FIB AVANGARD - MONTHLY REVIEW

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## April 2011

**Data as a per 29 April 2011**

| NAV | |
|---|---|
| NAV | BGN 1,119,338 |
| NAV per share | BGN 0.5819 |

| Return (%) | |
|---|---|
| Monthly (MoM)* | -1.79% |
| Annual (YoY)* | 10.00% |
| Year-to-date* | 3.41% |
| Since Inception (annualized) | -15.02% |

| Statistics (%) | |
|---|---|
| Standard Deviation* | 13.60% |
| Alpha (α) – MSCI EM EE * | 17.42% |
| Beta (β) – MSCI EM EE * | 0.11 |
| $R^2$ – MSCI EM EE * | 8.17% |
| Sharpe Ratio (0%)* | n.m. |

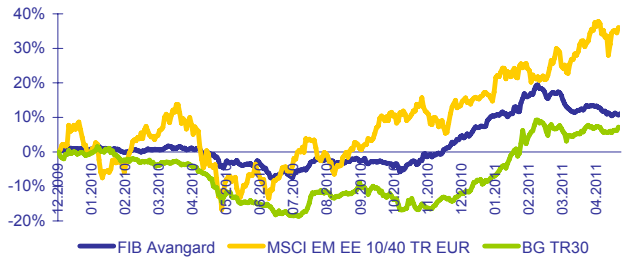
** see notes*

## Investment strategy

FIB Avangard is a high-yield, actively-managed, mutual fund, incepted on Nov 11, 2007, whose investment objective is to achieve high long-term growth, bearing medium to high levels of risk. Its portfolio is allocated in Emerging Europe equity with focus on Bulgarian and Russian companies. FIB Avangard is benchmarked to MSCI EM Eastern Europe 10/40 Total Return EUR Index

FIB Avangard's investment strategy for 2011 includes allocation to liquid Bulgarian companies on economy recovery and sentiment improvements and sizeable stake in Russian "blue chips" and cyclicals on global economy growth and domestic consumption stories.

## FIB Avangard vs. MSCI EM EE 10/40

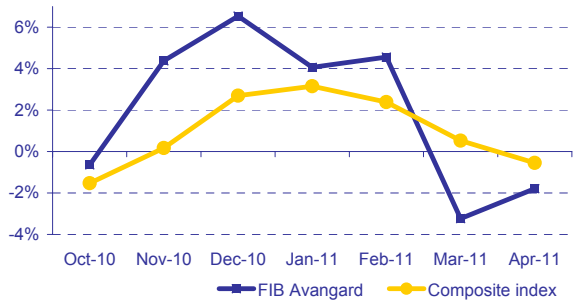



Source: Bloomberg, BSE-Sofia, FFBH Asset Management

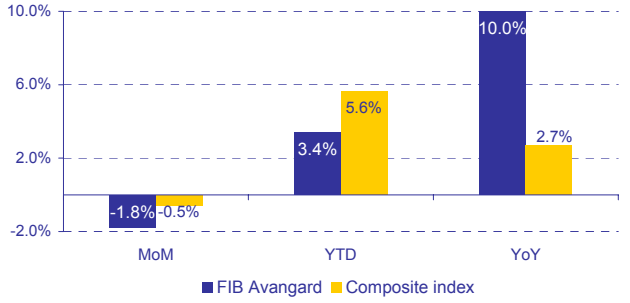
## Fact sheet and fee information

| | | | |
|---|---|---|---|
| Type | Open-end equity fund | Currency | BGN |
| FSC Classification | High-yield fund | Minimum subscription | BGN 100 |
| Manager | FFBH Asset Management | Entry fee (less than BGN 100,000) | 0.50% |
| Custodian | First Investment Bank | Entry fee (above BGN 100,000) | 0.00% |
| Subscriptions/ Redemptions | Every Business Day | Redemption fee | 0.50% |
| Incorporation | Bulgaria | Management fee (annual % of average AUM) | 3.00% |

