Reconstruction Capital II Ltd

("RC2" or the "Fund")

Quarterly Report

31 December 2020

New Europe Capital SRL
Str. Thomas Masaryk nr.24, et.1
Bucuresti - Sector 2
Tel +40 21 316 7680
bucharest@neweuropecapital.com

Statistics

NAV per share (€)	0.1586
Total NAV (€ m)	21.5
Share price (€)	0.0850
Mk Cap (€ m)	11.5
# of shares (m)	135.9
NAV/share since inception†	-59.79%
12-month NAV/share perfomance	9.40%

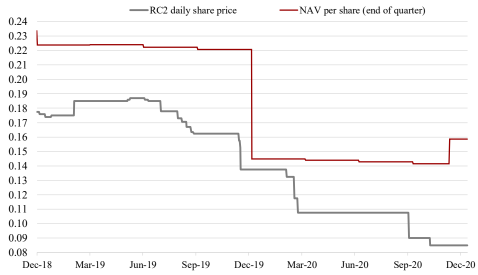
† assumes pro-rata participation in the 2008 share buy-back and the 2017 return of capital

RC2 Quarterly NAV returns

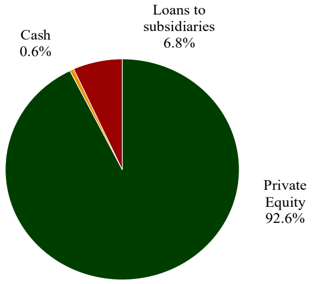
	2017	2018	2019	2020
1Q	-29.08%*	-0.51%	0.12%	-0.77%
2Q	-1.55%	-1.11%	-0.76%	-0.75%
3Q	-1.99%	-5.20%	-0.75%	-0.86%
4Q	-0.32%	-4.17%	-34.31%	12.04%
YTD	-31.79%	-10.61%	-35.22%	9.40%

** € 17m returned to shareholders in 1Q 2017*

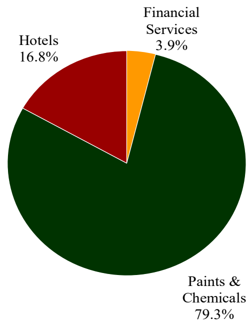
Share price / NAV per share (€)



Portfolio Structure by Asset Class



Equity Portfolio Structure by Sector



Message from the Adviser

Dear Shareholders

During the fourth quarter, RC2's total NAV grew by € 2.3m, with its NAV per share increasing by 12.04% from € 0.1416 to € 0.1586, reflecting the revised valuations of RC2's investee companies as explained below.

In both Romania and Bulgaria, the number of new Covid-19 cases started to rise again at the beginning of the fourth quarter, reaching maximum daily highs for 2020 of 10,300 cases and 4,800 cases, respectively, in mid-November, after which the numbers started to fall again until the end of the year, which led to the governments of the two countries easing some previously imposed restrictions. Recently, the situation has worsened in both Romania and Bulgaria with new restrictions being applied in both countries, including a longer night-time curfew in Romania and a closure of retail outlets larger than 300 square metres in Bulgaria. The vaccination roll-out programme has worked relatively well in Romania, with almost 13% of Romania's population having received at least one jab by late-March, whilst Bulgaria remains one of the worst performing EU countries, at only 5.3%.

RC2's investee companies have to date proven to be relatively resilient to the effects of the pandemic, with the Policolor Group continuing to achieve sales growth and an improved EBITDA compared to the previous year, and Telecredit outperforming its revised (post pandemic) budget over the year, although the Mamaia Resort Hotel turned EBITDA-negative over the year. The annual valuation exercise resulted in the following changes to the valuations of RC2's private equity positions:

	Prior valuations €	Revised valuations €
Policolor SA	12,000,000	13,960,000
Mamaia Resort Hotels SRL	3,371,233	3,440,548
Telecredit IFN SA	804,859	624,545
Total	**16,176,092**	**18,025,093**

In spite of the Covid-19 pandemic, and an IT failure which generated disruptions across the Policolor Group's operations during the second quarter, the Group managed to generate a 5.5% year-on-year increase in sales from € 60.7m to € 64.1m, albeit 12% below the pre-Covid budget, with the second quarter being the most affected by the pandemic (21% below budget). Unlike Telecredit and Mamaia Resort Hotels, Policolor did not revise its 2020 budget to incorporate the negative effects of the pandemic. Irina Mandoiu, who had played an important role in the growth and eventual sale of Albalact, an earlier investment of RC2, was appointed as the new Policolor Group CEO at the beginning of September. She has initiated a turnaround plan focussed mainly on the Romanian business, targeting a more efficient organisation structure, improved internal planning and reporting systems, and lowering the Romanian transportation and logistics costs. The 2021 Policolor Group budget targets recurring EBITDA increasing from € 2.4m in 2020 to € 4.6m.

