



Midlincoln Fund Atlas

April 2018
Fund Research

Bloomberg: RUSE RM

Country Risk: Russia

Asset Class: Fixed Income

Type of fund: UCITS ETF

Underlying Index:
ITI Funds Russia-focused
USD Eurobond Index

Domiciliation: Luxembourg

Registration Body: CSSF

Fund Administrator:
Edmond de Rothschild

Custodian:
Edmond de Rothschild

Management Company:
Fuchs Asset Management

Investment Manager:
Da Vinci Capital Mgmt.

Index Owner: ITI Funds

Replication: Physical

ETF Components:
All 23 Bonds of the ITI
Russia Eurobond Index
Listing: Irish Stock
Exchange

Admission to trading:
LSE, Moex

NAV Currency: USD

NAV Frequency: Daily

Coupon As Deasible
TER %: 0.5

Auditor:
KPMG

ITI Funds Russian Eurobonds ETF - The Optimal Way to access Russian fixed income markets

ITI Funds is a European ETF provider specializing in Emerging Markets. The first 2 UCITS ETFs provide exposure to Russian equity and fixed income markets

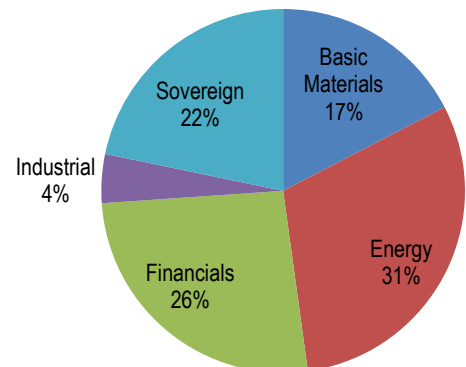
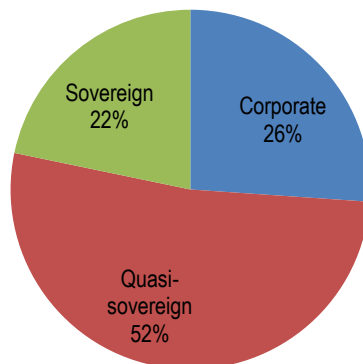
These 2 exchange funds (ETFs) were successfully launched on the London Stock Exchange (LSE) to growing International investor demand, and on the Moscow (Moex) Exchange for local investors

ITI Russian Eurobonds ETF gives exposure to top-quality liquid and reasonably rated issuers on the market of Eurobonds of Russian issuers.

ITI Russian Eurobonds ETF physically replicates ITI Russia-focused Eurobond Index.

Key Benefits:

- Diversified exposure to Russian USD fixed income markets
- Physical replication to 23 Russian Eurobonds, weighted YTM 5.2%, weighted Mod Duration 4.5 years
- Local / Euroclear settlement
- Listing on the Moscow (MOEX) and London Stock Exchange (ISE)
- Coupon income is reinvested as feasible



