



# **expat**capital

**CONTROL YOUR MONEY. PRESERVE YOUR WEALTH. BUILD YOUR FUTURE.**

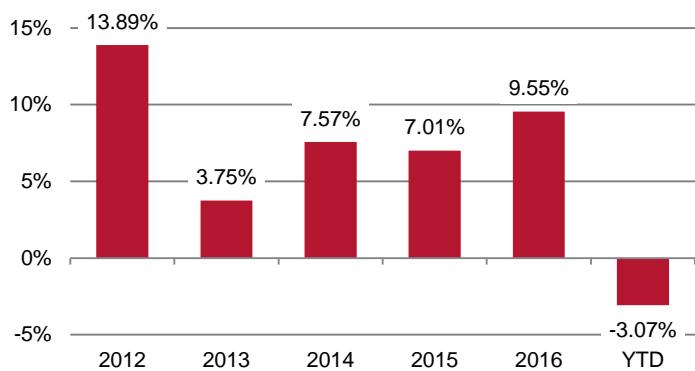
A REMARKABLY DIFFERENT WEALTH MANAGEMENT EXPERIENCE.

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## **EXPAT MUTUAL FUNDS MONTHLY REPORT**

**June 2017**

## Past performance, %

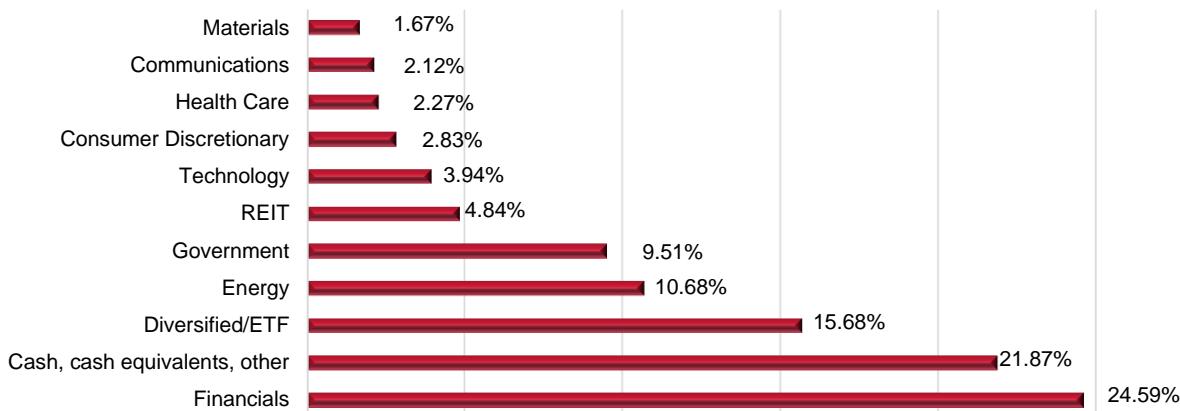


The bar chart of past performance has limited use in predicting future results. Annual expenses are included in the past performance calculations, excluding entry and exit charges.

## Historical NAV per share, BGN



## Industry breakdown, %



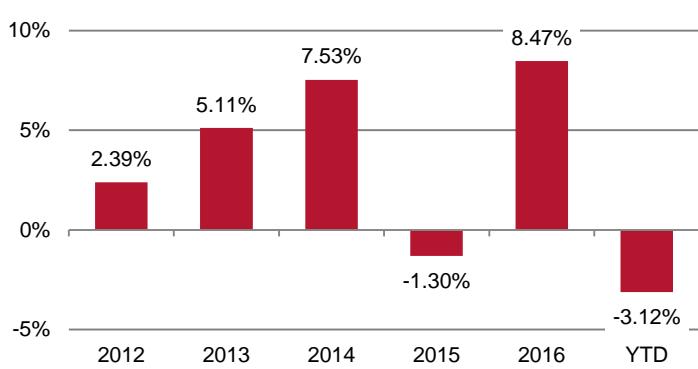
## Comments

The Fed did increase interest rates in June. U.S. investment-grade corporate bonds outperformed higher yielding bonds as we saw some decrease in risk appetite. Investors were skeptical towards Fed's hawkish statement and we witnessed flattening of the U.S. yield curve since mid-March. Emerging markets bonds underperformed after the crude oil prices rout, as their spreads increased.

