



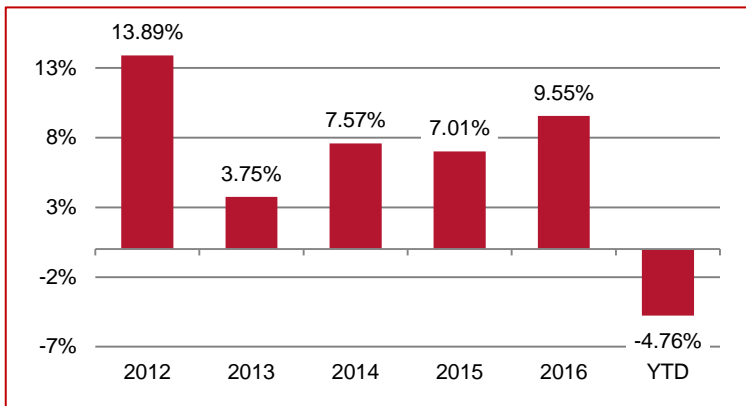
**expatcapital**

**CONTROL** YOUR MONEY. **PRESERVE** YOUR WEALTH. **BUILD** YOUR FUTURE.  
A REMARKABLY DIFFERENT WEALTH MANAGEMENT EXPERIENCE.

## **EXPAT MUTUAL FUNDS MONTHLY REPORT**

**Aug 2017**

## Past performance, %

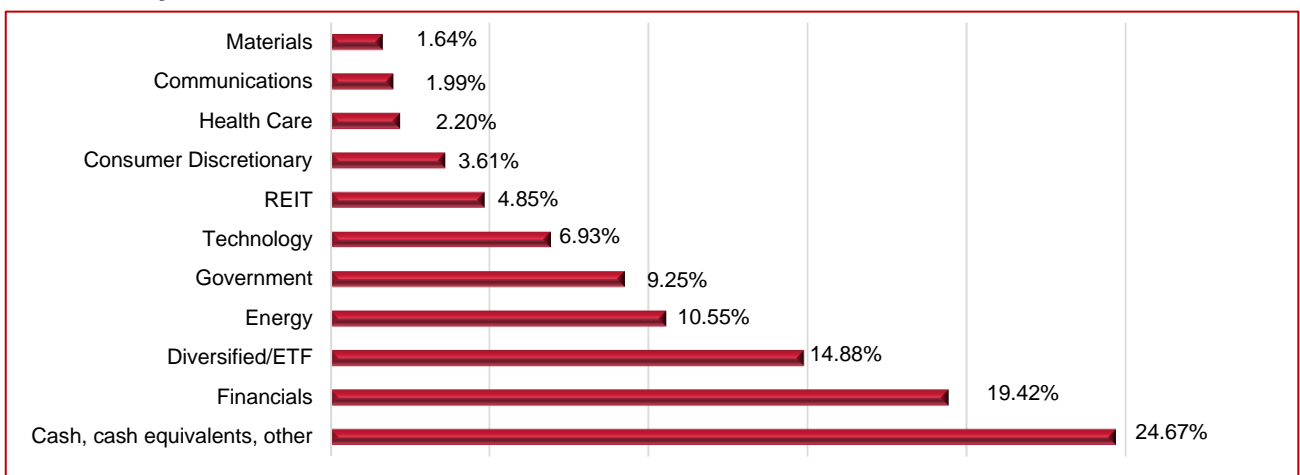


The bar chart of past performance has limited use in predicting future results. Annual expenses are included in the past performance calculations, excluding entry and exit charges.

## Historical NAV per share, BGN



## Industry breakdown, %



## Comments

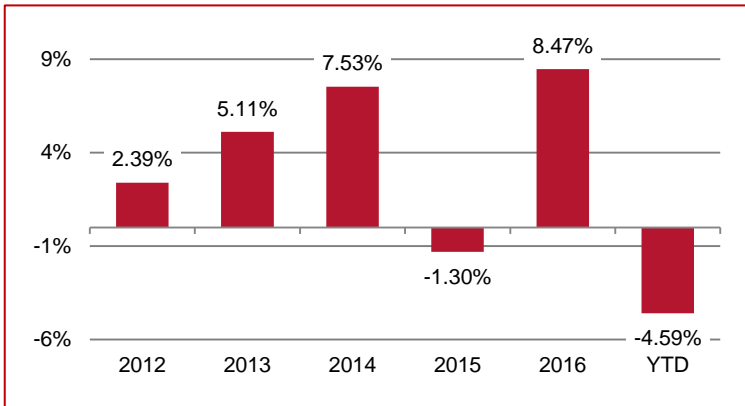
The Fed did not increase interest rates in August and the likelihood of another hike this year further decreased in the face of the Harvey hurricane. Tensions over North Korea continued to ratchet up. Both events caused a flight to safe-havens such as Treasuries and gold. The decrease in risk appetite boosted investment grade bonds (+0.4%) and registered a decline in the prices of High Yield corporate bonds (-0.4%). Gold, on the other hand, surged by +4.1%.