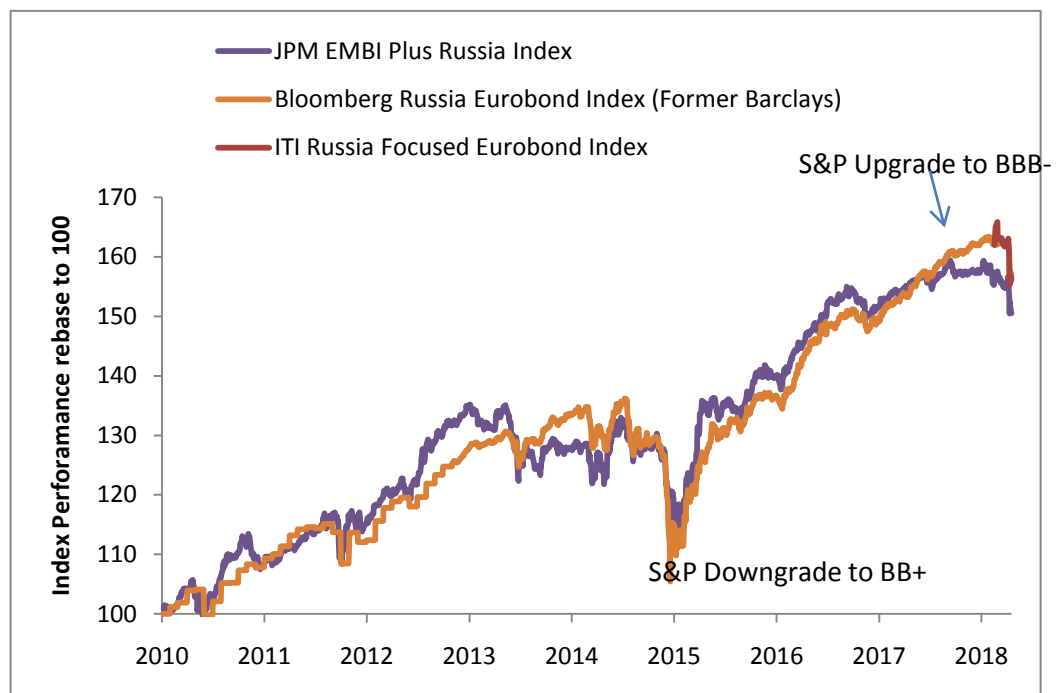
Source: ITI Funds

Investment case

Russian Eurobond markets have performed very well in the last decade despite the volatility and sanctions. Russian credit rating has been restored to investment grade (BBB-) by S&P in March 2018. But rating downgrades to sub investment levels and sanctions did not have drastically negative impact on fixed income prices. The losses were quickly turned into profits.

Beginning of 2018 when the rating was restored to investment grade Russian fixed income markets seen an increased activity of new bond placements

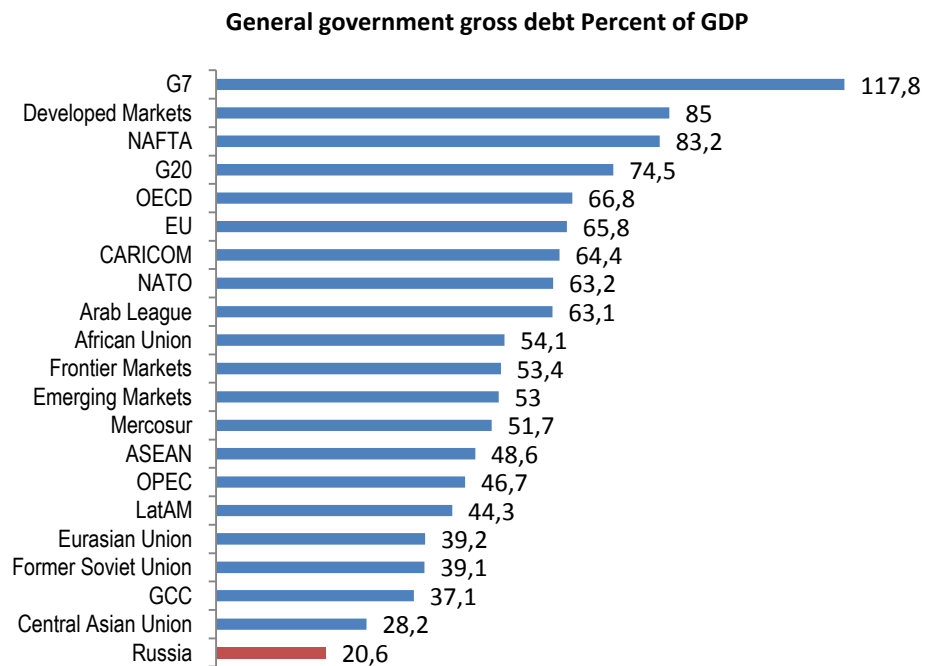
Russian government debt to GDP levels is minimal, corporates are underleveraged and their currency match is far better aligned against their revenues versus where they were 10 years ago.



ITI Russian bonds ETF tracks better index than comparables. It is far more diversified than Bloomberg Russian Eurobond index or JPM EMBI Plus Russian index, offering additional yield exposure while keeping the risk intact.

The ETF is the only Russia-focused fixed income ETF on the market which provides 100% exposure to USD instruments

Russia Debt/GDP Levels vs. Peers



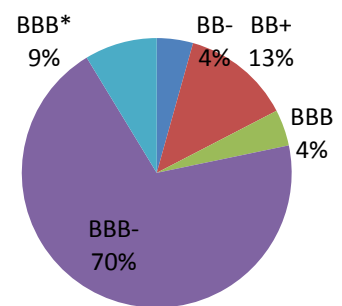
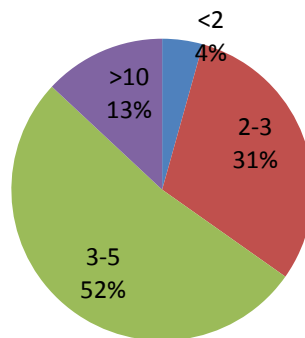
Source: Midlincoln Research

ITI Bond Index

ITI Funds Russia-focused USD Eurobond Index is a rule-based, total-return fixed income index designed to reflect the performance of Russian sovereign and corporate Eurobonds. The index is comprised of USD denominated fixed rate bonds, which meet eligibility requirements on credit rating, liquidity, term to maturity and other bond characteristics.

The rating of a bond has to be equal or above of Russia's sovereign rating to qualify for inclusion into the "Selection Pool".

