

## RULES

### FOR PORTFOLIO VALUATION AND DETERMINATION OF THE NET ASSET VALUE AND INDICATIVE NET ASSET VALUE OF “EXPAT BULGARIA SOFIX UCITS ETF”

The current Rules govern the principles and methods for the valuation of the assets, liabilities and the determination of the net asset value of “Expat Bulgaria SOFIX UCITS ETF” (ETF or “the Fund”), established and managed by the management company “Expat Asset Management” EAD (the Management Company), as well as the system for the organization of this activity, the rules for avoidance of conflicts of interests and for ensuring protection against the disclosure of inside information.

The rules for portfolio valuation and determination of the net asset value and indicative net asset value of “**Expat Bulgaria SOFIX UCITS**” are adopted with a decision of the Board of Directors of the Management Company “**Expat Asset Management**” EAD, reflected in Protocol No 157 dated 19 April 2016 and are altered with a resolution by the Board of Directors, reflected in Protocol No 158 dated 1 July 2016, also with a resolution of the Board of Directors, reflected in Protocol No 162 dated 3 August 2016, with a resolution by the Board of Directors, reflected in Protocol No 172 dated 21 November 2016, with a resolution by the Board of Directors, reflected in Protocol No 197 dated 31 March 2017 and with a resolution by the Board of Directors, reflected in Protocol No 198 dated 2 May 2017, whereas the management company acts on behalf of “**Expat Bulgaria SOFIX UCITS ETF**”.

The current Rules can be amended, supplemented or substituted with a resolution of the Board of Directors of the Management Company, which shall be enforced after an approval by the Deputy Chairman, managing the “Supervision of Investment Activity” department of the Financial Supervision Commission.

The current rules govern the procedure and organization for the calculation of net asset value for the purposes of:

- determining the net asset value per unit or share, determining the issue price and the redemption price of units of the Fund
- (Repealed by BD Resolution № 197/31.03.2017)
- ensuring compliance with the investment policy, investment and asset allocation limits in the portfolio, as well as the minimum liquid asset requirements and the structure of assets and liabilities of the Fund;
- ensuring compliance with provisions regarding the expenditures related to the Fund's activity in accordance with the Fund Rules;
- ensuring compliance with provisions of the Law on Public Offering of Securities, the Law on the Activities of Collective Investment Schemes and Other Undertakings for Collective Investments, the acts of its implementation and all other legal requirements;

The rules for asset valuation are based on:

- the use of a single coherent procedure for portfolio asset valuation, for decision-making and control;
- a system for the collection of information, related to the determination of the net asset value – sources of information and types;

- the rules for the avoidance of conflicts of interests and ensuring protection against the disclosure of inside information;
- the recording of discussions, related to the definition of the net asset value, and applying the relevant documents to the protocols;
- the technological and software requirements for defining the net asset value;
- a system for storage and protection of documents related to defining the net asset value, both on paper and electronically.

## **I. Principles and methods for the valuation of assets and liabilities. Net asset value**

I. 1. (Amended by BD Resolution No.172/21.11.2016) Basic principles of asset valuation of Expat Bulgaria SOFIX UCITS ETF:

A) (Amended by BD Resolution No.198/02.05.2017) Basic principles of asset valuation of "Expat Bulgaria SOFIX UCITS ETF":

- The asset valuation of "Expat Bulgaria SOFIX UCITS ETF" (hereafter called 'subsequent valuation') is performed for every asset, including those assets initially recognized on the valuation date.
- When an asset is initially purchased (recognized), its valuation is performed using the purchase price, including all transaction costs. When this method is applied, the securities are recorded/eliminated on/from the Fund's balance sheet on the date when their ownership is transferred (settlement date) and not on the date of the execution of the transaction (trade date). The elimination of securities from the balance sheet is conducted using their value on the sale transaction's settlement date.
- During a subsequent asset valuation – using a fair value, using the order and method described in this annex.
- The net asset value of the Fund's assets and liabilities is calculated using accounting policies and procedures in accordance with International Accounting Standards, as prescribed in § 1, item 8 of the Accounting Law.

B) The procedure is based on the ETF's Rules and the legal acts connected to its activity. The procedure includes the principles and the methods for the valuation of the Fund's assets and liabilities. The methods are applied consistently in the order of their description.

I. 2. Assets valuation:

The valuation of the Fund's assets (subsequent valuation) is conducted for every security, financial instrument and other asset, including those assets initially recognized on the date of the valuation. Their value is calculated as follows:

A) The fair value of securities and money market instruments, issued by the Republic of Bulgaria domestically, is calculated using the arithmetic average of the bid prices for the current working day, quoted by no less than two primary government bond dealers.

A.1. In case the price is calculated using dirty prices quoted by primary dealers, it is used directly for revaluation. In case the price is clean, it is transformed into a dirty price using interest rate characteristics based on periodicity and coupon yield levels and is afterwards used for revaluation.

A.2. In case Point A is inapplicable on the relevant working day, the closest fair price, established using the order described in Point A, during the 30-day period preceding the valuation, is used for subsequent valuations. The dirty price for the relevant revaluation day is calculated on the basis of interest rate characteristics based on periodicity and coupon yield levels of the relevant security.

B) In case Point A is inapplicable, the discounted net cash flow method shall be used. The prices of the last issues with the relevant maturity, which the primary dealers are obliged to quote, are used as a basis for the calculations. These newest issues with relevant maturity are subsequently called “base issues” for the sake of simplicity. The issue, whose price has to be defined, is called “issue of interest”.