The positive macro data from the Euro area calmed down the markets leading to some spread narrowing of euro-denominated bonds. Investors are betting on a smooth rate hike schedule by the ECB starting late 2018. However, inflation missing target brings uncertainty to the decisions of the ECB about the reductions and end of QE. Our view is that the end of the QE in the Eurozone is imminent, which is generally good news for European banks, but yet worrisome for European bonds. Thus we remain cautious and unweighted on euro-denominated bonds and we prefer bonds with higher carry like Emerging Markets and U.S. High Yield.

The depreciation of the U.S. dollar vs. euro with -1.6% is the main reason for the Fund's underperformance during June. Our team remains positive towards bonds from the financial and energy sectors and prefer the higher carry from dollar-denominated bonds. We kept our overweight position in Emerging Markets but lowered the Fund's duration as we see steeper path of rate hikes than the market. We began 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, %

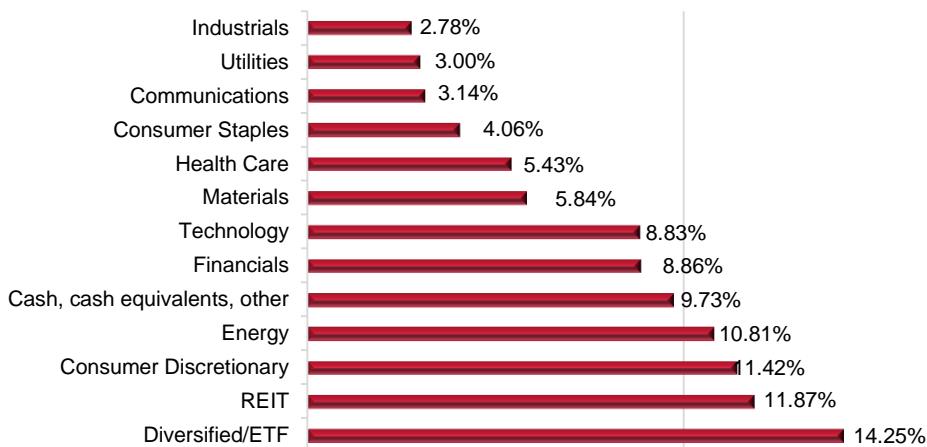


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## Historical NAV per share, BGN



## Industry breakdown, %



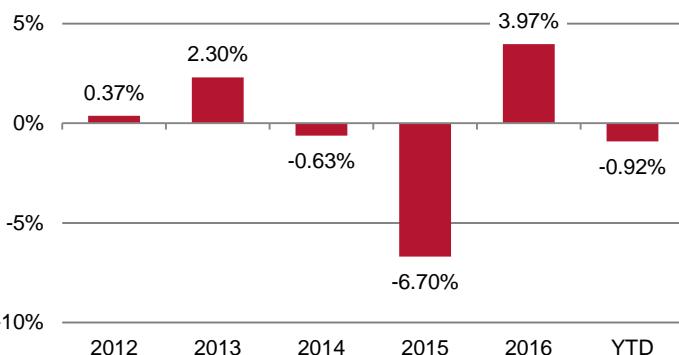
## Comments

In June, economic data in Europe was generally positive suggesting a possible reduction of the QE earlier than expected. EU manufacturing purchasing managers' index (PMI) registered 57.3 points in June vs. 56.8 points in May, an all-time high. Those factors contributed to the appreciation of the euro vs. U.S. dollar. However, the uncertainty about the QE end remains as the inflation is still below the ECB target. The French CAC and the German DAX closed the month with losses of -3.1% and -2.3%, respectively, affected by the poor performance of energy shares and grocers. The latest were hit by Amazon deal. The euphoria of the French president elections faded away and the strong euro caused investors to trim gains.

The best performing sector in the U.S. was Financials. The US equity indices ended the month with mixed performance: the broad S&P 500 Index closed +0.5%, whereas the blue-chip NASDAQ Index closed by -0.9% due to the sell-off of technology stocks. Consumer confidence remains high and the final revision of Q1 GDP was higher, at 1.4% vs 1.2% estimate. Labor market and inflation data came out softer than expected while retail sales post a decline. Nevertheless our team is expecting U.S. economy to reaccelerate in H2 and to witness the Trump's tax reforms until the end of the year.

The depreciation of the U.S. dollar vs. euro with -1.6% affected negatively our Fund's performance. We increased our exposure to the technology sector in U.S. and European stocks in June. We stay positive on U.S. and Japanese stocks and we forecast Financials to outperform the broad market in H2.

