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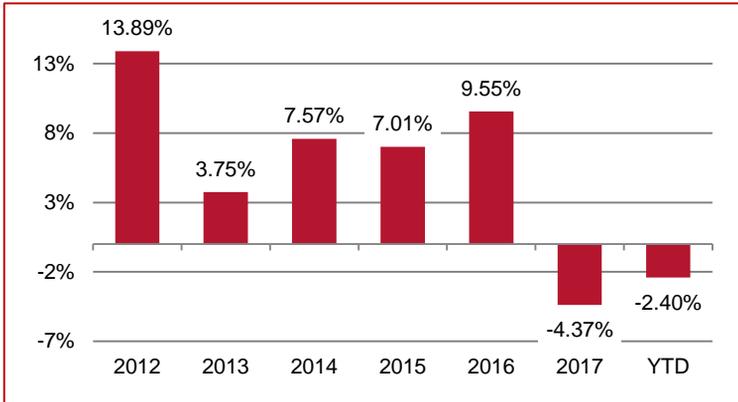
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A REMARKABLY DIFFERENT WEALTH MANAGEMENT EXPERIENCE.

EXPAT MUTUAL FUNDS REPORT

Q3 2018

Past performance, %

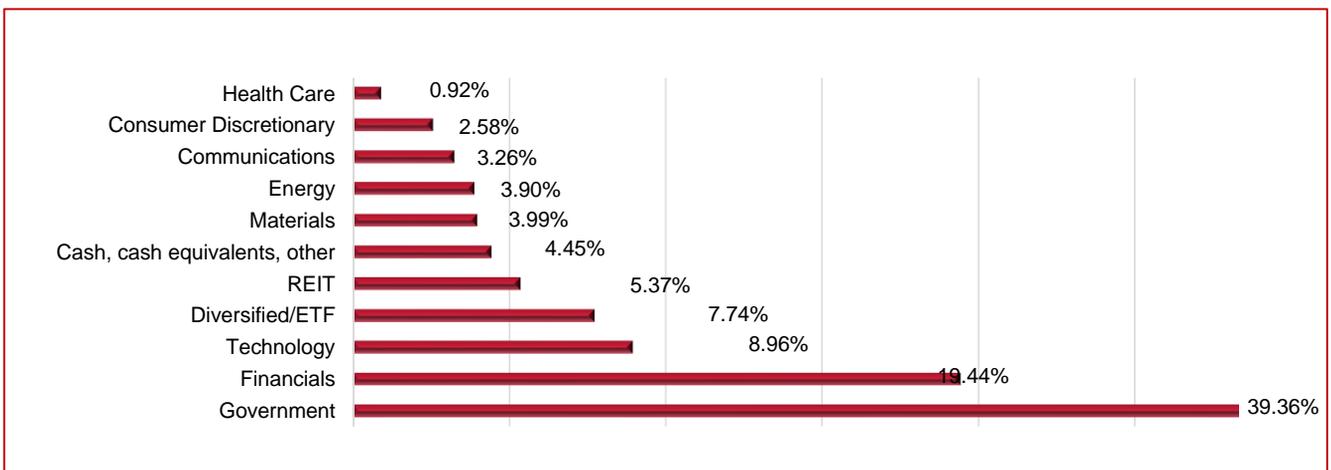


The bar chart of past performance has limited use in predicting future results. Annual expenses are included in the past performance calculations, excluding entry and exit charges.

