

Russian Equities Weekly

January 31 – February 4, 2022

	Week	YTD
MSCI Russia 10/40 TR in USD	2.5%	-9.5%
MSCI EM index TR in USD	2.5%	-0.8%
Excess return	0.0%	-8.6%
Due to Russia-specific factors*	0.5%	-11.3%
Due to difference in sector structure*	-0.5%	2.7%
MSCI EM HDY index TR in USD**	1.6%	1.7%
Key commodities***		
Oil	5.5%	23.2%
Gold	0.9%	-0.1%
FX		
RUB/USD	3.0%	-1.0%
RUB/EUR	0.9%	-0.9%

* See details of methodology at the end of the report

**MSCI Emerging Markets High Dividend Yield Index

*** We use Brent Oil and LBMA Gold, in USD terms. Energy weight in the MSCI Russia 10/40 is 36%; gold producers' weight in the index is 8% (as at the end of January 2022)

Data as of 4 February 2022

TKB Investment Partners (JSC) calculations; Bloomberg

	Current
Upside/downside to fair price	40%

Data as of 4 February 2022
TKB Investment Partners (JSC) calculations

In line with the broader EM

Russian equity market dynamics

Last week, the Russian equity market performed in line with the broader emerging markets (EM) index. A slight boost from the Russia-specific factor of an easing of sanctions fears was offset by the adverse impact of a sector factor. The Russian index's underweight in the consumer discretionary sector put pressure on its relative performance as the broader EM index's consumer discretionary sector rose by 6%.

Main Russian news

The European Commission (EC) now considers gas and uranium as green energy. Last week, the EC presented a draft of the ‘green taxonomy’ project which is a part of the European Green Deal 2019. The document suggests that, for a transitional period, **investments in gas and nuclear energy should be classified as green, like renewable energy**, to help achieve carbon neutrality. For Russia, gas and nuclear energy in Europe remain key markets. According to Eurostat, as at 26 January, **Russia remained the largest supplier of gas (both pipeline and liquefied) to the EU in 2021, with 46.8% of the market** (after 43.9% in 2020). According to Gazprom Chairman, A. Miller, the largest Russian gas importers increased their purchase volumes in 2021: German and Italian gas imports rose by 10.5% and 20.3%, respectively. According to IEA forecasts, in 2022 Russian pipeline gas exports to European markets may reach 190–195 billion cubic metres.

OPEC+ members approved the increase of oil production by 400 000 barrels a day (b/d) from March. According to its January report, OPEC held its 2022 oil demand growth forecast at 4.2 million b/d on the back of moderate global economic growth. The oil surplus forecast was downgraded from 1.4 million b/d to 1.3 million b/d. The next production review is scheduled for 2 March. According to the plan, Russia will increase production by 100 000 b/d. This means that by the end of March, Russia can recover 90% of its production volume as of May 2020, when the OPEC+ limits were put in place.

In January, Russian people’s inflation expectations for 2022 eased off. According to the Central Bank of Russia (CBR), **citizens expect inflation for the next 12 months to be 13.7%**. This is lower than in December 2021, when they expected 14.8% inflation over the following year. However, the figure remains close to its maximum level. The CBR maintains its inflation forecast at 4%-4.5% for 2022.

Net inflows from Russian retail investors into the Russian equity market amounted to USD 1.3 billion (RUB 101 billion) in January. The number of individuals with brokerage accounts on the Moscow Exchange exceeded 17.4 million. Last month, more than 2.8 million retail investors made transactions, the highest number in Moscow Exchange’s history.