Mamaia Resort Hotel's 2020 revenues of € 1.8m were 12.6% below the revised budget prepared in May to reflect the estimated impact of the pandemic, and 40% below 2019, due to Covid-19-related restrictions limiting the operation of the restaurant and forbidding conferences and other corporate events, and the use of the Spa, whilst the spring lockdown resulted in a delayed start to the season which only took off in mid-July, compared to mid-June in other years. The 2021 budget envisages operating revenues of € 2.7m, based on the full year occupancy rate almost doubling from 18% to 32%. There is upside potential as well as downside risk in 2021, depending on the evolution of the pandemic and related restrictions. Overall, management targets EBITDA of € 0.36m in 2021.

Telecredit deployed € 11m in financing products to small and medium sized enterprises in 2020, generating an Operating Profit before Depreciation of € 0.09m, compared to an expected loss of € -0.17m per its revised budget prepared in May to reflect the impact of the pandemic. Management's 2021 budget provides for a 28% year-on year-increase in interest revenues from SMEs from € 0.8m to € 1.1m. According to the budget, the SME loan book is expected to increase to its pre-Covid 19 level of € 2.2m by the end of 2021.

At the end of December, RC2 and RC2 (Cyprus) Ltd had cash and cash equivalents of € 0.09m, loan receivables from Telecredit and Mamaia Resort Hotels of € 1.5m, short-term liabilities of € 0.10m, and had drawn € 0.4m on the shareholder loan from Portadrix.

Yours truly,

New Europe Capital

Policolor Group

Background

RC2 has a 40.0% shareholding in Policolor, the parent company of the Policolor Group ("Policolor" or the "Group"), which operates along the following business lines: coatings (architectural, automotive and industrial), resins and specialty chemicals. The Romanian company Policolor SA and its 100%-owned Bulgarian subsidiary Orgachim AD produce and sell coatings, primarily in Romania and Bulgaria. The Group also includes Orgachim Resins, a producer of resins, and Ruse Chemicals, a producer of anhydrides, both being located in Bulgaria. All the Group companies are unlisted.

Group Financial results and operations

(EUR '000)	2019*	2020B**	2020A*	2021B
Group Consolidated Income statement				
Sales revenues	**60,726**	**72,825**	**64,084**	**70,411**
sales growth year-on-year	*-5.2%*	*13.7%*	*5.5%*	*9.9%*
Other operating revenues	129		141	81
Total operating revenues	**60,855**	**72,825**	**64,226**	**70,492**
Gross margin	20,857	23,687	21,133	24,667
Gross margin %	*34.3%*	*32.5%*	*32.9%*	*35.0%*
Other operating expenses	(23,064)	(21,526)	(21,296)	(22,484)
Operating profit	**(2,208)**	**2,161**	**(163)**	**2,183**
Operating margin	*-3.6%*	*3.0%*	*-0.3%*	*3.1%*
Recurring EBITDA	**984**	**4,160**	**2,412**	**4,607**
EBITDA margin	*1.6%*	*5.7%*	*3.8%*	*6.5%*
Net extraordinary result - land sale	996		9	
Nonrecurring items	(484)	120	(503)	
Financial Profit/(Loss)	(772)	(722)	(699)	(684)
Profit before tax	**(2,980)**	**1,439**	**(859)**	**1,499**
Income tax	(172)	(190)		(178)
Profit after tax	**(3,152)**	**1,249**	**(859)**	**1,321**
avg exchange rate (RON/EUR)	*4.75*	*4.75*	*4.84*	*4.87*

*Note: * IFRS unaudited, ** Management's budget*

In spite of the Covid-19 pandemic, and an IT failure which generated disruptions across the Policolor Group's operations during the second quarter, the Group managed to generate a 5.5% year-on-year increase in sales from € 60.7m to € 64.1m, albeit 12% below the pre-Covid budget, with the second quarter being the most affected by the pandemic (21% below budget). Overall, coatings sales increased by 2% year-on-year in 2020. Resins sales of € 15.4m (of which € 2.2m to Group companies) were 1% above 2019, and only 5% below budget. Due to a lack of sufficient main raw material supplies at commercially viable prices, the anhydrides plant stopped working at the end of March and only resumed at the end of October, with the division generating sales of only € 5.3m in 2020, 32% below budget.

