors to the performance were Kazatomprom, Centerra Gold and Ros Agro. Kazatomprom continued its strong performance on the expectation of the rebound in the uranium market and uranium futures prices holding above USD 28/lb. Centerra Gold performed well in December on the back of the strong gold price, which was up almost 5% during the month. Ros Agro performed well, as it continues to consolidate the fragmented agriculture sector in Russia.

The biggest negative contributors were TCS Group, Steppe Cement and Halyk Bank. TCS Group weakness was caused by the change in the dividend policy, reducing the dividend payout ratio from 50% of net income to 30%. The move was caused by the need to preserve capital after an increase of the risk weights by the Russian Central Bank. Halyk Bank was weak together with the oil price and Kazakh Tenge. Steppe Cement corrected without specific newsflow.

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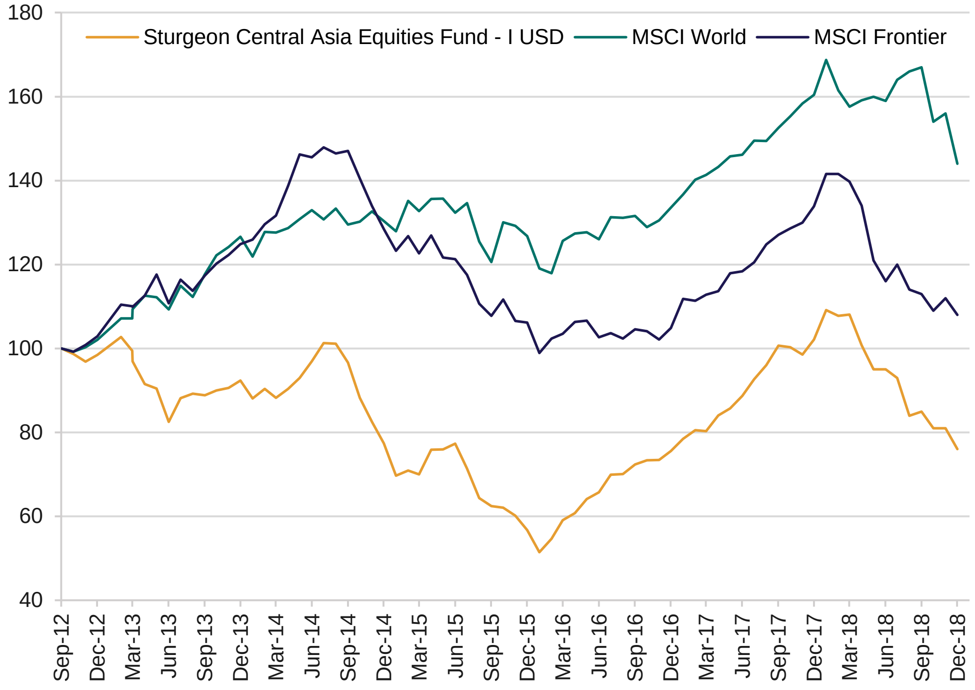
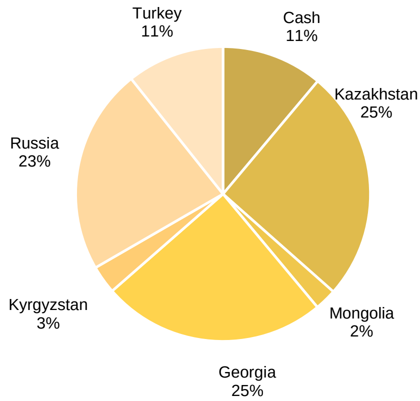
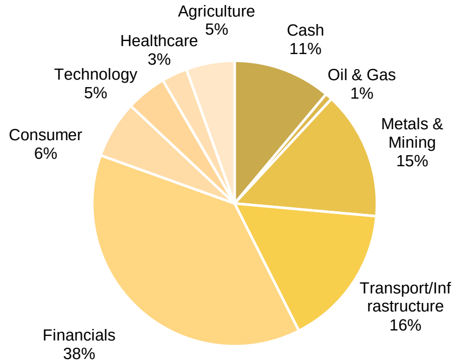
CUMULATIVE PERFORMANCE



GEOGRAPHICAL ALLOCATION



SECTOR ALLOCATION



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FUND STATISTICS

Performance (%)	USD I	USD R	EUR R	GBP R
One Month	-6.35%	-6.39%	-7.29%	-5.84%
Three Months	-11.11%	-11.22%	-9.81%	-8.73%
Year To Date	-25.80%	-26.90%	-22.53%	-21.42%
One Year	-25.80%	-26.90%	-22.53%	-21.42%
Three Years	10.15%	9.20%	7.24%	13.13%
Five Years	-3.88%	-4.64%	-1.01%	-0.54%

Risk & Return: Since Inception	USD I	USD R	EUR R	GBP R
Return Since Inception	-4.34%	-4.72%	-3.02%	-0.21%
Standard Deviation (%)	15.95%			
Sharpe Ratio	-0.20			
Correlation				
MSCI World	0.51			
MSCI Frontier	0.69			

* I USD and R EUR share classes were launched Oct. 2012, R GBP share class was launched July 2013 and R USD share class on Feb. 2014. All data is since class inception.

FUND TERMS

	USD I	USD R	EUR R	GBP R
Minimum Subscription	200,000	5,000	5,000	5,000
Additional Subscription	No minimum	No minimum	No minimum	No minimum
Management Fee	1.5%	2%	2%	2%
Performance Fee	20% with high water mark	20% with high water mark	20% with high water mark	20% with high water mark
ISIN Code	LU0815065403	LU0815065312	LU0815065585	LU0815065742
Bloomberg Code	STCAEIU LX	STCAERU LX	STCAEIE LX	STCAERS LX
Management Company	Alter Domus	Alter Domus	Alter Domus	Alter Domus
Administrator	RBC	RBC	RBC	RBC
Custodian	RBC	RBC	RBC	RBC
Subscription	Weekly	Weekly	Weekly	Weekly
Redemption	Weekly	Weekly	Weekly	Weekly