## Past performance, %



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## Comments

In June, the emerging markets index MSCI Emerging Markets gained +0.5% in US dollars, helped by the stable global macroeconomic conditions. The Chinese stocks outperformed the broad EM stock markets (CSI 300 +5.0%), due to the addition of the China A-Shares to the MSCI emerging markets index.

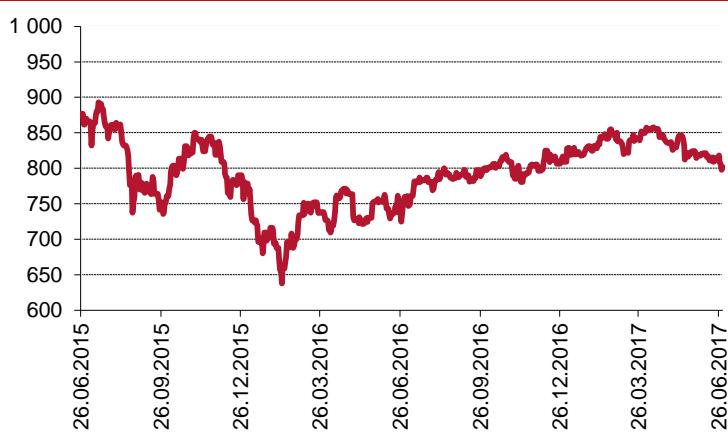
Despite the oil rout, Mexico ended the month in green (+5.5%) after stronger domestic economy and fading concerns about a change of trade rules by Trump's administration. The corruption scandal involving the President Temer with meat producers still stamped recovery in Brazil (-1.8%). Russian stocks continued to fall down (-4.9%) partly due to the lower oil price and political risk.

India registered first monthly drop in 2017 as MSCI India decreased by -0.9%. The government ushered one goods and services tax in the country instead of multiple different taxes. Although this is positive for the economy, it wreaked havoc because the country was tax non-compliant and some people would pay taxes for the first time. Studies in other countries shows that initially prices go up.

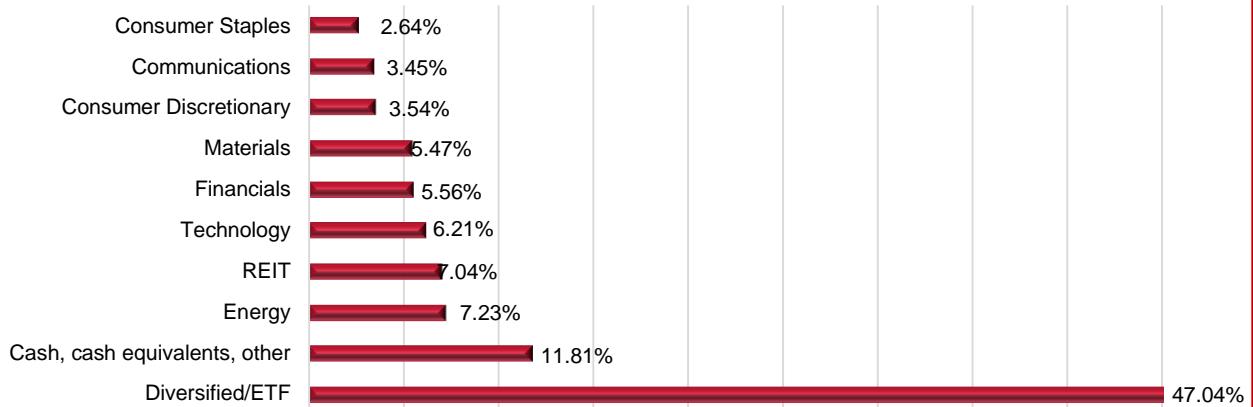
The price of the WTI crude oil fell below 43 to its lowest in 10 months (-4.7%) on persisting concerns for higher US, Nigeria and Libya output in spite of the extension of the OPEC's output cut deal.

In June we increased the Fund's position in India, South Africa and Malaysia, while we kept our overweight position in Russia, Mexico and Brazil. We still view stocks a little bit overvalued in Taiwan and South Korea. For the time being we prefer to be underweight in these countries as political tensions around North Korea intensify.

## Historical NAV per share, BGN



## Industry breakdown, %



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.



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.expat.bg

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