Mainly helped by improved EBITDA at the Resins division, the Group more than doubled its recurring EBITDA (from € 1m in 2019 to € 2.4m), in spite of the negative effects of the pandemic. However, the Group 2020 recurring EBITDA was 54% below budget, mainly due to the Romanian coatings business not achieving the level of turnaround anticipated in the budget.

In December, Policolor reached a final settlement with the buyers of its main Theodor Pallady Bucharest site, whereby it paid € 0.2m in addition to the € 0.7m already retained by the buyers in respect of certain warranties and indemnities provided by Policolor.

Prospects

The new Group CEO appointed in September has initiated a turnaround plan focussed mainly on the Romanian business, including a more efficient organisation structure, improved internal planning and clearer reporting systems, and lowering transportation and logistics costs.

The Policolor Group 2021 budget targets recurring EBITDA rising from € 2.4m in 2020 to € 4.6m, mainly driven by the turnaround plan mentioned above, but also by the gross margin improvement generated by the new Bucharest plant working at full capacity throughout the year, and a more profitable coatings sales mix.

Mamaia Resort Hotels

Background

Mamaia Resort Hotels SRL (the "Company") is the owner and operator of the ZENITH – Conference & Spa Hotel (the "Hotel") in Mamaia, Romania's premium seaside resort next to the city of Constanta. RC2 owns 63% of the Company, with the remaining 37% being owned by a Romanian private individual.

Financial results and operations

(EUR '000)	2019†	2020B*	2020E**	2020A***	2021B
Income Statement					
Total Operating Revenues, of which:	**2,964**	**3,212**	**2,033**	**1,777**	**2,746**
Accommodation revenues	1,627	1,854	1,335	1,135	1,579
Food & beverage revenues	1,127	1,191	635	570	1,028
Other operating revenues	210	167	63	72	139
Total Operating Expenses	(2,921)	(2,939)	(2,179)	(2,224)	(2,526)
Operating Profit	**43**	**273**	**(146)**	**(447)**	**220**
Operating margin	*1.5%*	*8.5%*	*neg.*	*neg.*	*8.0%*
EBITDA	**195**	**423**	**1**	**(305)**	**364**
EBITDA margin	*6.6%*	*13.2%*	*0.1%*	*neg.*	*13.3%*
Profit after Tax	**(55)**	**183**	**(243)**	**(601)**	**(16)**
Net margin	*neg.*	*5.7%*	*neg.*		*neg.*
avg exchange rate (RON/EUR)	*4.75*	*4.80*	*4.85*	*4.84*	*4.87*

*Note: † RAS audited, * original (pre-Covid19) budget, **revised management's budget, *** RAS management accounts, unaudited*

2020 revenues of € 1.8m were 12.6% below the revised budget prepared in May to reflect the estimated impact of the pandemic, and 40% below 2019, due to Covid-19-related restrictions limiting the operation of the restaurant and forbidding conferences and other corporate events, and the use of the Spa, whilst the spring lockdown resulted in a delayed start to the season which only took off in mid-July, compared to mid-June in other years. With the hotel closed during the first five months of the year due to renovation works, and without the possibility of organizing group events which are traditionally used to attract customers during the autumn months, the Hotel's annual revenues were almost entirely realized over the summer months. In 2020, the annual occupancy rate was only 18%, reflecting the above restrictions, compared to 29% in 2019.

With the help of an € 0.3m loan from RC2, renovation works on the facades and public areas were finalized in late spring, giving the Hotel a new look, which helped generate a 13% year-on-year increase in the average net room tariff in 2020.

Due to the lower than expected revenues, and slightly higher operating expenses mainly due to Covid-prevention measures, the Hotel generated a € -0.3m EBITDA loss in 2020, compared to breakeven EBITDA targeted in the revised budgeted. However, the EBITDA loss includes € 0.07 of renovation works which were expensed rather than capitalized, as permitted under Romanian law.

Prospects

A € 750m EU-funded project to enlarge the beach on the Romanian seaside has increased the width of the beach in front of the Hotel from 30m to 120m, enhancing the appeal of the Hotel's location.

The 2021 budget envisages operating revenues of € 2.7m, based on the full year occupancy rate almost doubling from 18% to 32% and a more profitable sales mix, with charter contracts expected to generate 20% of overall revenues, compared to 33% in prior years.

