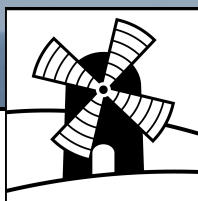


Emerging Market Strategies

De-Risking the Black Sea Basin: Balance Amidst Political Tension and Inefficient Capital Markets



**East Mill
Capital**

THIS REPORT OUTLINES RISK MANAGEMENT AND ASSET SELECTION STRATEGIES PERTAINING TO POLITICAL AND ECONOMIC DEVELOPMENTS OF THE BLACK SEA BASIN REGIONAL TENSIONS AND CONFLICT.

OUR INVESTIGATION FOCUSED ON:

- DETERMINING THE EXTENT OF POLITICAL TURMOIL AND COST TO DOING BUSINESS WITHIN CONFLICT REGIONS.
- ANALYSING AFFECTED COMPANIES AND ASSESSING ASSET PRICING VALUATIONS.
- EXAMINING FOREIGN EXCHANGE VOLATILITY AND ITS EFFECT ON BUSINESS.

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De-Risking the Black Sea Basin:
Balance Amidst Political Tension

East Mill Capital
Emerging Markets Research and Investments

De-Risking the Black Sea Basin:
Balance Amidst Political Tension

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De-Risking the Black Sea Basin:
Balance Amidst Political Tension

Executive Summary

The goal of this investigation, conducted by members of the East Mill Capital Research Group, was to meet the following objectives:

- Examine the sustainability of the Ukrainian Public Equity markets as well as of neighboring nations.
- Gain a complete understanding of the drivers of the Ukraine-Russia Conflict (a.k.a. Black Sea Basin Crisis / Conflict).
- Determine the major players of the Ukraine-Russia conflict, and stakeholders and parties that stand to gain materially from escalation and de-escalation.
- Forecast potential political outcomes.
- Long-list, short-list, and analyze select equities from the region.
- Conduct a risk appraisal of various regional securities, including equity and money market instruments in determining the risk climate of the region.
- Determine the effect the Ukraine-Russia Conflict has on SMEs as well as corporations.
- Create a balanced portfolio that will an investor to gain positive risk adjusted returns from public equity securities of companies affected by the conflict developments.

This investigation dealt with the Ukraine-Russia Conflict, a political conflict that has affected the world's financial markets, incited a power struggle within the Black Sea Basin, and brought about regime change. The crisis has also resulted in a worsening investor sentiment for companies, and asset classes, of the involved nations, particularly; Russia, Ukraine, and Turkey. It has been our goal to determine the extent of the damages done as a result of the crisis, and also to gain a better understanding of whether the conflict has truly eliminated all room for return – as aggregate investor sentiment seems to suggest. Leveraging our group's diverse ethnic and professional backgrounds we sought out to investigate these issues as part of a three-month investigation.

As a result, we have concluded the following:

- The Black Sea Basin Conflict continues to affect regional equities by bringing significant volatility to world financial markets.
 - Ukrainian Public Equity markets are still not investable.
 - The Ukrainian Hryvnia is showing signs of weakness in the longer-term.
 - It is possible to achieve risk adjusted returns in the face of this political conflict.
-

Our Research Team

The taskforce for this research project is composed of a core assembly of researchers from disciplines of political analysis, supply chain management, and equity research and asset management. We implored our community of specialists in supportive roles that helped us gain further insight into regional dynamics, leveraging the professional experiences of our colleagues.

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ESG Foreword

East Mill Capital, as a research initiative, is concerned with the exploratory process of defining viable investment solutions across emerging markets. Among the many considered factors in assessing the profitability and sustainability of a market, the consideration of the companies' corporate social responsibility profile, and adherence to environment, social, and governance principles is at the forefront of our research. We believe that investments in emerging markets, which can be constrained by political turmoil and inefficient markets, must be firstly compliant with ESG policies as this serves as testament to ethical business practices – a critical component in sustainable business.

When assessing the Black Sea Basin Conflict; it is crucial to realize the magnitude of the conflict. In a world strained by conflict, it is important to stimulate companies which have high standards of ESG. Holdings of East Mill Capital Research Fund I are all screened for ESG compliant company policies and methodology.

We believe the continuation of the conflict in the region puts a strain on sustainable development within the region and therefore it is of utmost importance to uncover and research ethically sustainable companies. The escalation of the Black Sea Basin Conflict has forced the hand of management in many cases where ESG and ethical principles of management have come only second to profitability and cashflows. While we understand the challenges associated with operational management in conflict areas we continue to advocate that companies that are able to remain ethical in the face of adversity should outperform companies that fail to adhere – or fully disregard – ESG policies. The companies presented throughout this report are all fully compliant with ESG principles.

It is our hope that more companies within emerging markets reappraise their company structures and make appropriate changes that foster ESG principles.

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Politics of the Black Sea Basin Region

Since 2013 the Black Sea Basin has played host to ongoing conflicts and political debates, with escalating tensions between the Russian Federation and the Ukraine. The escalation has caused both political and financial unrest, forcing many investors to question the viability of sustainable investments in the region under the threat of factors such as economic sanctions, military action, corruptive force majeure, and civil unrest. The main actors within this conflict, referred to as "Black Sea Basin Conflict" or "Russian-Ukraine Conflict", have all expressed positions, issued statements, and employed actions to sway the balance of power either way. In this section we examine current Inter-state relations and forecasts.

Overview of Ongoing Political Tensions

On November 25th 2018 the ongoing Russian-Ukrainian tensions raised further attention to the international world. Russian ships blocked off three Naval ships and a tugboat were halted by Russian ships on the Kerch Strait. The blockade of these ships occurred as the ships attempted to leave the area of a Russian built bridge above the Kerch Strait. Furthermore, this sea route is disputed due to the Russian government stating that the Ukrainian ships trespassed on Russian waters. Conversely, the two states signed a bilateral treaty in 2003 which allowed both states to use the sea route. Russia's claims are heavily criticized by the international sphere due to failure to adhere to the treaty signed in 2003. Therefore, Russia can be affected by efforts of collective security initiatives of NATO. The United Nations is put into a position where international action should be taken due to Russia's failure to adhere to international law by using unprecedented force (Article 39 UN Charter). In Russia's view the Ukrainian ships served as real national security threat due to their proximity to Russian land.

Due to this incident, the Russian Ruble devalued to its lowest rate since mid-November (67.17 against USD). Furthermore, this creates pressure on Russia due to possible coercive actions taken by the international sphere affecting Russia's export efforts by limiting trade capacity through sanctions. Russia's energy policies have in recent times been reformed due to these disputes with Ukraine. Russia, recently passed the creation of the Turk stream which is created to empower Russian - Turkish relationship. The Turk stream was a strategic move by the Russian joint state gas producer Gazprom PGSC, to bypass Ukraine in their efforts to supply the SEE region.

The ongoing political turmoil has created issues throughout many regions of Ukraine that were traditionally considered hotspots for business and production offshoring, and it is our expectation that those issues will continue to be prevalent regardless of international actor intervention.

Complete Timeline of Moments of Interest of the Black Sea Basin Conflict

2013:

End of November: 100,000 protesters gather in Kiev in opposition of the governments delay to complete a deal with the EU - in opposition of the Russian government

21 November: President Yanukovych's cabinet lets go of an agreement which would have created closer trade ties with the EU, in hopes of creating closer Russian-Ukrainian relations.

17 December: Putin takes on 15 billion (USD) of Ukraine's debts and deflated Russian gas exports by 33%.

2014:

16-23 January: Ukraine passes anti-protest laws as clashes intensify.

28-29 January: Anti-protest laws are annulled.

February 14-16: Protesters arrested during December protests are released. City Hall abandoned by protestors and other governmental buildings across the nation.

February 20: Gunfight between protestors and police break out at the central square of Kyiv.

21 February: Yanukovych engages in a compromise deal with opposition leaders.

22 February: Yanukovych flees presidential compound, protestors take control of government buildings and parliament votes to remove Yanukovych from parliament with elections set to take place May 25.

23-26 February: Parliament votes to ban Russian as the second language, ultimately overturned due to unrest within the Russian speaking regions.

The following also occurs:

Alexander Turchynov appointed as interim president.

An arrest warrant was put out on former president Yanukovych.

Arseniy Yatsenyuk gets elected as interim president, replacing the appointed interim president

Berkut police forces disbanded due to killing of protestors.

27-28 February: Pro-Russian government seizes important buildings within the Crimean capital of Simferopol. Unknown soldiers with military uniforms are seen outside Crimean airports.

1 March: Russian parliament approves Putin's request to use coercive forces to guarantee and protect Russian interests

8 March: Warning shots are fired to prevent an unarmed international military observer mission from entering Crimea. Russian forces become increasingly aggressive towards Ukrainian troops trapped in bases.

16 March: Crimea's referendum on joining Russia is backed by 97% of votes; Western states believe that the referendum was fraudulent.

17 March: EU and the United States impose travel bans, as well as freezing of assets of officials linked to the Crimean Referendum.

18 March: Putin administration affectively annexes Crimea and absorbs it into the Russian federation

28 March: U.S. President Barack Obama urges Putin to retrieve troops from Crimean border.

7 April: Protestors occupied government buildings in Donetsk and Luhansk calling for an independence referendum similar to Crimea; in connection with the seizure of administrative buildings in Kharkov, Donetsk and Lugansk. Acting President of Ukraine O. Turchynov announces the creation of an anti-crisis headquarters

9 April: Confrontation in Mariupol.

14 April: The decision of the Ukrainian National Security and Defense Council "On Immediate Measures to Overcome the Terrorist Threat and Maintain the Territorial Integrity of Ukraine" is put into effect.

15 April: Ukraine's interim President Turchynov announces the beginning of an anti-terrorist operations against those who seek to separate from the state. Efforts were ultimately ineffective.

17 April: Talks in Geneva take place between US, EU, Russia, and Ukraine on de-escalating the conflict.

22 April: Ukrainian president order the relaunch of the military operations towards the separatist groups within the country

2 May: Clashes in Odessa occur when 42 Russian activists are trapped and die in a burning building.

11 May: Holding a "referendum on the independence of the DPR and LNR".

25 May: Petro Poroshenko gets elected as president, with the disregard of the Dunbar region (separatist population

26 May: Battles ensue for the Donetsk airport

14 June: Russian separatists take down military plane killing 40 in eastern Ukraine

20 June: Petro Poroshenko announced a ceasefire until June 27, supported by self-proclaimed leaders of so-called republics.

25 June: Russian parliament rescinds policy allowing Russian forces in Ukraine.

27 June: Ukraine signs an agreement with the EU to create closer economic and political ties in opposition of Russia.

1 July: Petro Poroshenko announced the cessation of a unilateral armistice. The Ministry of Foreign Affairs of Ukraine stated that during the armistice terrorists attacked ATO (Anti-terrorist operations) forces 108 times, killing 27 servicemen.

17 July: Malaysian flight from Amsterdam shot down near city of Gabrove in a region taken over by the rebel forces.

30 July: EU and US announce new sanctions against Russia. US sanctions were aimed to the economic sector of Russia affecting the VTB Russian Central Bank, and Russian Agricultural Bank

22 August: Russian convoy send humanitarian aid to Luhansk without the knowledge of Ukrainian government.

26 August: Ukraine shows captured Russian paratroopers who were later exchanged with Ukrainian soldiers.

1 September: Ukrainian separatists advance to the East. Ukraine claims 700 prisoners taken by the separatist rebels.

5 September: Truce between rebels and Ukraine signed in Minsk.

24 September: NATO reports that a large number of Russian troops are withdrawing from Eastern Ukraine.

12 October: Putin orders troops stationed in eastern Ukraine to return to their bases.

21 October: Human Rights Watch claims Ukrainian government is using cluster bombs against the city of Donetsk which are banned in many states.

