



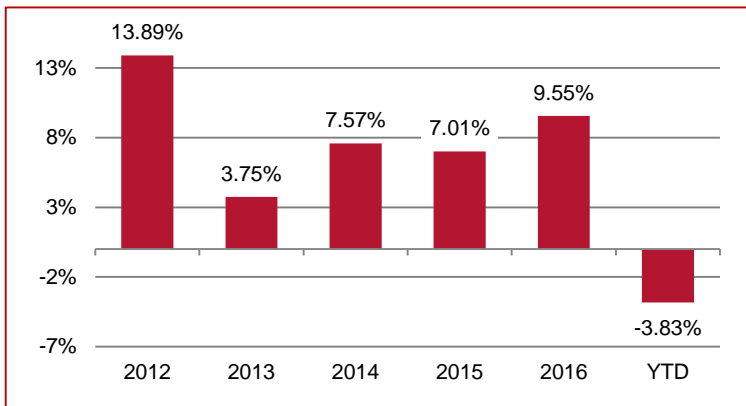
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EXPAT MUTUAL FUNDS MONTHLY REPORT

Oct 2017

Past performance, %

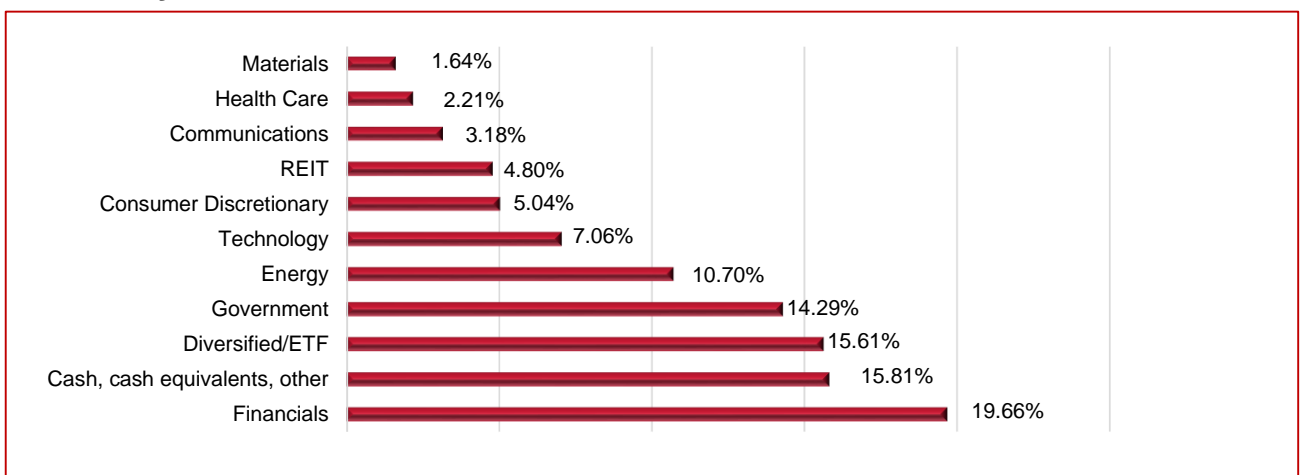


The bar chart of past performance has limited use in predicting future results. Annual expenses are included in the past performance calculations, excluding entry and exit charges.

Historical NAV per share, BGN



Industry breakdown, %



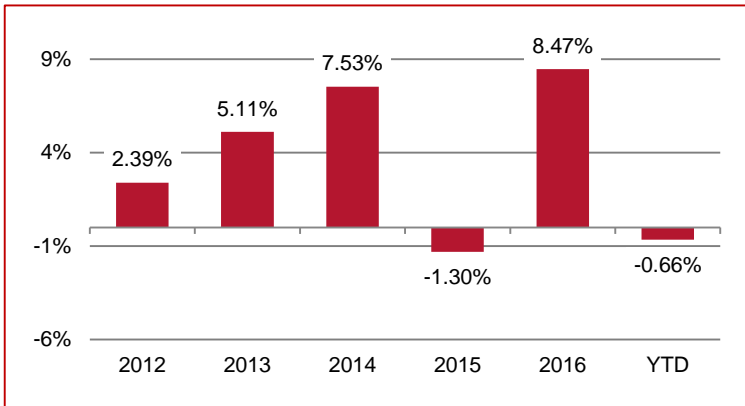
Comments

The scale back of monthly purchases by the ECB to EUR 30 bln. together with extension of quantitative easing programme to at least September 2018 added to further appreciation of the US dollar against the euro by 1.4%. The American currency rose alongside short-term Treasury yields, suggesting interest rate hike bets. However, long-term Treasury yields registered a drop, and thus flattening the curve and infusing investors with uncertainty in the bond market. Investment grade bonds decreased by -0.1%, as compared to High Yield corporate bonds which registered a decrease in the prices of -0.33%.

Emerging markets bonds registered a drop in prices (-0.2%) as a pick-up in inflation and the US dollar makes national banks in emerging markets more cautious to cut rates. Stronger dollar will put in risk their dollar-denominated bonds, especially South-East Asia, where foreign investors have a big share. Gold after the ease of Catalonia tensions fell down by -0.7%.