Historical NAV per share, BGN



Industry breakdown, %



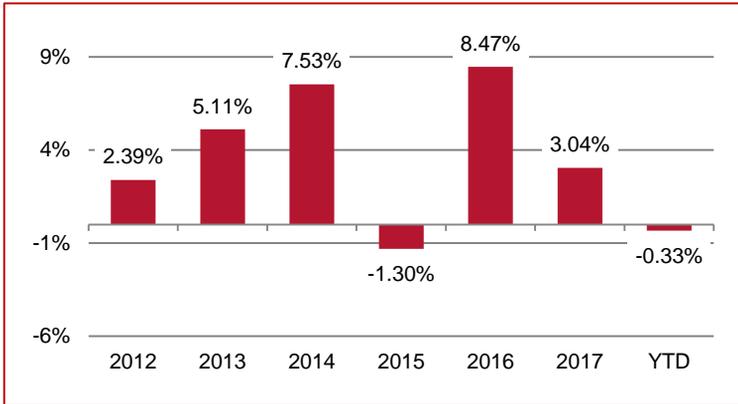
Comments

Soft European data in September and Italian budget worries prevented euro from stable appreciation against the U.S. dollar by +0.02%. However, long-term Treasury yields jumped with uncertainty about inflation and rate hikes. Investment grade bonds decreased by -0.4%, as compared to High-yield corporate bonds which registered a small increase in the prices of +0.1%, but gold went down in sync by -0.8%. Yet, the spread between high-yield corporate bonds and investment grade bonds is historically low.

Emerging markets bonds registered an increase in prices (+1.6%), as trade tensions between the U.S. and China softened. The US dollar increased versus its level in the first half of the year. Inflation concerns prevents national banks in some emerging markets from cutting rates but rather increasing them.

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, %

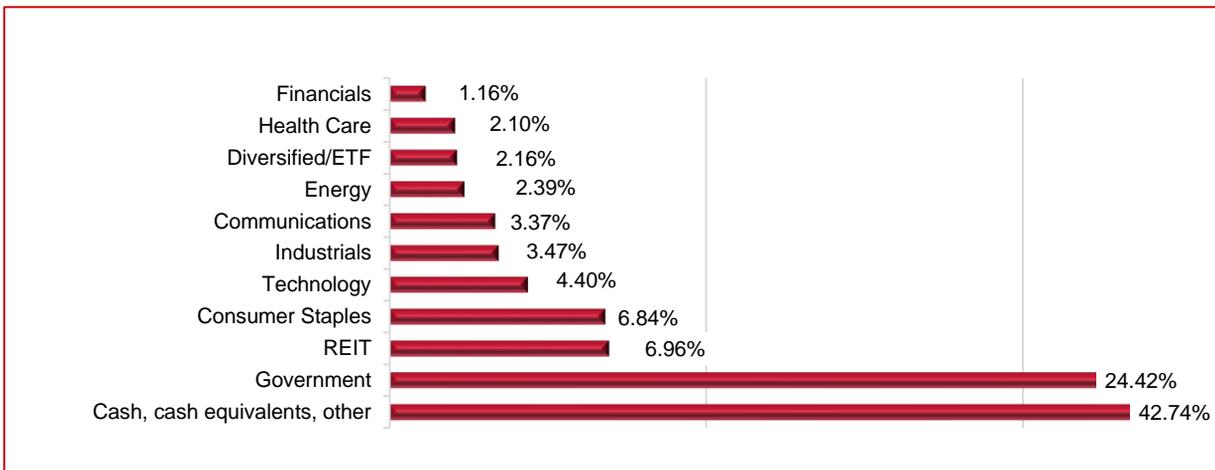


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Historical NAV per share, BGN



Industry breakdown, %



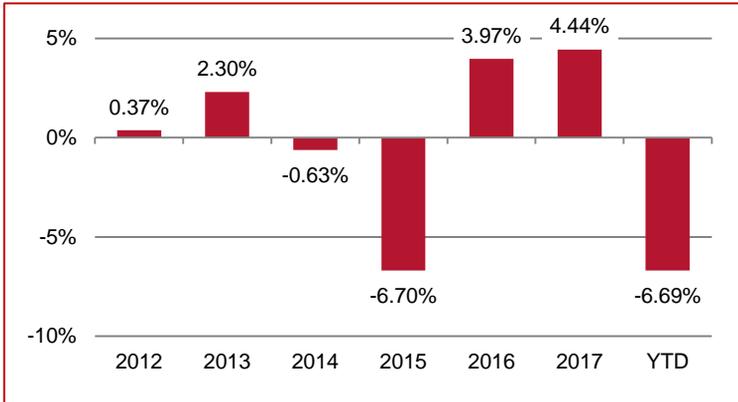
Comments

In September, EU manufacturing purchasing managers' index (PMI) kept dropping, this time to 53.3 points from 55.7 points in August. Consumer confidence in the EU also registered a decline. USD lost -0.03% against the euro in September after euro retreated due to Italian budget discussions and a Fed rate hike. The French CAC and the German DAX closed the month with +1.6% and -0.9%, respectively.

