

## Ukraine: Risk premiums not affected by Crimea referendum

### Most severe international crisis since Iraq war

On Sunday, a vast majority of Crimea's population voted for the re-unification of the Black Sea peninsula with the Russian Federation. In response, the US and the European Union, considering the referendum as illegitimate and its outcome as rigged, have announced political and economic sanctions on Russia. It is obvious, that the entire conflict has developed into the most severe international crisis since the war in Iraq and, in a European context, since the war in Yugoslavia.

### Sanctions have a long term negative impact on economic relations

While it is too early to assess the impact of the sanctions, there are reasons to believe that the actual economic impact will be limited. The economic ties between Europe and Russia are substantial and any serious measures will likely have a negative impact not only on the Russian but also on the European economy. This said, there is a clear risk of a further escalation related to Russia's approach toward the future of mainland Ukraine.

#### Ruble in EUR (18.3.2013 - 17.3.2014)



Source Bloomberg; as of 17.3.2014; 12:20 p.m.

Even if the situation is not deteriorating further, the fact that the conflict has not been settled by diplomatic means and sanctions have been put in place will have adverse long-term effects on the economic relations between the European Union and Russia.

The latter, facing the risk of political and economic isolation, will likely try to strengthen its Asian political and economic ties, while Europe will intensify its efforts to reduce its energy dependency on Russia and cut direct FDI flows into Russia. Trade between the largest European economies will grow slower than what one could expect before the crisis.

### Situation in the Eastern Ukraine remains a source of risk

While it is consensus that the annexation of Crimea is a non-negotiable aim of the Russian government to be swiftly implemented, the situation in Eastern Ukraine with its large Russian minority remains a source of risk. Serious diplomatic efforts to defuse the situation will have to wait until the presidential elections in May, given Russia's refusal to acknowledge the present government.

## Risk premiums will remain at a high level

Investors in the region need to be prepared to deal with an extended period of elevated uncertainty. Although markets have corrected significantly - with MICEX losing 17,8% YTD, the ruble weakening to above 50 to the Euro and Russian bond yields climbing to almost 10% - a rebound in the near-term seems unlikely and, in any case, volatility will remain high. From a longer-term perspective, Russian assets are probably undervalued even considering higher risk premiums going forward, but in light of near-term risks it is definitely too early to call the bottom or to even increase the exposure.

### Key ratios-Overview

(please find more information at [www.erste-am.com](http://www.erste-am.com))

Fund name	Category	Fund inception	2013 (%)	2012 (%)	2011 (%)	2010 (%)	2009 (%)	Volatility* (in %)	Fund Yield (in %)**	Risk note 1)
ESPA BOND EMERGING MARKETS CORPORATE	Corporate bonds from emerging markets, with foreign currency risk hedged against the euro	2.7. 2007	-0.23	16.72	6.00	12.86	58.65	5.97%	5,97%	A
ESPA BOND EMERGING MARKETS	Emerging market bonds in US dollars and euros, with currency hedging	17.3. 1997	-6.43	16.01	5.88	12.23	31.12	7.17%	5.61%	B
ESPA BOND DANUBIA	Bond fund with a focus on Central and Eastern Europe	1. 7. 1997	-4.42	19.27	-3.04	12.14	19.23	6.93%	4.50%	B, C
ESPA STOCK RUSSIA	Equity fund with focus on Russia and CIS countries	1.8. 2007	-3.96	7.90	-29.82	37.42	132.03	26.20%	n.a.	A, B

The performance is calculated in accordance with the OeKB method. It already includes the management fee. However, the illustration is net of the one-off load of up to 5.00 %, which falls due at the time of purchase, and of other fees that reduce the return as well as of the individual account and deposit fees. Past performance is not a reliable indicator of the future performance of a fund.

\* as of 31.12.2013; since fund inception; OeKB-methodology

\*\* as of 28.2.2014

- A The ESPA STOCK RUSSIA may exhibit increased volatility due to the composition of the portfolio; i.e. the unit value can be subject to significant fluctuations both upwards and downwards within short periods of time
- B The ESPA STOCK RUSSIA and the ESPA BOND DANUBIA may make significant investments in derivatives (including swaps and other OTC derivatives) pursuant to section 73 of the 2011 Austrian Investment Fund Act).
- C In accordance with the fund provisions approved by the Austrian Financial Market Authority (FMA), ESPA BOND DANUBIA intends to invest more than 35% of its assets in securities and/or money market instruments of public issuers. A detailed list of these issuers can be found in the prospectus, para. II, point 12.

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