FIB AVANGARD - MONTHLY REVIEW

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Data as a per 31 August 2011

NAV	
NAV	BGN 970, 151
NAV per share	BGN 0.5044

Return (%)	
Monthly (MoM)*	-10.38%
Annual (YoY)*	-0.58%
Year-to-date*	-10.38%
Since Inception (annualized)	-16.90%

Statistics (%)	
Standard Deviation*	13.58%
Monthly alpha – MSCI EM EE *	3.04%
Beta (β) – MSCI EM EE *	0.122
R^2 – MSCI EM EE *	23.88%
Sharpe Ratio (0%)*	n.m.

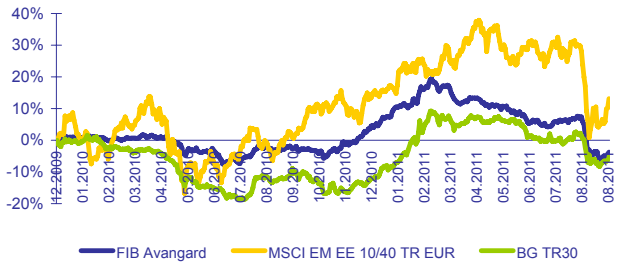
** see notes*

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 achievement of sizeable stake in Russian "blue chips" and cyclicals on global economy growth and domestic consumption stories.

FIB Avangard vs. MSCI EM EE 10/40

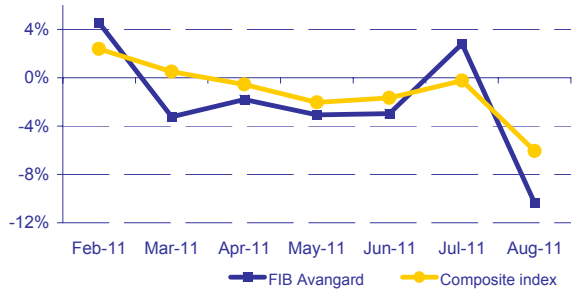


Source: Bloomberg, BSE-Sofia, FFBH Asset Management

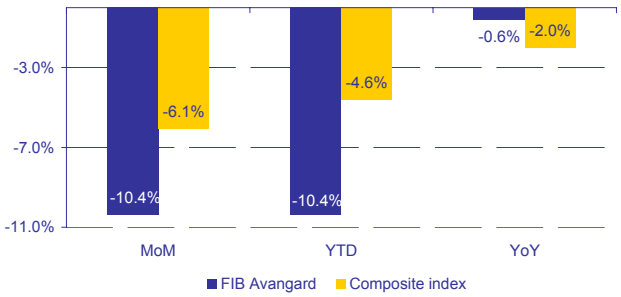
Fact sheet and fee information

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*

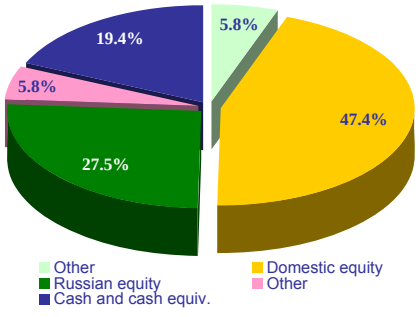


MoM, YoY and YtD return to composite index*



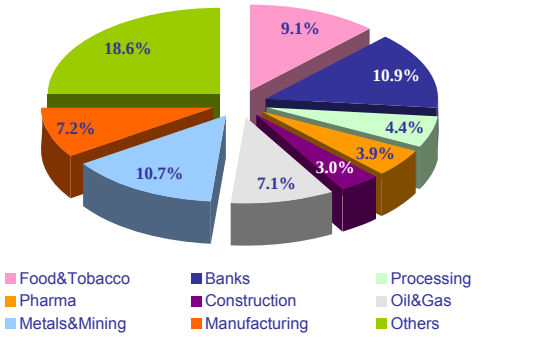
Source: BAAMC, FFBH Asset Management calculations

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.
Monthly Alpha – MSCI EM EE is the difference between the monthly return of NAV per share of FIB Avangard and the monthly return of MSCI EM Eastern Europe 10/40 Total Return EUR Index.
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, which 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 retuns of each fund (Ri, i=1 to n), based on formula: $\Sigma (1/n^*Ri)$.

MARKET OVERVIEW:

- Bulgarian main market index SOFIX dropped 9.3% in August and scaled down its growth to 4.4% YtD as it followed the drop in the international markets, triggered by the debt crisis in Euro zone and USA. Market liquidity during the month remained at relatively low level. Major local events were delivery of consolidated financials where data came mixed *(see below)*; the approval of the twofold capital increase by up to BGN 50m of BACB by the Financial Supervision Commission and the recent development in Bulgartabac privatization.
- Bulgarian privatization agency approved the sale of the State-owned tobacco monopoly Bulgartabac Holding to sole candidate – Russian VTB bank which acted through its Austrian BT Invest affiliated company. The offered price is EUR 101.1m; the company also binds to purchase a minimum of 5 000 t of local tobacco for each of the next 5 years. Furthermore, the company has pledged BGN 7m in its investment program for 2012 and 2013.
- Bulgarian GDP, highly-correlated to exports, decelerated to 0.3% QoQ (2.0% YoY), following economic slow down of its main economic partners in Europe. That said, positive impact on the economy came from slight increase in investments (3.0% QoQ) and local consumption (0.5% QoQ). Meanwhile, the unemployment rate decreased by 0.8%, to 11.2% in Q2 2011, according to NSI data. HICP increased by 0.4% MoM in July, after falling by 0.3% in June.
- External sector data showed that current account balance was at surplus of BGN 1.1bn in H1 (or 1.4% of GDP vs. 2.4% deficit for H1 2010). Financial account deficit increase was mainly due to outflow of FDI to BGN15.5m in H1 (as intercompany loans were paid down). Gross external debt grew for the second consecutive month on monthly basis in June to BGN 70.8bn, due to increase in the banking system external debt by 3.1% MoM.
- Investors fled from Russian equities last month (MSCI Russia posted 13.5% decrease) as volatility rose sharply. Even delivery of positive financial figures for H1 2011 could not support companies during sell-off. Among best performers since mid-August was Rostelecom (RTKM RX) which added 20% since the announcement for its inclusion in MSCI Russia.
- Positively, Russian real GDP accelerated to 4.2% YoY increase in July (government estimate), after 3.4% growth (updated data) in Q2 2011. The acceleration in economic growth was mainly supported by investments (7.95% YoY increase in July), as construction sector delivered 17.6% YoY growth (after 1.25% YoY in H1 2011); while the retail trade confirmed its strong trend, posting 5.6% YoY growth in July. Disposable income grew by 0.6% YoY which represented a second consecutive month of increase. However, unemployment marked increase in the last reported period to 6.5%, vs. 6.1% in the previous month. Industrial production slowed down to 5.2% YoY in July, mainly due to sharp drop in light vehicle manufacturing growth to 20% YoY vs. the 77% YoY seen in H1 2011 on strong base effect and the deceleration of the construction material output.
- The latest PMI Manufacturing data of 49.9 showed that manufacturing sector has contracted for second consecutive month in August (49.8 in July). This reflected the uncertain output growth, as new orders declined for third time in four months; which may decrease the employment in the sector. FDI growth decelerated to 12% YoY in Q2 2011 compared to 48% YoY in Q1 2011. This slow-down is directly linked to the 25% QoQ drop in inflows to oil and gas sector, which is the most important segment in FDI. The positive fact is that the FDI became more diversified and the inflow to the manufacturing sector increased to USD 1.6bn in H1 2011.
- According to Rosstat data, the inflation dropped to 8.1% (annual CPI), below the current refinancing rate of 8.25%. The deterioration of global financial markets and a probable capital outflow in August are likely to prevent further cut of the CBR's refinancing rate and may even lead to turnaround in monetary policy.
- Russian authorities canceled the embargo on grain exports, imposed last August, due to weak grain harvest. This year the crops were significantly better and grain harvest is forecast at 92 million tons which may boost Q3 GDP on low base effect.

PORTFOLIO ALLOCATION:

- In August we withheld from trading as the sharp rise in global volatility, following the credit rating downgrade of USA, increased spreads on BSE while turnover was lower than usual. Our foreign portfolio remained invested in less cyclical blue-chip companies but nevertheless suffered significantly as Russian stocks were oversold on negative outlook for global growth and commodities demand.

OUTLOOK & STRATEGY:

- As we expected most of global economic indicators came on the downside but S&P's decision on US credit rating and the panic that ruled the market for a couple of weeks afterwards was surprise to everyone. The fiscal tightening in the Eurozone and the limited range of monetary tools in the US and Europe did not help at all. The good news is that valuation came to help at the end as major indices came down to valuation levels not seen after March 2009. That said, Russian equities were among worst performers, as usual when volatility increases, with financial, metal&mining and construction names being heavy underperformers.
- In Bulgaria Q2 reporting season continued with consolidated financials which were mixed – some improvements in export sectors and banking but domestic demand and construction sector (except on infrastructure) continued to stagnate. Despite some positive surprises, the reports did not manage to awake local market where summer period usually features low turnover and general market weakness. Additionally, the sharp drop in global equities presented investors with more liquid opportunities elsewhere.
- Our near-term market outlook is for less shaky and positive September where the overall gains would depend on monetary policies of major countries. Some hurdles may be debt repayments in the Eurozone as September and October would be the busiest months till end-2011. That said, we expect that Russian equities should be mostly up on attractive valuations and some return or risk appetite. Hence, our strategy will be to focus on attractive stocks that underperformed during August downturn. Bulgarian securities would continue to suffer mostly from liquidity problems and very low foreign investors' interest. In the same time, we expect that depending on BACB capital raise outcome, this may bring some life to local banks. Mid-term, we remain bullish for equities in our target region (Bulgaria and Russia) on valuations which are among the most attractive globally, low government debt and prudent fiscal policy.

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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.