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FIB AVANGARD - MONTHLY REVIEW

July 2011

Data as a per 29 July 2011

NAV	
NAV	BGN 1,082, 493
NAV per share	BGN 0.5628

Return (%)	
Monthly (MoM)*	2.82%
Annual (YoY)*	12.99%
Year-to-date*	0.00%
Since Inception (annualized)	-14.44%

Statistics (%)	
Standard Deviation*	13.20%
Monthly alpha – MSCI EM EE *	1.35%
Beta (β) – MSCI EM EE *	0.11
R^2 – MSCI EM EE *	8.42%
Sharpe Ratio (0%)*	n.m.

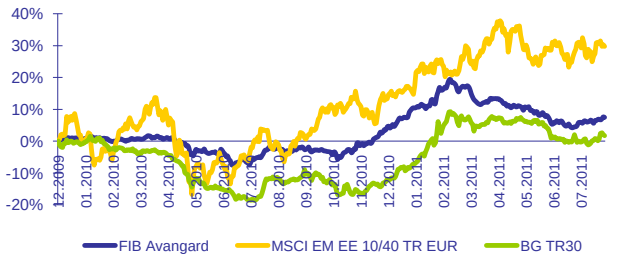
** see notes*

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

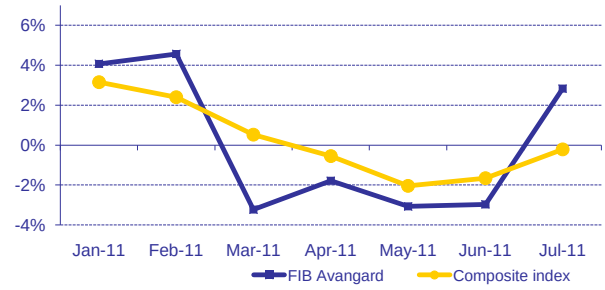


Source: Bloomberg, BSE-Sofia, FFBH Asset Management

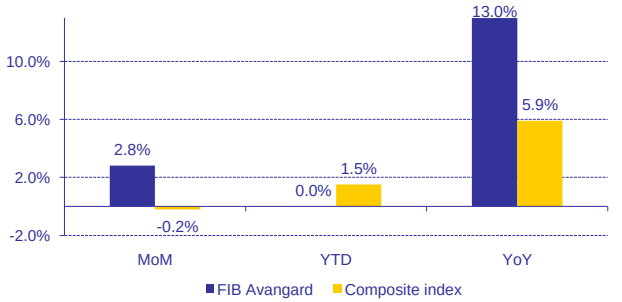
Fact sheet and fee information

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*

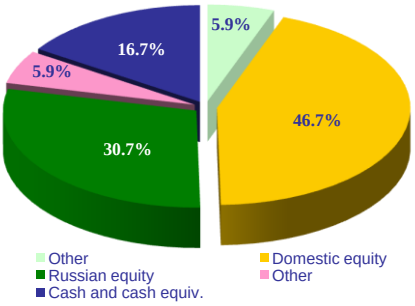


MoM, YoY and YtD return to composite index*



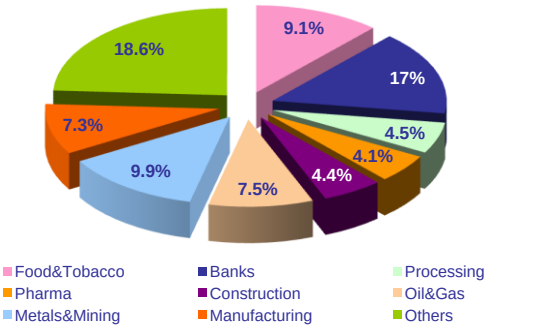
Source: BAAMC, FFBH Asset Management calculations

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, 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 retuns of each fund (Ri, i=1 to n), based on formula: Σ (1/n*Ri).

MARKET OVERVIEW:

- Bulgarian index SOFIX added negligible 0.7% in July, after four consecutive months of decrease, marking 15% YtD growth. The market was mostly influenced by cash and stock dividend announcements (Trace Group, Vivacom) as well as the news flow on BACB shareholding & management changes and the planned capital raise, which pressed share price to the announced issue levels of BGN 4. Q2 financial reports – though mostly positive – brought little life to the market. The development in Bulgartabac privatization - BT INVEST remaining the sole candidate for the 79.83% stake in Bulgartabac Holding – also did not contribute to market optimism.
- At the end of July Moody's upgraded Bulgarian government debt rating, for the first time in the last five years, to Baa2 outlook stable from Baa3. That represents two levels above the investment grade limit. The rating agency views as positive the country's ongoing fiscal discipline and improving institutional strength as well as the financial system relative resilience in a volatile regional environment.
- Bulgarian consolidated budget deficit for the first six months increased to BGN 650m (0.9% of 2011 GDP) vs. BGN 598m as of May, while the fiscal reserve amounted to BGN 5.2bn, up from BGN 5bn at end May. The unemployment rate decreased by 0.31% in June to 9.56% according to re-estimated data released by National Employment Agency. HICP declined by 0.3% MoM in June, mainly influenced by seasonal factors (the prices of food and soft drinks dropped by 1.6% MoM). External sector data showed that current account balance for Jan-May was at surplus of BGN 807m (or 1.1% of GDP vs. 2.3% deficit the year ago). FDI decreased for Jan – May 2011 by BGN 52.6m or (0.1% of GDP vs. increase to 1.1% of GDP the year ago), due to net payments on inter-company credits in accordance with company loan repayment schedules. Gross external debt grew for the first time since Jan 2011, by 0.2% MoM and 2.5% YoY, due to increase in the bank system external debt.
- Positive domestic macro news supported interest in Russian equity in July and MSCI Russia posted 2% growth, in line with capital inflow of $2.9bn in June and aside from global stock market trends. Major local events include Sberbank's GDR listing in London and its subsequent addition to RDXUSD index as well as the pending adjustments to MSCI Russia index, which supported utilities and telecoms performance in the end of the month.
- Russian real GDP marked 3.9% YoY growth in June (3.9% in H1). Consumption was strong – the already solid retail trade growth further accelerated to 5.6% YoY in June following decline in unemployment to 6.1% and slight 0.7% growth in real disposable income during the same month. In the same time investment growth slowed down to 4.7% YoY in June. The support from construction remained weak as it increased only 1% in June. Still, industrial production exceeded market expectations and posted 5.7% YoY increase in June on strong manufacturing component.
- President Medvedev confirmed his intention to reduce the state stakes in 13 companies during 2012-2017, including Rosneft, RusHydro, Rostelecom, Alrosa, VTB, InterRAO and Aeroflot, which may bring significant privatization revenues to the budget. Yet, the extension of the privatization plan to 2017 generates significant uncertainty about how it will be implemented.
- CBR kept its refinancing rate and reserve requirements unchanged assessing inflationary risks as moderate. After deceleration of the inflation in June to 9.4%, inflation is likely to slow furthermore in July, due to seasonal factors.

PORTFOLIO ALLOCATION:

- Based on our conviction that solving Eurozone problems and US debt ceiling crisis would boost interest in the most liquid positions, we decreased the fund's exposure to less liquid stocks during the month, while in the same time we acquired a large-cap blue-chip ETF. We believe that the demand for undervalued second-tier companies would recover after markets have achieved at least short-term stability.

OUTLOOK & STRATEGY:

- Quite opposite to what was expected, the positive outcome of the US debt-limit crisis did not end market turmoil as worries over US economy recovery continued to weigh on indices performance worldwide. In Europe, serious debt concerns emerged for Italy and Spain as well. Also, the political deal negotiated for the US debt did not eliminate future risks for US sovereign rating downgrade and implies serious budget expenditure cuts that would further harm the weak consumption in the largest economy in the world. In line with the tight connection of Russian stocks both to US capital markets and commodities' prices, we expect Russian equities to remain volatile as long as global economic growth does not establish a steady course. First signs of recovery present, Russian markets are set to grow ahead of mature markets firstly, due to low valuation metrics and slow YTD growth and secondly, on strong support from industrial production stabilization to commodity-related markets.
- In Bulgaria Q2 reporting season brought a number of good financials (including some of the largest local banks where positive results are further considered to gauge emerging macro- and lending trends). Generally, observations of Q2 corporate reports reveal strong sales growth on the back of improving exports and low 2010 base, risings costs following raw materials surge since the beginning of 2011, but overall strong profitability. Still, the reports did not manage to awake local market where summer period usually features low turnover and general market weakness. We might expect some re-awakening in end-August when more information about upcoming sale of state stakes in energy and tobacco businesses, becomes available.
- Our near-term market outlook is rather restrained mostly due to US economy growth slowdown and the resultant global uncertainty. In the same time, all forecasts have been seriously challenged after the major revisions in US economic indicators. Russian stocks would hardly experience strong momentum without rebound in commodities' markets, which seems to be postponed for the time being. Hence, our strategy will focus on portfolio restructuring towards more defensive stocks – consumer staples, retail, utilities. Bulgarian securities would continue to suffer mostly from liquidity problems and very low foreign investors' interest at least until the end of the month. In the same time, we expect local restructuring stories to bring some life to the market (no particular info, only sentiment for value potential). Mid-term, we remain bullish for equities in our target region on valuations which are among the most attractive globally.

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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.