FIB AVANGARD - MONTHLY REVIEW

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September 2011

Data as a per 30 September 2011

NAV	
NAV	BGN 916, 345
NAV per share	BGN 0.4766

Return (%)	
Monthly (MoM)*	-5.50%
Annual (YoY)*	-6.05%
Year-to-date*	-15.30%
Since Inception (annualized)	-17.44%

Statistics (%)	
Standard Deviation*	13.64%
Monthly alpha – MSCI EM EE *	16.20%
Beta (β) – MSCI EM EE *	0.125
R^2 – MSCI EM EE *	28.38%
Sharpe Ratio (0%)*	n.m.

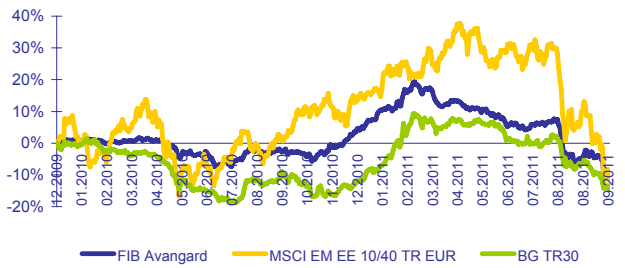
** see notes*

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

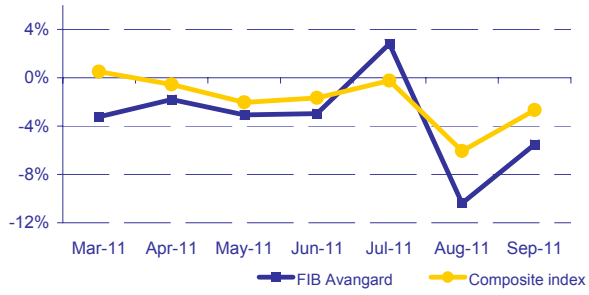


Source: Bloomberg, BSE-Sofia, FFBH Asset Management

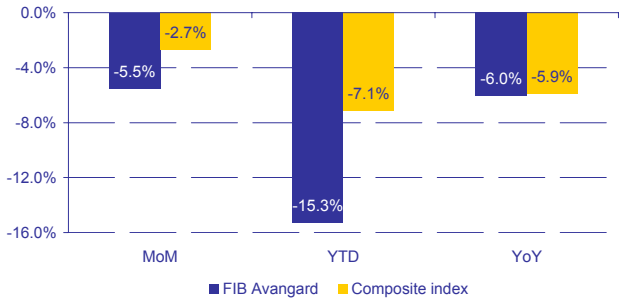
Fact sheet and fee information

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*

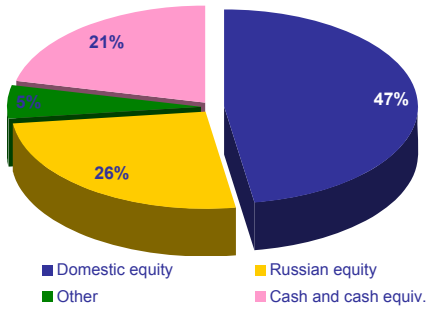


MoM, YoY and YtD return to composite index*



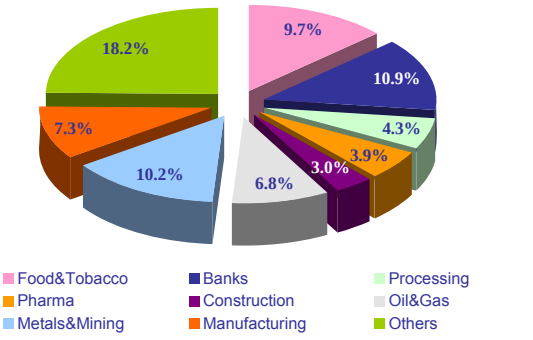
Source: BAAMC, FFBH Asset Management calculations