26 October: Pro-western parties win Ukraine's parliamentary elections

31 October: Breakthroughs in EU mediation leads to resurgence of Russian gas supplies within Ukraine.

2-3 November: Rebel groups start holding elections without the approval of Ukrainian government, but supported by Russia.

Fears of conflict rise due to Russias corroborating position

12 November: General Phillip Breedlove (NATO) states that Russian troops have been spotted entering Ukraine.

Until the beginning of winter, fighting broke out with renewed vigor, and on December 9 Ukraine and separatists announced a new "silence regime".

It lasted until mid-January, when, after another escalation in the East, the leaders of Ukraine, Russia, Germany and France announced the negotiations in Astana.

After that, the militants began massive assault on the Donetsk airport, seizing the city of Vuglegirsk near Debaltsevo.

2015:

22 January: Donetsk International Airport taken over by rebels and President Poroschenko announces his plan to come forth with a case to the International Criminal Court concerning the Crimes Against Humanity taken place in the conflict.

31 January: The latest peace talks of the contact group (representatives of the rebels, Ukraine, Russia and OSCE) in Minsk collapse.

12 February: The signing of the Minsk Agreements – 2.

1 April: Crimea: Tatar TV and radio stations were progressively forced to close; the last TV station in the Crimean Tatar language was rejected by Roskomnadzor, Moscow's media regulator.

16 June: Despite a reluctance to implement EU and U.S. sanctions imposed on Russia for its annexation of Crimea, Turkey defended the territorial integrity of Ukraine.

2 August: Around 200 Crimean Tatar groups from several countries met in Ankara, Turkey, for the Crimean Tatars World Congress where they stressed that ending Russian annexation and allowing Crimean Tatars to return safely to Crimea requires "all necessary measures".

17 August: President Vladimir Putin warned the Tatar community during his three-day visit to Crimea not to seek a special status on the peninsula. Putin said that Crimea is a "mirror of multi-ethnic Russia" and discouraged speculations on the potential recognition of special rights for a particular ethnicity in the peninsula.

22 November: Russian authorities declared a state of emergency in Crimea after the destruction of two pylons carrying electricity from Ukraine to Crimea had left close to two million people on the peninsula without power.

2016:

21 January: Russian occupation authorities in Crimea place Mustafa Dzhemilev, National Leader of Crimean Tatars, on the federal wanted list and issued an arrest warrant.

25 January: President Petro Poroshenko said that Ukraine will file lawsuits to international courts over the issue of Russia's illegal annexation of Crimea.

28 January: Turkey's Foreign Minister, Mevlut Çavuşoğlu, met with the Ukrainian presidential envoy for Crimean Tatars, Mustafa Dzhemilev in Strasbourg to make an international group with countries who signed the 1994 memorandum in Budapest, an agreement of de-occupation of Crimean Peninsula.

28 January: The Ukrainian government announces permanent monitoring of the situation in Crimea.

4 February: European Parliament adopted a resolution on human rights in Crimea, condemning targeted abuse and persecution of Crimean Tatars.

10-11 February: Russian riot police conducts mass armed searches of Crimean Tatar houses resulting in the arrest and trial of four "well-known" extremists were arrested and tried.

28 February: Ukrainian Security Service detained Crimean head of Civil Volunteer Corps Stanislav Krasnov.

6 April: Further mass detainment by the Russian forces across Crimea.

12 April: Kiev's appeal court extend seizure of the Crimean Head of the Civil Volunteer Corps, Stanislav Krasnov.

7 May: Further mass detainment in Crimea

22 July: A report published by Ukrainian First Deputy Prime Minister of information policy stating the number of political prisoners, missing citizens, and dead activists in Crimea.

31 July: 5th meeting of the world congress of the Crimean Tatars.

August: Checkpoint between Ukraine and Crimea resumed, allowing people to enter Crimea but not exit.

22 September: UN Permanent Representative of Ukraine underlines the allegedly unjust treatment of Crimean Tatars by Russian authorities.

29 September: Russia establishes a new permanent law banning Mejlis

October: Russia continues applying its law in Crimea by jailing Crimean Tatars who they believe are members of the terrorist group Hizbut-Tahrir, a group that is considered legal in Ukraine.

8 November: Situation of Human Rights in the Autonomous Republic of Crimea and the city of Sevastopol resolution was presented in the UN by Ukraine; 38 countries support the resolution.

15 December: Amnesty International's presented a report outlining the condemnation of Crimean Tatars by Russian authorities.

19 December: UN recognized Crimea as "temporarily occupied" by Russia and voting for resolution of Russia's occupation.

2017:

March: Investigation against Russia by the UN's International Court of Justice is filed by Ukraine.

16 March: The European Parliament (EP) votes on a resolution condemning the escalating conflict in Crimea.

20 March: In a The EP and US publish a resolution in the improvement of the religious freedom and poverty right of the Crimean Tatars, the US also demanded the stop of all human rights violations on the Crimean peninsula.

12 April: The Russian state Duma approves the change of the 2018 Russian presidential election date.

21 April: the UN International Court of Justice continues to rebuke Russia due to its illegal annexation of Crimea.

4 July: Crimean Tatar leader Mustafa Dzhemilev meets with Turkish President Tayyip Erdogan

26 September: UN publishes an additional Report outlining further alleged human rights violations on the Crimea Peninsula.

4 December: Another report of human rights violations by Russia in the annexed Crimea Peninsula is published by the UN International Court of Justice.

UN continues to publish reports regarding the human right violations within the Crimean peninsula

2018:

17 January: Issuance of additional demands towards Russia respecting the International Law and human rights by European Parliament and international communities.

18 January: Human Rights Watch publishes a report concerning the situation in Donbass and Crimea.

02 February: US released a statement on Russia's Violation of International Law in Ukraine.

27 February: six nuclear warheads move to Crimea by Russia.

19 March: Boycott of the Russian election by Crimean Tatar.

24 March: The Ukrainian Ministry filed a report outlining the alleged detainment of Ukrainian citizens by Russian law enforcement

12 April: UNESCO sends a team to protect world heritage sites

24 April: Ukraine challenged UN International Court of Justice on the decision of allowing continued prosecution on Mejlis of the Crimean Peninsula

2 May: EU sends delegations to Ukraine to condemn further human right in the Crimean Peninsula

24 May: Russia not willing to investigate Crimean Tatar abductions in Crimea.

27 May: According to Mustafa Dzhemilev, leader of Mejlis and member of the Ukrainian parliament, one million Russians moved to Crimea.

9 August: New resolution submitted to the UN.

February 23-26, 2014, is a turning point due to Ukraine's efforts to create a legal boundary on the Russian language within the Ukraine border. This act was intended to limit the disseminating prowess of Russian separatists' ideologies. Furthermore, during this period the acting president of Ukraine fled and Alexander Turchynov became interim president. This delegitimized Ukraine's governmental power within the eyes of the public and signalled turmoil within the capital. Moreover, Russia's interests with Ukraine are to attempt to limit the state's alignment with the European Union. The repeated efforts by the foreign actors concerning human rights violations is a testament to the calamity of the conflict. Steps taken towards unification of EU-Ukraine relations can be seen as detrimental to Russian security. On the 16th of June, 2015, marked United States and EU sanctions towards Russia in retaliation to the annexation of Crimea. This implies that the international actors will not continue to appease Russian coercive action within the Dunbar region. The public opinion of the Black Sea conflict is an integral part in diffusing the situation within the region.

Current Developments

Russia's Perspective and Interpretation

President Vladimir Putin's administration portrays that Russia is continuously subjected to national security threats which captures the populous' attention. The Russian government's actions in the Kerch Strait on 25th November 2018 was an act of aggression towards Ukraine. Acts of aggression have been shown to influence Russian presidential ratings, following the annexation of Crimea Putin's popularity rate surged to 80%. Conversely, the public opinion remains heterogenous across the nation. Many social groups consider that Putin's actions appeal and are purposefully aligned with nationalist sentiments fuel Putin's actions and him into a favourable position. However, some public group remain mixed in sentiment due to the possibility of the country entering a military dispute with Ukraine, which could deploy conscripted young adults to hostile regions.

Ukraine's Perspective and Interpretation

Ukraine's sovereignty in the eastern region is threatened by Russia's support of the separatists. Furthermore, the country is in a state of uncertainty, with the government's resorting to the imposition of martial law to hinder the eastern separatists from protesting. Most of Ukraine's efforts are geared towards continued compliance with international laws and introjected policy in attracting aid and support from foreign actors and organizations. The actions of the ruling administration are - insofar as efficacy - diametric to traditional reactionary policies, nor aim to appease any one group, but in frailty warranting of outside intervention and aid.

International Perspective

Russia's annexation of Crimea in 2014 has not been recognized by the international world. Crimea, to the international system remains to be Ukrainian territory. Western opinion towards Russia's acts of aggression has been criticized by western politicians and also resulted in President Donald Trump negating a meeting with President Vladimir Putin during the G20 summit on November 30th, 2018. Evidently, the international community does not plan on continuing to appease Russian policy.

Forecasts Related to Russia

Possible Actions

Russia has international incentives to interfere with Ukraine. It is seeking balance of power with its NATO adversaries. By seeking political interference, and by collaborating with ethnic Russians in Eastern Europe, Russia is seeking not just political, but also demographic strength. Thus, Russia's motives are aligned with the continued support and suspected financing of the separatists. Russia could repeat of the Russo-Georgian conflict in 2008, where Russia framed the context of aggressions against South Ossetia, and Russia conjuncted by launching an invasion into Georgia framing it as peace enforcement. For this to work, Russia has to fund the separatist and not draw in NATO to intervene which would be unfavourable for Russia. The state may escalate its policies in Ukraine in a pre-emptive peacekeeping attempt serving as a proxy precedent for intervention.

Possible Receptions

Russia's actions pertaining to military involvement could be impeded by NATO's intervention through border peacekeeping measures – a staple tactic employed limiting the advance or free movement of military assets between borders without infringement on NATO members' (pseudo-allies) forces. These measures would exceed in efficacy the normal economic sanctions imposed by international actors. However, should international parties fail to act within a reasonable amount time, this sets a precedent for Russia's immediate military action; owing to the idea of intervention before further resistance. International actors must remain wary in application of conflict resolution strategies as to not provoke further short-term intensity, while at the same time prevent the conflict from protracting in length, or breaking out into civil war.

Possible Consequences

Russia's actions can be consequent pertaining its economic and political relationships. If Russia declares war and attacks Ukraine, the likelihood of NATO sending troops to the borders is high. Should the conflict not be contained by peaceful settlement or armistice, Russia stands to lose all support and relationships with most of its Western allies. Economically if Russia waits to act, the West will tighten sanctions - further condemning the Russian economy.

Russia's interference within the Ukrainian borders, with Ethnic Russians, would be to disrupt the government of Ukraine and creating a separation within the state. Furthermore, with Ukraine's martial law, that has been set into motion after the Sea of Azov incident, has further created distrust between Eastern Ukraine and the government. Ukraine's next presidential election is scheduled for March 31st, 2019, but the martial law allows the acting president to suspend elections until conflict resolved.

