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FIB AVANGARD - MONTHLY REVIEW

# June 2011

## Data as a per 30 June 2011

### NAV

| | |
|---|---|
| NAV | BGN 1,052, 761 |
| NAV per share | BGN 0.5473 |

### Return (%)

| | |
|---|---|
| Monthly (MoM)* | -2.96% |
| Annual (YoY)* | 10.91% |
| Year-to-date* | -2.75% |
| Since Inception (annualized) | -15.88% |

### Statistics (%)

| | |
|---|---|
| Standard Deviation* | 13.33% |
| Monthly alpha – MSCI EM EE * | -2.66% |
| Beta (β) – MSCI EM EE * | 0.11 |
| $R^2$ – MSCI EM EE * | 9.13% |
| Sharpe Ratio (0%)* | n.m. |

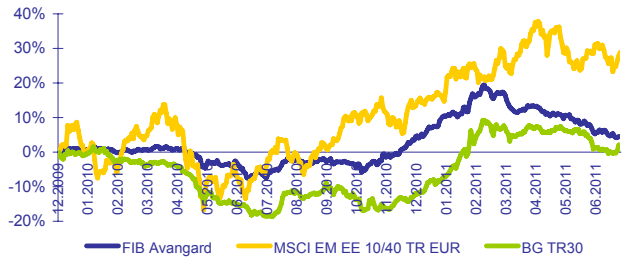
** see notes*

## 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

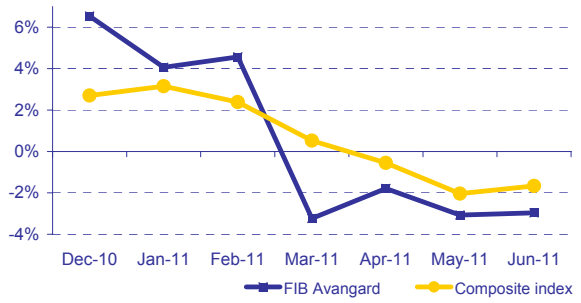



Source: Bloomberg, BSE-Sofia, FFBH Asset Management

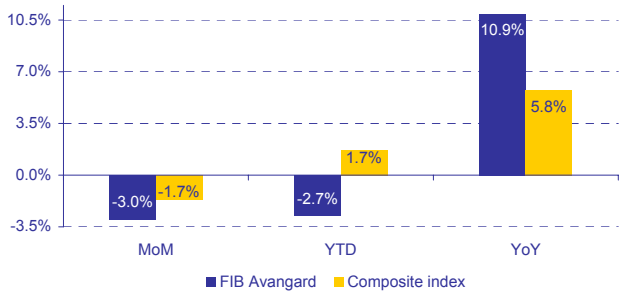
## Fact sheet and fee information

| | | | |
|---|---|---|---|
| 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*

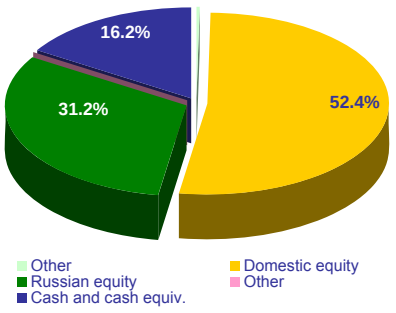



## MoM, YoY and YtD return to composite index*



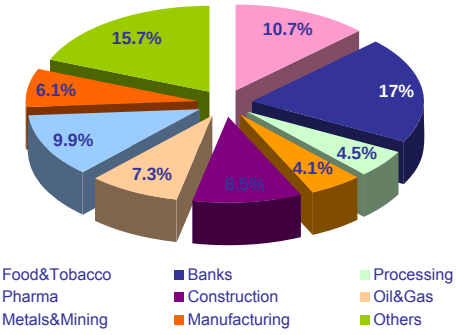

Source: BAAMC, FFBH Asset Management calculations

## 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 returns of each fund (Ri, i=1 to n), based on formula: $\Sigma (1/n*Ri)$.