## MoM return comparison to composite index*

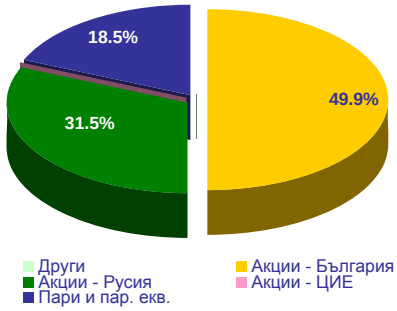



## MoM, YoY and YtD return to composite index*



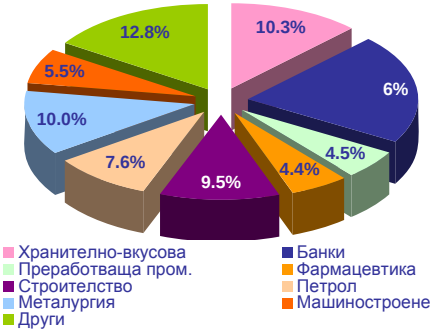

Source: BAAMC, FFBH Asset Management calculations

## Asset Allocation




Source: FFBH Asset Management

## Equity Portfolio




Source: FFBH Asset Management

## Notes

Monthly return /MoM/ is calculated as the ratio between the NAV/share as per the report date and the NAV per share on the last working day of the previous month.
Annual return /YoY/ is calculated as the ratio between the NAV/share as per the report date and the NAV per share on the last working day of the same month a year ago.
Year-to-date return /YtD/ is calculated as the ratio between the NAV/share as per the report date and the NAV per share on the last working day of the previous year.
Standard deviation is the annualized standard deviation of the weekly return over the last five years or since inception, whichever is smaller.
Alpha (α) – MSCI EM EE is the difference between the annual return of NAV per share of FIB Avangard and the annual return of MSCI EM Eastern Europe 10/40 Total Return EUR Index over the last three years or since benchmarking to this index, whichever is smaller. If the relevant period is smaller than one year we use YtD data/
Beta (β) – MSCI EM EE has been calculated using the weekly returns of NAV per share of FIB Avangard and MSCI EM Eastern Europe 10/40 Total Return EUR Index over the last five years or since benchmarking to this index, whichever is smaller.

R2 – MSCI EM EE has been calculated using the weekly returns of NAV per share of FIB Avangard and MSCI EM Eastern Europe 10/40 Total Return EUR Index over the last five years or since benchmarking to this index, whichever is smaller.
Sharpe Ratio has been calculated using the weekly returns of NAV per share of FIB Avangard over the last five years or since the inception of the fund, whichever is smaller,and using 0% as risk-free return.
Composite Index is composed of 30 mutual funds that apply similar investment strategy to FIB Avangard and measures their equal-weighted return. The Index is calculated in a standardized way, using the MoM, YoY and YtD returns of each fund (Ri, i=1 to n), based on formula: $\Sigma\ (1/n*Ri)$.

**MARKET OVERVIEW:**

- In April Bulgarian indices slightly declined (0.9% MoM drop in Sofix), as Q1 momentum needed some re-confirmation in financial and macro data. Major local events were the announcements of the privatization procedures of Bulgartabac Holding and utility companies E.ON Bulgaria Grids and E.ON Bulgaria Sales which should focus investors' interest in H2 2011. Recovering interest in BSE was reaffirmed by the successful BGN 46m (EUR 24m) capital raise of Eurohold Bulgaria, the largest since 2009.
- Bulgaria's macro data released in March was predominantly positive. Consolidated budget deficit decreased 56% YoY to BGN 741m (1% of GDPe) in Q1 after posting a mild BGN 8.6m surplus in March alone. The unemployment rate declined to 9.5% in March while HICP decelerated to 0.4% MoM (4.6% YoY), after a 0.6% increase in February. External sector data showed that current account balance for January-February was at surplus of 0.8% of GDP (0.8% deficit in Jan-Feb 2010), while FDI declined by 0.5pp YoY to 0.1% of GDP. Gross external debt dropped by 0.8pp to 94.4% of GDP at the end of February. Data also showed that retail sales continued to rebound but at much slower pace of 0.2% MoM in Feb, compared to revised 2.3% MoM growth in January.
- In April the Bulgarian government revealed its mid-term economic targets of 3.6%-4.4% GDP growth and 0.5-1.5% of GDP budget deficit over 2012-2014.
- Interest in Russian equity slightly weakened in April as MSCI Russia posted a modest 0.2% gain last month, despite strong oil where WTI crude oil reached 30-month high of USD 114/barrel.
- Q1 GDP growth in Russia came at 4.5% YoY, according to the government. We noticed strong recovery of retail sales, which jumped 4.8% YoY in March and 4.7% YoY in Q1, supported by decline in unemployment rate to 7.1%.Construction sector also grew by 4.2% YoY in March after two months of being virtually zero, backed by an increase in housing construction of 13.5% YoY. Warning signs came from industrial production deceleration to 5.3% in March and slow April PMI manufacturing data pointing that export sectors might be facing slowing demand.
- In April the Russian government has updated its key macro forecasts. According to its projections the annual budget deficit should drop from 3.6% in 2010 to 0.7% of GDP in 2011. Government left GDP growth forecast unchanged at 4.2% with retail sales growing 3.8% YoY in 2011 while investment growth being downgraded to 6.0%.
- CBRF unexpectedly increased its refinancing rate to 8.25% in May, although annual inflation remained unchanged at 9.6% in April. A possible explanation is that central bank reacted to the recent acceleration in the growth in domestic petrol prices as government shifted its focus on slowing down price growth before elections in the autumn. At the same time for the first time since the beginning of the year, central bank left reserve requirements unchanged.