Forecasts Related to Ukraine

Possible Actions

Ukraine's action pertaining the conflict is to appeal to the international world to intervene and deter Russia from possible acts of aggression. In 2014, during the annexation of Crimea, Canada sent troops to the region to facilitate training exercises for the Ukrainian government with the goal of westernizing military strategies. On the 3rd December 2018, Ukraine appealed to the government of Canada to resurface its military missions in the region. Ukraine's exponentially smaller military poses a national security threat pertaining Russia's expansionary policies

Possible Receptions

Ukraine's appeal to the international world was responded to by the UK's Royal Naval Chief Alan West, accused Russia of already committing 'acts of war' and set a dire warning to de-escalate the conflict. Furthermore, this states a precedent danger that Russia could face if an incursion within the Ukrainian border would occur. International actors continue to pressure Russia through sanctions as acts of deterrence and signs of continued appeasement are dissipating.

Possible Consequences

Ukraine's efforts to contain the conflict rely on their ability to balance internal pressure from separatist groups with external pressure from Russia's interests in shifting power dynamics. Ukraine depends on whether international parties support Ukraine's national interests and the extent of the offered support – with respect to its suppression of Russia's expansionary regional policies.

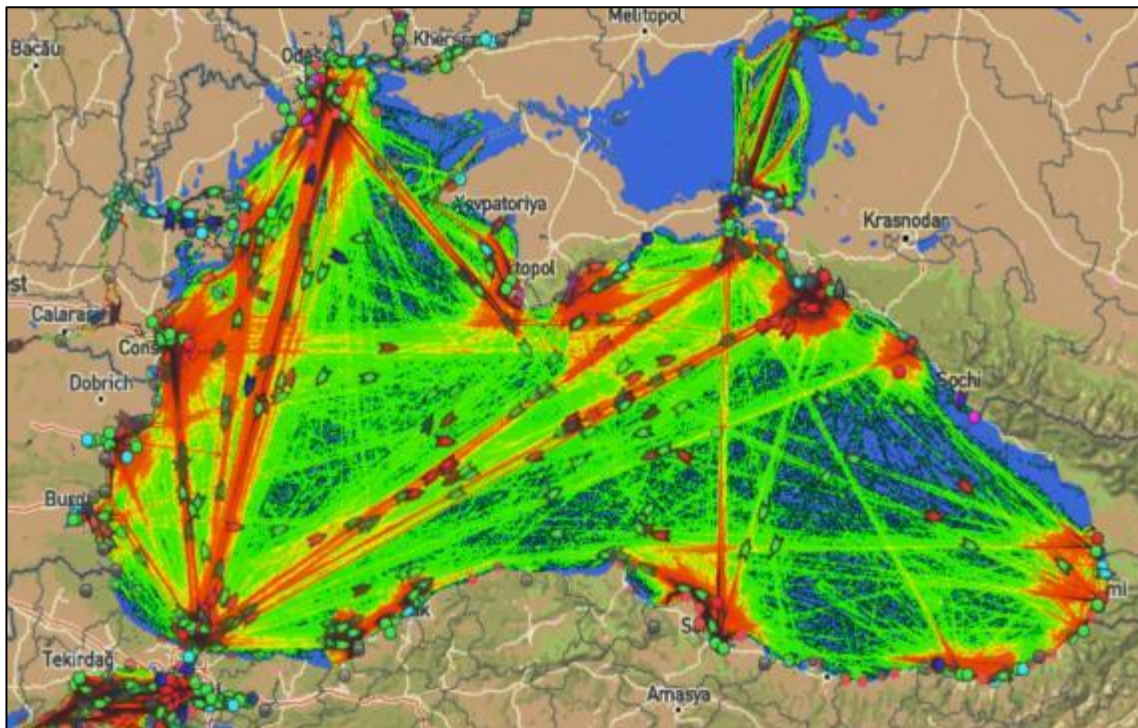
Concluding Remarks and Findings

The Black Sea Basin Conflict has stunted Ukraine's economic growth, upset the governing administration, and rewritten state borders. The conflict has also affected neighbouring nations, diminishing investor confidence, and greatly impacting financial markets. It is imperative for investors to gain a holistic understanding of the fundamentals driving this conflict in order to make appropriate business decisions and manage risk correctly. The presented timeline reveals the ways in which the conflict escalated since 2014, but also reveals the accumulating effects on policy, law, foreign relations, and even culture. Investors are rightfully concerned with the sustainability of future investments, as well as the viability of current investments in marketable securities and private equity. Further political examination points to a (non-exhaustive) set of possibilities for conflict intercession or escalation. These scenarios remain the focal point for risk management and portfolio selection further through this report, however investor sentiment contributing systematic risk in financial markets remains governed by day to day developments that may (or not) contribute to real results within business operations.

Financial Analysis

Tracking Supply Chains

The Black Sea Basin contains a number of important shipping routes that connect together the merchants of Turkey, Georgia, Romania, Bulgaria, Ukraine, and Russia. Despite ongoing political turmoil, trade within the region continues to intensify, as does the demand for intermodal transport services.



Shipping routes in Black Sea, using traffic density in the period 2015-2016 [6]. Color code: Red – very high shipping density, Orange-high shipping density, Yellow-Average density of sea traffic, Green-Low Density of Maritime Traffic. (Rata, Vasile & Gasparotti, Carmen & Rusu, Liliana. (2017). THE IMPORTANCE OF THE REDUCTION OF AIR POLLUTION IN THE BLACK SEA BASIN. Mechanical Testing and Diagnosis. 2. 2017.)

Conflicts around the Kerch Strait have made it only superficially difficult for merchants to trade, with no physical restrictions in place due to the conflict. However, having investigated, and contacted people familiar with the matter, we have determined that ports offering alternative routes to the Kerch Strait have seen a steady increase in services every time conflict (or fear of escalation) arises. This contributes to our thesis that select ports, which have the operational capacity, experience asymmetric revenues during times of intensified conflict.

This prompted the further investigation and shortlisting of regional public equity concerned with: shipping and transport logistical services, shipyards, regional energy and utility providers, and defence companies.

Portfolio Overview

It has been our assumption that it is possible to effectively short-list a series of publicly traded companies from the Black Sea Basin region that would be able to jointly perform effectively in most foreseeable or reasonable geopolitical developments. Our intent was to adequately balance a portfolio of these assets in supplement to the existing East Mill Capital Research Fund I. The basis of our equity investigation became the Supply Chain assumption, from there we continued to explore select equities before finally selecting the following companies.

<i>Company</i>	<i>Symbol</i>	<i>Price</i>	<i>Currency Code</i>	<i>USD\$</i>	<i>Shares:</i>	<i>Weight:</i>
Reysas Tasimacilik ve Lojistik Ticaret AS	IST:RYSAS	0.77	TRY	5.3010	3217	9.66%
ASELSAN A.Ş.	IST:ASELS	24.36	TRY	5.3010	231	21.96%
TRABZON LİMAN İŞLETMECİLİĞİ A.Ş.	IST:TLMAN	8.44	TRY	5.3010	260	8.56%
S. P. Korolev Rocket and Space Corporation Energia PAO	MICEX:RKKE	6780.00	RUB	68.3810	6	12.30%
Far East Shipping Company Transportation Group	MICEX:FESH	4.62	RUB	68.3810	1259	1.76%
Novorossiysk Commercial Sea Port PJSC	MICEX:NMTP	6.53	RUB	68.3810	11580	22.87%
TransContainer PAO	MICEX:TRCN	4345.00	RUB	68.3810	6	7.89%
Santierul Naval Constanta S.A.	BSE:SNC	1.13	RON	4.0670	5799	6.15%
SOCEP Constanța SA	BSE:SOCP	0.30	RON	4.0670	1070	8.85%

Shortlisted companies.¹

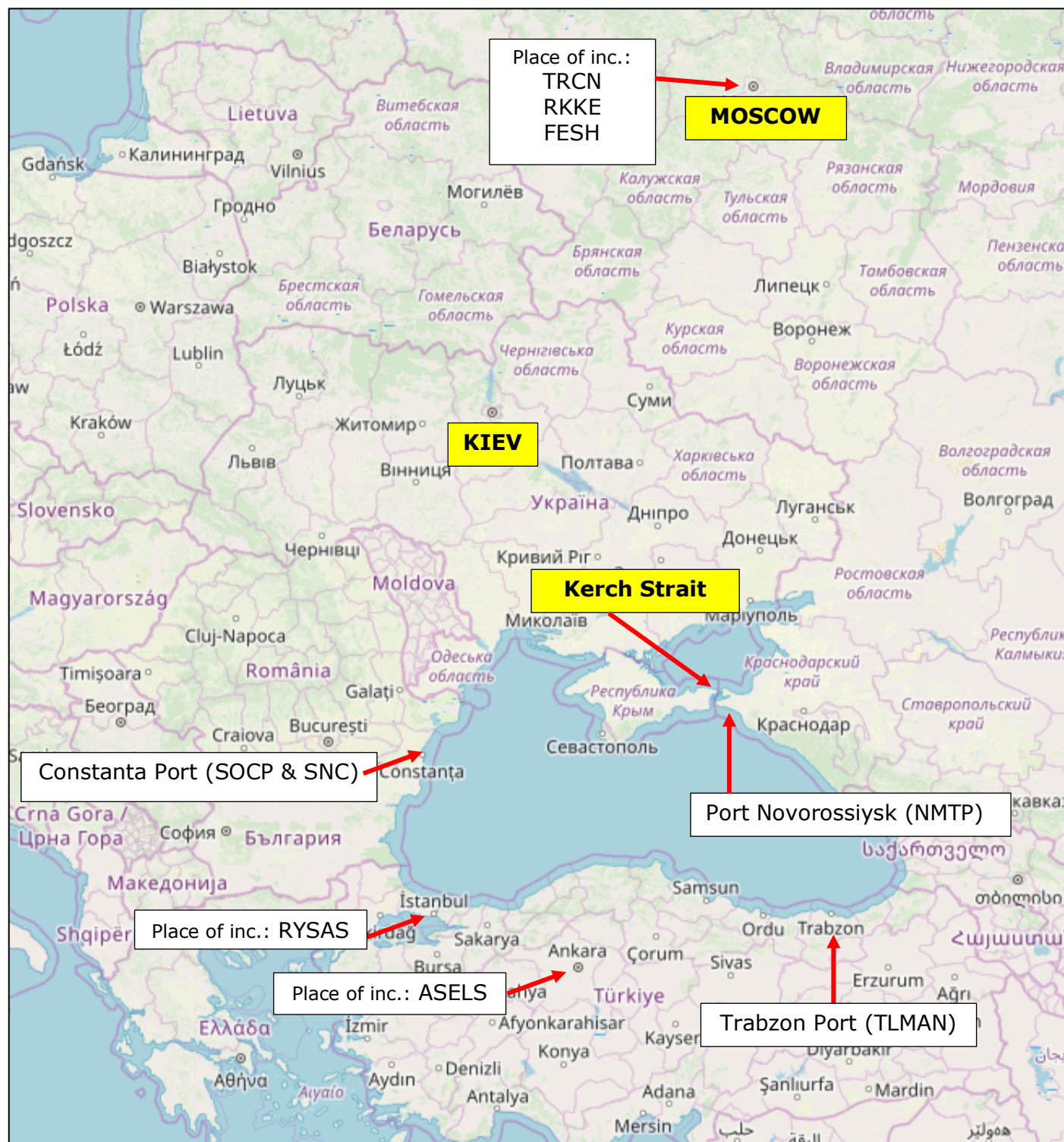
The diagram on the following page shows a map of the Black Sea Basin and surrounding regions, with the position companies mapped across corresponding regions of incorporation.