Uncertainty caused flattening of the yield curve on the long-term end, and increased the prices of bonds with longer maturity. In the months to come important decisions about the budget, the debt ceiling, measures suggested by Trump will have to be made in the U.S. Tensions in Asia. North Korea, in particular, will continue to have an impact on equity and bond markets.

However, Emerging markets bonds were supported (+1.6%) as national banks in emerging markets are expected to cut rates. One drawback is that the latter would make new bond issues less attractive and put in risk their local bonds, denominated in local currencies. The further drop of the US dollar continued to support Emerging Markets bonds. Yet, our Team sees valuations as stretched.

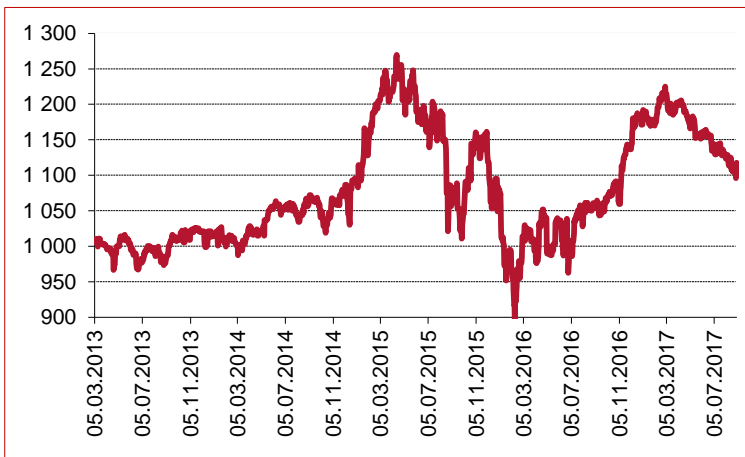
Our view is that the developed countries are starting to tighten their monetary policies and the end of the QE in the Eurozone is imminent. Thus we remain cautious and underweight on euro-denominated bonds. Our team also remains positive towards perpetual bonds with higher carry and interest rate hedged high yield bonds from U.S, as we see a steeper path of rate hikes than the market.

## Past performance, %

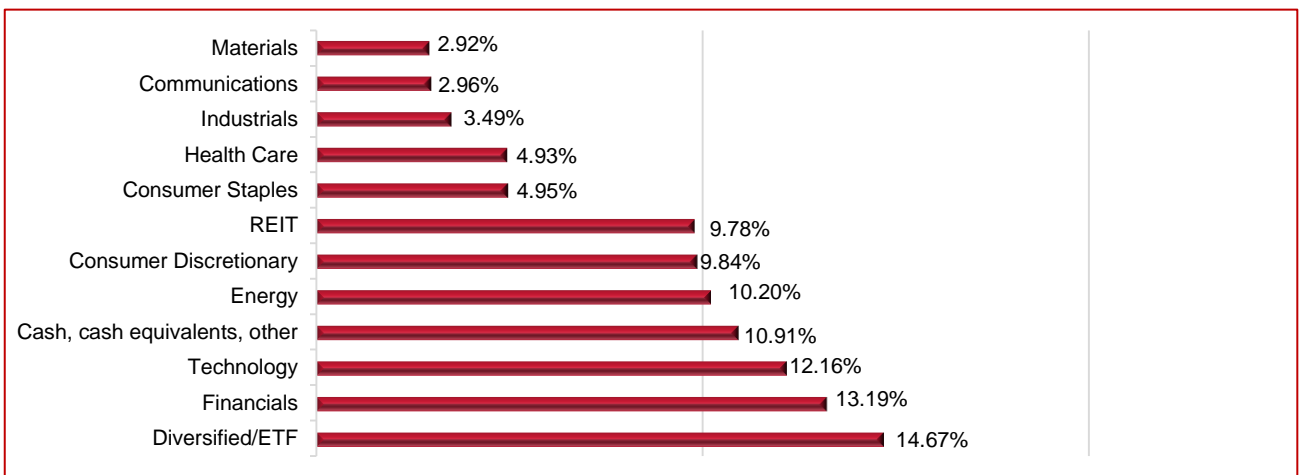


The bar chart of past performance has limited use in predicting future results. Annual expenses are included in the past performance calculations, excluding entry and exit charges.