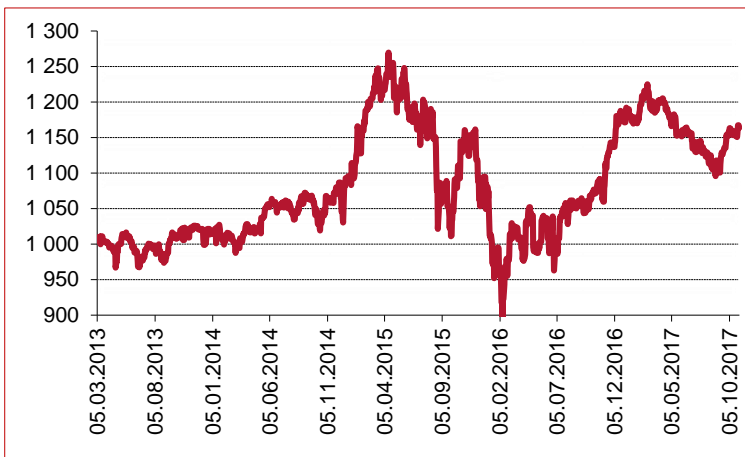
Our view is that the developed countries are starting to tighten their monetary policies and the end of the QE in the Eurozone is imminent. Thus we remain cautious and underweight on euro-denominated bonds. Our team also remains positive towards perpetual bonds with higher carry and interest rate hedged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

Past performance, %

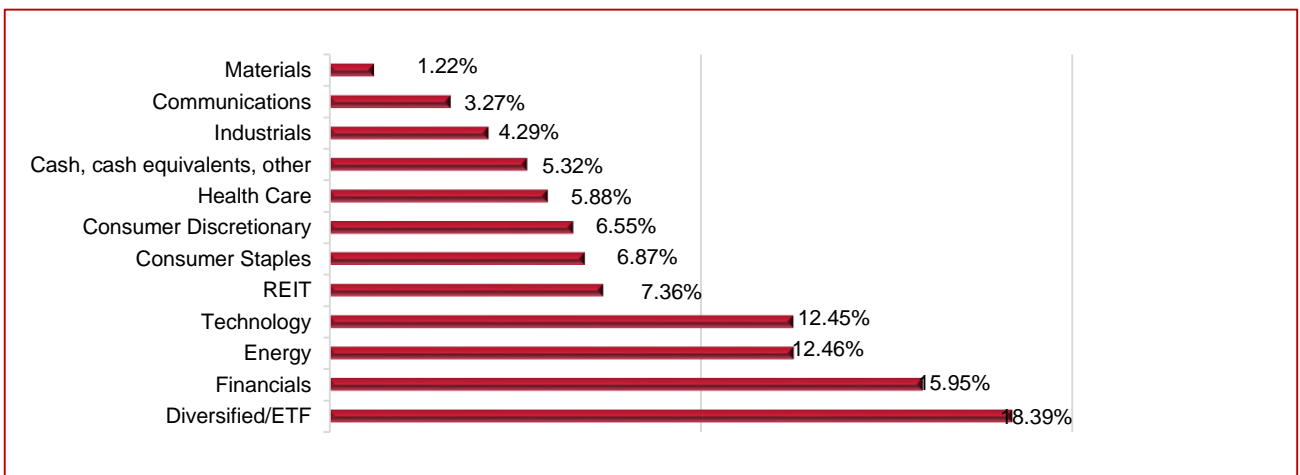


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Historical NAV per share, BGN



Industry breakdown, %



Comments

In October, EU manufacturing purchasing managers' index (PMI) jumped to 58.6 points vs. 58.2 points in September. Consumer confidence in the EU kept rising and companies struggled to cope with the high demand. The French CAC and the German DAX closed the month again with gains of +3.4% and +3.1%.

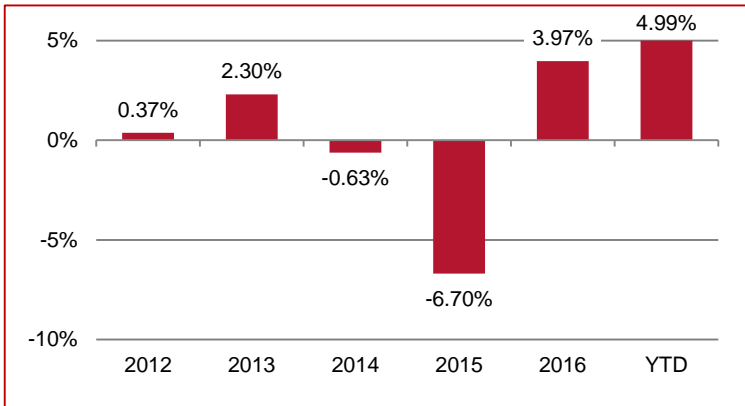
The best performing index in the developed markets was the Japanese Nikkei 225 which rose more than +8.1%. The convincing win of Prime Minister Abe in the preliminary elections opened the door for new reforms, while Japanese companies reported substantial earnings growth.