Following the diagram, in-depth information regarding the listed companies is presented along with our findings.

¹ The prices and rates indicated above are valid as of 24.12.2018 – date of Research Fund I booking. Please consider Notes 1 and 2 at the end of this document.

Portfolio Holdings

The map below outlines relevant operating regions and places of incorporation for the companies shortlisted into the portfolio.



Map of the Black Sea Basin, courtesy of OpenStreetMap.org

Reysas Tasimacilik ve Lojistik Ticaret A.Ş.

Istanbul, Turkey

IST:RYSAS

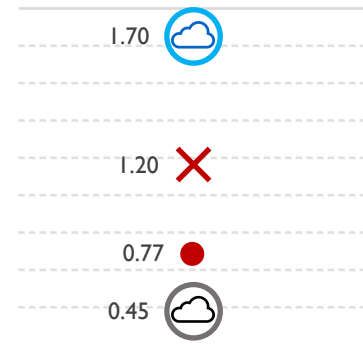
0.77 TRY

Position Summary:

The company is primarily engaged in the logistics and transportation sector in Turkey, specifically dealing in truck, rail, and water cargo shipping. The company was hindered by financial expenses of the first three quarters, and currently constitutes a highly leveraged balance sheet. We are engaged in this company due to the governing assumption that the company has one of the best capacities in the region to handle increased ground shipping throughout the Turkey. The growing concern for this company is its ability to generate positive cashflows. The company has spent a lot of capital expanding its refrigerated transport capacity, and bringing improvements to its liquid transport fleet. We expect the company to deleverage at a reasonable rate, and are committed to a long-term position, attributing the turnaround nature of this investment guidance. Coupled with the growing assumption of increased demand for ground and rail logistic services throughout the region we expect positive cashflows by the end of 2019.

Blue Sky / Grey Sky Scenario³

RYSAS Forecast Price (TRY)



Financial Overview

DETAILS¹:

P/E:	-0.42	Market Cap	91.9 mln
EPS:	-1.8	Outstanding Shares	119.35 mln
ROE:	0	Dividend	NA
Profit Margin	0	Dividend Yield	NA
EV/EBIT:	14.4	1 Year Return	-43.1%
D/E:	-27.432	1-Year Return Adj	-66.0%
Avg. Volatility:	2.43	1-Year Range	0.74 – 1.40

Blue Sky Scenario:

1.70 TRY

Our maxima scenario represents a rapidly increased deleveraging initiative that would bring order to long term liabilities. Additionally, we factor in a surge of revenue attributable to the complications within the Black Sea naval transportation segment due to potential instabilities from shipping activities pertaining to Ukraine, which in turn redirect most traffic to Reysas freight shipping services. Finally, we would like to see a reflection of improved investor sentiment within Turkey with a positive inflow/outflow balance.

FORECASTS²:

- We expect the company to show positive cashflows by 2Q2019 and to issue further guidance during their upcoming annual report.

COMMENTS:

- There are two major financial concerns that the company needs to address. First is the underlying profitability issue, with high financial expenses cutting into the company's profitability. These were especially high during 3Q2018, and forced the market to correct the price of Reysas' stock to a low. The second issue lies in the long-term debt of the company and composure of the balance sheet. The company currently has a negative Debt to Equity measure due to a negative Owner's Equity balance as a result of accumulated losses in 2018. This is passable, and does not affect our stance on the company as long as Reysas is able to generate positive cashflows in 2019. We are optimistic in the company's ability to meet the growing demand for regional cargo transportation services and to restore its own financial health.

Grey Sky Scenario:

0.45 TRY

The minima scenario represents a worsening systematic risk outcome where investor sentiment continues to decrease throughout 2019. Additionally, should we see Reysas failing to effectively deleverage and improve their profitability, or demonstrate efforts to do so, the asset may experience further downside pressure towards levels below 0.5 TRY.

¹ Metrics composed from data pertaining to Q3 of the company's financial statements.

² Forecasts based on relative implied differences and are the opinion of the analyst department. Please consider our disclaimer, enclosed at the back of this document.

³ X denotes the target price valuation.

ASELSAN A.Ş.

Ankara, Turkey

IST:ASELS

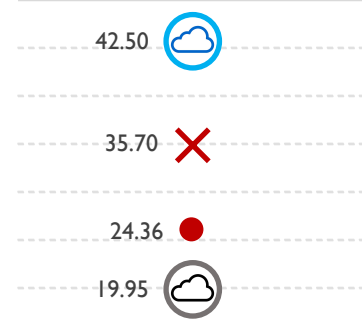
24.36 TRY

Position Summary:

Aselsan is Turkey's largest defence electronics company, and is a company of the Turkish Armed Forces Foundation. The company service and product portfolio is composed of CIT services, radar and electronic warfare, electro-optics, avionics, unmanned systems, command and control systems, transportation services, security systems and services, and automation and medical systems. It is one of the world's leading defence companies, and deals with domestic customers, as well as international customers (including sovereign states). Aselsan has catered in the past to the government Ukraine in ongoing consultancy services for optimized security measures within the Black Sea. The company continues to maintain profitability and revenue growth, however its listed stock performance was hindered under political tensions and currency devaluation in 2018. We believe that the company is currently listed at a significant discount and represents a value opportunity at current valuations. We remain highly optimistic for continued growth and an adequate reflection in price action in 2019.

Blue Sky / Grey Sky Scenario³

ASELS Forecast Price (TRY)



Financial Overview

DETAILS¹:

P/E:	16	Market Cap	27.77 Bn
EPS:	1.52	Outstanding Shares	1.14 Bn
ROE:	18.80%	Dividend	0.02
Profit Margin	33.29%	Dividend Yield	0.10%
EV/EBIT:	11.2	1 Year Return	-0.68%
D/E:	0.9	1-Year Return Adj	-38.54%
Avg. Volatility:	2.88	1-Year Range	19.5 – 45.1

Blue Sky Scenario:

42.50 TRY

We factor into this evaluation the market's recognition of the growing demand for radar defence technology as result of ongoing monitoring efforts of the Black Sea. Aselsan is well poised to meet demands from the international sphere supporting efforts of stabilizing the Black Sea conflict. This scenario especially considers Russia's need to modernize existing defence and communication infrastructures within the Crimean Peninsula – if they choose to contract this work to Aselsan then we should be able to see cashflows contribute towards this valuation.

FORECASTS²:

- We expect the company to see a boost in revenue stemming from demand for its radar technology in 2019.

COMMENTS:

- The defense market is forecasted to grow significantly over the next two years, and represents an industry with particularly high barriers of entry; of which innovation technology and capital expenditure remain the most tolling factors.
- Aselsan remains the world leader in coastal radar surveillance technology.

Grey Sky Scenario:

19.95 TRY

Due to the company's direct relationship to the Turkish Armed Forces, the government, and presence on the geopolitical scene we must attribute a significant amount of systematic risk to the Grey Sky scenario. As we have seen in 2018, investor sentiment is able to cripple the exchange and significantly impact the returns of the stock. Should there be continued escalations of political tensions, ASELS may be caught in a selloff under worsened investor sentiment.

¹ Metrics composed from data pertaining to Q3 of the company's financial statements.

² Forecasts based on relative implied differences and are the opinion of the analyst department. Please consider our disclaimer, enclosed at the back of this document.

³ X denotes the target price valuation.

TRABZON LİMAN İŞLETMECİLİĞİ A.Ş. (Trabzon Port)

Trabzon, Turkey

IST:TLMAN

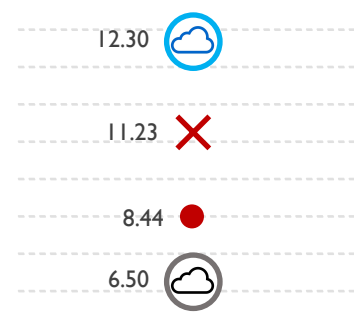
8.44 TRY

Position Summary:

Trabzon Port debuted on the Istanbul Stock Exchange on January 26th, 2018, at an initial \$ 26 M listing (30% of total shares) of 15.5 TRY per share. The port is located in the South-East area of the Black Sea and is an integral part of Turkey's water-way trader system, in close vicinity of Georgia's port Poti. The Turkish President has also expressed desires to link Trabzon port by rail to all major transport hubs in the Persian Gulf. Trabzon port also has the largest capacity for offloading and onloading in the south-east Black Sea area. The IPO was also initially a strategic move to increase investor appetite after the 2016 failed coup attempt. However, due to further political instability during 2018, and a stronger U.S. dollar, Trabzon Port shares were subject to more investor discouragement as capital outflow on the exchange increased. This has placed Trabzon Port shares at an attractive discount.

Blue Sky / Grey Sky Scenario³

TLMAN Forecast Price (TRY)



Financial Overview

DETAILS¹:

P/E:	6.65	Market Cap	177.24 M
EPS:	1.26	Outstanding Shares	21 M
ROE:	41.00%	Dividend	1.129
Profit Margin	42.00%	Dividend Yield	13.4%
EV/EBIT:	0.7	1 Year Return	NA
D/E:	0.74	1-Year Return Adj	NA
Avg. Volatility:	-	1-Year Range	8.23 - 18.6

FORECASTS²:

- We remain confident that the company will continue to remain profitable, however we remain reserved as to whether company asset returns are able to be viewed diametrically to Turkey's political scene.

COMMENTS:

- A major limitation in this position is that it is very new with limited track record. While Trabzon Port has existed for a long time, the IPO debuted in early 2018, and the asset price movement has not reflected the initial investor confidence at the time of listing. It is possible that the company has been simply hindered by systemic risk, however it will be challenging for the company asset to exceed our target price if investor sentiment continues to deteriorate.

Blue Sky Scenario:

12.30 TRY

Our scenario implies that price action is able to push the stock back to slightly below its 2018 IPO debut. In the occurring event we attributed increased investor sentiment in Turkey and an efficient price-discovery process backed by increased revenues from the company. Additionally, we would like to see international parties make more frequent use of the port as a result of the Black Sea conflict.

Grey Sky Scenario:

6.50 TRY

Trabzon Port's stock is already significantly undervalued while financial fundamentals remain in good standing. Our Grey Sky scenario is a further 23% drawdown attributing worsening investor sentiment in the face of even less desirable political and economic instability.

¹ Metrics composed from data pertaining to Q3 of the company's financial statements.

² Forecasts based on relative implied differences and are the opinion of the analyst department. Please consider our disclaimer, enclosed at the back of this document.

³ X denotes the target price valuation. These valuations are geared towards 1-Year return periods.

