



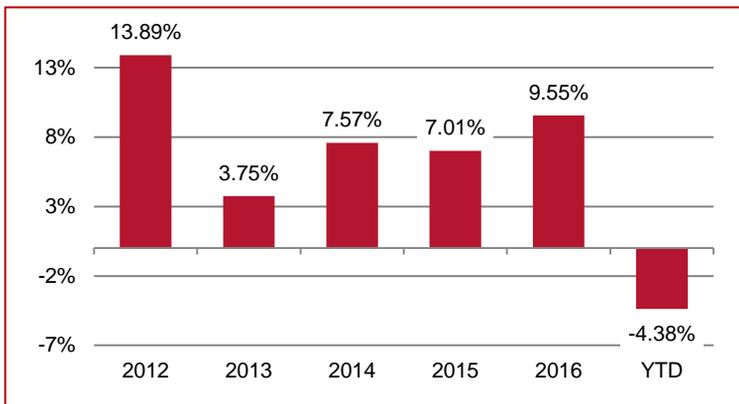
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## **EXPAT MUTUAL FUNDS MONTHLY REPORT**

**July 2017**

## Past performance, %

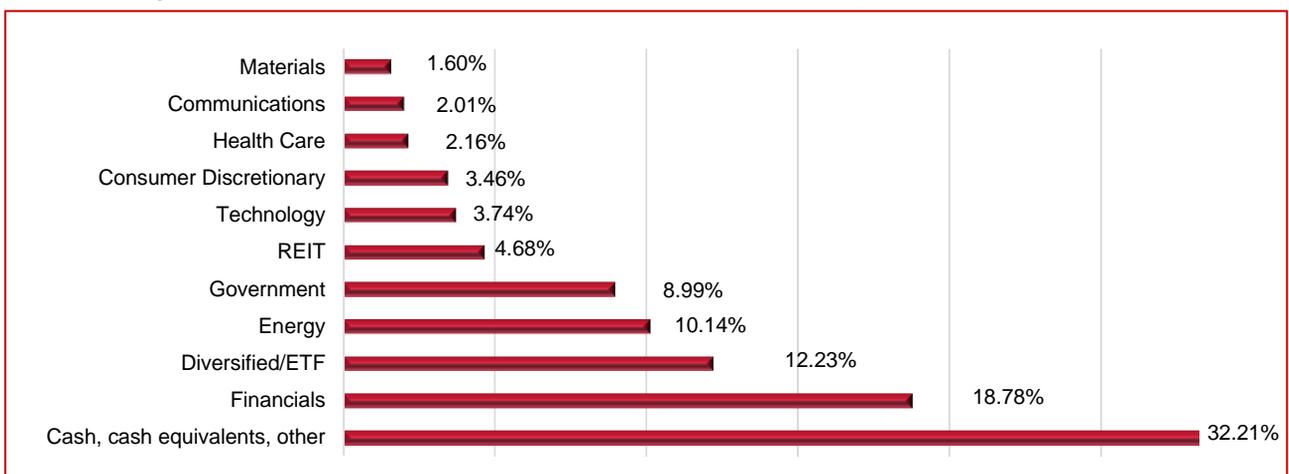


The bar chart of past performance has limited use in predicting future results. Annual expenses are included in the past performance calculations, excluding entry and exit charges.

## Historical NAV per share, BGN



## Industry breakdown, %



## Comments

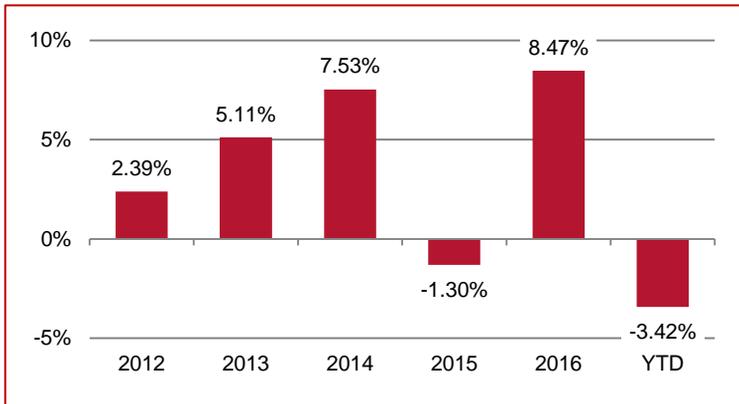
The Fed did not increase interest rates in July but the likelihood of another hike this year decreased. The market is awaiting the beginning of the central bank's balance sheet normalization in the U.S. The increase in risk appetite boosted High Yield corporate bonds which outperformed high quality investment grade debentures. Emerging markets bonds and euro high yield were supported as crude oil prices increased.