*Author: Aleksandra Kuznetsova
Investment Specialist*

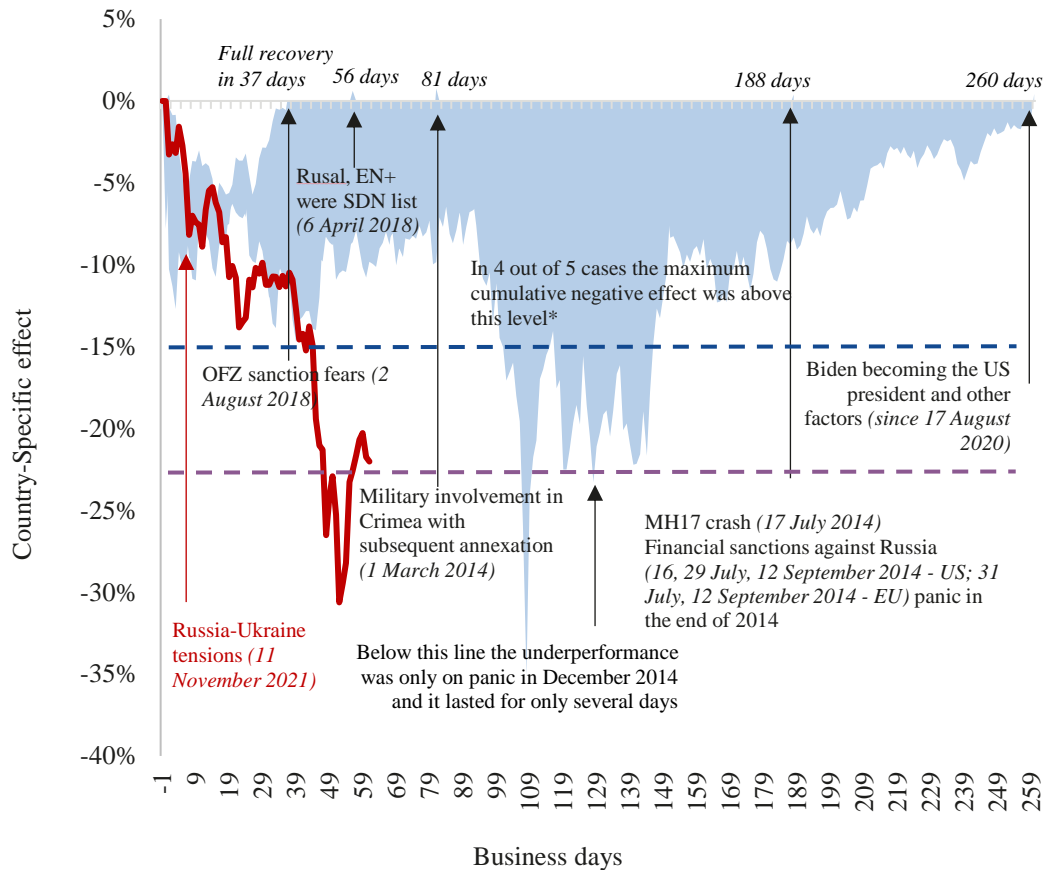
To watch...

Rosstat is due to post inflation figures for January 2022 and some key macroeconomic figures for December 2021 later this week.

The Central Bank of Russia will hold a monetary policy meeting on 11 February.

Sources: Vedomosti, Bloomberg, TKB Investment Partners (JSC); February 2022

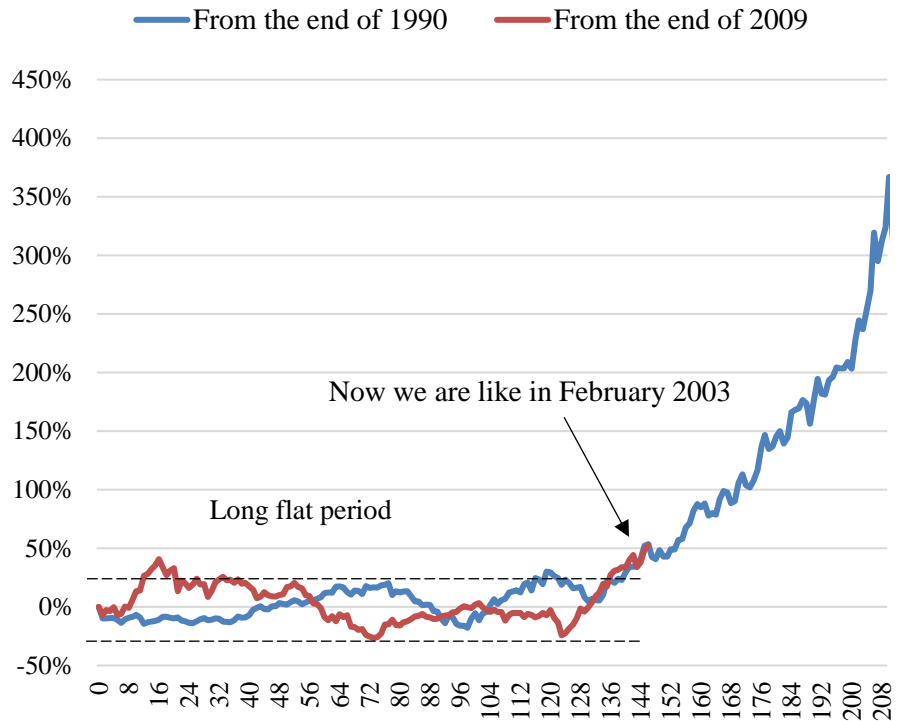
Cumulative Russia-specific effect on excess return of Russia vs EM after sanction risk-related events (range of negative cumulative effects since a particular sanction-related topic started to develop)



* the cumulative negative effect was below minus 15% only in the end of 2014- beginning of 2015 when a chain of events related to annexation of Crimea effected the market coupled with the strong drop of oil prices
 Note: To calculate the country-specific effect, we constructed an index from the EM sector indices with the structure of the MSCI Russia 10/40 index. For example, we took the MSCI EM Energy index and weighed it at 38%, the MSCI EM Materials index at 27%, etc. Therefore, the excess return due to Russia-specific factors equals the MSCI Russia 10/40 minus the constructed index. The cumulative country-specific effect is demonstrated from the day before the sanctions risk-related event until the effect evaporates. Based on net return figures, in USD terms.
 Source: Bloomberg, TKB Investment Partners; Data as 4 February 2022