S. P. Korolev Rocket and Space Corporation Energia PAO

Korolev, Russia

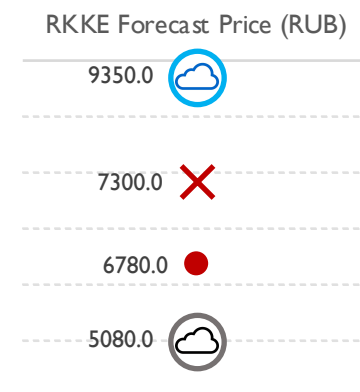
MICEX:RKKE

6780.00 RUB

Position Summary:

The Company is one of Russia's main producers of ballistic missiles, spacecraft, and space station components – contracted by the Russian government for development of technology for Russia's manned spaceflight program. Energia is also one of the world's leading companies in space debris monitoring and removal, a market expected to yield USD 2.9 Bn by 2022. While we are optimistic that the company will succeed in the foreseeable long-run due to supportive government policy, it has come to our attention that the company's stock performance correlates effectively with Russian investor sentiment with regard to the Black Sea Conflict. As the report outlines, RKKE exhibits a high volatility multiple in-line with conflict fundamentals, and positive return in PAD scenarios. This position ultimately comes down to long-term expectations for growth within the space sector – both on the ground and above the atmosphere, as well as in fitting a specified risk management profile as a portfolio component.

Blue Sky / Grey Sky Scenario³



Financial Overview

DETAILS¹:

P/E:	-24.9	Market Cap	7.16 Bn
EPS:	-24.89	Outstanding Shares	1,123,743
ROE:	-10.03%	Dividend	NA
Profit Margin	-2.43%	Dividend Yield	NA
EV/EBIT:	395	1 Year Return	36.0%
D/E:	32.28	1-Year Return Adj	18.0%
Avg. Volatility:	4.02	1-Year Range	5080 - 8620

FORECASTS²:

- We remain optimistic of the growth of the aerospace sector, however remain reserved as to whether RKKE will successfully turn profitable in 2019.

COMMENTS:

- By many measures the company is effectively a government asset paraded on the public equity forum as a fundamentally asymmetric case study for performance. While the company boasts no earnings, a heavily leveraged balance sheet (supported through state funding initiatives), its price action was positive in 2018.
- This position is to be monitored closely throughout 2019 in order to determine the viability of further investment in the company.

Blue Sky Scenario:

9350.0 RUB

Our blue sky scenario represents a recovery to the one-year high of 2018, with extra upside accredited to boosted systematic investor sentiment in the Russian equity market. Additionally, should we see increased efforts in cooperative space programs with an effective price discovery process a positive upside would be expected due to the Company's capacity for spaceflight ground services. Finally, a stronger financial foundation in the company would benefit investor sentiment and contribute to inflow into the company.

Grey Sky Scenario:

5080.0 RUB

Further pressure from the international scene as a result of Russian foreign policy may induce more systematic risk to the MICEX index, which RKKE is a constituent of. Additionally, should RKKE's new director fail to properly execute his duties in bringing the Company to financial health we may see the asset testing 5080 RUB.

¹ Metrics composed from data pertaining to Q3 of the company's financial statements.

² Forecasts based on relative implied differences and are the opinion of the analyst department. Please consider our disclaimer, enclosed at the back of this document.

³ X denotes the target price valuation.

Far East Shipping Company Transportation Group

Moscow, Russia

MICEX:FESH

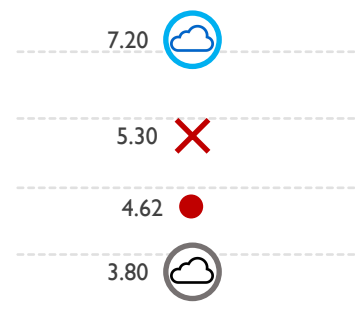
4.62 RUB

Position Summary:

The Company (FESCO) specializes in transport logistic and trade supportive services across Russia and the former-Soviet Union states. It is the largest intermodal transport operator in Russia. The company has been developing extensive operating networks for trade transport between Russia and China, launching a regular train service between Hamburg, Germany, and Zhengzhou, China, in January 2019. As Russia continues to focus on growing the domestic market the transportation service demand grows. Due to Russia's large area FESCO continuously aims to facilitate a stronger internal transport infrastructure – which remains dependent mostly on rail transport. Rail export via sea increased in 2018 demonstrating the demand for FESCO's roll-on/roll-off services, particularly pertaining to railway carts. Rail-sea exports for grains grew increased 25.5% in 2018, with Southern basin (Black Sea) cargo volume increasing 11.3% YoY.

Blue Sky / Grey Sky Scenario³

FESH Forecast Price (RUB)



Financial Overview

DETAILS¹:

P/E:	-69.6	Market Cap	13.63 Bn
EPS:	-0.066	Outstanding Shares	2.95 Bn
ROE:	-1.10%	Dividend	NA
Profit Margin	-14.26%	Dividend Yield	NA
EV/EBIT:	35.3	1 Year Return	-31.0%
D/E:	1.41	1-Year Return Adj	-40.0%
Avg. Volatility:	2.94	1-Year Range	4.06 - 7.80

Blue Sky Scenario:

7.20 RUB

Increased demand for transportation services throughout the Russian region attribute increased investor sentiment into Russian logistic services companies. After a poor asset performance in 2018 we should see the stock bounce back to previous levels. Additionally, we expect stronger (and positive) financial results in 2019 that should add gains to the asset price. An improving political condition may also contribute to foreign investor inflow in the company, inducing positive price action.

FORECASTS²:

- We expect that the company may employ leveraging strategies under increased revenue growth to make up for a poor 2018 performance and operating loss.
- The company is expected to be profitable by the end of the year.

Grey Sky Scenario:

3.80 RUB

The Company remains very susceptible to influence from sanctions and tariffs resulting from political developments. Should the Black Sea conflict play out in terms signalling worsening investor sentiment in Russian equities this will reflect quickly in price action. Additionally, should the company demonstrate an inadequate management of increasing revenues this may result in increased downside as investors will be dissuaded in assessments of the company's ability to scale.

COMMENTS:

- On an aggregate level we believe that Russia's intermodal transportation, logistics, and infrastructure sector is largely undervalued by the market and foreign investors. Russia is incredibly vast and on track in a state-backed independence initiative with a growing trade balance. While many companies in this sector are yet to become profitable, most are relatively unlevered despite the CAPEX intensive nature of the industry. We remain very optimistic of the future of this company.

¹ Metrics composed from data pertaining to Q3 of the company's financial statements.

² Forecasts based on relative implied differences and are the opinion of the analyst department. Please consider our disclaimer, enclosed at the back of this document.

³ X denotes the target price valuation.

Novorossiysk Commercial Sea Port PJSC

Novorossiysk, Russia

MICEX:NMTP

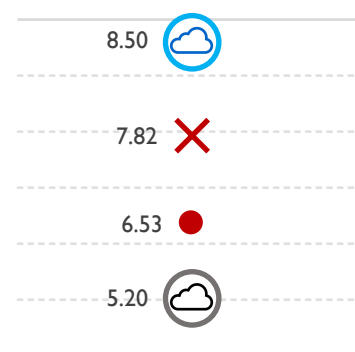
6.53 RUB

Position Summary:

Port Novorossiysk is strategically located South East of the Kerch strait. The Company is also Europe's third largest port operator by cargo turnover. The company also operates two northern ports within the Baltic sea. Lending to supply constraints, this position captures the best case alternative routes for goods unable to move through the Kerch Strait. The company is owned partly by the Novoport Group (consisting of Transneft and Summa Groups), and the Russian Federal Agency for State Property Management. Recent managerial restructuring on the board of directors – with the Deputy Minister of Transport appointed to the board - have left investors slightly apprehensive, however it is our belief that the company should be able sustain its high profitability and attractive dividend profile.

Blue Sky / Grey Sky Scenario³

NMTP Forecast Price (RUB)



Financial Overview

DETAILS¹:

P/E:	8.43	Market Cap	120.68 Bn
EPS:	0.775	Outstanding Shares	18.481 Bn
ROE:	14.13%	Dividend	0.2648
Profit Margin	30.27%	Dividend Yield	4.06%
EV/EBIT:	9	1 Year Return	-11.0%
D/E:	1.83	1-Year Return Adj	-22.0%
Avg. Volatility:	1.64	1-Year Range	5.55 - 8.27

FORECASTS²:

- We believe that the company is in good financial standing and should experience further gains from approximately a 8% increase in revenues in 2019.
- Systematic risk created a lot of pressure on the MICEX listed stock, we expect the price action to favour shareholders in 2019 and recover previous losses for investors.

COMMENTS:

- It is of imperative importance to determine whether the company is able to effectively scale their operations in 2019 and face the pressures of foreign exchange risk.
- We would like to see the company begin to slightly deleverage by Q2 of 2019.

Blue Sky Scenario:

8.50 RUB

We should see NMTP retrace it's 2018 underperformance, and push for further returns as Russia's business climate is recognized by international investors as inductive and improved. We also believe that the company should experience further revenue growth. It would also be desirable to see the company employ share buybacks. The Company also remains geographically advantaged to reap benefits of increased marine traffic and intermodal transport, attributing increased revenues in combination with the company's already impressive ROE and profit margin.

Grey Sky Scenario:

5.20 RUB

This Company is susceptible to political risks, and sanctions. The strategic location of the port plays a large role in inducing further revenues, but also puts the company at risk of inciting sanctions, and blockade.

¹ Metrics composed from data pertaining to Q3 of the company's financial statements.

² Forecasts based on relative implied differences and are the opinion of the analyst department. Please consider our disclaimer, enclosed at the back of this document.

³ X denotes the target price valuation.

TransContainer PAO

Moscow, Russia

MICEX:TRCN

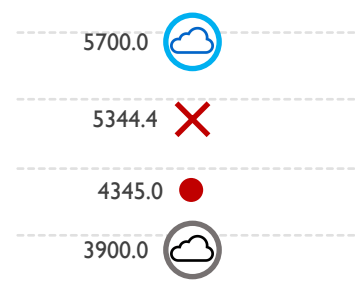
4345.00 RUB

Position Summary:

TransContainer is one of Russia's largest inter-modal TEU transport companies, specializing in railway container transport. The company owns more than 60,000 containers, and networks of railyard terminals. The company also operates the Dobra container terminal on the Slovakia-Ukraine border, and has a large operating footprint across Russia and neighbouring ex-USSR states. The company is a crucial component of the intranational movement towards sustainable independence, and connects hundreds of merchants to each other, as well as international partners through their subsidiary offices in Central Eastern Europe, Mongolia, South Korea, and mainland China.

Blue Sky / Grey Sky Scenario³

TRCN Forecast Price (RUB)



Financial Overview

DETAILS¹:

P/E:	8.79	Market Cap	60.37 Bn
EPS:	494	Outstanding Shares	13.894 Bn
ROE:	15.92%	Dividend	293.0
Profit Margin	12.32%	Dividend Yield	6.74%
EV/EBIT:	8	1 Year Return	5.0%
D/E:	0.48	1-Year Return Adj	-8.0%
Avg. Volatility:	1.42	1-Year Range	4076 - 5045

FORECASTS²:

- We expect that the company continues to perform well in 2019, and experience higher revenues by Q2.
- There is no expectation for a decreased dividend.

COMMENTS:

- TransContainer is company built on solid fundamentals, and a very strong network. We expect this company to grow faster as Russian investor sentiment increases, while further down the line remaining a high dividend yielding company with a slower growth.

Blue Sky Scenario:

5700.00 RUB

TransContainer is one of the few assets listed throughout this report that has enjoyed favourable nominal returns during 2018, but failed to perform on an FX adjusted level. We believe that in the best case scenario the stock continues to attract mature investors with its attractive dividend profile, and receives systemic backing that would push the asset to return 30%+ in the wake of positive future earnings. We remain highly optimistic of the intermodal sector growth across Russia and central Asia.