With the expected tightening in the developed world, slowing inflation and stabilized currencies, the central banks in the emerging markets are under pressure to cut rates making new bond issues less attractive and putting in risk their local bonds, denominated in local currencies. The drop of the US dollar continued to support Emerging Markets bonds but our Team sees valuations as stretched.

The positive macro data from the Euro area and U.S. calmed down the markets leading to some spread narrowing of bonds, denominated in hard currencies. 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. We took our profits from some of the high yielding bonds from Turkey and other EM.

The depreciation of the U.S. dollar vs. euro with -3.5% is the main reason for the Fund's underperformance during July. Our team remains positive towards perpetual bonds with higher carry and interest rate hedged high yield bonds from U.S. We curbed our overweight position in Emerging Markets and lowered the Fund's duration as we see steeper path of rate hikes than the market. We begun to prepare the Fund's portfolio for gradual increase in global interest rates by increasing the exposure to floating rate bonds and inflation-linkers.

## Past performance, %

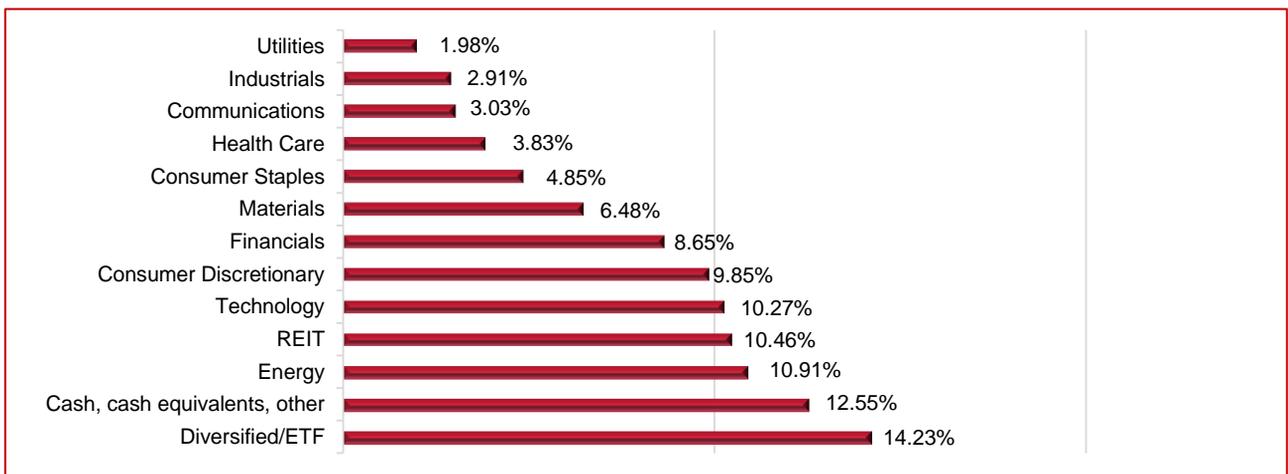


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## Historical NAV per share, BGN



## Industry breakdown, %



## Comments

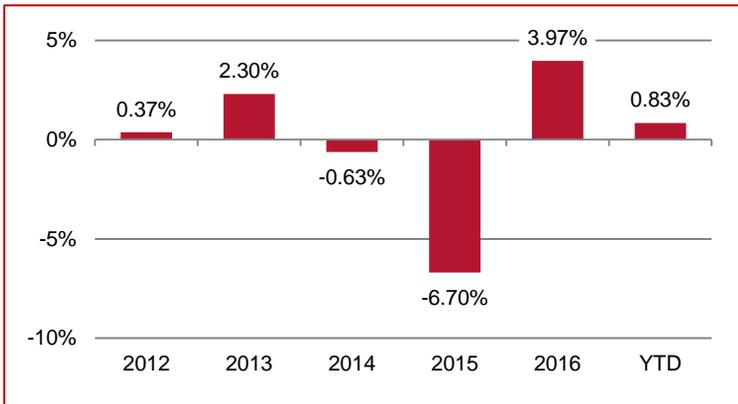
In July, economic data in Europe was generally positive. EU manufacturing purchasing managers' index (PMI) registered a decline, 56.8 points in July vs. 57.4 points in June but remained in expansionary territory. The markets read Fed's statement as dovish which boosted the euro trade while the mixed US macro data was unable to reverse the trend.