The budget is based on the assumption that Covid-related restrictions forbidding group events will continue in their current form. Obviously, there is upside potential as well as downside risks, depending on the evolution of the pandemic. Overall, management targets EBITDA of € 0.36m in 2021. A contract signed in December 2020 to host a large group of individuals over the first four months of 2021 is expected to generate revenues of at least € 0.5m, more than three times the average generated during the same period in prior years.

The Romanian Government has announced that it intends to compensate HORECA operators with 20% of the difference between their 2019 and 2020 turnovers. If implemented, the Hotel would qualify for approximately € 0.2m, but details of the measure are still being worked out, and consequently the amount has not been included in the Hotel's 2021 budget

Telecredit

Background

Telecredit IFN S.A. ("Telecredit" or the "Company") is a Romanian Non-Banking Financial Institution ("IFN") whose main activity is providing factoring, discounting and microloans to small and medium-sized companies ("SMEs"). RC2 owns an 85% shareholding, with the balance of 15% being owned by the Company's CEO, Elisa Rusu.

Financial Results and operations

(EUR '000)	2019†	2020B*	2020E**	2020A***	2021B
Income Statement					
Interest revenues from pay day lending	**824**	**13**	**31**	**29**	**-**
Interest revenues from SMEs lending, of which:	**340**	**1,330**	**760**	**839**	**1,078**
Factoring and Discounting	287	1,144	717	712	1,045
Microloans	53	186	42	127	33
Total operating expenses:	**(1,087)**	**(1,015)**	**(963)**	**(859)**	**(706)**
Provisions, of which:	(64)	74	(88)	(121)	11
Pay day lending	(61)	181	139	139	48
SMEs lending	(3)	(107)	(227)	(260)	(37)
Other Operating expenses	(1,024)	(1,089)	(874)	(738)	(717)
Operating profit before depreciation	**77**	**328**	**(172)**	**9**	**372**
Depreciation	(81)	(87)	(89)	(83)	(114)
Operating profit after depreciation	**(4)**	**241**	**(261)**	**(73)**	**259**
Operating profit after depreciation margin	*neg.*	*17.9%*	*neg.*	*neg.*	*24.0%*
Profit after tax	**(54)**	**63**	**(387)**	**(145)**	**139**
net margin	*neg.*	*4.7%*	*neg.*	*neg.*	*12.9%*
Avg exchange rate (RON/EUR)	*4.75*	*4.80*	*4.85*	*4.84*	*4.87*

*Note: † RAS audited, * original (pre-Covid19) budget, **revised management's budget, *** RAS management accounts, unaudited*

Compared to the revised budget prepared by the management in May to account for the impact of the pandemic, Telecredit achieved higher revenues (+10%) and lower (-16%) operating costs in 2020, resulting in an operating profit before depreciation marginally above breakeven and significantly better than the expected loss of € 0.17m.

In 2020, Telecredit generated interest revenues from SMEs of € 0.84m, compared to € 0.76m as per the revised budget prepared in May by the management, whilst SME-related provisions were € 0.26m, slightly above the € 0.23m anticipated in the revised budget. The non-performing loan (NPL) rate (defined as over 90 days' overdue) was 3% at year-end. Payday lending (including re-financings) was stopped completely in May. This business line now consists solely of collecting the existing, fully provided, portfolio.

Telecredit deployed € 11m in financing products to SMEs in 2020. 99% of the amount deployed was factoring and discounting facilities, with the balance of 1% being microloans granted in the first quarter. before this activity was put on hold due to the pandemic.

Due to its more restrictive lending criteria, as well as an increase in the level of provisions, both consequences of the pandemic, the book value of Telecredit's SME portfolio shrank from € 2.3m at the beginning of the year to € 1.9m at the end of 2020, divided between € 1.3m of factoring services, € 0.4m of discounting, and € 0.2m of micro loans.

