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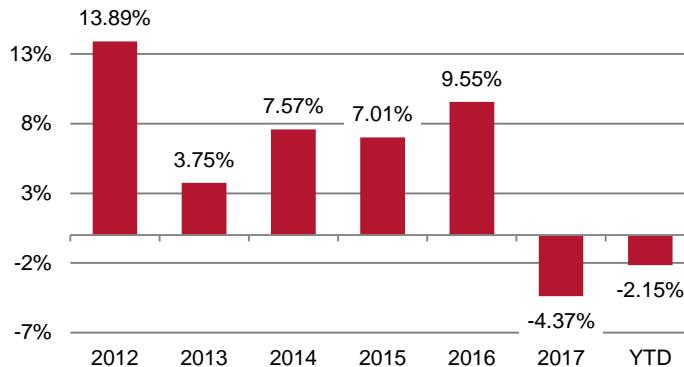
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EXPAT MUTUAL FUNDS REPORT

Q2 2018

Past performance, %

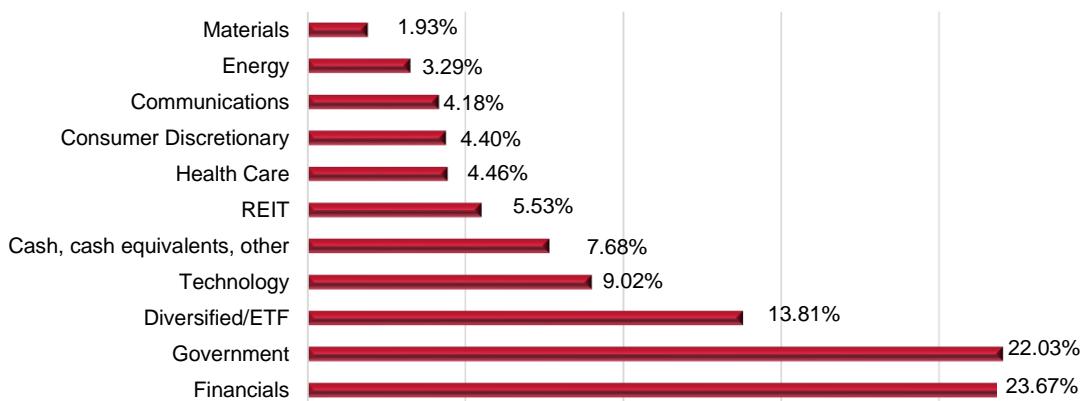


The bar chart of past performance has limited use in predicting future results. Annual expenses are included in the past performance calculations, excluding entry and exit charges.

Historical NAV per share, BGN



Industry breakdown, %



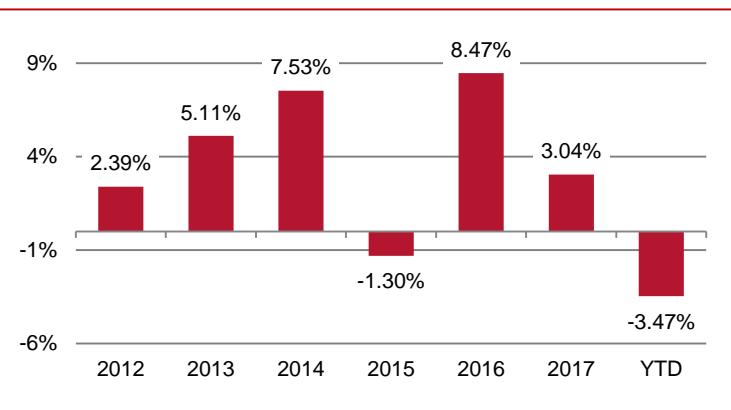
Comments

Soft European data in June added to slight appreciation of the U.S. dollar against the euro by +0.8%. However, long-term Treasury yields plunged with uncertainty around trade wars. Investment grade bonds decreased by -0.8%, as compared to High Yield corporate bonds which registered a decrease in the prices of -0.4%, but gold went down in sync by -3.8%. Yet the spread between high yield corporate bonds and investment grade bonds is historically low but enlarging.

Emerging markets bonds registered a decrease in prices (-2.3%) as trade tensions between the U.S. and China intensified. The US dollar stabilized its drop. Yet weak dollar mitigated concerns of national banks in emerging markets to cut rates because it does not add risks to their dollar-denominated bonds, especially South-East Asia, where foreign investors have a big share.

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.