For the purpose of the calculations, the prices of base issues are calculated using the order described in Point A.

The calculation of the prices of the corresponding issues using linear interpolations goes through the following stages:

- The yield curve is computed on the basis of the average price of the base issues;
- Depending on the time to maturity of the issue of interest, its positioning is determined based on the maturity of the closest preceding and closest succeeding base issues;
- The difference (in days) between the time to maturity of the two base issues, as well as the difference between their yields to maturity is determined;
- A multiplying factor is computed by dividing the difference in the yield to maturity by the difference in the time to maturity (in days);
- The difference in the time to maturity (in days) between the issue of interest and its preceding base issue is determined;
- The calculated difference is multiplied by the factor computed in the previous step in order to find the difference in the yield to maturity between the issue of interest and the base issue;
- The yield to maturity of the issue of interest is computed by adding the difference in the yield calculated in the previous step to the yield of the base issue that precedes the issue of interest;
- The dirty price of the issue of interest is calculated on the basis of the yield derived above using the following formula:

$$P = \sum_{i=1}^N \frac{C/n}{(1+r/n)^{i-1+w}} + \frac{F}{(1+r/n)^{i-1+w}}$$

- where:
- P – price of the security;
  - F – principal of the security;
  - C – annual coupon of the bond;
  - n – number of coupon payments per year;
  - N – total number of coupon payments;
  - r – discount factor (equal to the yield to maturity);
  - i – current number of the coupon payment.

$$w = \frac{\text{days until next interest payment}}{\text{total number of days between interest payments}}$$

The price resulting from the formula is a gross figure and is used directly for a concurrent revaluation of the respective debt security.

C) (Amended by BD Resolution № 198/02.05.2017) The fair value of the securities issued by the Republic of Bulgaria and securities on the money market abroad, as well as securities issued by another Member State or a third country included in a list approved by the Deputy Chairman of the Bulgarian Financial Supervision Commission and securities on the money market traded on an active market, is determined:

C1) using the bid price at market closure on the day of evaluation, published in an electronic system for price information of securities;

C2) in case the foreign market is closed on the day of the valuation – by the bid price at market closure on the last working day, published in an electronic system for price information;

C3) in case the price calculated according to points C1 – C2 is a dirty price, it is used directly for revaluation. In case the price is a clean price, it is transformed into a dirty price using interest rate characteristics based on periodicity and coupon yield levels and is afterwards used for revaluation;

C4) in case there are no transactions made on the day of valuation, the fair value of negotiable securities and instruments on the money market is determined by the close price or other similar indicator, publicly announced on trading venues for the most recent day from the thirty-day period preceding the day of valuation;

C5) in the cases when for days that are working in the country, there is no trading on trading venues, the fair value of the transferable securities and money-market instruments is determined by the closing price for the day of the last trading session, preceding the day of valuation. In case there are no transactions made on the day of the last trading session, preceding the day of valuation, the fair value of the respective instruments is determined by the close price or other similar indicator, announced publicly on trading venues for the most recent day from the thirty-day period, preceding the day of valuation. The valuation of bonds and other types of debt securities must account for the accrued interest for the respective days;

C6) in case it is impossible to apply the method from Points C1 – C5, the method from Point B shall be used;

D) The fair value of Bulgarian and foreign equities and rights admitted to trading or traded on a regulated market or other trading venue in the Republic of Bulgaria is determined:

D1) For shares that are part of the reference index of the Exchange Traded Fund with full physical replication “Expat Bulgaria SOFIX UCITS ETF” – using the same rules for the valuation of the respective reference index and with price information, published via the trading system or in the stock exchange bulletin, as long as the Reference Index revaluation method does not contradict the Law. If the Reference Index valuation method is not compliant with the legal provisions, the shares shall be valued at closing prices, published via the trading system or the stock exchange bulletin;

D2) For shares not included in the reference index of “Expat Bulgaria SOFIX UCITS ETF” – using the close prices published via the trading system or the stock exchange bulletin;

D3) If the price cannot be determined by the method described in Points D1 or D2, the price of the shares, consequently the rights, in case there are no transactions made on the day of valuation, is determined by the close price published via the trading system or the stock exchange bulletin for the most recent day from the thirty-day period preceding the day of valuation or the last trading session.

**E) When the methods for valuation of equities in Point D are inapplicable or the shares are not traded on regulated markets or other trading venues, their fair value is determined by consistently applying the methods listed below:**

- Price-to-Earnings method for comparable companies;
- Net Asset Value method;
- Discounted Net Cash Flow method;

These methods are to be applied in the order described below under the condition that the method listed first cannot be used.

E1) According to the Net Asset Value method, the value of the shares of the company is equal to the equity of the company to be valued (based on the last financial report) divided by the total number of shares outstanding.

$$P = \frac{A - L - PS}{N}$$

where:  $P$  – value of the ordinary shares of the company to be valued;

$A$  – assets;

$L$  – liabilities;

$PS$  – the value of preferred shares;

$N$  – the total number of ordinary shares outstanding.

E2). The Discounted Cash Flow method is used for defining the price of one ordinary share of the company, where the value of the equity of the ordinary shareholders is divided by the number of ordinary shares outstanding.

