FIB AVANGARD - MONTHLY REVIEW

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Data as a per 31 October 2011

NAV	
NAV	BGN 930, 142
NAV per share	BGN 0.4816

Return (%)	
Monthly (MoM)*	1.03%
Annual (YoY)*	-4.84%
Year-to-date*	-14.43%
Since Inception (annualized)	-16.85%

Statistics (%)	
Standard Deviation*	13.75%
Monthly alpha – MSCI EM EE *	-15.63%
Beta (β) – MSCI EM EE *	0.128
R^2 – MSCI EM EE *	29.09%
Sharpe Ratio (0%)*	n.m.

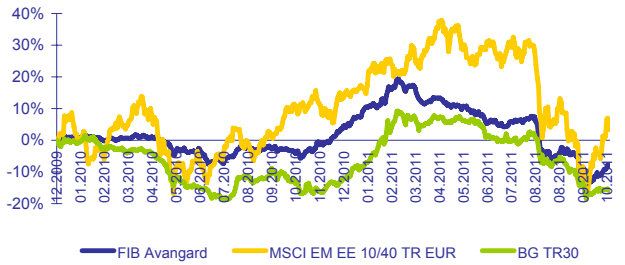
** see notes*

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

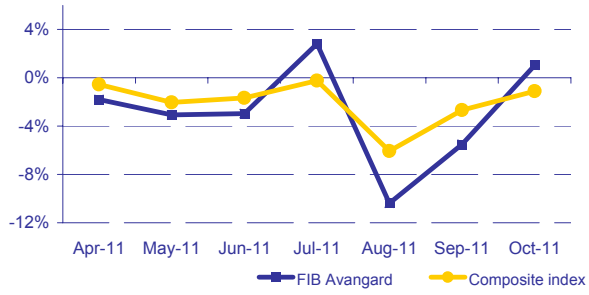


Source: Bloomberg, BSE-Sofia, FFBH Asset Management

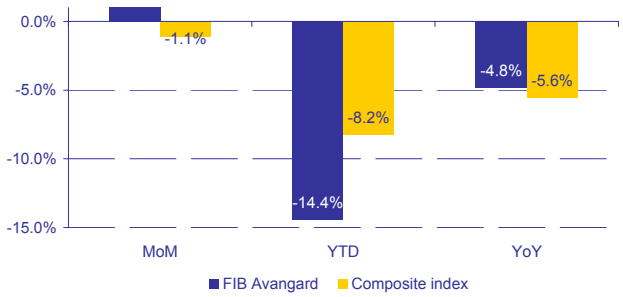
Fact sheet and fee information

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*

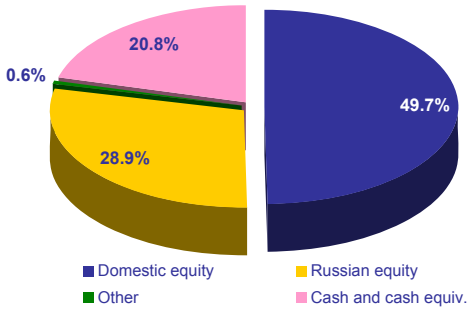


MoM, YoY and YtD return to composite index*



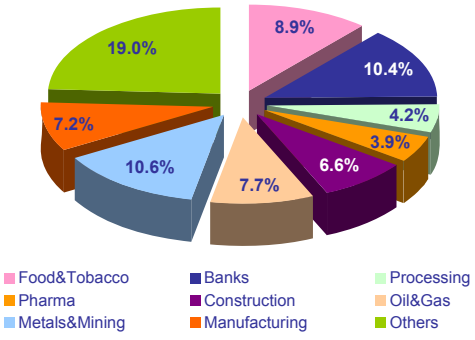
Source: BAAMC, FFBH Asset Management calculations

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: Σ (1/n*Ri).

MARKET OVERVIEW:

- Bulgarian main market index SOFIX decreased by only 1.6% in October, compared to 8.2% drop off the previous month. Major events last month were the start of capital increase procedures of CCB [4CF] (looking for up to BGN 45m) and Eurohold Bulgaria [4EH] (by up to BGN 54m) where the subscription price in both issues was significantly above current market levels. Otherwise, Q3 reporting season kicked-off and the first financial reports confirmed the deceleration in revenue growth and increased cost pressure in most commodity and manufacturing businesses. Banking sector witnessed predominantly rise in interest expenses and decrease of NIM.
- The government approved a "conservative" draft budget for 2012 including small changes in tax laws for next year, as the excise duty rates of some energy products will continue to be lifted towards the minimum EU taxation levels. The minimum fiscal reserve amount should remain at its level for 2011 – BGN 4.5bn. The real GDP growth for the next year is projected to be 2.9%, and the HICP is estimated to be 2.8%, with FDI foreseen to reach 2.8% of GDP[e]. Budget deficit is estimated to reach 1.3% of projected GDP.
- Bulgarian consolidated budget deficit for the first nine months of 2011 increased to BGN 862m (1.1% of 2011 GDP) vs. BGN 731m up to end-August. At the same time, the fiscal reserve remained stable at BGN 5.1bn (up from BGN 5bn at the end of August). The unemployment rate slightly increased by 11.9% in September (from 11.7% in August) according to Eurostat data. HICP remained flat in September on monthly basis, after decreasing by 0.1% a month earlier; the average annual HICP stood at 3.8%.
- External sector data showed current account balance for Jan-Aug registered a surplus of BGN 3059.5m (or 4% of GDP vs. 0.3% surplus the year ago). Main factor for the current account increase was the lower trade deficit for the period (BGN 1133m at end of August from BGN 3136.6m the year earlier). FDI added only BGN 441.2m for Jan – Aug 2011, compared to BGN 1.8bn inflow for the same period in 2010. The overall balance of payments deficit in the first eight months of 0.3% of GDP, compared to 2.2% deficit the year earlier. Gross external debt fell slightly at the end of August on monthly basis by BGN 371m to BGN 70.5bn (91.4% of GDP).
- Russian index MSCI Russia rebounded by 18% MoM in October after 22% drop in September while the ruble appreciated by 6.2% MoM against the US dollar as sentiment improved on decisive actions by EU leaders to solve out the debt crisis. Public companies started to release Q3 trading updates which were mostly above expectation but management discussions pointed to expected deceleration in export demand for some commodities.
- Positively, Russian real GDP accelerated to 5.7% YoY in September (or 5.1% YoY in Q3), according to preliminary government estimates, after 3.4% growth in Q2 2011. However, GDP growth in Q3 2011 benefited from the low base effect in Q3 2010 which shall not be the case in the next quarter. The acceleration in economic growth was accompanied by strong increase in investments (8.5% YoY in September, after 6.5% YoY in August), suggesting the global market turmoil has not affected the Russian investment trend. However, industrial production decelerated significantly in September to 3.9% YoY from 6.2% YoY in August and import growth decelerated to 18% YoY, suggested a destocking process might have began in September.
- Retail sales growth accelerated to 9.2% in September in line with improvement in real disposable income (up 3.2% YoY in September) and the decline in unemployment rate (6% at the end of September). The increase in retail sales was supported by the continued 2.9% MoM growth in retail loans.
- The latest PMI Manufacturing data edged up to 50.4 in October, showing the first improvement in business conditions in the manufacturing sector since June, although the output growth remained marginal.

PORTFOLIO ALLOCATION:

- There were no changes in our equity portfolio in October as we kept our foreign positions opened during the rally that started on October 4 while any changes in our local equity portfolio were held back by low liquidity. As a result our portfolio remained invested at about 80%, concentrated mainly in Bulgarian and Russian blue chips.

OUTLOOK & STRATEGY:

- In October, we finally had some positive development with the Eurozone debt crisis as its members approved the increase of EFSF up to EUR 780bn and its subsequent leveraging of up to EUR 1trn while banks agreed to 50% haircuts on Greek debt. This was enough to quickly uplift the sentiment and produce a more than 20% rally in global indices. Now, that the initial enthusiasm has passed away we expect that attention should switch to decelerating global macro data while volatility would remain significant as indebted EU nations have a long way to go to put their houses back in order. The overall trend for equities in November should depend mostly on European macro data as most analysts expect that it may fall into recession in Q4.
- Here in Bulgaria, the presidential and local elections confirmed the domination of the ruling party CEDB but as previously stated it had no effects on Bulgarian Stock Exchange due to limited constitutional role of the president. Otherwise, Q3 reporting season butbut with limited impact on market performance. 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. An important end of the year event would be the start of the privatization of state's stake in the local electricity grid companies.
- On the other hand Russia & CEE equities should continue to be a high beta play on global movements. Considering CEE high dependence on Eurozone countries and Russia's higher market volatility, those shares would be among the first to sell, should negative events reoccur. A positive end of the year trigger for Russian exporters might be Russia's entrance in WTO which is expected to be concluded by mid-December.
- Overall, we still expect a that fund's short-term strategy would be fine tuned in the course of the month based on macro data and political decisions in the Eurozone. Bulgarian shares should continue to suffer mostly from liquidity problems and very low foreign investors' interest and we may try to decrease domestic weighting in our portfolio by the end of the year.

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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.