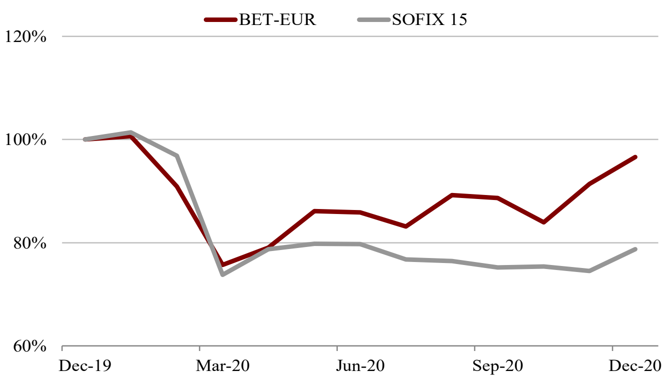
Prospects

Management's 2021 budget provides for a 28% year-on year-increase in interest revenues from SMEs from € 0.8m to € 1.1m, based on € 13.9m of funds deployed. Telecredit is expecting collections of €50,000 from the payday portfolio. The SME loan book is set to increase to its pre-Covid 19 level of € 2.2m by the end of 2021. Managements expects factoring and discounting provisions of only € 40,000 in 2021.

Overall, management is targeting an operating profit before depreciation of € 0.37m in 2021, compared to just above breakeven in 2020, due to higher interest revenues, and lower provisions and operating costs.

Capital Market Developments

BET-EUR and SOFIX-15: 1 year performance



Commentary

During the fourth quarter, the Romanian BET and the Bulgarian SOFIX 15 indices gained 9.0% and 4.7%, respectively, both in euro terms. Over the same quarter, the MSCI Emerging Market Eastern Europe, the MSCI Emerging Market, and the FTSE100 and S&P indices were up by 15.2%, 14.4%, 11.7% and 7.1%, respectively, all in euro terms.

Over 2020, the BET-EUR and SOFIX 15 indices fell by 3.4% and 21.2%, respectively, both in euro terms. By comparison, the MSCI Emerging Market Eastern Europe and the FTSE100 indices lost 22.5% and 19%, respectively, whilst the S&P and the MSCI Emerging Market indices gained 6.8% and 6.4% respectively, all in euro terms.

Macroeconomic Overview

Overview

	RO	as of:	BG	as of:
GDP Growth (y-o-y)	-3.9%	FY20	-4.2%	FY20
Inflation (y-o-y)	2.1%	Dec-20	0.1%	Dec-20
Ind. prod. growth (y-o-y)	0.2%	Dec-20	-3.2%	Dec-20
Trade balance (EUR bn)	-18.3	FY20	-1.7	FY20
y-o-y	*8.4%*		*-40.2%*	
FDI (EUR bn)	1.9	FY20	0.6	FY20
y-o-y change	*-60.4%*		*-50.7%*	
Budget balance/GDP	-9.8%	FY20	-3.0%	FY20
Total external debt/GDP	58.3%	Dec-20	60.7%	Dec-20
Public sector debt/GDP	47.7%	Dec-20	24.3%	Dec-20
Loans-to-deposits	67.0%	Dec-20	65.5%	Dec-20

Commentary

Romania

Romania experienced the strongest fourth quarter rebound within the EU, with GDP increasing by 4.8% quarter-on-quarter, compared to an EU average fall of -0.5%, mainly due to less pandemic related restrictions than in other countries. Overall, Romania's GDP fell by 3.9% in 2020, with private consumption shrinking by 3.3%, whilst government consumption and investment (gross fixed capital formation) increased by 0.6% and 1.3% year-on-year, respectively. The only sectors of the economy which grew in 2020 were construction and IT, each by 0.6%. In its latest Winter Economic Forecast, the European Commission is predicting an annual GDP increase of 3.8% in 2021.

Driven not only by the pandemic but also by parliamentary and local elections, Romania's fiscal outlook worsened in 2020, with the country posting a budget deficit of € -21.1bn, or -9.8% of GDP, compared to -4.6% in 2019. According to the Ministry of Finance, 45% of the deficit is due to the exceptional measures taken within the context of the pandemic (such as the postponement of certain taxes, prioritizing VAT reimbursements, and part-paying the cost of furloughing employees). Budgetary receipts amounting to € 67bn were virtually unchanged year-on-year. On the other hand, total budgetary expenses increased by 14.8% in RON terms, from € 78bn to € 88bn, with personnel and social expenditures, which accounted for 59% of total expenses, growing by 14% in RON terms. Public investment amounted to € 6.9bn, or 3.2% of GDP, compared to 2.9% the prior year. For 2021, the Romanian government aims to reduce the fiscal deficit to around 7% of GDP.

The trade gap deepened by 8.4% (from € -16.9bn in 2019 to € -18.3bn) in 2020, with imports shrinking by 4.8%, and exports falling by an even higher 8.2%. The widening trade deficit was counter-balanced by a € 9.6bn surplus from services, and, with a € 1.8bn deficit from primary and secondary incomes, the current account deficit amounted to € 11bn in 2020, compared to € 10.5bn in 2019. FDI flows amounted to only € 1.9bn in 2020, significantly down on the € 4.8bn generated over the previous year.