The French CAC and the German DAX closed the month with losses of -0.5% and -1.7%, respectively after the appreciation of the single currency. Earnings season was half down at the end of July but the percentage of companies beating estimates was lower than that in the previous season. Strong euro is still viewed as a hurdle for European exports. However, Draghi in his speech was assumed to be less determined to keep euro lower.

The best performing sector in the U.S. was Technology, followed by Energy and Utilities. Corporate earnings data published in July has been better than expected. In the US, companies part of the benchmark S&P index, have on average reported profits +5.1% higher than the analysts' consensus estimates. The financial results were the main drivers of the +1.9% rise of the broad S&P 500 index, while the tech-heavy NASDAQ ended the month +3.4% higher, compensating the sell-off in June. The health bill was not accepted and Trump's reforms were questioned once again. Volatility stays low and correlation high, which created turmoil at the end of the month. Yet data in the last days alleviated concerns.

Further depreciation of the U.S. dollar vs. euro with -3.5% affected negatively our Fund's performance. We decreased our exposure to the utility sector and REITs in the U.S. in July. 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, %

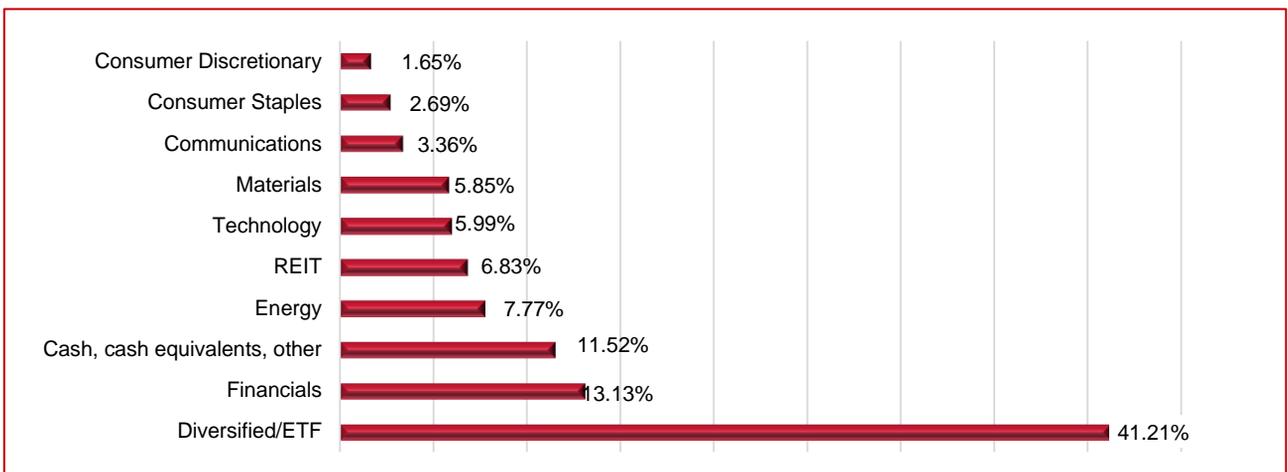


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## Historical NAV per share, BGN



## Industry breakdown, %



## Comments

In July, the MSCI Emerging Markets Index gained +5.5% in US dollars, helped by the dovish Fed, higher crude oil price and good economic data. The Chinese stocks ended the month in the green (CSI 300 +1.9%, Hang Seng +6.0%), after the addition of the China A-Shares to the MSCI emerging markets index in June. Positive GDP data showed yet signs of deceleration in the pace of business activity. But the stable manufacturing data revived the base metal trade and prices increased, driven by Chinese demand. Nevertheless, concerns about the lower borrowing rate and high corporate and private leverage remained.

The appreciation of the major EM currencies against the US dollar may hinder exports. With the expected tightening in the developed world, slowing inflation and stabilized currencies, the central banks in the emerging markets are under pressure to cut rates and boost their economies. In not overleveraged countries this may be bullish for stock markets.

Mexico performed well in July, adding +4.1% in US dollars. India got back on the track as MSCI India increased by +6.5%, while MSCI Brazil outperformed with +10.8% and South Africa +7.5%.

The price of the WTI crude oil increased to \$50.17 (+8.9%) after pressure on Lybia and Nigeria to take part in the cuts. Saudi Arabia stated it would cut exports. Nevertheless, the market is awaiting the OPEC's meeting on the 7-8th August.

In July we increased the Fund's position in India, Indonesia and Malaysia, while we kept our overweight position in Russia and Brazil. We curbed positions in China and Mexico as we see valuations to become stretched.

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.
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- ❑ **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.

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