The equity of the ordinary shareholders is calculated in two ways:

Way No 1. The Discounted Net Cash Flow method for ordinary shareholders (Free Cash Flows to Equity) – by discounting the net cash flows that remain to shareholders after subtracting all expenses, financial obligations, necessary investments, and changes in working capital:

- This method uses the net cash flows which remain after subtracting all expenses; financial obligations (including principal and interest payments), necessary investments, and changes in working capital are used in this valuation method;
- The Net cash flows are calculated when the following adjustments are made to the forecasted net profit (after interest and taxes):
  - adding forecasted depreciation expenses;
  - subtracting/adding the absolute value of the forecasted change in net working capital;

- adding the forecasted value of new debt, as well as proceeds from new issuances of preferred stock;
- subtracting the forecasted investments in long-term assets;
- subtracting the forecasted principal payments on debt;
- subtracting the forecasted payments of preferred stock dividends.
- The following formula is used:

$$FCFE = NI + D - Capex - \Delta WC + ND - PP - Pr D ,$$

where:

*FCFE* – free cash flows to ordinary shareholders;

*NI* – net income;

*D* – depreciation;

*Capex* – investments in long-term assets (capital expenditures);

$\Delta WC$  – change in net working capital;

*ND* – new debt, as well as proceeds from share issues;

*PP* – principal payments;

*PrD* – preferred shares dividends.

- When this method is applied, free cash flows are discounted by the cost of equity;
- The cost of equity is the required rate of return to ordinary shareholders and is defined as follows:

- by adding the risk free rate to the risk premium:

$$k_e = k_{RF} + RP$$

where:

*k<sub>e</sub>* – cost of equity;

*k<sub>RF</sub>* – risk free rate;

*RP* – risk premium.

- using the Capital Asset Pricing Model – CAPM:

$$k_e = k_{RF} + \beta \times (k_m - k_{RF})$$

where:

*k<sub>e</sub>* – return on equity;

*k<sub>RF</sub>* – risk free rate;

(*k<sub>m</sub>* - *k<sub>RF</sub>*) – market risk premium;

*k<sub>m</sub>* – expected market rate of return;

$\beta$  – beta coefficient.

- using the Discounted Cash Flow method:

$$k_e = \frac{D_1}{P_0} + g$$

where:  $k_e$  – cost of equity;  
 $D_1$  – expected next dividend per ordinary share;  
 $P_0$  – price of an ordinary share;  
 $g$  – expected growth rate.

Way No. 2 The Free Cash Flows to the Firm method – by discounting the net cash flows to all shareholders and other investors, reduced by the full amount of company debt and other liabilities to investors other than shareholders. The Free cash flows to all company investors are used – owners of ordinary shares, debt, and preferred shares. The Free cash flows are calculated using the following two methods:

- The first method calculates the free cash flows by making the following adjustments to the earnings before interest and after taxes:
  - adding the forecasted depreciation expenses;
  - subtracting the forecasted change in net working capital;
  - subtracting the forecasted investments in long-term assets.
- The following formula is used:

$$FCFF = EBIT \times (1 - t) + D - Capex - \Delta WC$$

where:  $FCFF$  – net cash flow to the firm;  
 $EBIT$  – earnings before interest and taxes;  
 $t$  – tax rate;  
 $D$  – depreciation;  
 $Capex$  – investments in long-term assets (capital expenditures);  
 $\Delta WC$  – change in net working capital.

- The second method uses the following formula:

$$FCFF = FCFE + Int \times (1 - t) + PP - ND + PrD$$

where:  $FCFF$  – free cash flow to the firm;  
 $FCFE$  – free cash flow to ordinary shareholders;  
 $Int$  – interest expense;  
 $t$  – company tax rate;  
 $PP$  – principal payments;  
 $PrD$  – preferred shares dividends;  
 $ND$  – new debt, as well as proceeds from preferred stock issuances;

- The Free cash flows are discounted by the weighted average cost of capital of the firm. When determining the relative share of different sources of capital, their market values are used;
- The weighted average cost of capital is calculated using the following formula:

$$WACC = k_e \times \left( \frac{E}{E + D + PS} \right) + k_d \times (1 - t) \times \left( \frac{D}{E + D + PS} \right) + k_{ps} \times \left( \frac{PS}{E + D + PS} \right),$$

where:

WACC – weighted average cost of capital;

$k_e$  – cost of equity;

$k_d$  – cost of debt before accounting for the tax effect of interest expenses;

$t$  – company tax rate;

$k_{ps}$  – cost of preferred equity;

$E$  – market value of shares;

$D$  – market value of debt;

$PS$  – market value of preferred shares.

When the market value of debt cannot be determined, its book value is used.

Each of the methods for determining the value of shareholders' capital can use one of the two discounting models:

- A constant growth rate, assuming the growth rate of the firm is constant and stable;

The formula is:

$$P_0 = \frac{FCF_1}{r - g},$$

where:

$P_0$  – the present value of free cash flows;

$FCF$  – FCFE or FCFF;

$r$  – the respective discount rate;

$g$  – the constant growth rate of the firm.

- A two-step growth rate, assuming the existence of two periods. For the first period, a forecast is made for the net cash flows for each year separately, whereas the assumption for the second period is that net cash flows will be increasing at a stable rate or remain constant.

The formula used is:

$$P_0 = \sum_{t=1}^{t=n} \frac{FCF_t}{(1+r)^t} + \frac{P_n}{(1+r)^n},$$

where:

$P_0$  – the present value of free cash flows;

$FCF_t$  – FCFE or FCFF in year  $t$ ;

$r$  – the respective discount rate for the first period;

$P_n$  – the value of free cash flows at the beginning of the second period of stable growth.  $P_n$  is calculated as follows:



$$P_n = \frac{FCF_{n+1}}{r_n - g_n}$$

where:  $r_n$  – the respective discount rate during the constant growth period;  
 $g_n$  – the constant growth rate of the company. When assuming that cash flows will remain constant during the second period,  $g_n=0$ .