Duration distribution and Rating Exposure in ITI Bond Index



ITI Funds

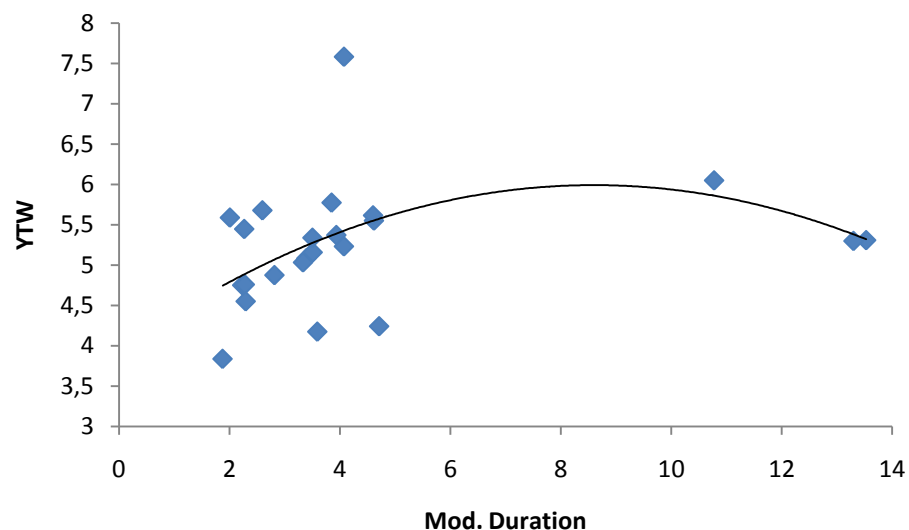
Index rules of the ITI Funds Russia-focused USD Eurobond Index are set to ensure that the index portfolio comprises liquid instruments only. A bond must be included in Russia's Central Bank Lombard List and have amount outstanding of USD 750 mn or above to qualify for inclusion into the "Selection pool".

Constituents' weights are determined using price-weighted mechanism and have a max-weight restriction of 5%. Index may include a maximum of two bond issues of one issuer (with exception for sovereign bonds).

The "Selection Pool" comprises bonds that fulfill the following conditions:

- Country of risk: Russia
- Currency: USD
- Amount outstanding: at least USD 750 mn
- Type of bonds: Fixed Coupon Eurobond, bullet bond, i.e. exclusion of bonds with embedded options or amortization features (e.g. Callables, Putables, Convertibles, Extendables, Sinkables)
- Credit rating: S&P and Moody's issue credit rating equivalent to Russia's sovereign rating or above; for the avoidance of doubt, if there is only a rating available by one of the two agencies, the rating needs to be equivalent to or above the sovereign rating of that agency, if there are two ratings available both need to be equivalent to or above the sovereign rating of the respective agency
- A price must be available from a recognised bond price provider as determined by the Index Committee
- A maximum of two issues per corporate issuer. The two issues are the top-2 by amount outstanding.