## Historical NAV per share, BGN



## Industry breakdown, %



## Comments

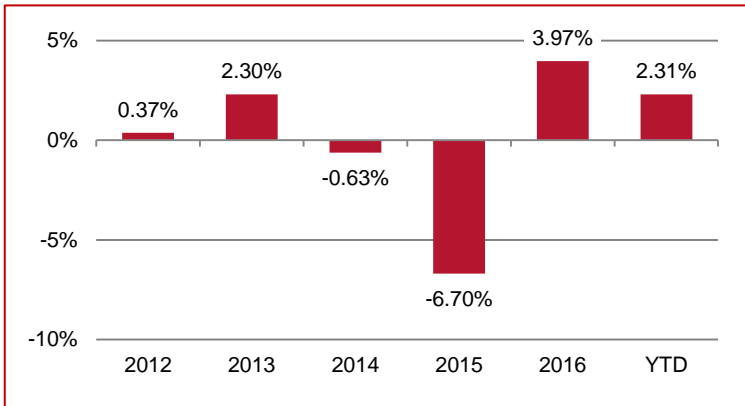
In August, EU manufacturing purchasing managers' index (PMI) registered a hike, 57.4 points vs. 56.8 points in July. The French CAC and the German DAX closed the month with losses of -0.2% and -0.5%, respectively after the appreciation of the single currency. Strong euro is still viewed as a hurdle for European exports. However, the ECB once again did not show determination to keep euro lower.

The best performing sectors in the U.S. were Technology and Utilities. North Korea tensions, hurricane Harvey costs, and uncertainties about debt ceiling and budget added to +0.1% rise of the broad S&P 500 index. As the hurricane was alleged to be one of the costliest damaging companies plants of a few industries and their inventories, it suppressed stock prices.

The energy and financial sector were among the most affected ones. The debt ceiling in the times of natural disaster became a hot issue. Investors diminished their expectations for a rate hike in September, which caused a spike in bond yields and further depreciation of the U.S. dollar vs. euro with -0.6%. The tech-heavy NASDAQ ended the month +1.3% after a good earnings season and expected future announcements of new models.

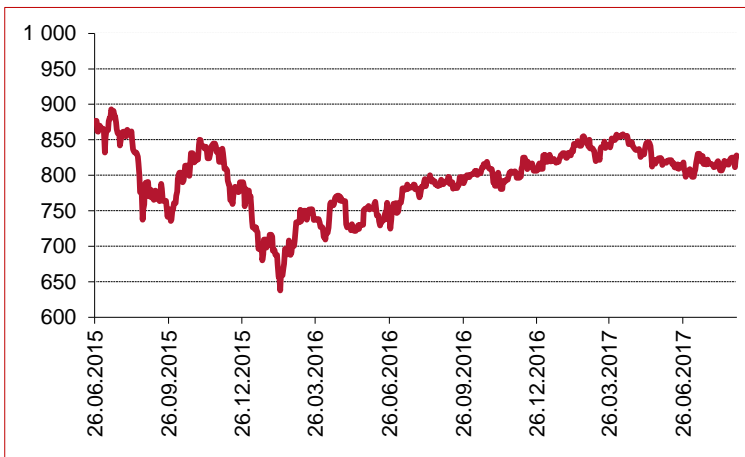
We decreased our exposure to the goldmining industry and increased the exposure to the financial sector. We stay positive on U.S. and Japanese stocks and we forecast Financials, Energy and Healthcare to outperform the broad market in H2.

## Past performance, %

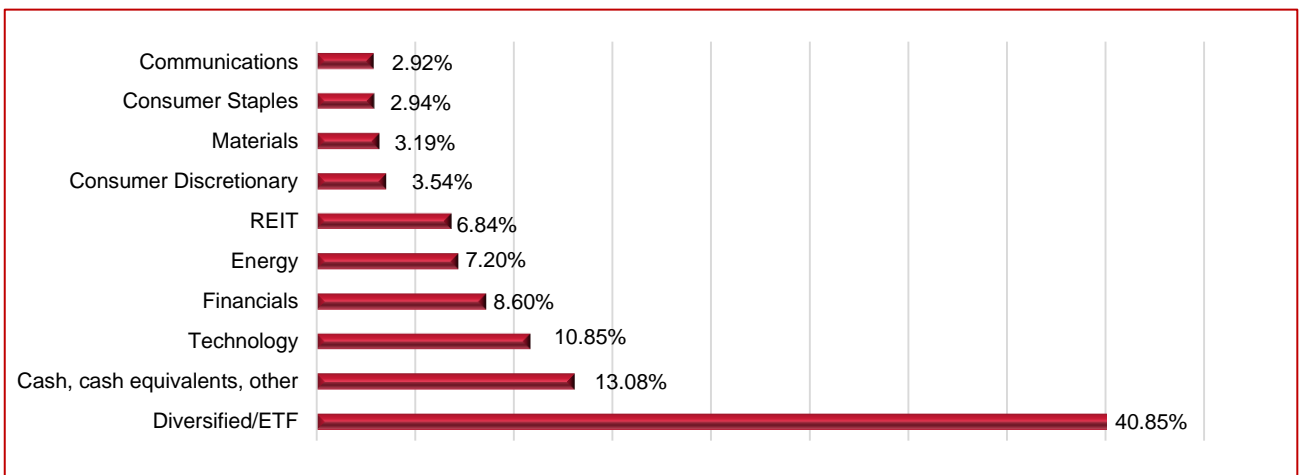


The bar chart of past performance has limited use in predicting future results. Annual expenses are included in the past performance calculations, excluding entry and exit charges.