E3). A subsequent valuation of shares acquired as a result of a capital increase using funds of the issuing company or share splits is conducted as follows:

- In cases of (new) share purchases as a result of a capital increase using the funds of the issuing company, a receivable is recognized from the date when the shareholders of the company have no rights on the shares from the capital increase, which is the date after which transactions with shares do not affect the right of acquisition of new shares until the date of registration of the capital increase and its recording in the depositary institution;

The value of the receivable is equal to the product of the number of new shares and the price of one new share.

$$R = N_n \times P_n,$$

where:  $R$  – receivable;  
 $N_n$  – the number of new shares;  
 $P_n$  – the price of one new share.

The price of one new share is calculated by dividing the most recent valuation price of an old share by the sum of the number of new shares, acquired against one old share and one.

$$P_n = \frac{P_0}{(N_r + 1)},$$

where:  $P_n$  – the price of one new share;  
 $P_0$  – the most recent valuation price of one old share;  
 $N_r$  – the number of new shares corresponding to one old share.

From the date of the recording of the new shares in the depositary institution until the date of their admission to trading on a regulated market or another trading venue, the new shares are recognized on the basis of a price calculated using the following formula:

$$P_n = \frac{P_0}{(N_r + 1)}$$

where:  $P_n$  – the price of one new share;  
 $P_0$  – the most recent valuation price of one old share;  
 $N_r$  – the number of new shares acquired for one old share.

After the admission to trading of the new shares on the respective trading venue, their subsequent valuation is conducted according to the valuation methods for securities admitted to trading or traded on a regulated market or another trading venue.

- If new shares are purchased as a result of a share split, a receivable is recognized from the date on which the new shares are already split from the existing shares – the date after which concluded share transactions do not affect the right of purchase of the new shares until the date of recording the new number of shares in the depositary institution:

The value of the receivable is equal to the product of the number of new shares and the price of one new share.

The price of one new share is determined by dividing the most recent valuation price of one old share by the number of new shares acquired against one old share.

$$R = N_n \times P_0 \times \frac{1}{N_r},$$

where:  $R$  – receivable;  
 $N_n$  – the number of new shares;  
 $P_0$  – the most recent valuation price of one old share;  
 $N_r$  – split ratio.

From the date of recording the new shares in the depositary institution until the date of admission to trading on the respective trading venue, the new shares are recognized according to a price, calculated using the following formula:

$$P = P_0 \times 1 / N_r$$

where:  $P$  – the price of one new share;  
 $P_0$  – the most recent valuation price of one old share;  
 $N_r$  – split ratio.

After the admission of the new shares to trading on a regulated market, their subsequent valuation is done according to the methods for the valuation of securities admitted to trading or traded on a regulated market or another trading venue.

E4) (Amended by BD Resolution № 198/02.05.2017) The methods listed in Points E1, E2, and E3 for determining the fair value of securities could be amended with coefficients, based on the information database and circumstances representing respectively disclosed insider information within the meaning of Appendix 9 from Ordinance No 2 of 17.09.2003 for the prospectuses at public offering of securities and for the revealing of information from the public companies and the other issuers of securities.

E5) The fair value of financial instruments in the collective investment undertaking within an inactive market is determined by using the following valuation techniques:

- The use of prices from recent and fair market deals between informed, willing parties;
- The use of reference for the current fair value of another equivalent asset;
- Commonly agreed methods.

F) In cases when the purchase of rights is for a certain company which is raising capital through share issuance, a receivable (for the rights) is recognised from the date when the

company shareholders can no longer receive rights for subscription of shares to raise capital (the date after which the transactions with shares do not affect the acquisition of rights) until the date when the rights are registered with the depository institution.

The value of the receivables is calculated using the following formula:

$$R_r = N \times P_r$$

where:  $R_r$  – receivable;  
 $N$  – the number of shares;  
 $P_r$  – the price of one right.

The price of one right is calculated using the following formula:

$$P_r = P_l - \frac{P_l + P_i \times N_r}{N_r + 1}$$

where:  $P_r$  – the price of one right;  
 $P_l$  – the share price according to the last valuation (before the separation of rights);  
 $P_i$  – the issue price of the new shares;  
 $N_r$  – the number of shares in one right.

As of the date of the registration of the rights at the depository institution, the rights are recognized as portfolio assets with a price derived using the formula above.

F1) (Amended by BD Resolution № 198/02.05.2017) In case the valuation methods described in Point D are inapplicable, the subsequent valuation of the rights is conducted using a price equal to the difference between the price of the already existing shares of the company, determined in line with the requirements in Point D, and the issue price of the new shares from the capital increase multiplied by the ratio of the number of shares in one right.

F2) The subscribed shares are recorded as receivables from the date of subscription resulting from the exercising of the rights until the date of the registration of the capital increase and its recording at the depository institution. The amount of receivables is calculated by multiplying the number of subscribed shares by the sum of the price of one right at the time of the last valuation before the share subscription divided by the number of shares in one right and the issue price of one share:

$$R_r = N_n \times \left( P_i + \frac{P_r}{N_r} \right)$$

where:  $R_r$  – receivable;  
 $N_n$  – the number of subscribed shares;  
 $P_i$  – the issue price of one share;  
 $P_r$  – the price of one right;  
 $N_r$  – the number of shares in one right.