Possible long-term growth in commodity prices

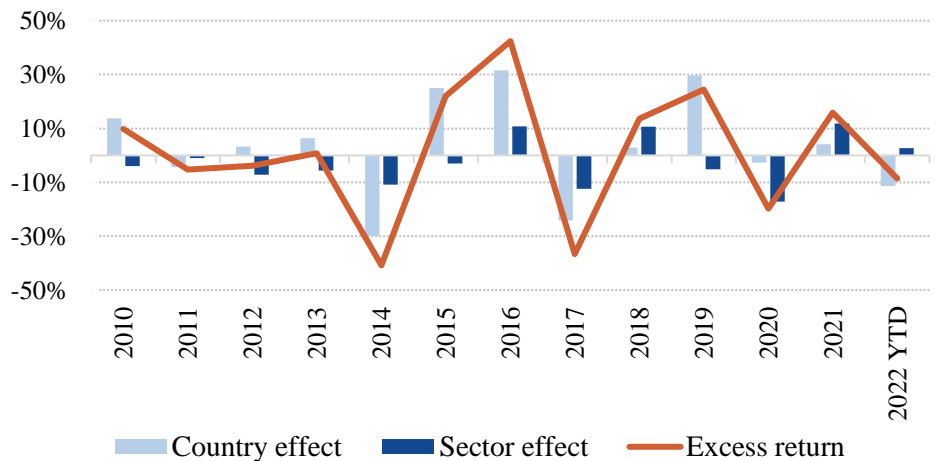
Bloomberg commodity spot index (in USD)



Source: Bloomberg, TKB Investment Partners, February 2022

Country and sector effect for Russia vs EM excess return

We constructed an index from the EM sector indices with the structure of MSCI Russia 10/40 index. For example, we took the MSCI EM Energy and weighed it at 35%, MSCI EM Materials – 35%, etc. Let's call it MSCI EM Russia sector weight (MSCI EM RSW). Excess return due to sector factors is MSCI EM RSW minus MSCI EM. Excess return due to Russia-specific factors is MSCI Russia 10/40 minus MSCI EM RSW.



Source: Bloomberg, TKB Investment Partners; data as of 4 February 2022

For more information:

TKB Investment Partners (JSC)
69/71, lit. A, Marata Street
Saint Petersburg, 191119, Russia

Tel: +7 812 332 73 32
Fax: +7 812 324 65 57

info@tkbip.ru
www.tkbip.com

This material is issued and has been prepared by TKB Investment Partners (JSC).

This material is produced for information purposes only and does not constitute:

1. An offer to buy nor a solicitation to sell, nor shall it form the basis of or be relied upon in connection with any contract or commitment whatsoever or
2. Any investment advice.

Opinions included in this material constitute the judgment of TKB Investment Partners (JSC) at the time specified and may be subject to change without notice. TKB Investment Partners (JSC) is not obliged to update or alter the information or opinions contained within this material. Investors should consult their own legal and tax advisors in respect of legal, accounting, domicile and tax advice prior to investing in the Financial Instrument(s) in order to make an independent determination of the suitability and consequences of an investment therein, if permitted. Please note that different types of investments, if contained within this material, involve varying degrees of risk and there can be no assurance that any specific investment may either be suitable, appropriate or profitable for a client or prospective client's investment portfolio.

Given the economic and market risks, there can be no assurance that any investment strategy or strategies mentioned herein will achieve its/their investment objectives.

This material shall not be considered as any kind of a guarantee or a promise of the future effectiveness (profitability or break-even) of investment activity. Results of investments in the past shall not be considered as a guarantee of such results in future. All past performance data have documental confirmation. There are no guarantees of profits or returns from financial instruments unless otherwise clearly indicated in respective prospectus or fund's legal documentation.

Returns may be affected by, amongst other things, investment strategies or objectives of the financial instrument(s) and material market and economic conditions, including interest rates, market terms and general market conditions. The different strategies applied to the financial instruments may have a significant effect on the results portrayed in this material. The value of an investment account may decline as well as rise.

Investors may not get back the amount they originally invested.

The performance data, as applicable, reflected in this material, do not take into account the commissions, costs incurred on the issue and redemption and taxes.

TKB Investment Partners (JSC) is the legal entity registered under laws of Russian Federation with principal state registration number (ORGN) 1027809213596, having its registered address at: 69/71, lit. A, Marata street, Saint-Petersburg, 191119, Russia, holding the license issued by FFMS of Russia to carry out asset management of mutual funds & non-state pension funds Nr. 21-000-1-00069 as of 17 of June 2002 (validity of license – unlimited), and the license of FFMS of Russia of professional securities market participant to carry out the trust management activity Nr. 040-09042-001000 as of 11 April 2006 (validity of license – unlimited). Phone: +7 (812) 332-7332, fax: +7 (812) 346-6557.