Romania's total external debt amounted to € 125bn at the end of December, approximately 58% of GDP and a 14.3% increase over the year. Within the context of the pandemic which has increased public sector spending, public debt reached € 103bn, or 48% of GDP, at the end of 2020, up 33.4% year-to-date in nominal RON terms.

The fall in energy prices and overall 2020 demand due to the pandemic pushed Romania's inflation rate down from 4% in December 2019 to 2.1% at year-end 2020. In 2021, inflationary pressures are expected to be generated by higher oil prices and the deregulation of the retail electricity market from 1st January, which is set to increase energy prices in the first part of the year.

The Romanian leu marginally appreciated (by 0.01%) against the euro in the fourth quarter of 2020, but depreciated by 1.9% against the euro over the course of the year.

Total domestic non-governmental credit (which excludes loans to financial institutions) was € 58.7bn at the end of December, up 6% over the year in RON terms. Household loans reached € 30.8bn at the end of December, up from € 30bn at the beginning of the year, and accounted for 52% of total loans outstanding. Consumer loans fell by 2.0%, and accounted for 39% of household loans. Housing loans increased by 10% and accounted for 59% of household loans. Corporate loans reached € 25.7bn at the end of December, up 5% over the year. The NPL ratio was 3.8% at the end of 2020, down from 4.06% at the end of the previous quarter. The overall deposit base was € 86.4bn at the end of December, up 14.4% over the year in RON terms.

Following parliamentary elections which were held in December 2020, a centre right three-party coalition has formed a new government. The National Liberal Party (PNL) is the senior coalition partner, joined by the USR-PLUS alliance and UDMR, the Hungarian minority party.

Bulgaria

Bulgaria's fourth quarter 2020 GDP grew by 2.2% compared to the previous quarter, but the annual 2020 GDP fell by 4.2%, having been significantly affected by the drop in tourism (60% less foreign tourists compared to 2019). In its latest Winter Economic Forecast, the European Commission predicts a 2.7% annual GDP increase in 2021.

In 2020, Bulgaria posted a budget deficit of € 1.8bn, or 3% of GDP, compared to a 1% GDP deficit in 2019. Bulgaria's fiscal response to the pandemic was more restrained than in Romania, but included a series of measures such as job retention schemes for the tourism and transportation sectors, which were the most affected by the pandemic, loan moratoria and deferred taxes. Tax proceeds increased by 0.6% year-on-year, whilst total budgetary expenses grew by 5.8%, mainly due to personnel and social expenditures increasing by 11.9%. Bulgaria is expecting a 4% deficit in 2021, driven by a number of measures already adopted by the Bulgarian government, such as a 10% average increase in public sector wages effective from January 2021, and a 5% pension increase starting in July.

Bulgaria's public sector debt increased from € 12.0bn at the end of 2019 to € 14.8bn at the end of December, or 24.3% of GDP, due to Bulgaria placing two Eurobond issues worth a combined € 2.5bn in September, made up of a € 1.25bn 10-year eurobond with a yield of 0.39%, and a € 1.25bn 30-year eurobond yielding 1.48%. Gross external debt amounted to € 36.8bn, or 60.7% of GDP, at the end of 2020, a 4.7% annual rise.

Bulgaria's 2020 trade deficit of € -1.7bn was better than the € -2.9bn deficit recorded in 2019. Exports fell by 6.7%, while imports shrank by 9.7%. The trade deficit was counter-balanced by a € 2.8bn surplus from services, resulting in a positive current account balance of € 0.1bn, which is lower than the € 1.8bn surplus recorded in 2019. FDI inflows amounted to € 0.6bn, significantly lower than the € 1.1bn recorded in 2019.

Bulgaria's inflation rate was only 0.1% at the end of 2020, triggered by falling energy prices.

Total domestic non-governmental credit (which excludes loans to financial institutions) increased from € 30bn at the end of 2019 to € 31.3bn at the end of 2020, with corporate loans increasing by 3%, whilst household loans grew by 6.6%. The deposit base was € 46.2bn at the end of December, up 10% over the year. The NPL rate was 7.5% at the end of December, down from 7.8% at the end of the previous quarter.

Bulgarian parliamentary elections are scheduled for 4th April.

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