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 indices shed another 8-9% in September and moved in negative YtD territory. The pressure continued to come from solvency concerns about some Eurozone countries and recession fears. Liquidity remained low but lack of "sellers at any cost" prevented larger losses. On corporate level it was a quiet month for Bulgarian equities with BACB's capital raise (still waiting for final results) and Privatization Agency seal of the sale of Bulgartabac Holding being most important events.
- Bulgarian consolidated budget deficit for the first eight months increased to BGN 732m (1% of 2011 GDP) vs. BGN 720.5m up to end-July. At the same time, the fiscal reserve remained stable at BGN 5bn (up from BGN 4.9bn at the end of July). The unemployment rate decreased to 9.45% in August according to National Employment Agency's data. HICP declined by 0.1% MoM in August, after rising by 0.4% the month earlier and stood at 3.1% YoY.
- External sector data showed that current account balance for Jan-Jul registered a surplus of BGN 1.7bn (or 2.3% of GDP vs. 0.9% deficit the year ago). FDI added only BGN 359.5m for Jan – Jul 2011, compared to an inflow of BGN 1.5bn for Jan-Jul 2010. The overall balance of payments in the first seven months was at 1.9% of GDP deficit compared to 2.2% of GDP deficit a year ago. Gross external debt fell slightly at the end of July on monthly basis by BGN 296m to BGN 70.7bn (92% of GDP), mainly due to decrease in banking system external debt by 2%.
- In line with downward revision of its global growth forecasts as well as expected slowdown in EU – Bulgaria's main trade partener - IMF revised 2011 and 2012 Bulgaria's GDP forecasts by 0.5pp to 2.5% and 3.0%, respectively.
- Russian indices continued to underperform global equities massively with MSCI Russia going down by 22% MoM on plunge in commodities, helped by 11.5% MoM depreciation of the ruble against the US dollar. Valuation level moved closer to lows seen in March 2009 and valuation discounts to EM markets widened.
- During the month Norilsk Nickel (MNOD:LI) announced a buyback at USD 30.6 per GDR which kept the stock among market outperformers initially but lately investors were disappointed about specific details which favored small local investors only. Several other companies announced share buybacks but these news had an one-off effect and sell-offs wiped out any temporary gains on these stocks
- In end-September the United Russia's president candidacy was revealed – Vladimir Putin. After his nomination current president Medvedev was offered the prime minister role in case of Putin's election (United Russia is supported by more than 40% of Russians according to poles). In spite of removing major political uncertainty, the news had rather a negative effects on local bond markets and the ruble as the finance minister Kudrin was fired after he mentioned that he doesn't intend to serve in a Medvedev-led government. The reason for the turbulence was that long-serving Kudrin was seen as guarantee for fiscal and budget discipline and fears of about looser fiscal policy emerged.
- On macro level data was delivered above expectations after retail sales accelerated to 7.8% YoY in August and unemployment fell by 0.4% to 6.1%. Retail sales growth was supported by retail loans mostly which grew 28% YoY in August from 14% YoY in beginning of the year. Investments were also strong growing 6.5% YoY in August and 4.1% YoY in 8M11, acceleration from 3.6% in 7M 2011. As a result Russian real GDP accelerated to 5.2% YoY in August (government estimate), after a 4.2% YoY growth in July.
- The latest PMI Manufacturing data of 50 showed that manufacturing sector remains on the verge of contraction and will depend on global factors until year-end.

PORTFOLIO ALLOCATION:

- In September we kept our positions opened as we erroneously expected that global problems would start finding solutions and negative market trends would be turned around. As a result our portfolio remained invested at about 80%, concentrated in liquid and less-cyclical Bulgarian and Russian blue chips.

OUTLOOK & STRATEGY:

- Our expectation about less shaky and positive October did not come true despite that most of global economic indicators were not as bad as expected and some were even positive although those for Europe pointed to a significant economic slow down. Now, that analysts from global brokerage companies are on the move to cut down earnings forecasts and political response to the crisis in Europe and US continues to be unsatisfactory slow, we expect that volatility would remain significant until mid-October at least. Some support might come from low valuations levels though.
- Here in Bulgaria, the campaigns for the presidential and local elections in end-October have been officially kicked-off but their influence on the stock exchange should be low as the president has limited constitutional role. Otherwise, Q2 reporting season was over and we don't see any significant events influencing the market sentiment till end-October when the first Q3 reports will start to show up.
- Russia & CEE equities should continue to follow global trends and despite that the recent sell-off seems overdone, considering CEE high dependence on Eurozone countries and Russia's high market beta, those shares would be among the first to sell, should negative events occur.
- Our near-term market outlook is for positive Q4 but October results seem uncertain for now as any firm upward trend would wait for the next tranche for Greece being released. That said, we expect that Russian equities would be among faster movers if situation improves and risk appetite returns. Hence, our strategy will be to focus on selling less attractive and more leveraged equities but overall investment ratio will remain. Bulgarian shares would continue to suffer mostly from liquidity problems and very low foreign investors' interest. Nevertheless, some positive surprises in Q3 results might trigger outperformance of individual stocks.

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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.