Grey Sky Scenario:

3900.00 RUB

While investor sentiment in Russian equities worsened in 2018, we see little cause of concern for increased downside in 2019. The company has shown to effectively dodge systemic pressures, only remaining hindered by foreign exchange pressures on operating activities – slightly attributing stagnant growth. Our Grey Sky Scenario factors in high impact from currency devaluation in 2019 impacting cash conversion cycles in the company, and effectively a poorer profit margin at still relatively higher EBIT.

¹ Metrics composed from data pertaining to Q3 of the company's financial statements.

² Forecasts based on relative implied differences and are the opinion of the analyst department. Please consider our disclaimer, enclosed at the back of this document.

³ X denotes the target price valuation.

Santierul Naval Constanta S.A.

Constanta, Romania

BSE:SNC

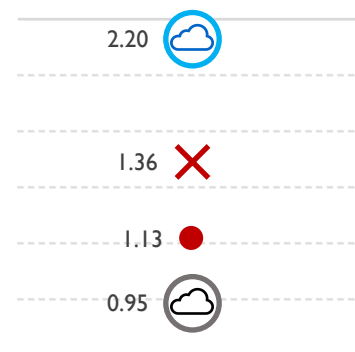
1.13 RON

Position Summary:

The Santierul Naval Shipyard is one of Europe's largest shipyards and capitalizes 20% of the Black Sea market. It has a high capacity for refuelling, shipbuilding, and maintenance for vessels of all sizes. The shipyard has also been known as a place of interest and strategic location for the refuelling and maintenance of NATO affiliated Navy Ships, as well as traders of the Black Sea basin. The increase of any naval or shipping activities within the region would be beneficial to Santierul Shipyard's business.

Blue Sky / Grey Sky Scenario³

SNC Forecast Price (RON)



Financial Overview

DETAILS¹:

P/E:	10.64	Market Cap	12.9 M
EPS:	0.11	Outstanding Shares	11.42 m
ROE:	1.36%	Dividend	NA
Profit Margin	3.67%	Dividend Yield	NA
EV/EBIT:	7.3	1 Year Return	-3%
D/E:	0.21	1-Year Return Adj	-5%
Avg. Volatility:	-	1-Year Range	1.11 - 1.81

FORECASTS²:

- We expect that the company stock will remain hindered by high spreads in the coming year while demonstrating positive price action. This represents a liquidity challenge to most investors, only resolvable by increased volume at the BSE.

COMMENTS:

- We remain optimistic of the growth of the Romanian equity financing sector which is why we have made this position. The liquidity issues of the BSE represent a tremendous challenge in achieving positive returns and retaining them. We believe that the imposed price targets are modest given the spread, but do not reflect the associated liquidity challenges.

Blue Sky Scenario:

2.20 RON

The company seldom trades, and represents a volatility risk on both upside and downside due to high spreads. Should the business climate in Romania improve, and if investor sentiment increases in Romanian equities we should see a more efficient price discovery process that would offer a better representation of the true company's market value. However, in order to beat our analysts' target price it is imperative that the company demonstrates an ability to sustain profitability.

Grey Sky Scenario:

0.95 RON

The downside scenario represents an issue of liquidity. Should the asset become less liquid due to declining volumes on the BSE then it will be extremely difficult to liquidate the position. However, even in the case of liquidity pressure affecting the spread it is our belief that Romanian banks and pension funds would be able to create a market at 0.95 valuation levels.

¹ Metrics composed from data pertaining to Q3 of the company's financial statements.

² Forecasts based on relative implied differences and are the opinion of the analyst department. Please consider our disclaimer, enclosed at the back of this document.

³ X denotes the target price valuation.

SOCEP Constanța SA

Constanta, Romania

BSE:SOCP

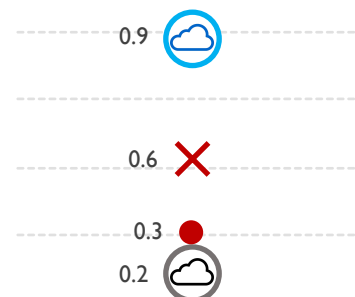
0.3 RON

Position Summary:

While Santierul operates the Constanta shipyard, SOCEP is the port operator of the Constanta's port, specializing in stevedoring services, off-loading and on-loading services, and other logistic services supportive of intermodal transportation. The port also has direct connections to regional railway networks, the Black Sea, and the Danube (via canal). These connections make SOCEP a prime partner in EU export activities through the Black Sea.

Blue Sky / Grey Sky Scenario³

SOCP Forecast Price (RON)



Financial Overview

DETAILS¹:

P/E:	1.3	Market Cap	10.4 M
EPS:	0.234	Outstanding Shares	34.34 m
ROE:	5.48%	Dividend	0.01450
Profit Margin	14.74%	Dividend Yield	4.83%
EV/EBIT:	1.9	1 Year Return	15.0%
D/E:	0.23	1-Year Return Adj	13.4%
Avg. Volatility:	-	1-Year Range	0.24 - 0.32

FORECASTS²:

- We believe that SOCEP should continue to experience higher revenues as marine traffic in the region continues to increase.

COMMENTS:

- While asset liquidity on the BSE remains an issue, we were pleased to see a better institutional investor sentiment in 2018 contribute to a traditional price action with a higher volume of trade – which cannot be said for other Romanian assets.
- The performance of this asset in 2019 will depend on their ability to generate more revenue, and largely on the Romanian equity financing investor sentiment.

Blue Sky Scenario:

0.9 RON

Supportive of the increased demand for intermodal transport through the Black Sea Basin we see SOCEP enjoying increases in revenue that propel the company's price action significantly higher than current market price, and contributing to a more accurate valuation. Right now it is our belief that the asset and the Romanian business climate is greatly undervalued, and development on regional and operational levels, coupled with a potential volume increase on the BSE, should contribute to superior returns.

Grey Sky Scenario:

0.2 RON

There is little downside in this asset. The Company is a high dividend payer, profitable, and unlevered. The enterprise value alone insures a strong level of institutional support, and while the asset may fluctuate in the face of systemic risk, we seen no issues of liquidity sell offs at low valuations, only more buyers.

¹ Metrics composed from data pertaining to Q3 of the company's financial statements.

² Forecasts based on relative implied differences and are the opinion of the analyst department. Please consider our disclaimer, enclosed at the back of this document.

³ X denotes the target price valuation.

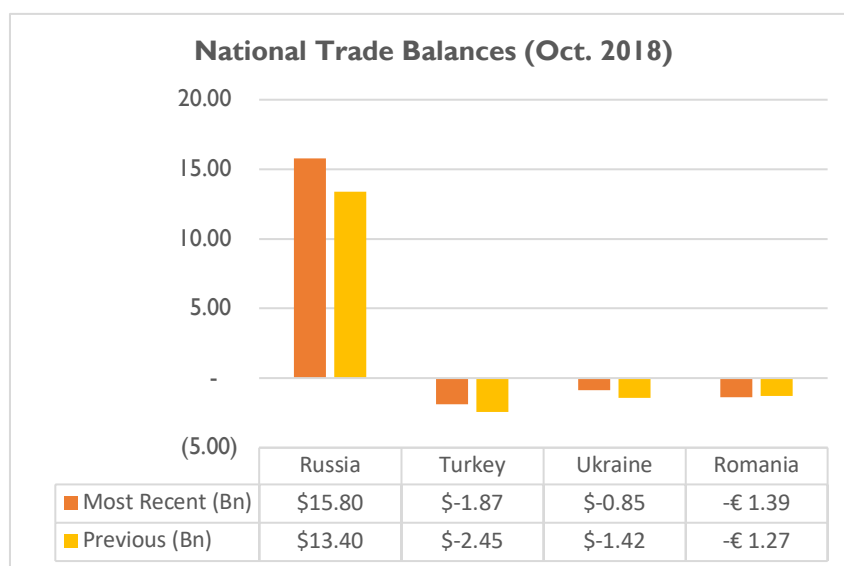
Stock Exchange and Compliance Challenges

Having examined political drivers, focused on revenue-inducing factors, and selected a handful of companies fitting our desired profile we face further issues in the liquidity of company shares. In the longlisting process we looked at every nation geographically or politically tied to operations within the Black Sea Basin; Russia, Ukraine, Turkey, Romania, Bulgaria, Moldova, and Georgia. However, we found significant issues in liquidity and exchange transparency in Moldova (MSE), Georgia (GSE), Bulgaria (BSE), and especially Ukraine (UX). While we remain confident that certain companies within Ukraine are able to maintain consistency in a favourable labour market and adequately hedge foreign exchange downside, the exchange is inefficient in disseminating information crucial for investors. Further investigation into corporate governance and SEC standard compliance showed that many listed companies fail to disclose their financial standing in a timely and consistent manner. These factors, plus conflicting professional and public opinion, led us to lose confidence in Ukraine's public equity market and regulators' ability to remain ethical and deal with possible corruption in an effective way. This investigation further revealed factors behind investors' reluctance of foreseeable public equity investments in Ukraine.

Foreign Exchange Operational Risk

The volatility of the Ukrainian Hryvnia represents investment risk to foreign investors in owning UAH denominated securities, however this risk extends to the inter/intra company operational level. Companies face operational challenges in retaining the value of their services in cash intensive businesses – especially with regards to imports. The volatility of UAH forces companies to hold foreign reserves, and attempt to hedge foreign exchange risk. This challenge is not unique to Ukraine, and is something the Russian and Turkish economies also face. In examining operational foreign exchange risk we consider dependency on international trade (particularly imports), and short cashflow conversion cycles. Russia's deflated currency presents a value for foreign partners and encourages business with the companies listed.

Russia remains the most independent of the four considered countries with a large trade surplus. The Turkish Lira remains a cause for concern given it's 2018 volatility. Turkey relies heavily on international trade, and despite the Lira's devaluation it still has a high trade deficit.

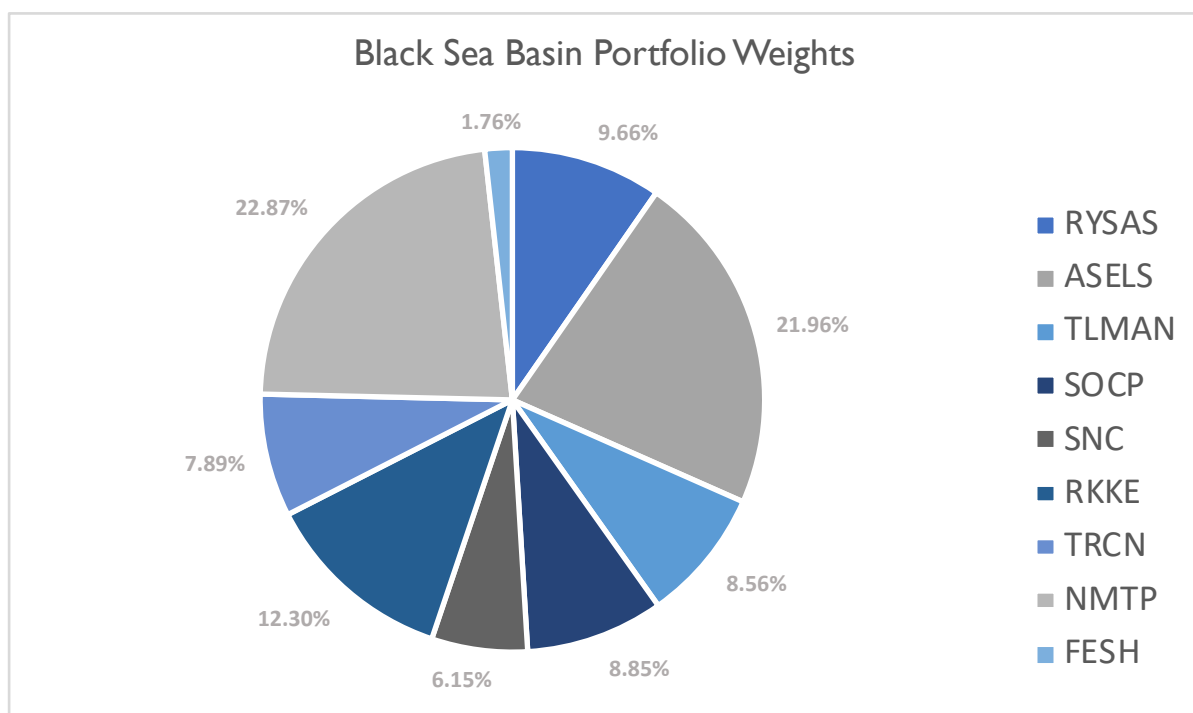


Data courtesy of TradingEconomics.com

Growth Assumption and Balancing

The nature of our positions in this selection is long only. We believe in the ability of all listed companies to achieve outsized returns under varying risk premiums manageable through adequate portfolio selection. However, in evaluating idiosyncratic company risk and asset-pricing risks we have come to the conclusion that not all assets shall perform in accordance with our guidance, and ultimately companies may underperform or outperform our expectations, which is why the portfolio has been balanced to account for asymmetric returns and potential losses.