Yield Curve for the ETF



Source: Bloomberg

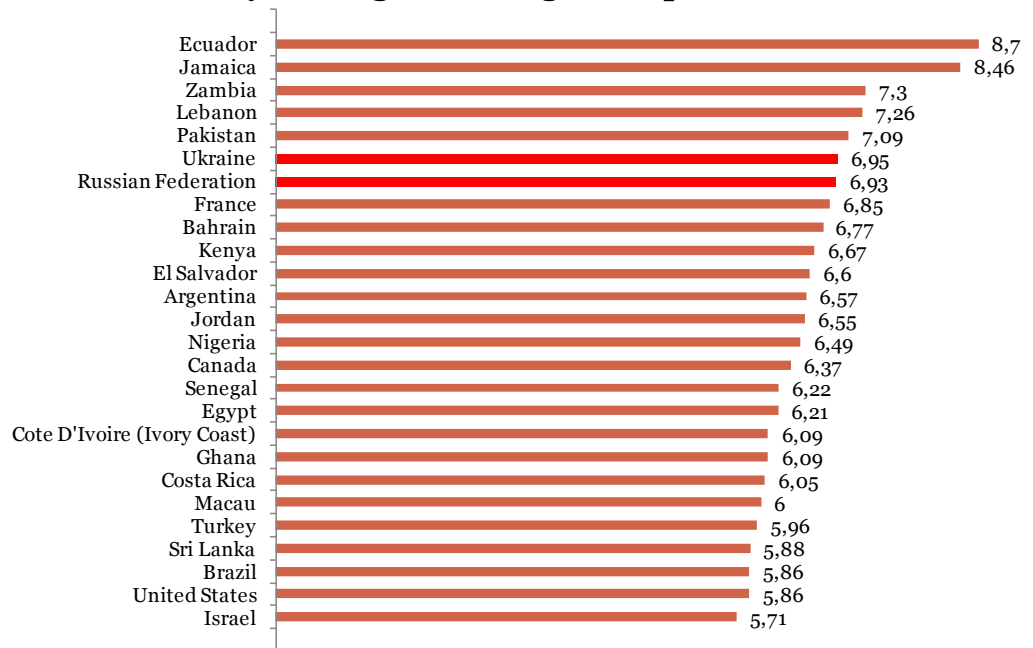
Composition of ITI Russian Bond ETF

ISIN	Name	Type	Sector	Coupon	Maturity	Currency	Country	Weight	S&P	Moody's	YTM	Mod Duration
XS031652	GAZPRON	Quasi-sovereign	Energy	7.288	08/16/37	USD	RU	4.35%	BBB-	Baa3	6.0	10.8
XS097172	RUSSIAN I	Sovereign	Sovereign	5 7/8	09/16/43	USD	RU	4.35%	BBB-	Ba1	5.3	13.5
XS129844	MIMC NOF	Corporate	Basic Materials	6 5/8	10/14/22	USD	RU	4.35%	BBB-	Baa3	5.8	3.9
XS076747	RUSSIAN I	Sovereign	Sovereign	5 5/8	04/04/42	USD	RU	4.35%	BBB-	Ba1	5.3	13.3
XS029058	GAZPRON	Quasi-sovereign	Energy	6.51	03/07/22	USD	RU	4.35%	BBB-	Baa3	5.1	3.4
XS055549	ALROSA FI	Quasi-sovereign	Basic Materials	7 3/4	11/03/20	USD	RU	4.35%	BB+	Baa3	4.8	2.2
XS074359	SBERBANK	Quasi-sovereign	Financials	6 1/8	02/07/22	USD	RU	4.35%	BBB*	Ba1	5.0	3.3
XS099754	GAZPRON	Quasi-sovereign	Energy	6	11/27/23	USD	RU	4.35%	BBB-	Baa3	5.6	4.6
XS097172	RUSSIAN I	Sovereign	Sovereign	4 7/8	09/16/23	USD	RU	4.35%	BBB-	Ba1	4.2	4.7
XS076422	RUSSIAN I	Quasi-sovereign	Industrial	5.7	04/05/22	USD	RU	4.35%	BBB-	Baa3	5.2	3.5
XS054863	VTB BANK	Quasi-sovereign	Financials	6.551	10/13/20	USD	RU	4.35%	BBB-	Ba1	4.8	2.3
XS099316	VNESHEC	Quasi-sovereign	Financials	5.942	11/21/23	USD	RU	4.35%	BBB-	-	5.6	4.6
XS055465	LUKOIL IN	Corporate	Energy	6	11/09/20	USD	RU	4.35%	BBB	Baa3	4.6	2.3
XS052461	VNESHEC	Quasi-sovereign	Financials	6.902	07/09/20	USD	RU	4.35%	BBB-	-	5.6	2.0
XS063857	SBERBANK	Quasi-sovereign	Financials	5.717	06/16/21	USD	RU	4.35%	BBB*	Ba1	4.9	2.8
XS098286	MIMC NOF	Corporate	Basic Materials	5.55	10/28/20	USD	RU	4.35%	BBB-	Baa3	5.4	2.3
XS076747	RUSSIAN I	Sovereign	Sovereign	4 1/2	04/04/22	USD	RU	4.35%	BBB-	Ba1	4.2	3.6
XS050495	RUSSIAN I	Sovereign	Sovereign	5	04/29/20	USD	RU	4.35%	BBB-	Ba1	3.8	1.9
XS153392	POLYUS FI	Corporate	Basic Materials	5.25	07/02/23	USD	RU	4.35%	BB-	Ba1	7.6	4.1
XS083019	GAZPRON	Quasi-sovereign	Energy	4 3/8	09/19/22	USD	RU	4.35%	BBB-	Baa3	5.4	3.9
XS086438	NOVATEK	Corporate	Energy	4.422	12/13/22	USD	RU	4.35%	BBB-	Baa3	5.2	4.1
XS086198	ROSNEFT	Quasi-sovereign	Energy	4.199	03/06/22	USD	RU	4.35%	BB+	Baa3	5.3	3.5
XS062069	ALFA BAN	Corporate	Financials	7.75	28/04/21	USD	RU	4.35%	BB+	Ba1	5.7	2.6
Weighted Averages											5.2	4.5

Source: Bloomberg, ITI Funds

Average Country Risk Levels Midlincoln Broad Market Bond Indexes

Country Average Sovereign+Corporate USD Yields



Source: Midlincoln Research

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