

## >02 Management report

Dear fellow shareholder, 2Q16 was another positive quarter for Vostok Emerging Finance as we continue to focus and deliver on our mission to build the best fintech investment portfolio in the emerging markets arena. Key highlight from the past few months was seeing our NAV per share reach new highs of SEK 1.40, as at the end of 2Q16 (and higher since), principally off the back of the continued strong performance of TCS Group Holding PLC (Tinkoff Bank). We also made our second and third investments of 2016, moving into the very attractive cross border digital remittance space, with TransferGo and investing into an early stage mobile wallet play in Pakistan called Finja.

While Brexit took some of the shine off global markets and risk appetite towards the end of the quarter, investor sentiment and risk appetite has rebounded since. We are always aware of and follow public market moves, but continue to focus on our mandate of through cycle investing, looking to use any weakness in the public markets to better negotiate terms or invest harder into attractive medium term private opportunities.

As mentioned, over the quarter to June 30, we saw the first significant positive move in our NAV per share since VEF's inception 1 year ago, principally as a result of the gradual continued rise of Tinkoff Bank share price, but also in part due to currency moves. NAV per share ended the quarter at SEK 1.40 (and higher since), while, as important, our share price has started to reflect this trend and push higher. As a team, we need to balance time between portfolio building and portfolio management, with communication to the broader investment community of our achievements, with the clear goal of maintaining as tight a discount to traded NAV as possible.

Just as important for the medium term, we recently made our second and third investments of 2016 into TransferGo and Finja.

**TransferGo:** We made the move into the cross border payments/remittances space via a USD 3.4 mIn investment into TransferGo. Geographically, today TransferGo is mainly focused on the key corridors of broader Europe, with principal flows channelling from West to East, while its segment of focus is blue-collar workers, which are some of the most consistent and regular remittance customers. Remittances are one of the more attractive markets within global financial services and one that has been ripe for disruption for some time. Totalling c. USD 600 billion of annual peer-to-peer flows globally, pricing and speed of delivery remain too high/slow. TransferGo is one of the industry's fastest growth players and the team has an excellent track record of focus and delivery in the valuable and growing European corridors by delivering a better, quicker, cheaper product than key peers.

**Finja:** We are very excited to announce our inaugural investment into the Pakistan fintech space. Pakistan is one of the developing markets that topped of our investment focus list when we launched last summer. From a fintech perspective, we have been impressed with the successful product suite role out in neighbouring India and see Pakistan clearly following in its footsteps. In Finja, we are partnering with a strong and experienced founding team, which we believe are in great position to service and benefit from Pakistan's 180 mIn+ under-banked population on the back of Pakistan's rapidly growing 3G/4G enabled smartphone subscribers supported by a progressive regulatory framework. The business will start by rolling out a mobile wallet

but has a number of related products to follow soon after. We announced the investment totalling USD 1 mln after the end of 2Q.

Regarding current portfolio holdings, we met with all over the quarter including on location visits in both Brazil and Russia, spending quality time with the principals and their teams. The over-riding macro take away from these trips was a stark reminder that in target VEF markets like Russia and Brazil, despite often hitting the headlines for the wrong reasons, the structural and secular growth story for modern financial services companies remains extremely strong.

Specifically, over the quarter, once again Tinkoff Bank was the stand-out performer within the VEF portfolio with a stellar set of 1Q16 results released and the Tinkoff Bank share price rallying (2Q +51% QoQ in USD) to match. RoAE rose back above 30% as Tinkoff Bank has been one of the best positioned and first out of the blocks to take advantage of the stabilisation of the Russian economy and the positive turn in the Russian consumer credit cycle. Coupled with the share price performance, Tinkoff Bank also paid a solid dividend in 2Q, which netted VEF just over USD 1 mln positive cashflow in the quarter. Elsewhere, REVO delivered another solid profitable quarter and a key highlight was the on-boarding of its first online retail partner in Otkonos, accompanying the strong offline retail base it has built up. JUMO continues to progress in delivering its leading mobile money marketplace for Africa and key mobile money markets beyond. We look for positive news flow in the near future regarding on boarding of financial services partners (FSPs), which are key to deepen the marketplace structure from the already integrated mobile network operators.

On the cash front, with a USD 56 mln balance, VEF remains in a majority cash position following our 4Q15 cash call and this remains a key strength for our company in many ways in this volatile and very opportune investment environment.

Looking ahead, approximately 1-year post the creation of VEF, the team and I are more excited than ever about the opportunity set and pipeline we see. Fintech in emerging markets is a very real and growing trend and we continue to unearth opportunities across a number of different geographies, segments of fintech and stages of company development on a daily basis, which feeds our optimism. Rereading my quarterly management comments to date in preparation for this one, I realised that they generally have a positive bias, which has been a function of the strong trends in the underlying business to date. To be balanced, what we continue to see and learn by being involved with our portfolio companies on a daily basis is that winning is far from automatic in our (like all) world. Early stage companies have to get up each day and “fight the good fight” to succeed and create value for shareholders. Simple changes such as a key hire, new customer account or line of funding can make all the difference. We clearly believe we have portfolio companies that can win these fights, and are very committed by being on their boards and doing everything in our power to give them an edge to win.

As always, I would like to close off my comments by thanking my supportive board of directors and the deepening team at Vostok Emerging Finance for all their input and efforts over the period. To fellow shareholders, we appreciate your on-going support, and remain committed to delivering shareholder value through a focused approach on increasing

the NAV per share, coupled with healthy level of company transparency and investor communication as we go. I am happy to note that this approach is now starting to pay dividends through the share price performance. We are, however, still at an early stage in our journey.

August 2016,  
David Nangle