FIB AVANGARD - MONTHLY REVIEW

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November 2011

Data as a per 30 November 2011

NAV	
NAV	BGN 861, 110
NAV per share	BGN 0.4461

Return (%)	
Monthly (MoM)*	-7.37%
Annual (YoY)*	-15.55%
Year-to-date*	-20.74%
Since Inception (annualized)	-18.25%

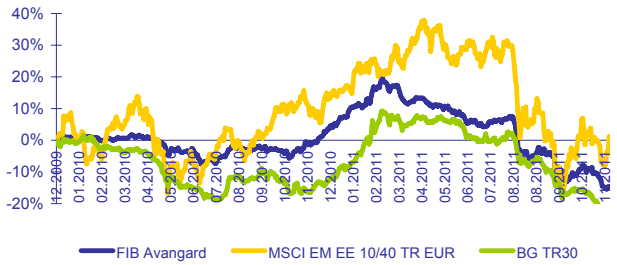
Statistics (%)	
Standard Deviation*	13.75%
Monthly alpha – MSCI EM EE *	-5.31%
Beta (β) – MSCI EM EE *	0.130
R^2 – MSCI EM EE *	31.41%
Sharpe Ratio (0%)*	n.m.

** 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

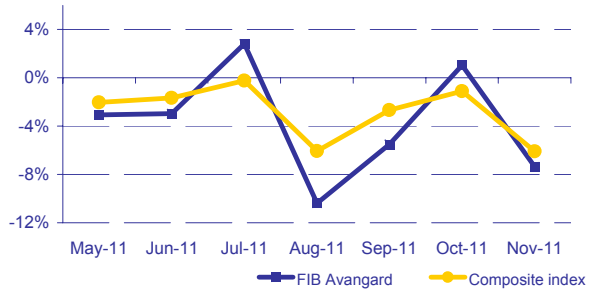


Source: Bloomberg, BSE-Sofia, FFBH Asset Management

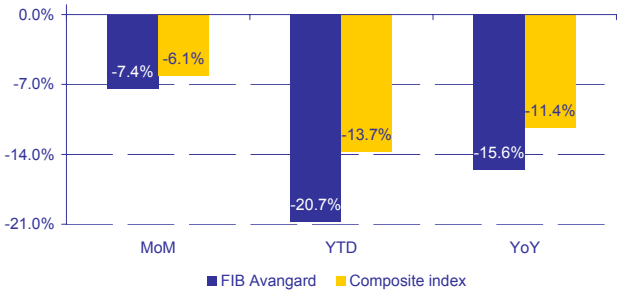
Fact sheet and fee information

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*

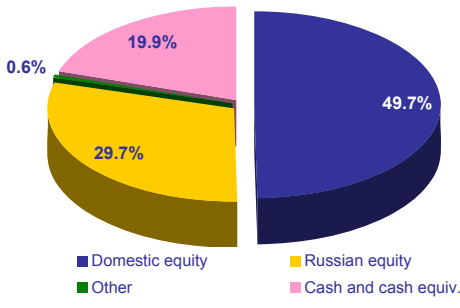


MoM, YoY and YtD return to composite index*



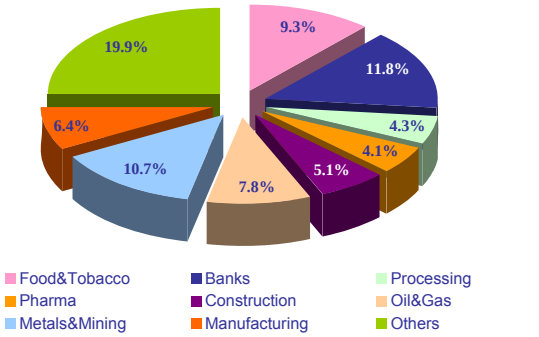
Source: BAAMC, FFBH Asset Management calculations

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: $\Sigma (1/n*Ri)$.

MARKET OVERVIEW:

- Bulgarian main market index SOFIX, lost 9.6% in November (-15% YtD), thus marking its biggest monthly decline in 2011. The decreasing liquidity, as well as weakening EU economy, which accounts for 62% of local exports, made the remaining investors on BSE-Sofia even more cautious. Additionally, the financial results for Q3 confirmed, in our opinion, the economy slowdown, as most of blue-chip companies reported decline in net profits and deceleration in sales growth. On corporate level the German E.On decided to shed its Bulgarian non-public subsidiary E.On Bulgaria for EUR 133m to Czech Energo Pro. This might have a cross-reading effect on the valuations and interest to the oncoming privatization of state's stakes in electricity grid operators as E.ON Bulgaria was a majority owner in one of them.
- Following the comfortable win of October elections, the government had to face a number of public demonstrations and strikes in late November on tightened fiscal policy. Just recently the government decided to speed the planned increase in the retirement age in order to reduce the social security deficit; strikes by state railways employees against cost-cutting reforms has continued since 24 November; and the grain producers protested against the planned decrease of local subsidy, included in budget 2012. It is yet to see the effects from unrests on populist government's final decisions but, if upheld, it might keep domestic demand in stagnation in 2012 as well.
- Bulgaria's real GDP growth reached 0.3% QoQ basis in Q3 (+1.6% YoY). During the period gross fixed capital formations plunged sharply on EU recession fears (-13.5% QoQ) but it was partially offset by export growth of 1.7% QoQ and local spending (+0.3% QOQ).
- Bulgarian consolidated budget deficit for the first ten months of 2011 stood at BGN 842m (1.1% of 2011 GDP) vs. BGN 826m by end-September but still much better than targeted deficit of BGN 1963m. At the same time, the fiscal reserve amounted BGN 5.3bn (up from BGN 5.1bn at the end of September). The unemployment rate increased to 12.1% in October (from 11.9% in September) according to Eurostat data. HICP was up by 3% in October on annual basis; the average annual HICP stood at 3.7%.
- External sector data showed current account balance for Jan-Sep registered a surplus of BGN 2933m (or 3.8% of GDP vs. 1.1% surplus the year ago). This improvement has been supported by significant decrease (by 55% YoY) in trade balance deficit. FDI added only BGN 1045m for Jan – Sept 2011, compared to BGN 2bn for the same period in 2010.
- MSCI Russia ended the month on positive ground, marking a slight advance of 0.5% MoM. Major events were Q3 financial results which were below consensus for most commodity-related companies on weaker demand and falling prices while results of financial companies were rather mixed. Additionally, Polymetal and Evraz successfully moved for Premium Listing on LSE which should make them eligible for FTSE-100 inclusion and should enlarge their investors' base.
- Russia finally agreed with Georgia on Abkhazia and South Ossetia issues which cleared the way to Moscow's accession to the World Trade Organization (WTO). The WTO working group in Geneva announced that during the Ministerial Conference on December 15-17 is going to recommend an approval of Russia's entry, which will make the latter the full member following ratification in the State Duma. The full-scale benefits from the membership are expected with several years but we deem that acceptance might have short-term positive effect on investor sentiment.
- On Dec 4 parliamentary elections the pro-Putin United Russia party marked a significant step back from its current two-thirds majority in the Parliament but was still able to win simple majority. The vote signals that the discontent with current policy is rising and might signal that larger economic reforms are needed from the new President, which is to be elected in March 2012.
- Russian real GDP continued its acceleration to 5.6% YoY in October, after posting a strong 5.2% YoY (downgraded estimate) growth in September. The good result could be attributed to strong real retail sales trade growth of 8.8% YoY and less active than expected process of destocking. Alarmingly, the trend continues to be supported by retail lending, as real disposable income decelerated to 0.4% YoY (vs. 2.9% the month earlier) and the unemployment rate increased to 6.4% in October compared to 6% in September.
- Investments brought another positive surprise and supported economy growth as they increased by 8.6% YoY in October, up from 8.5% YoY in September. However, as suggested by various leading indicators, industrial production growth rate continued to decline to 3.6% YoY form 3.9% in September and 6.2% YoY in August, the slowest reading since end-2009.
- Capital outflows continued to be a major problem, distorting the strong growth, reaching USD 64bn YtD in October (5% of GDP). According to Russian administration, capital outflow may reach USD 80bn in 2011 (previous forecast was USD 50bn), implying small chances of improvement for capital account during the next two reporting months.
- The latest PMI Manufacturing data edged up to 52.6 in November (50.4 in October), reaching its highest level in eight months. New orders and employment in the sector increased at the strongest rate since March and might signal an improvement in the sector.

PORTFOLIO ALLOCATION:

- In November we added some Bulgarian financial stocks to FIB Avangard's portfolio as after several months of market drops, local valuations became too compelling to ignore. There were no changes in our foreign equity portfolio as global market volatility continued to decline slowly, despite the predominantly-negative news flow from the Eurozone, thus, we decided to remain positioned, for the long-anticipated improvement in investors' sentiment toward riskier assets. As a result of our decisions, portfolio remained invested at about 80%, concentrated mainly in Bulgarian and Russian blue chips.

OUTLOOK & STRATEGY:

- November started flat as markets gave some time to the new Greek and Italian governments to enter office. However, in mid-month, there was another escalation in the Eurozone debt crisis, as euro governments were slow to translate past promises into actions while macro data from EU and Asia continued to come weak. Still, November finished globally almost where it started, as major central banks stepped forward to provide cheaper dollar liquidity to the squeezed banking sector while Chinese eased monetary policy for first time since 2008. Now, as we enter the last month of the year, we expect less volatility and positive market sentiment until January at least. That said, we will continue to follow macro data closely as leading indicators continue to show significant slow down in industrial production and manufacturing for major economies.
- Here in Bulgaria, markets continued to move down as investors overlooked the less liquid SEE markets on cheaper valuations elsewhere. Q3 reporting season continued with results coming mostly on the negative side in our opinion but its impact on market performance was insignificant as compared to liquidity constraints. Overall, our expectations are that the downward trend in profitability and sales growth should continue in Q4 but market movement will depend mostly on global trend and liquidity issue. The most important local event by the end of the year and for January 2012 would be the start of the privatization of state's stake in the local electricity grid companies.
- On the other hand Russia should continue to be a high beta play on global movements while CEE equity prices should closely reflect EU economic development. In the short run we expect that Russia will outperform CEE as strong domestic demand and lower sovereign debt risk may finally decouple its stock market performance from that of EU. Additionally, general elections are now gone and the Russia's entrance in WTO which is expected to be concluded by mid-December, may act as positive trigger for sentiment.
- Now, we deem that FIB Avangard will remain invested in equities at current level by end-2011 as global political uncertainties are decreasing, although at an unimpressive speed, while monetary policies are being eased which is positive for commodity exporters such as Russia. Bulgarian shares should continue to suffer mostly from liquidity problems and very low foreign investors' interest but valuations are already supportive and might keep institutional players from selling.

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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.