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Interview: What do the sanctions imposed on Russia mean for our funds?

Paul Severin



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Interview with Alexandre Dimitrov, Senior Fund Manager with more than 20 years of experience and special field of expertise: equity markets Russia and CEE.

What are the effects of the sanctions imposed on Russia on our funds?

Overall, equities and bonds from Russia and Ukraine held by Erste Asset Management account for less than 0.2% of all our assets under management and are therefore not particularly significant. Unfortunately, the holders of share certificates of our country funds or regional funds that invest in Russia are affected by the sanctions.

The Moscow stock exchange has been closed since last Friday, 25 February. This means that no assets are being traded locally in Moscow. At the same time, the transfer of assets by the Russian government has been banned

Capital market transactions or the transfer of money are currently de facto impossible due to the limited trading of the Russian rouble (foreign exchange transactions) and the exclusion of important Russian banks from SWIFT.

ERSTE STOCK RUSSIA and ERSTE STOCK EUROPE EMERGING are directly and most severely affected. Therefore, we have suspended the price-fixing and the trading in share certificates for these funds. This is now also the case for ERSTE BOND DANUBIA, which invests in Russian bonds as well. [The Global Flexible Strategy Fund is also affected].

How do you see the current situation?

Important equity index providers such as MSCI Inc. and FTSE Russell have been removing Russian shares from their indices that are particularly important for institutional investors, among them ETF providers. Also, Moody's and Fitch downgraded the rating Russia to junk status. If Russian bonds were to be removed from bond indices as well, this would come with additional massive consequences.

Even though from a global perspective, the importance of Russian equities and bonds remains very limited, the influence on the global capital markets is significant. As Russia is cranking up the attacks on Ukraine, market participants are becoming more nervous. In particular, the fear that higher commodity prices could affect economic growth has soared.

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Alexandre Dimitrov, Erste Asset Management

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For example, the price of crude oil (Brent) increased above USD 110 per barrel as some buyers were unwilling to buy Russian oil. They were worried that energy sanctions might be imposed before the oil could be delivered to them. The oil price increased despite the fact that the member states of the International Energy Agency had released 60mn barrels of oil from its strategic reserves.

The major US index, S&P 500, has been volatile, and the European stock exchanges are particularly hard hit by the situation. Government bonds were in strong demand as safe haven. The yields of 10Y German government bonds fell back into negative territory.

There has been some movement on the diplomatic parquet, as China has declared itself willing to support the mediation of an armistice. In a statement following a telephone call between the Chinese and the Ukrainian foreign minister, the Chinese government explained that it was very worried about the suffering of Ukrainian civilians.

When will trading resume in Moscow?

In the short run, I do not see how that could be the case. Russian banks (including the central bank in Moscow) have been handed hard sanctions. In Russia, capital control measures have been taken. This rules out securities transactions and foreign exchange transfers.

We are in constant contact with our brokers, depositary bank, and regulatory authorities in order to find possible alternatives. At the moment, nobody can reliably say when and whether trading can resume. We have to wait and see how the war develops, whether further sanctions will be imposed, and what measures Russia will still take for its part. We are all very concerned, and as soon as we have news, we will pass them on to our fund shareholders.

Legal note:

Prognoses are no reliable indicator for future performance.

⚠ Risk notes according to 2011 Austrian Investment Fund Act

ERSTE STOCK RUSSIA may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

Due to the current political situation and the associated uncertainties regarding the fungibility of the Moscow Exchange, the calculation of prices and the trading of unit certificates are being suspended for ERSTE STOCK RUSSIA. The resumption of unit certificate trading will be announced separately.

The fund employs an active investment policy. The assets are selected on a discretionary basis. The fund is oriented towards a benchmark (for licensing reasons, the specific naming of the index used is made in the prospectus (12.) or KID "Ziele und Anlagepolitik"). The composition and performance of the fund can deviate substantially or entirely in a positive or negative direction from that of the benchmark over the short term or long term. The discretionary power of the Management Company is not limited.

⚠ Risk notes according to 2011 Austrian Investment Fund Act

ERSTE STOCK EUROPE EMERGING may exhibit increased volatility due to the composition of its portfolio: i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time.

ERSTE STOCK EUROPE EMERGING may make significant investments in demand deposits or time deposits with a maximum maturity of 12 months pursuant to section 72 of the 2011 Austrian Investment Fund Act.

Due to the current political situation and the associated uncertainties regarding the fungibility of the Moscow Exchange, the calculation of prices and the trading of unit certificates are being suspended for ERSTE STOCK EUROPE EMERGING. The resumption of unit certificate trading will be announced separately.

The fund employs an active investment policy. The assets are selected on a discretionary basis. The fund is oriented towards a benchmark (for licensing reasons, the specific naming of the index used is made in the prospectus (12.) or KID "Ziele und Anlagepolitik"). The composition and performance of the fund can deviate substantially or entirely in a positive or negative direction from that of the benchmark over the short term or long term. The discretionary power of the Management Company is not limited.

⚠ Risk notes according to 2011 Austrian Investment Fund Act

In accordance with the fund provisions approved by the Austrian Financial Market Authority (FMA), ERSTE BOND DANUBIA intends to invest more than 35% of its assets in securities and/or money market instruments of public issuers. A detailed list of these issuers can be found in the prospectus, para. II, point 12.

Due to the current political situation and the associated uncertainties regarding the fungibility of the Moscow Exchange, the calculation of prices and the trading of unit certificates are being suspended for ERSTE BOND DANUBIA. The resumption of unit certificate trading will be announced separately.

The fund employs an active investment policy and is not oriented towards a benchmark. The assets are selected on a discretionary basis and the scope of discretion of the management company is not limited.

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Paul Severin has worked at Erste Asset Management since April 2008. Until 2012 he was responsible for the company's product management; he has directed communications and PR activities since April 2012. From 1992 to 2008, he was director of equity fund management and deputy director for institutional funds at Pioneer Investments Austria in Vienna.

His career in the securities business began in 1992 at Constantia Privatbank as a portfolio manager and analyst. He worked as primary analyst at Creditanstalt Investmentbank in Vienna from 1994 to 1999.

He studied international business at Innsbruck University and Marquette University in Milwaukee, WI, USA. Before his university studies, he worked at Dornbirner Sparkasse in letters of credit and export financing.

Paul Severin is a member of the board at ÖVFA (Austrian Association for Financial Analysis and Asset Management) and a CEFA charter holder.

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