Japan benefitted from trade tensions and its economy expanded in the third quarter. Nikkei increased by +5.5%.

The Health Care and the Energy sectors in the U.S. surged in September, followed by Consumer Discretionary and Consumer Staples. The broad S&P 500 index gained +0.4%. The tech-heavy NASDAQ ended September -0.8% over concerns of overvaluation. Philadelphia Fed Manufacturing Index increased to 22.9 from 17, though. The surge in the price of crude oil generated inflationary concerns, and Trump tweeted his worries about the high price.

Past performance, %

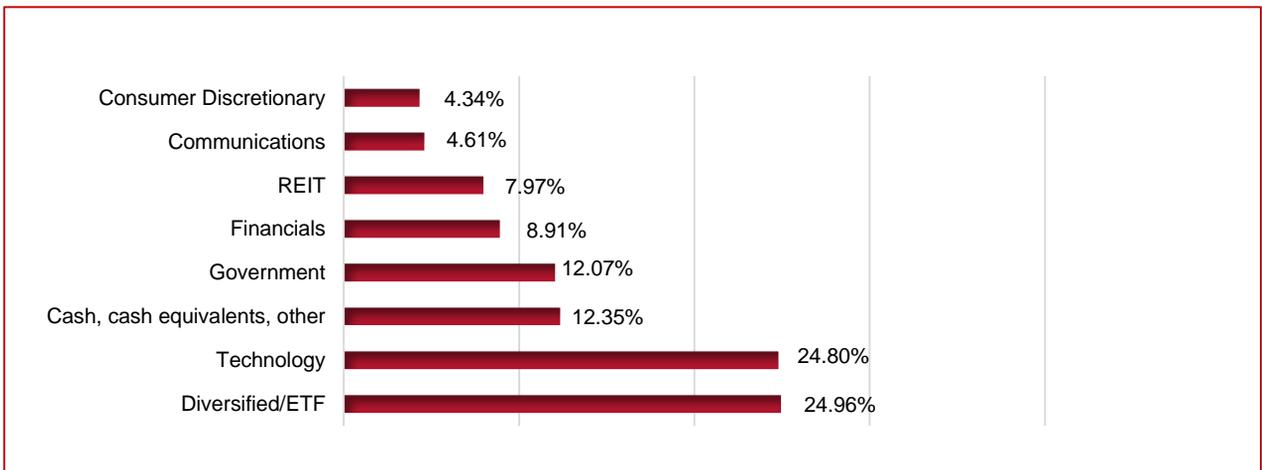


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Historical NAV per share, BGN



Industry breakdown, %



Comments

During the third quarter, trade tariffs kept causing heated discussions. China retaliated with additional reciprocal measures in August. The MSCI Emerging Markets Index lost -2.1% in US dollars in September after further Fed rate hike and renewed inflation concerns due to the commodities price spike.

The performance of Chinese stocks in September was mixed (CSI 300 +3.1%, Hang Seng -0.4%) after calming down investors' anxiety, although trade talks remain unsettled and further tariffs were imposed in the third quarter. Yet, CSI 300 is -14.7% down year to date.

The RTS index gained 9.1% in US dollars after the drop in the first half of the year.

In September, Mexico gained +1.6% in US dollars amongst falling emerging markets. The country's improved relationships with the U.S. and president's suggested policies contributed to less volatility in the summer during the peak of trade talks. South America followed the lead, and MSCI Brazil gained +6.8% in expectation Jair Bolsonaro to win the elections and take control of Brazil.

The price of the WTI crude oil increased even further to above \$75 (+4.4%) on expectations of supply decrease due to sanctions on Iran which cannot be matched by other OPEC countries.

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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