**PORTFOLIO ALLOCATION:**

- The strong oil and commodity prices in April prompted an increase in FIB Avangard's allocation to Russia which grew by almost 20% to 32% of NAV. However, the USD lost another 4.4% against the Euro and Bulgarian indices finished slightly negative in April which led to a 1.8% MoM drop in fund's NAV/share.
- Following our investment decision we re-opened our exposure to the oil&gas sector which remains the main direct benefiter of the Middle East turmoil and Japan's disaster. Also, we added bank and retail sector names, expecting that positive macroeconomic backdrop in Russia should further speed up domestic consumption and credit growth.
- Our domestic allocation was also increased, in the banking and real estate sector, as we expect that economic recovery and recent year's underperformance should continue to attract investors back to BSE-Sofia throughout 2011. Overall, FIB Avangard strategy was pretty bullish in April as the fund's equity exposure was 81% of NAV.

**OUTLOOK & STRATEGY:**

- We deem that global growth remains strong but we notice first signs of deceleration in major economies as fiscal policy continues to be tightened and households expenditures remain muted. At the same time commodity-fuelled inflation prompted a first tightening in Eurozone's monetary policy in more than 2 years which may lead to further growth deceleration. However, interest remains strong in our target regions – Russia and SEE - as the smallest and less liquid exchanges like BSE are yet to perform and decrease market discounts back to normal, while our other major focus - Russia - boasts high 2011 expectations as being a leading producer in oil&gas and most commodites – benefits directly from commodity trends.
- Among other advantages for Russian investment case in 2011 are the possible entry in WTO; the emergence of the Russian middle class which continues to grow; the large domestic market and its convergence potential; prudent fiscal policy, low government debt; large currency reserves and many more.
- Our high expectation about Bulgarian equities are supported by expected economy recovery which accelerates, boosted by external demand and is expected slowly to become broad-based on turnaround in domestic demand; high EU fund's absorption, especially in infrastructure projects. With the help of announced privatization plans of tobacco and some state energy assets, the above should put Bulgaria back on the investors' radar.
- Our May expectations are that BSE growth would be reignited by strong Q1 financial and macroeconomic data. FIB Avangard is to remain invested in liquid local shares with stable fundament. About Russia we should keep our focus on energy and domestic consumption stories but be cautious as global equity markets may start to weaken.

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WE NOTE THAT ANYONE WHO WANTS TO SUBSCRIBE SHARES IN FIB AVANGARD SHOULD MAKE A DECISION BASED ON THE INFORMATION PUBLISHEDD IN THE MOST RECENT PROSPECTUS OF FIB AVANGARD, DATED 25 AUGUST 2008. The prospectus and fund's by-laws are available in FFBH Asset Management office – 2 Enos Street, 5th floor, Sofia 1408, Bulgaria, +359 (2) 810 6413, website: www.ffbham.bg and First Investment Bank branches, explicitly listed at www.ffbham.bg.