A liability towards the issuing company arises from the date of exercising the rights which results in the subscription of shares until the date of payment of their issuance price.

F3) From the date when the new shares are registered at the depository institution until the date when the shares are admitted for trading at the relevant venues, the new share price is calculated using the following formula:

$$P = P_i + \frac{P_r}{N_r}$$

where: P – share price;  
P<sub>i</sub> – the issue price of one share;  
P<sub>r</sub> – the price of one right  
N<sub>r</sub> – the number of shares in one right.

G) In the cases when there is no trading activity on trading venues on working days in the country or when certain securities are temporarily suspended from trading, for the subsequent valuation of securities admitted to or traded on a regulated market, the valuation valid for the day of the last trading session is used. During a subsequent valuation according to the method described in the previous sentence, the interest incurred during the relevant days is also taken into account. The rule is applicable in cases when there is no trading session on a trading venue due to a holiday in the respective country, which is a working day in the Republic of Bulgaria.

The rule is not applicable in cases when there are no trading sessions for more than five working days on the regulated market. In such cases, the subsequent valuation is conducted by applying Point E and Point F.1.

H) When determining the fair value of securities through different valuation methods, the following example data and factors shall be used:

- Issue value as stated in the prospectus for public offering of securities of the issuer;
- Decision for increase or decrease of the capital of the issuer;
- Decision for restructuring of the issuing company;
- Any changes to the business of the issuer, which can affect the price of its securities;
- Changes to the Statute of the issuer
- Initiation of action, enforcement or interim proceedings in which the issuer is a defendant;
- Fundamental analysis of the issuer;
- Analysis of the issuer's economic sector; the life cycle of the sector and its reaction to the business cycle; analysis of external factors which might have an effect; analysis of the demand and supply;
- Analysis of the overall condition of the market for securities;
- Information regarding transactions or offers for the respective securities on trading venues;

- Information regarding the trading and quotes of securities of similar issuers on a regulated market and other trading venues;
- Additional data and factors which could affect the valuation of the particular securities.

I) When determining the subsequent value of securities through different valuation methods, the following basic sources of information shall be used:

- Issuers' financial reports;
- Prospectuses for public offering of securities;
- Register of public companies and other issuers of securities, kept by the Financial Supervision Commission;
- Official newsletters by regulated markets, the Bulgarian National Bank and the National Statistics Institute;
- Quotes, newsletters and analysis by Bulgarian and foreign regulated markets, rating agencies, banks, investment brokers, including primary dealers of government securities;
- Analyses, publications and commentaries of renowned Bulgarian and foreign consultants and analysts.

J) (Amended by BD Resolution No.158/01.07.2016) The fair value of fixed-term and demand deposits, cash in hand and short-term receivables is determined at the day of revaluation as follows:

- Fixed-term deposits – with their nominal value;
- Demand deposits and cash at hand – at their nominal value;
- Short-term receivables without a specified interest rate or income – valued at cost;
- Short-term receivables with a specific interest rate or income – valued at cost.

K) **Financial assets denominated in a foreign currency** are converted into their Bulgarian lev equivalent, determined using the central exchange rate of the Bulgarian National Bank, valid for the day of valuation.

L) **The subsequent valuation of instruments in the money market** admitted for trading or traded on a regulated market or other trading venue is determined:

L1) Using the most recent price from a transaction on the respective market for the last working day;

L2) When the valuation method from Point L1 is inapplicable, the valuation is performed using the bid price at the market close on the last working day for which the valuation is made, published in an electronic system for the pricing information of securities;

L3) When the valuation method from Point L2 is inapplicable, the valuation is performed by taking the price from a transaction within the most recent thirty-day period.

If a price cannot be determined using the method described in Point L, the valuation of the respective type of security is conducted by applying Points E and F. When Point L is inapplicable, as well as for instruments which are not traded in the money market or other trading venues, the following formulas are used:

The value of the certificate of deposit is determined using the following formula:

$$P_{CD} = \frac{MV}{\left[1 + \left(i \times \frac{d}{365}\right)\right]}$$

where:  $MV = N \times \left[1 + \left(\frac{c}{100} \times \frac{d}{365}\right)\right]$

$P_{CD}$  – the value of the certificate of deposit;

$MV$  – the value of the certificate of deposit at maturity;

$N$  – the nominal value of the certificate of deposit;

$d$  – the number of days from the day of revaluation until maturity;

$i$  – the discount percent;

$c$  – the interest payable on the deposited sum, listed on the certificate.

Short-term government securities (treasury bills) are valued using the following formula:

$$P_{Tb} = N \left[1 - \left(i \times \frac{d}{365}\right)\right]$$

where:  $P_{Tb}$  – the price of the government security;

$N$  – nominal value;

$i$  – discount rate;

$d$  – the number of days from the date of revaluation until maturity.