The ECB announced the scale back of its monthly purchases to EUR 30 bln. while extending its quantitative easing programme to at least September 2018. The resolution of Catalan crisis was taken positively by the market participants. As a result, the euro retreated by -1.4% vs. the US dollar, combined with progress on Tax Reform in the U.S. On the other hand, Trump's nominated a new Fed Chair. Powell is expected to continue Yellen's policy of smooth rate trajectory.

The best performing sector in the U.S. was Technology after a strong earnings season. The broad S&P 500 index added to +2.2%. The tech-heavy NASDAQ ended the month +3.6%. Philadelphia Fed Manufacturing Index increased to 27.9 from 23.8, suggesting positive business conditions.

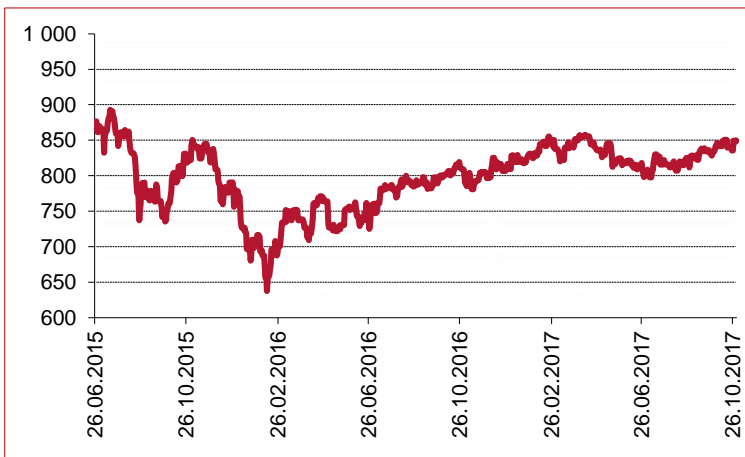
We stay positive on U.S. and Japanese stocks and we forecast Financials and Energy to outperform the broad market in H2.

Past performance, %

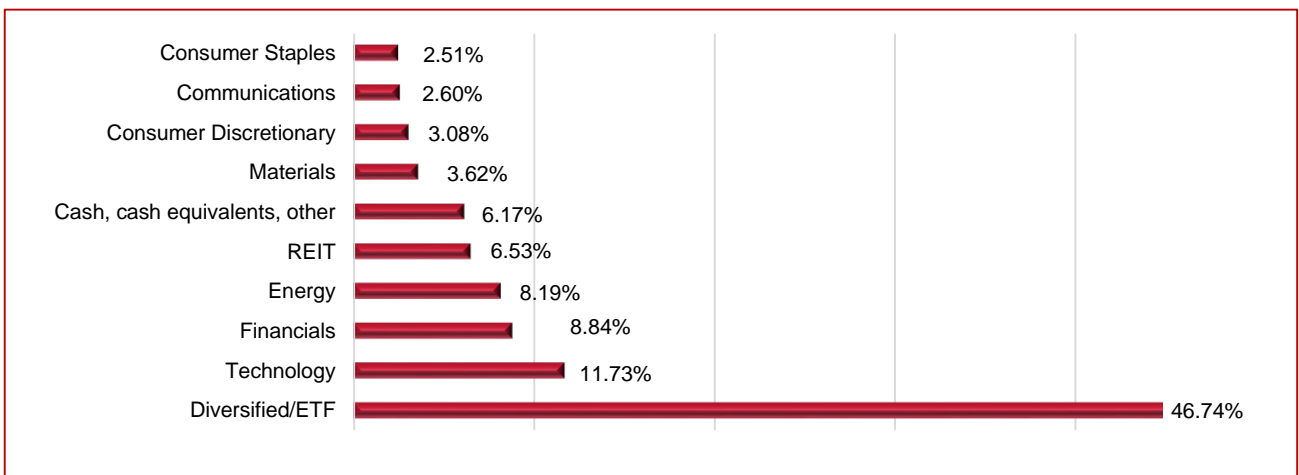


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Historical NAV per share, BGN



Industry breakdown, %



Comments

In October the MSCI Emerging Markets Index gained +3.5% in US dollars, and India outperformed. The new tax reform in the latter showed itself as beneficial for business purposes in the earnings season.

The Chinese stocks ended the month in green (CSI 300 +4.4%, Hang Seng +2.5%). The long-expected National Congress of the Communist Party of China gave nobody a surprise.

The fears that the implementation of the goods and services tax and the cash ban from the last year in India will have an adverse impact faded away, with MSCI India up +6.4%. Companies could weigh the effect and measure the improvement.

In October, however, Mexico lost -7.7% in US dollars. Uncertainties about the NAFTA Agreement and political instability regarding the coming elections next year affected the performance of the Mexican market. In South America, raking over the political scandals led to a drop of -3.4% in the MSCI Brazil.

The price of the WTI crude oil increased to a two-year high of \$54.38 (+5.2%) after a drop in the US spread between current inventories and 5-year average inventories, and talks about prolongation of cuts.

We kept our exposure to India and consider Taiwan and South Africa as underpriced.

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.

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- ❑ **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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