Our balancing methodology has been aimed at creating an adequate portfolio of emerging market asset from the Black Sea Basin region and neighbouring countries that would function as a standalone asset selection part of the East Mill Capital Research Fund I.



While traditional risk management practices were used in achieving the optimal portfolio return, we had to adjust the weights so that they stand in line with the findings of our political analysis. Moreover, when dealing with emerging market equities we have encountered several patterns in inefficient markets that pertain directly to the variance and volatility of asset returns in low volume exchange markets. We tend to see that low exchange volume beckons larger spreads and in turn higher volatility while attracting mostly mature investors. As part of our research we analysed many companies listed on stock exchanges in Ukraine, Bulgaria, and Romania – and found that the volume was too low, and spread too high, to facilitate properly liquid positions even in the long-term. Ultimately, a lower weight was allotted to positions in Romania due to the fundamental qualities supportive of our research hypothesis.

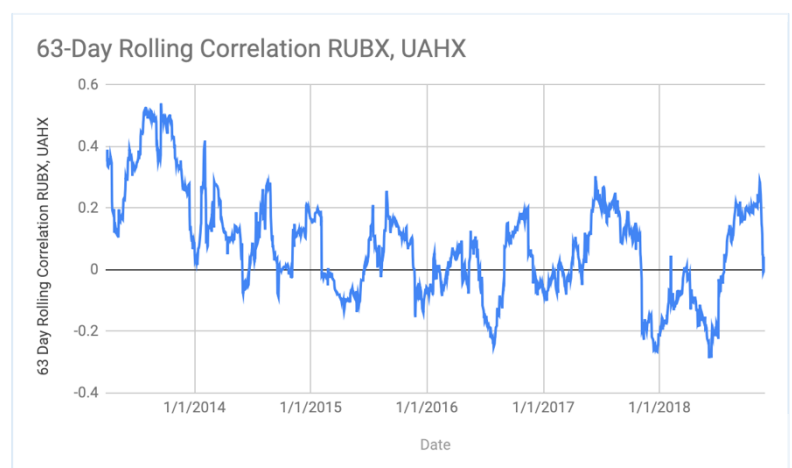
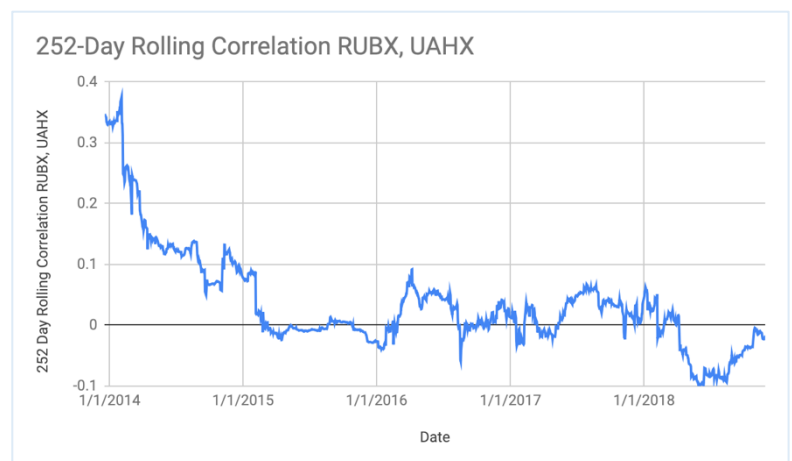
Risk Management Strategies

Condensed Summary of Modelling Analysis

We conducted an in-depth study into correlating patterns that result from various developments during the Black Sea Basin conflict. In our investigations we constructed two artificial instruments, the RUBX and UAHX, in order to determine foreign exchange power dynamics between the two economies of Russia and Ukraine. Both instruments represent float currency indices modelled after the U.S. Dollar Index; weighted according to balance of trade. Use of these instruments allowed us to evaluate to what extent the business involved in buying or selling of Russian Ruble or Ukrainian Hryvnia denominated assets may be affected by escalations of the examined conflict. More importantly, as a proxy correlation period we employed a 63 day average cash conversion cycle period – discounting days in inventory as well as a 252-rolling day correlation (as a proxy to business and trading days).

Alarmingly, we were able to notice two key characteristics in the change of foreign exchange dynamics. While traditionally (pre-conflict), the Russian and Ukrainian economies were complimentary to each other and exhibited highly correlating valuations and price-action. As the Ruble gained strength, so would the Hryvnia. However, at the beginning of the conflict we saw a divergence of interests. Examining the RUBX and UAHX we were able to see an inversion, where the RUBX and UAHX – as the conflict progressed - became further negatively correlated. The Ruble would gain strength whenever the Hryvnia devalued, and vice-versa. It should be noted that the 252-day rolling negative correlation is not as significant as it was at pre-2014 levels, however it is our professional opinion that a strengthening negative correlation is expected as this conflict progresses.

On the 63-Day Rolling Correlation chart we are able to see increasing spikes as the conflict continued to reach moments of zenith. For companies unable to employ hedging measures, this signifies high periods of foreign exchange volatility that will affect their profitability on adjusted and unadjusted levels. Examining further the impact of the conflict, we were able to selected 89 instances of important conflict developments from the compiled timeline, mapping asset movements across multiple platforms to determine appropriate hedging solutions, potential investment opportunities, and gauge possible market expectations for volatility.



Volatility Study

Our model covered public equity indices, select neighbouring equities, commodities, and foreign exchange rates. We were able to determine that during the conflict periods not only was there a large deviation in returns, but extreme spikes of volatility – both by weighted average metrics and unweighted metrics.² In all cases it was found that the Ukrainian currency was in far greater volatility risk than most analysts had estimated, with increases of volatility attributing to movements up to 500% of the average day-to-day volatility in cases for all major foreign exchange pairs. The relevant FX market was therefore determined to attribute the impact volatility multiple of 1.85, on average during any escalations pertaining to the Black Sea conflict. Interestingly, it was found that the Russian Ruble experience more minimum volatility, while the Ukrainian Hryvnia was subject to higher maxima.

	Asset	Min Volatility Increase	Max Volatility Increase	Aggregate Volatility Multiple	Total Determined Impact
Foreign Exchange Rates	RUBUSD	28%	190%	1.63	1.85 x
	RUBEUR	20%	182%	1.63	
	RUBCHF	22%	158%	1.36	
	RUBGBP	32%	169%	1.37	
	RUBJPY	30%	179%	1.50	
	RUBCAD	28%	182%	1.54	
	UAHUSD	0%	553%	5.53	
	UAHEUR	18%	548%	5.31	
	UAHGBP	20%	541%	5.21	
	UAHCHF	14%	524%	5.10	
	UAHJPY	21%	532%	5.11	
	UAHCAD	10%	548%	5.38	
Equity Indices	USDTRY	21%	727%	7.06	2.16 x
	USDRON	42%	204%	1.61	
	MICEX	46%	176%	1.30	
	XU100	39%	148%	1.09	
	UKX	34%	297%	2.63	
Commodities	SOFIX	27%	291%	2.64	2.04 x
	CL1 - Crude Oil WTI	31%	288%	2.58	
	CO1 - Brent Oil	33%	279%	2.46	
	Natural Gas	33%	180%	1.47	
	Coal (XAL1)	16%	266%	2.51	
	Wheat	39%	165%	1.25	
	Steel (JBP)	19%	257%	2.37	
	Aluminum (LMAHDS03)	32%	302%	2.70	
	Copper (HG1)	40%	148%	1.08	
Select Equities	Gold (XAUUSD)	42%	204%	1.62	
	RYSAS (TRY)	34%	247%	2.13	1.97 x
	GSDHO (TRY)	32%	265%	2.32	
	ASELS (TRY)	0%	197%	1.97	
	TRCN (RUB)	27%	506%	4.79	
	NMTP (RUB)	23%	296%	2.74	
	FESH (RUB)	12%	300%	2.88	
	RKKE (RUB)	7%	541%	5.34	
	SOCN (RON)	12%	300%	2.88	
	SNC (RON)	8%	343%	3.35	

² Not every mapped event was perceived equally by the market, some events were interpreted by market forces more efficiently, while others had little effect, our findings in this document feature the weighted components – adjusted for market volatility perception.

Measuring Price-Action and Returns

It is also important to note that we see more volatility in relevant equity indices, however these indices are subject to an aggregate volatility stemming from foreign exchange risk, market risk, and idiosyncratic risk. We selected several specific equities directly associated with Black Sea port operations, Russia's political and economic interests, and Ukrainian trade, in order to isolate some of these factors and found shipping companies to experience increases as well. In fact, the only asset examined that appeared unaffected by developments of the Black Sea conflict was the German DAX index (our hypothesis was that the UKX would, likewise, be unaffected, however the cross listing of many Russian and Turkish companies lent itself to some limited risk).

Factoring in these observations we looked into the vector of the movements of these assets, examining cumulative 8-day returns. Below are the unweighted results for 89 observable periods.

Foreign Exchange Rates		Equity Indices		Select Equity	
RUBUSD	0.58%	MICEX	0.748%	RYSAS (TRY)	0.6%
RUBEUR	0.89%	XU100	0.748%	GSDHO (TRY)	1.1%
RUBCHF	0.88%	SP500	0.251%	ASELS (TRY)	0.8%
RUBGBP	0.78%	SOFIX	0.118%	TRCN (RUB)	1.0%
RUBJPY	0.94%	UKX	0.012%	NMTP (RUB)	-0.3%
RUBCAD	0.54%			FESH (RUB)	0.1%
UAHUSD	-0.73%	Commodities		RKKE (RUB)	3.5%
UAHEUR	-0.42%	CL1 - Crude Oil WTI	0.927%	SOCN (RON)	0.1%
UAHGBP	-0.53%	CO1 - Brent Oil	1.529%	SNC (RON)	0.3%
UAHCHF	-0.43%	Natural Gas	0.201%		
UAHJPY	-0.38%	Coal (XAL1)	1.870%		
UAHCAD	-0.75%	Wheat	-0.005%		
		Steel (JBP)	0.175%		
USDTRY	0.25%	Aluminium (LMAHDS03)	0.448%		
USD RON	-0.17%	Copper (HG1)	-0.102%		
		Gold (XAUUSD)	0.765%		

- Originally we also examined several other companies throughout the region, including companies listed on the Ukrainian Stock Exchange, Moscow Stock Exchange, and ADRs on the London Stock Exchange. The tickers listed under the "Select Equity" sections are not exhaustive due to some companies having limited information that was non-conforming with our study. Additionally, GSDHO (GSD Holdings) fell out of our shortlist during the analysis.