Past performance, %

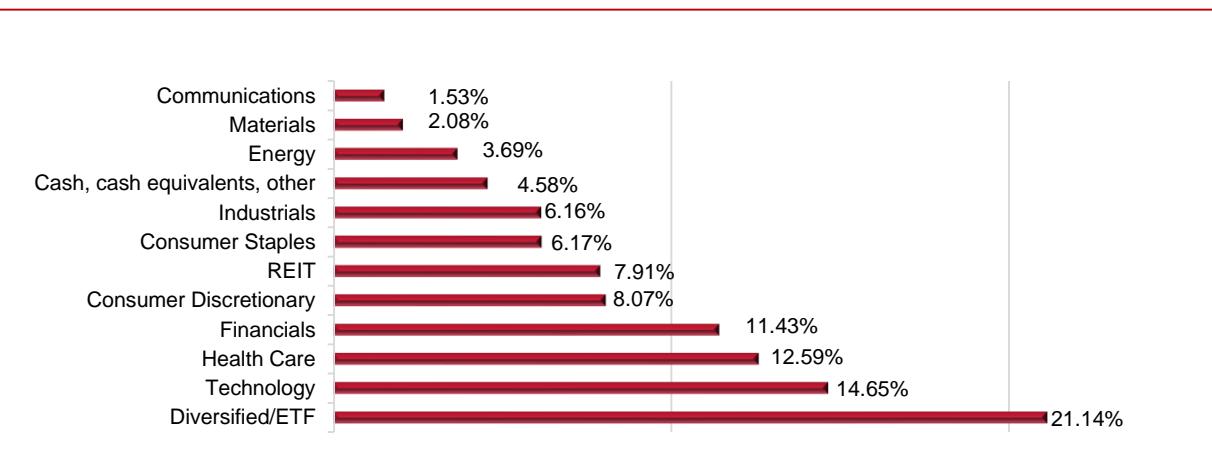


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Historical NAV per share, BGN



Industry breakdown, %



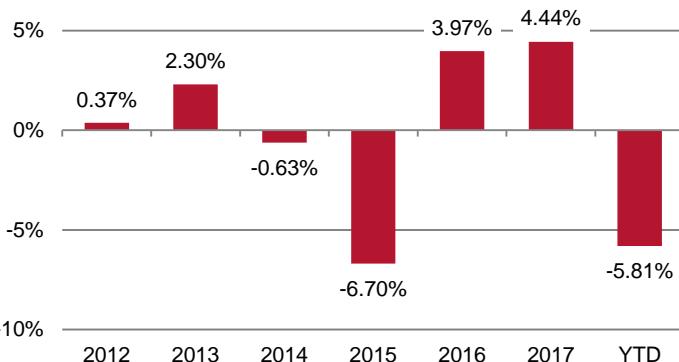
Comments

In June, EU manufacturing purchasing managers' index (PMI) kept dropping, this time to 55 points from 55.5 points in May. Consumer confidence in the EU also registered a decline. The ECB plan of the end of QE extends further away in time contributing to a gain of +0.8% for the USD against the euro in June. The French CAC and the German DAX closed the month with losses of -1.4% and -2.4%. Late June data from the EU showed slight improvement.

The Japanese central bank cut its estimates for the inflation this year as uncertainty and volatility in the markets created a flight to the yen leading to its appreciation. Nikkei increased by +0.5%.

The sector of Consumer Discretionary in the U.S. surged in June, followed by the rather defensive sectors of Utilities and Consumer Staples. The broad S&P 500 index gained +0.5%. The tech-heavy NASDAQ ended June +0.9%. Philadelphia Fed Manufacturing Index also decreased to 19.9 from 34.4. The surge in the price of crude oil generated inflationary concerns and Trump tweeted his worries about the high price.

Past performance, %



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Comments

During the second quarter, trade tariffs kept causing heated discussions. China retaliated with reciprocal measures in July. Trump announced further tariffs for about \$200 bn starting in late August. The MSCI Emerging Markets Index lost -4.6% in US dollars in June on continuing fears of trade wars inspired by American president tariff suggestions.

The Chinese stocks ended June in red (CSI 300 -7.7%, Hang Seng -4.9%) after Trump took a hard line against Chinese exports. At the latest, China could not avert the U.S. tariffs. The RTS index dropped -0.8% in US dollars.

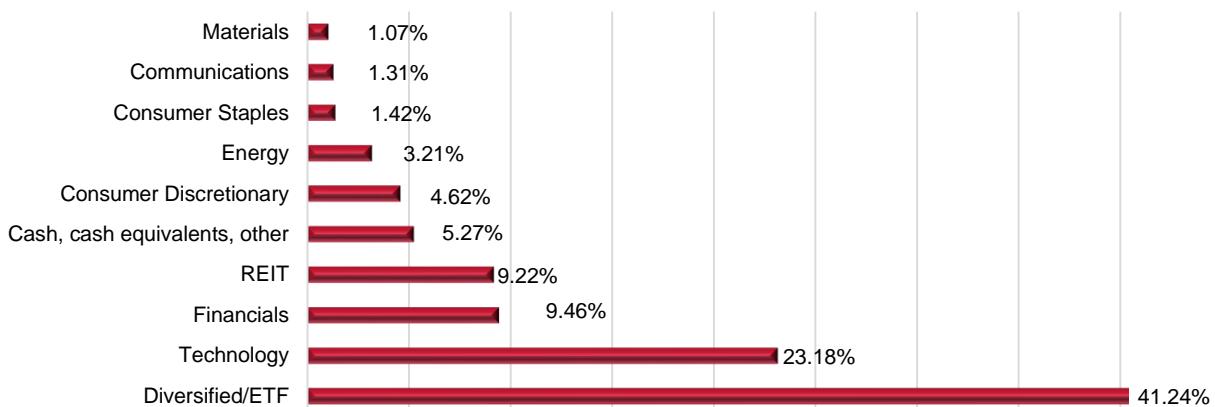
In June, Mexico gained the most +8.8% in US dollars after the president elections and the rather centrist policies suggested by the leftist president. Trump concentrated on China giving room for rest for the EU, Canada and Mexico. South America followed the lead and MSCI Brazil dropped -8.5%.

The price of the WTI crude oil increased to above \$70 (+10.6%) on pending sanctions on Iran.

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 a family of exchange-traded funds tracking the performance of major equity indices from the CEE region.

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.



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