## Historical NAV per share, BGN



## Industry breakdown, %



## Comments

In August, the MSCI Emerging Markets Index gained +2.0% in US dollars with the lead of Latin America. North Korea tensions, on the other hand, mounted over the month dragging down the indices of Southeast Asia – South Korea and Japan, as well as those of major developed markets.

The Chinese stocks ended the month in the green (CSI 300 +2.3%, Hang Seng +2.4%). Chinese big banks had better-than-expected earnings, benefitting from higher interbank lending rates. In an attempt to deleverage the financial sector, the Chinese national bank increased the interest rate in the beginning of this year. Yet, the path to higher rates and the real leverage situation remain questionable.

Most major EM currencies with the exception of the Brazilian real and Indian rupee, appreciated against the US dollar. The relatively cheaper real and the surge in precious metals added to a rebound in exports, and MSCI Brazil outperformed with +6.0%.

South Africa rose by +2.3% expecting Q2 to have ended the recession. In August, Mexico added only +0.8% in US dollars. On the one hand, the NAFTA agreement will be amended, not scrapped, on the other hand, there is pressure to cut rates and weaken the peso. MSCI India decreased by -1.2% on grim prospects for growth acceleration and pressure to cut rates.

The price of the WTI crude oil decreased to \$47.23 (-5.9%) after the hurricane Harvey forced refineries to shut and higher inventories were expected.

In August we decreased the Fund's position in Mexico on concerns about rate cuts, and we exited financial companies in China and relocated to other sectors.

Expat Capital, with its licensed wholly-owned subsidiary Expat Asset Management, is the largest independent asset management company in Bulgaria. We offer individual investment account management with personalized long-term financial planning strategies which are unique for Bulgaria and the region.

We manage hundreds of individual investment portfolios, three mutual funds with global focus and the exchange-traded fund tracking the performance of the major Bulgarian stock market index SOFIX.

#### Advantages of investing in our mutual funds:

- ❑ **Immediate liquidity.** The fund's units are 100% liquid, the investor may withdraw and deposit funds at any time with no yield losses.
- ❑ **No capital gains taxes.** Investments in mutual funds in Bulgaria are tax exempt – 0% profit tax for legal entities, 0% income tax for individuals.
- ❑ **Dynamic asset allocation** for better diversification and risk reduction. The fund consists of a wide number of financial instruments from different regions, economic sectors and in different currencies. Thus, the investor receives exposure to markets in which a separate investment would be more difficult and expensive. The asset allocation among instrument types, currencies, markets and economic sectors tends to achieve a superior balance between return and risk of the overall investment.
- ❑ **Active and professional portfolio management.** The fund is managed by a team of portfolio managers and financial analysts who monitor the markets and the global economic and political situation. We apply a long-term investment strategy and tactical allocation with the goal of obtaining a higher expected return and balanced risk.
- ❑ **Low investment threshold.** The minimum investment is BGN 100 (around EUR 51) which makes the mutual funds suitable for monthly savings. The Expat funds invest in financial instruments worldwide in different currencies. The funds' shares are traded in BGN, but the investment is not exposed to risks related to the Bulgarian currency.

**expatcapital**

1000 Sofia, Bulgaria  
96A G. S. Rakovski Str.  
Tel.: +359 2 980 1881  
Fax: +359 2 980 7472  
E-mail: office@expat.bg  
Web: www.expatsbg

#### RISK DISCLOSURE

This document has an informative purpose and under no circumstances should any part of it be construed as an offering or solicitation for a trade or investment in any class of investments and/or professional advice connected with investment decisions. Past performance is no guarantee of future performance, and the value of investments can go down as well as up, leading to a significant loss of funds as a result. The investments in a mutual fund or through an investment account are not insured by a guarantee fund or in any other way.

The information included in this document is prepared on the basis of sources which are considered reliable. All the necessary measures are taken to guarantee the precision of the content, but under no circumstances Expat Capital or Expat Asset Management should carry any responsibilities for this content and assume no compensation to the recipients or third parties as far as the precision, completeness and/or the propriety of the information.