2 Enos str., fl.5 , Sofia 1408, Bulgaria
Tel: + 359 2 810 6413
Fax: + 359 2 810 6401
E-mail: asset_management@ffbh.bg
Web Site : www.ffbham.bg

FIB AVANGARD - MONTHLY REVIEW

May 2011

Data as a per 31 May 2011

NAV

NAV	BGN 1,084, 926
NAV per share	BGN 0.5819

Return (%)

Monthly (MoM)*	-3.07%
Annual (YoY)*	11.12%
Year-to-date*	0.23%
Since Inception (annualized)	-15.31%

Statistics (%)

Standard Deviation*	13.46%
Monthly alpha – MSCI EM EE *	1.75%
Beta (β) – MSCI EM EE *	0.11
R^2 – MSCI EM EE *	9.10%
Sharpe Ratio (0%)*	n.m.

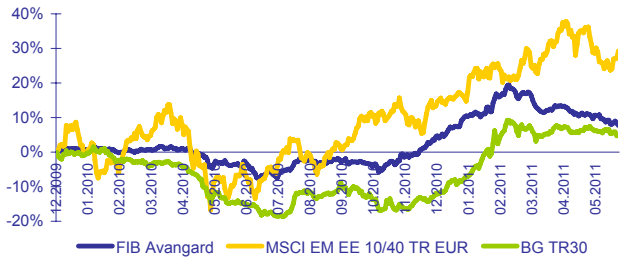
** see notes*

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

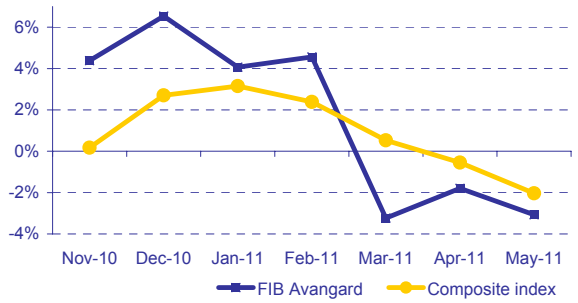


Source: Bloomberg, BSE-Sofia, FFBH Asset Management

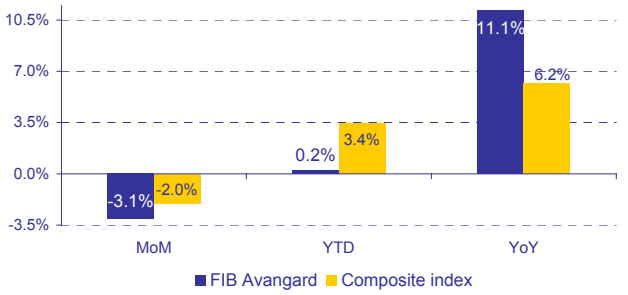
Fact sheet and fee information

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*

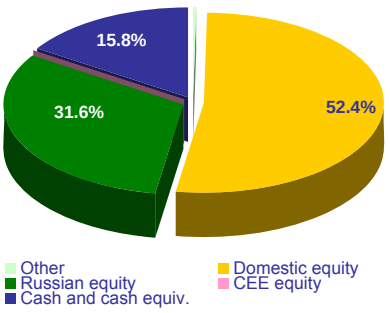


MoM, YoY and YtD return to composite index*



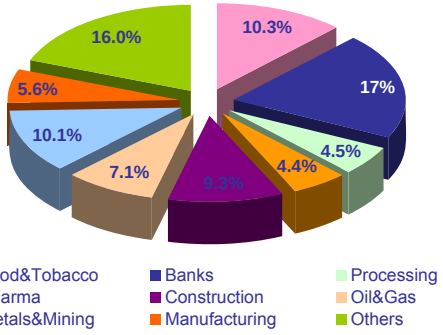
Source: BAAMC, FFBH Asset Management calculations

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.
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: Σ (1/n*Ri).

MARKET OVERVIEW:

- In May, Bulgarian companies delivered solid Q1 consolidated financial statements that were mostly above our expectations. Despite that local market weakened and Sofix dropped 2.3% MoM.
- Bulgarian GDP advanced for fourth consecutive quarter in Q1 by 0.4% QoQ (2.5% YoY), driven by strong exports (up 22.2% YoY) which offset weak final consumption (-2.1% YoY) and gross capital formation (-2.7% YoY). Some positive news came from retail sector which registered 1.4% YoY in March – the first growth since end-2008 which we hope to be confirmed in April data.
- April consolidated budget remained in positive territory for second consecutive month at BGN190m. Thus, the accumulated deficit for the first four months declined to BGN 552m (0.7% of GDP). The unemployment rate dropped to 9.3% in April while HICP declined by 0.1% MoM (3.3% YoY), after a 0.4% increase in March. External sector data showed that current account balance for January-March was at surplus to BGN 494m (or 0.7% of GDP vs. 1.5% deficit in Jan-Mar 2010), while FDI turned negative BGN 10m. Gross external debt dropped to 94.5% of GDP at the end of March.
- Russian equity markets saw significant fund outflows in May and MSCI Russia posted a 7.7% MoM drop, boosted by a 2.1% depreciation of RUB against USD, with largest declines seen among commodity and materials names.
- Russian real GDP increased by 4.1% YoY in Q1 2011 - a deceleration from 4.5% YoY growth in Q4. Nevertheless, data seemed positive against the 1.5% YoY drop in investments and strong 41% YoY increase in imports.
- However, GDP decelerated to 3.3% YoY in April, dragged by deceleration in industrial production to 4.5% YoY (5.3% in March). Construction also shrank surprisingly by 1.9% YoY in April, mainly due to 2.5% YoY decline in house constructions. Warning signs continued to come from manufacturing sector whose growth slowed down for a second month in May to a level close to stagnation (PMI fell to 50.7%).
- In April federal budget expenditure rose by 26% MoM, while revenues increased by 7% MoM despite high oil prices. Rising social expenditures and strong retail lending (up 2.8% MoM) supported local consumption, seen in retail sales acceleration to 5.6% YoY from 4.8% in March. However, real disposable income dropped 6.5% YoY in April which might prove that retail sales growth be short-lived.
- CBRF kept its refinancing rate and reserve requirement unchanged as further tightening might hurt fragile economic growth.

PORTFOLIO ALLOCATION:

- In May we saw growth deceleration in major economies, return of fears of Greek debt restructuring and sharp drops in commodities. This led to decline in global indices from April highs and as a result FIB Avangard lost 3.1% MoM.
- Last month we added just one position in fertilizer sector in Bulgaria as end-prices remained stable while natural gas costs were under control. Overall, we continue to favor local equity and remain slightly above maximum domestic allocation, as defined in our investment strategy.
- Our foreign allocation remained unchanged as it is already invested in more defensive, value stocks.

OUTLOOK & STRATEGY:

- We deem that global growth remains on right track but similar to last year there would be a summer slow down in leading indicators as the hit from 2011 natural disasters and fiscal tightening is taken by the economy. The above should influence stocks in combination with re-awakening of European debt crisis concern. Despite that interest in our target region remains high as valuations continue to be among most attractive globally and we confirm our investment focus.
- Regarding the high correlation of Russian equities to US indexes, we deem that an important short-term market factor would be the official QE2 seizure in end-June. BSE is yet to perform after the financial crisis so it would be more dependent on local factors such as news on expected sale of state stakes in energy and tobacco business in end-Summer.
- Among other 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 high expectation about Bulgarian equities are boosted by economy recovery which accelerates, boosted by external demand and slow turnaround in domestic demand; high EU fund's absorption, especially in infrastructure projects.
- In summary in June we expect almost flat local performance as the month should be generally quiet with macro or corporate news. About Russia we are ready to increase our exposure to cyclical stocks if market dips on disappointing economy data.

DISCLAIMER

ALL DATA AND CONTENT PUBLISHED IN THIS RELEASE HAVE INFORMATION PURPOSE ONLY AND SHOULD NOT BE CONSIDERED AS COUNSEL, OFFER OR RECOMMENDATION FOR ACQUISITION OR DISPOSITION WITH ANY INVESTMENT OR CONCLUSION OF ANY OTHER DEAL.

THE INVESTMENTS IN MUTUAL FUNDS ARE ASSOCIATED WITH SIGNIFICANT RISK. THERE ARE NO RISK-FREE SECURITIES AND NOBODY CAN CLAIM THAT THE INVESMENT PURPOSE OF ANY GIVEN MUTUAL FUND WILL BE ACHIEVED. THE NET ASSET VALUE PER SHARE AND ITS RETURN MAY DECREASE, THE RETURN IS NOT GUARANTEED AND THERE IS A RISK THAT THE POTENTIAL INVESTOR CAN NOT RECOVER THE INVESTED AMOUNT. THE INVESTMENTS IN MUTUAL FUNDS IN BULGARIA IS NOT GUARANTEED BY GUARANTEE FUND, CREATED BY THE STATE, OR ANY OTHER TYPE OF GUARANTEE.

PAST PERFORMANCE IS NOT NECESSARY INDICATIVE OF FUTURE RESULTS.

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.