M) Cases in which the Fund will determine a fair asset price according to a methodology different from the one described in Pt. A – L in these Rules for asset valuation:

M1) A company in which the Fund has share interest is removed from trading on a regulated market, has no deals with its issued securities on regulated markets and other trading venues, is missing public financial statements or other financial information for the determination of a fair price using the methodology described in Points A – M in these Rules for asset valuation;

M2) A company in which the Fund has share interest is declared bankrupt or is in liquidation;

M3) A company, in which the Fund has invested as a founder with a commitment to issue securities on a regulated market or another trading venue, has not received a permission from the respective financial regulatory authority and has not been granted a public company status;

M4) Receipt of liquidation shares in the form of collateral;

M5) Assets acquired as a result of compensation contracts, benefits, in-court and out-of-court agreements and decisions, securing contracts, which fall within the cases from Points M1 to M4;

M6) For all the assets described in Points M1 to M5, a report for the Board of Directors is prepared by the relevant officials at the management company Expat Asset Management who are responsible for the valuation of the Fund’s assets. This report shall describe a valuation methodology and the specific valuation of the given asset which cannot be valued

using the methodology from Points A – M in the current Rules for asset valuation. The Board of Directors accepts the valuation of the respective asset but is not obliged to respect the proposal in the report made by the relevant officials at the management company Expat Asset Management. Thus, the estimated fair price of the respective asset is considered valid for a period of thirty days. After each subsequent thirty-day period, the Board of Directors reviews the valuation of the respective asset, if the latter is still in the Fund’s portfolio.

### I.3. Valuation of the Fund’s Liabilities

The value of the Fund’s liabilities is equal to the sum of the book value of short-term and long-term liabilities on the balance sheet. The liabilities, denominated in a foreign currency, are calculated using the central exchange rate of the Bulgarian National Bank as of the day of valuation. The liabilities are valued according to the applicable accounting standards at the time of the valuation.

### I.4. Calculation of the net asset value of the Fund (total and per unit)

The net asset value (NAV) of the Fund is determined by subtracting the value of liabilities from the value of assets determined using the current Rules.

The net asset value per unit is determined by dividing the NAV of the Fund by the number of units outstanding.

### I.5. The role of the Fund’s auditors for the portfolio valuation and NAV calculation

The role of the auditors in portfolio valuation and NAV calculation is to give an expert opinion in accordance with the Independent Financial Audit Law and the professional requirements of the International Audit Standards on whether the financial statements prepared by the Management Company of the ETF are free from essential inaccuracies, deviations and inconsistencies. The audit includes verification based on tests of the evidence pertaining to the amounts and disclosures listed in the financial statements of the ETF and an assessment of the applied accounting principles and material valuations conducted by the management, as well as the overall presentation of the financial statements.

## **II. Procedure for determining the net asset value (NAV), net asset value per unit (NAV/unit), issue price and redemption price of Expat Bulgaria SOFIX UCITS ETF.**

This procedure is based on the requirements set by law and the Fund Rules. The Management Company collects and analyzes all the documents and information needed for determining the net asset value (NAV), net asset value per unit (NAV/unit), issue/creation price and redemption price of the Fund, as well as the execution of all the accounting operations related to the activities listed above. The Custodian guarantees that the net asset value and net asset value per unit are calculated by the Management Company in accordance with the law and Rules. The Custodian implements general control over the compliance with the law, the Rules of the Fund and the current Rules when determining the issue price and repurchase price of the units.

### II.1. Persons, designated and responsible for controlling the calculation of NAV, NAV per unit, issue price and redemption price

The net asset value, net asset value per unit, issue price and repurchase price of units are calculated by the Management Company in accordance with these Rules. The Management Company is obligated to publish the issue and repurchase price.

II.2. (Amended by BD Resolution No.197/31.03.2017) Procedure for the calculation of NAV, NAV per unit, issue price, redemption price and indicative NAV

(Amended by BD Resolution No.158/01.07.2016) The net asset value and net asset value per unit are calculated for every working day according to the conditions and method described in these Rules, in compliance with the legislation in force, the Rules and the Prospectus for public offering of the ETF units. The Management Company performs an evaluation of the Fund's portfolio, determines the net asset value, net asset value per unit, and calculates the creation price and redemption price. The Custodian guarantees that the unit price is calculated by the Management Company in accordance with the law and the Rules.

The Management Company includes in the issue price of the purchased units in the primary market a fee payable to the Management Company to cover the expenses incurred for the issuance that is equal to 2.0% (two percent) of the net asset value per unit unless something else is agreed upon in a contract with the Management Company. The creation unit price of the ETF is equal to the net asset value per one unit plus the fee payable to the Management Company.

The Management Company reduces the unit redemption price by a charge payable to the Management Company in order to cover the expenses for the redemption in an amount of 2.0% (two percent) from the net asset value per one unit, unless something else is agreed upon in a contract with the Management Company. The redemption unit price of the ETF is equal to the NAV per one unit minus the fee payable to the Management Company.

The calculation of the net asset value for the day of valuation, or day T, is performed from 9:00 until 9:45 am Bulgarian time on the next day, or day T+1. If, for any of the stock exchanges, this is a non-working day, the prices published for the last working day of the respective market are used. In the calculation of the net asset value, the fees due to the Management Company and the Custodian are also taken into account.

The Management Company announces to the Financial Supervision Commission the issue price and the repurchase price on the day of their determination.

A1) (Amended by BD Resolution No.198/02.05.2017) Procedure for determining the net asset value, net asset value per unit, unit price and repurchase price:

- until 9:15 am CET on the day T + 1, following the day T for which the calculation is made, the Management Company receives from the Central Depository information on the creation and redemption transactions which have settled, and the number of Fund's units in circulation;
- the following shall be done between 9:15 am and 9:45 am CET. (Bulgarian time) on a given day:
  - assets and the price of assets shall be determined according to these rules;
  - the accounting for any transaction made by the Fund and the revaluation of its assets and liabilities is completed;
  - the net asset value, as well as the net asset value per unit shall be determined and a resolution on the issue and redemption price of the Fund's units shall be made. The net asset value per unit is calculated by dividing the net asset value of the Fund by the number of units in circulation at the time of calculation. The issue/creation price is equal to NAV per unit plus the



creation costs amounting to 2.0% of NAV per unit. The redemption price is equal to NAV per unit less redemption costs amounting to 2.0% of NAV per unit unless something else is agreed upon in a contract with the Management Company.