**MARKET OVERVIEW:**

- Bulgarian market index SOFIX lost another 4% in June after 2.3% decline in May. The total half-year return remained positive – 14.2%, however we do not expect local market to gain strength until end-summer. Market liquidity during the month remained low except for two major deals (*see below*).
- June saw two deals with large public companies on the stock exchange – majority owner of financial holding Eurohold sold 20% of the company to a local financial group Expat Capital for BGN 26.5m, while Industrial Holding Bulgaria entered the agriland business by acquiring participation in one of the largest REITs – ELARG. The two deals imply that opportunities are intensively explored by local business and restructuring stories would remain an important stock prices driver.
- January-May consolidated budget deficit increased to BGN 598m (0.8% of 2011 GDP) vs. BGN 552m at end-April, while the fiscal reserve as of end-May amounted to BGN 5bn, up from BGN 4.7bn at end-April.
- The unemployment rate dropped to 8.7% in June compared to 8.87% in May on seasonal factors. HICP declined by 0.1% MoM (3.4% YoY) in May. External sector data showed that current account balance for January-April was at surplus of BGN 215m (or 0.6% of GDP vs. 2% deficit in January-April 2010), while FDI remained negative at BGN 122m. Gross external debt dropped to 94.3% of GDP at the end of April.
- Bulgaria's parliament passed budget law amendments to introduce a budget deficit cap. Budget deficit should be kept below 2% of GDP, while consolidated budget spending cannot exceed 40% of the projected GDP. The amendments will become effective as of 1 January 2012. This would reduce Bulgarian buffer against external shocks, considering the currency board regime.
- Interest in Russian equity slightly increased in June as MSCI Russia posted only a modest 0.45% growth last month; despite continuing decline on commodities markets.
- Russian real GDP accelerated to 3.8% YoY in May, compared to 3.1% in April, in line with the strong retail trade growth (5.5% YoY), unexpected jump (7.4% YoY) in investments for May. Despite improvement in consumer trends, real disposable income dropped by 5% YoY suggesting that 3.1% MoM and 8.6% YtD retail lending growth in May was the only source behind and blurring the prospects for sustainable retail growth. At the same time construction sector grew with a modest 1.9% YoY.
- PMI Manufacturing remained weak at 50.6 as new orders increased only marginally and firms reduced the payroll over the month. In May the unemployment rate declined to 6.4% and the inflation stayed unchanged at 9.6% YoY. The CBR kept its refinancing rate and reserve requirements unchanged assessing inflationary risks as moderate, but expressing concerns about the economy growth rate

**PORTFOLIO ALLOCATION:**

- In June we remained slightly cautious as the negative sentiment, stemming from the slowdown in global macro data and the possible Greek debt restructuring, weighed on the market. Despite attractive equity valuations both Bulgarian and Russian regional indices decreased and the fund's NAV lost almost 3% MoM.
- As a result of our conservative approach equity allocation remained unchanged.

**OUTLOOK & STRATEGY:**

- We currently believe that the weakening in global macro data should continue until supply chains, damaged during the Japanese disaster, are fully restored, and the effects of the latest round of monetary and fiscal tightening measures around the globe are absorbed by the economy. On the positive side we see deceleration in inflation as commodities started to retreat from May highs. All else equal this might support stronger economic growth in H2.
- Regarding the high correlation of Russian equities to US indexes, we might expect a short-term negative market impact by the seizure of QE2. However, the resolution of Greek debt crisis seems to have fully offset the change in US monetary policy for now. As of BSE, it has already entered the slow summer period, featuring 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.
- Among other mid-term factors 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 moderate expectations about Bulgarian equities are reasoned by conflicting trends in the economy - strong external demand and high EU fund's absorption, especially in infrastructure projects on one hand and depressed domestic demand, on the other hand..
- That said, we remain bullish for equities in our target region on valuations which are among the most attractive globally. Finally, in July we expect markets to be less volatile than during previous months. The overall trend should depend on several landmark issues, such as the final parameters of the new funding for Greece and the consequent reaction of the rating agencies, the result of the negotiations on US debt cap level and the corporate performance in Q2. Based on market development, we are prepared for re-entry in Russian cyclicals in end-month.

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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.