The limitation of the unweighted cumulative result was in that the lesser market-recognized periods of the Black Sea conflict were effectively diversifying away the risk that was subject of the examination. Regardless, we were still able to observe the negative correlation between the Russian Ruble and Ukrainian Hryvnia.

Applying our weighting criteria to the individual events yielded the following results:

Foreign Exchange Rates		Equity Indices		Select Equity	
RUBUSD	1.414%	MICEX	0.653%	RYSAS (TRY)	1.222%
RUBEUR	1.666%	XU100	0.653%	GSDHO (TRY)	1.386%
RUBCHF	1.524%	SP500	0.530%	ASELS (TRY)	1.943%
RUBGBP	1.085%	SOFIX	-0.104%	TRCN (RUB)	1.158%
RUBJPY	1.905%	UKX	0.172%	NMTP (RUB)	-0.893%
RUBCAD	1.300%	Commodities		FESH (RUB)	0.741%
UAHUSD	-2.800%	CL1 - Crude Oil WTI	1.226%	RKKE (RUB)	1.883%
UAHEUR	-2.544%	CO1 - Brent Oil	1.918%	SOCP (RON)	0.741%
UAHGBP	-3.113%	Natural Gas	-0.055%	SNC (RON)	0.783%
UAHCHF	-2.692%	Coal (XAL1)	1.007%		
UAHJPY	-2.331%	Wheat	-0.822%		
UAHCAD	-2.870%	Steel (JBP)	0.371%		
		Aluminium (LMAHDS03)	0.077%		
USDTRY	0.135%	Copper (HG1)	0.035%		
USD RON	-0.421%	Gold (XAUUSD)	1.525%		

Several observations from analysing these price movements³:

- Strong movements in foreign exchange rates between the Russian Ruble and Ukrainian Hryvnia – the latter showing stronger negatively correlating movements attributing to the faster devaluation of the Hryvnia and the ultimate fact that Ukraine stands to lose the most in the Black Sea Conflict.
- Turkish Lira mostly neutral.
- Moscow Stock Exchange and Istanbul Stock Exchange showing identical bullish movements.
- Despite the fact that the international sphere subjects Russia to sanctions, and constantly imposes measures against its activities in the Crimean Peninsula, the price action suggests a bullish investor sentiment during every instance of conflict activity (suggesting perhaps volume buyers of Russian and Turkish equities, as well as other Russian assets).
- In equities: defence companies Aselsan (Turkey: ASELS) and Energia (Russia: RKKE) indicate positive price action.
- UKX and SOFIX equity indices remain risk neutral.

³ Further studies and research is still underway, please contact us should you wish to be notified at the time when our findings are publicly published.

- Price action in oil increases, suggesting supply chain risk in the Black Sea.
- Gold increases; Russia has been known to purchase large amounts of Gold reserves in the last four years.
- Coal slightly higher – consistently.
- Steel, aluminium, and copper unchanged.
- Natural gas remains unchanged as Russia and Gazprom have already addressed Ukrainian supply-chain risks through continued cooperation with Turkey and the Turk Stream initiative.

Concluding Remarks and Guidance

Having examined the regional capital and money markets we have concluded that although the Black Sea Basin conflict does not appear to be deescalating, and political tensions remain high, we believe that the region is still investable and offers professional investors opportunity for outsized returns and opportunities in political arbitrage. We have identified such assets that we believe will prosper in weighted combination with other securities of the region.

Having aimed to determine which regions within the Black Sea Basin are investable, we believe that the capital markets of Russia and Turkey are investable and are currently relatively discounted, and capital markets in Romania and Bulgaria remain underdeveloped (but investable), while capital markets in Ukraine, Georgia, and Moldova are not investable at this time.

We urge every investor to conduct their own due diligence in conjunction with our guidance.

Researcher Notes

1. *The figures and calculations of this report have all been conducted and calculated in good faith, reviewed both internally and externally, and are believed by all parties to be valid and correct. Different periods, multiples, as well as metrics were used to calculate our results – which are still replicable given the same methodology and sources are used. Some of our methods are not disclosable, such our portfolio balancing model which uses our inputs coupled with several traditional methods.*
2. *The prices used throughout the holdings presentation are from the December 24th, 2018. The prices used in metric calculations for each company as part of our financial analysis are based off select 2018Q4 averages. The metrics shown in the holdings presentation are indicative of the trailing 9 months, 2018Q3.*
3. *Target valuations, blue-sky / grey-sky scenarios represent the target valuation price by the end of the 2019 year. Forecasting methods used in determining those figures are of the analysts' intellectual property, contact office@eastmillcapital.com if you would like more details, or to be connected with the respective analyst.*
4. *The volatility study makes use of select periods which are judged fundamentally, outliers discounted. The judgement of the importance of a period is a unique trait of the respective analyst.*
5. *On Methodology: This is not an academic paper and we make no effort to outline our entire modelling process. Many of our colleagues make use of proprietary models and are not comfortable in fully disclosing their due diligence. Contact office@eastmillcapital.com if you would like more details, or to be connected with the respective analyst for further information on the models used.*
6. *The photo from the cover of the report is courtesy of WikiMedia Commons by (user) Hamerani.*

Appendix

1.1: Financial statements are available publicly and are easily accessible by researchers or investors on the respective website of the companies listed throughout this report. Those companies that do not disclose their financial statements and reports through their own website do so through public government domain, or through their country's respective Securities Exchange Commission. Listed here are the fundamental financial details for the companies shortlisted into our holdings and examined throughout the report.

TRABZON LIMAN İŞLETMECİLİĞİ A.Ş. (Trabzon Port)			
30 Sep 2018 / Q1-Q3			
Balance Sheet	TRY	Income Statement	TRY
Current Assets:	66,108,148	Net Revenue:	63,667,718
Non-Current Assets:	46,341,227	Gross Profit:	39,768,766
Total Assets:	<u>112,449,375</u>	EBIT:	36,747,147
Current Liabilities:	27,502,273	Net Income:	26,636,237
Non-Current Liabilities	20,619,296		
Total Liabilities	48,121,569		
Total Equity:	64,327,806		
Total Liabilities + Equity:	<u>112,449,375</u>		

ASELSAN A.Ş.			
30 Sep 2018 / Q1-Q3			
Balance Sheet	TRY (000's)	Income Statement	TRY (000's)
Current Assets:	11,003,960	Net Revenue:	5,213,940
Non-Current Assets:	6,807,062	Gross Profit:	1,273,221
Total Assets:	<u>17,811,022</u>	EBIT:	2,473,177
Current Liabilities:	4,042,915	Net Income:	1,735,534
Non-Current Liabilities	4,385,946		
Total Liabilities	8,428,861		
Total Equity:	9,382,161		
Total Liabilities + Equity:	<u>17,811,022</u>		

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30 Sep 2018 / Q1-Q3			
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Non-Current Liabilities	4,385,946		
Total Liabilities	8,428,861		
Total Equity:	9,382,161		
Total Liabilities + Equity:	<u>17,811,022</u>		

S. P. Korolev Rocket and Space Corporation Energia PAO			
30 Sep 2018 / Q1-Q3			
Balance Sheet	RUB (000's)	Income Statement	RUB (000's)
Current Assets:	17,794,605	Net Revenue:	14,281,388.00
Non-Current Assets:	97,522,252	Gross Profit:	1,723,285.00
Total Assets:	<u>115,316,857</u>	EBIT:	266,863.00
Current Liabilities:	54,142,201	Net Income:	-347587
Non-Current Liabilities	57,710,075		
Total Liabilities	111,852,276		
Total Equity:	3,464,581		
Total Liabilities + Equity:	<u>115,316,857</u>		

Far East Shipping Company Transportation Group			
30 Sep 2018 / Q1-Q3			
Balance Sheet	RUB (000's)	Income Statement	RUB (000's)
Current Assets:	35,090,106	Net Revenue:	1,373,801
Non-Current Assets:	42,685,664	Gross Profit:	-961828
Total Assets:	<u>77,775,770</u>	EBIT:	1,005,621
Current Liabilities:	8,733,890	Net Income:	-195901
Non-Current Liabilities	16,263,841		
Total Liabilities	24,997,731		
Total Equity:	52,778,039		
Total Liabilities + Equity:	<u>77,775,770</u>		

Novorossiysk Commercial Sea Port PJSC	
30 Sep 2018 / Q1-Q3	

Balance Sheet	USD (000's)	Income Statement	USD (000's)
Current Assets:	418,972.0	Net Revenue:	712,500
Non-Current Assets:	1,812,996.0	Gross Profit:	706,115
Total Assets:	<u>2,231,968.0</u>	EBIT:	323,478
Current Liabilities:	394,561.0	Net Income:	215,698
Non-Current Liabilities	1,041,666.0		
Total Liabilities	1,436,227.0		
Total Equity:	795,741.0		
Total Liabilities + Equity:	<u>2,231,968.0</u>		

TransContainer PAO 30 Sep 2018 / Q1-Q3			
Balance Sheet	RUB (Millions)	Income Statement	RUB (Millions)
Current Assets:	13,916	Net Revenue:	55,720
Non-Current Assets:	50,072	Gross Profit:	7,374
Total Assets:	<u>63,988</u>	EBIT:	9,065
Current Liabilities:	6,719	Net Income:	6,865
Non-Current Liabilities	14,147		
Total Liabilities	20,866		
Total Equity:	43,122		
Total Liabilities + Equity:	<u>63,988</u>		

Santierul Naval Constanta S.A. 30 Sep 2018 / Q1-Q3			
Balance Sheet	RON	Income Statement	RON
Current Assets:	72,555,022	Net Revenue:	33,080,932
Non-Current Assets:	34,663,112	Gross Profit:	1,537,123
Total Assets:	<u>107,218,134</u>	EBIT:	1,988,858
Current Liabilities:	14,693,560	Net Income:	1,213,127
Non-Current Liabilities	3,614,075		
Total Liabilities	18,307,635		
Total Equity:	88,910,499		
Total Liabilities + Equity:	<u>107,218,134</u>		

SOCEP Constanța SA			
30 Sep 2018 / Q1-Q3			
Balance Sheet	RON	Income Statement	RON
Current Assets:	54,139,358	Net Revenue:	53,962,945
Non-Current Assets:	126,671,006	Gross Profit:	53,934,279
Total Assets:	<u>180,810,364</u>	EBIT:	5,064,637
Current Liabilities:	12,102,983	Net Income:	8,030,903
Non-Current Liabilities	22,170,899		
Total Liabilities	34,273,882		
Total Equity:	146,536,482		
Total Liabilities + Equity:	<u>180,810,364</u>		

Disclaimer:

East Mill Capital is a research endeavour serving as a demonstrative tool in confirming the assumptions of the investment thesis.

Investment Thesis:

Select investments in public emerging markets equity and debt securities are able to yield outsized, risk-adjusted returns that outperform traditional western benchmarks.

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