- by 9:45 am on the day T+1, following day T for which the valuation is made, the calculated net asset value, net asset value per unit, issue and redemption price of the Fund units as well as all information about their calculation, including the settled number of sold and redeemed units are sent to the Custodian;
- until 10:45 am on the day T+1, following day T for which the valuation is made, the Custodian is expected to provide a confirmation of the accuracy of the calculated net asset value, net asset value per unit, issue and redemption price of the Fund's units (in case of inconsistencies, corrections should be made); until 11:00 am of day T+1, following day T, for which the valuation is made, the process of determination of the net asset value for day T shall be completed.

(Amended by BD Resolution No.198/02.05.2017) The indicative NAV and Indicative NAV per unit are calculated and published by the BSE – Sofia or by another regulated market operator on which the units of the Fund are registered for trading for each day on which the units of the Fund are traded on a regulated market (the regulated market is open and reference index data are published) at least twice during the session of the day. To this end, the management company shall enter into a contract with the respective regulated market operator on behalf of and for the account of the Fund. In the absence of such an agreement, an indicative NAV and NAV per unit are published by the Management Company on the Fund's website.

(Amended by BD Resolution No. 198/02.05.2017) The Management Company shall provide the BSE – Sofia or another operator of a regulated market on which the units of the Fund are registered for trading, data about the structure of the portfolio, the number of shares of each position, the amount of cash of the Fund, and the number of units issued, confirmed by the Fund's Depository for the previous business day. In calculating the indicative net asset value of the ETF, the operator of the relevant regulated market or the Management Company shall update the asset prices in the Fund's portfolio, leaving the level of all other elements of the Fund's balance sheet unchanged.

On day T+1, following the business day T for which the valuation is made, the Management Company shall notify the Investment Activities Supervision Department of the Financial Supervision Commission of the issue and redemption price of the Fund's units for day T.

By the end of the business day T+1 on which the calculation of the issue and redemption price is made, the Management Company announces this information on the website of the Management Company.

The Management Company keeps records about the discussions, decisions, and sources of information regarding the net asset value of the Fund. The information and documentation used to make the decisions is included in the records. The records are to be kept for a minimum of five years. The full documentation and information regarding the calculation of the net asset value of the Fund and the net asset value per unit is to be kept both on paper and electronically (2 copies).

The Head of Internal Compliance and Control of the Management Company is responsible for keeping the documents related to the calculation of the NAV and the net asset value per unit.

The supervision of the process of keeping the documentation regarding the calculations of NAV and NAV/unit is to be implemented by the executive member of the Board of Directors of the Management Company.

The Management Company uses software in order to calculate the net asset value, net asset value per unit, issue price, and redemption price. The software is connected to the accounting system of the Fund, which allows for the integration of models which book different operations and lead to subsequent automatic generation of accounting records which enter the accounting system. This type of interconnectivity eliminates the double-booking of information and facilitates the avoidance of mistakes caused by double-booking. The software reads the daily files fed by the Bulgarian Stock Exchange – Sofia and includes them in the information database of the system. Based on this data, the daily market price of the equities on BSE – Sofia is determined, while at the same time the volume owned from the specific equity is considered and the conditions specified in these Rules for existence of market price are followed. The market price of the remaining assets will be imported electronically. The software has different levels of access which guarantees better data security when calculating the NAV. The software records/keeps the data related to the calculations of NAV, NAV/unit, issue price, and redemption price, and thus previous values checks are possible.

All of the documentation and information used for calculating the net asset value, issue price, and redemption price is recorded and kept on paper and electronically by the Management Company for at least five years. The information is also recorded in a magnetic tape format in order to prevent loss due to technical reasons.

(Repealed by BD Resolution No. 197/31.03.2017)

(Amended by BD Resolution No. 198/02.05.2017) The Management Company of the Exchange Traded Fund shall provide the Commission and the regulated market on which the units of the ETF are admitted to trading, and shall publish on its website the following data in tabular form by the end of the day for which the net asset value of the Fund shall be calculated:

- Date of calculating the creation price and the redemption price;
- Net asset value;
- Number of units in circulation;
- Net asset value per unit;
- Issue price;
- Redemption price.

### **III. (Amended by BD Resolution No. 158/01.07.2016) Organization of the operations regarding the portfolio valuation and the calculation of the net asset value of the Fund.**

III. 1. (Amended by BD Resolution No.198/02.05.2017) The Board of Directors of the Management Company Expat Asset Management EAD is responsible for adopting, changing and updating the current Rules. The Management Company exercises control over the compliance and enforcement of the Rules by all individuals, including the Custodian, involved in the calculation of the net asset value. The Head of Internal Control and Compliance of the

Management Company undertakes periodical checks or exercises control over the calculated net asset value, issue price and redemption price of the ETF units, as well as, over the accounting practices related to the calculation of NAV. The individual mentioned above informs the Board of Directors of the Management Company if there are any inconsistencies with the law, the Rules or the Prospect for public offering of securities.

The Management Company has the following rights and responsibilities when it comes to controlling the process of valuation of the ETF portfolio assets and of net asset value calculation:

- At least once a month, the Board of Directors of the Management Company looks through the reports compiled by the Management Company and the Custodian and all documentation and information related to the fulfillment of responsibilities by the Management Company according to the Rules of the Fund, and the responsibilities of the Custodian by its Contract;
- When performing its duties, the Board of Directors may ask the Custodian to present additional documents, information and explanations, including information about the net asset value of the units at a particular point in time and the number of created (sold) and redeemed units;
- The Board of Directors of the Management Company has the obligation to notify immediately the Investment Activities Supervision Department of the Financial Supervision Commission if the requested additional documents, information and explanations are not presented, as well as in case a violation of the methods and procedure for determining the net asset value or of their control was detected;
- The Board of Directors of the Management Company has the obligation once a month to approve the expenses related to the activities of the ETF so that they are in compliance with the agreements in the contract with the Custodian and the stockbrokers;
- Once a year, the Board of Directors of the Management Company audits the procedure for the determination of the market and fair value of the assets of the ETF and if circumstances related to the financial markets arise that require it;
- If it is detected that the methods and procedure for determining the net asset value or their control have been consistently or significantly violated, the necessary actions shall be taken towards the responsible employee and/or the Custodian, including that penalties may be imposed and contracts may be terminated.

III. 2. The Management Company makes the decisions related to the calculation of the NAV, NAV per unit, issue price and redemption price in compliance with the legislation in force, the Rules and the Prospectus of the ETF, as well as with the current Rules. The Management Company determines the fair value of the assets and gathers and analyzes the data necessary to perform these duties. It is also responsible to receive market pricing data, the number of units in circulation and the foreign exchange rates for the purpose of calculating the net asset value. The Management Company also performs all accounting operations related to the valuation of the assets.

III. 3. The Custodian controls that the calculation of the issue and redemption price of the Fund's units made by the Management Company is in accordance with ACISOCIVA, the acts of its implementation, the Rules and Prospectus of the ETF, and the current Rules. The Custodian checks the valuation and the determined net asset value and notifies in writing the

Management Company about the outcome of the check by 10:45 am on the day of the valuation. If violations are detected, the Custodian immediately notifies the Management Company and requests corrective actions. In case of an error in calculating the net asset value per unit, resulting in a deviation by more than 0.5% from the net asset value per unit, the Custodian notifies the Commission and the Management Company. The Custodian notifies the Management Company and requests corrective actions. The Management Company shall immediately correct the violations and makes the necessary notifications.

#### **IV. General rules for the avoidance of conflicts of interests and for ensuring protection against disclosure of inside information**

IV. 1. The identification and avoidance of conflicts of interests is done by:

A) (Amended by BD Resolution No. 158/01.07.2016) Distribution of functions and powers between the Management Company, the market maker, the investment intermediaries, and the Custodian:

- The Management Company manages the portfolio of the ETF by making investment decisions and orders, executing the sale and repurchase of units, and keeping the accounting records of the ETF;
- The Management Company signs contracts with investment intermediaries in the name and on behalf of the ETF. The investment intermediaries follow the orders of the Management Company for the execution of investment decisions, except in the cases of primary market offerings or transactions with government securities outside of a regulated market;
- The Management Company signs in the name of and at the expense of the ETF a contact with a custodian for the safekeeping of the cash, cash equivalents, and securities of the Fund;
- The Management Company signs in the name of and at the expense of the ETF contracts with market makers who keep constant buy and sell quotes for the ETF units on the secondary market, who buy and sell units of the ETF on the primary market, and who perform duties in the context of ACISOCIVA and the acts of its implementation.

B) Strict implementation of the investment restrictions related to the members of the Board of Directors of the Management Company and the equal treatment of the unit holders:

- The members of the Board of Directors of the Management Company cannot invest the assets of the ETF in securities issued by them or in entities related to them.
- The members of the Board of Directors of the Management Company and other persons who work under a contract with the Management Company, as well as persons related to them, cannot be a party to transactions with the Fund unless they are in the capacity of unit holders in compliance with the regulatory restrictions and the rules of the Management Company.
- The members of the Board of Directors of the Management Company and other persons who work under a contract with it, when they start their employment or activities for the Company shall present to the Department for Internal Control information about the securities, owned by them or by persons related to them. This information is presented whenever new securities are purchased or managed by the end of the working day following the day of their purchase or management.

- The Management Company shall be governed only by the interests of the unit holders and shall make sure that they are treated fairly, which means that one unit holder will not be benefited at the expense of another, equal treatment under equal conditions shall be secured, as well as the disclosure of the information necessary for decision making.

C) The Internal Control and Compliance Department of the Management Company is responsible for ensuring compliance with the regulatory requirements and restrictions regarding the activities of the Fund and if a violation is detected, the Executive Director is notified. He gathers the Board of Directors for the implementation of the necessary measures to restore compliance.

IV.2. Procedure for protection against disclosure of inside information and the measures to be taken for its protection:

- Internal rules for the activities of the Management Company regulate its internal organization and structure, and the internal control on its activities. The rules stipulate how the existing records and information related to the management of the portfolio and the calculation of the net asset value will be kept and guarantee their protection against information disclosure.
- The members of the Board of Directors of the Management Company, its employees and any other person working for the Management Company cannot disclose, unless they are given an authorization to do so, or use for their own benefit or the benefit of other people facts and conditions related to the holdings and operations in the portfolio accounts and cash of clients of the Management Company, as well as all other facts and conditions which represent a business secret, which they have come in possession with during their employment. All persons, when they start their employment or work for the Management Company shall sign a confidentiality agreement.