

# EXPAT NEW EUROPE PROPERTIES

ANNUAL REVIEW: JANUARY – DECEMBER 2009

## SUMMARY: GOOD DECEMBER 2009 (+1.0%) AND A POSITIVE YEAR OVERALL (+1.64%). RANKING: 1<sup>ST</sup> IN THE SUB-GROUP OF REAL ESTATE MUTUAL FUNDS IN BULGARIA

We are satisfied with the fund's performance in December 2009. The Bulgarian stock market had a tough month with SOFIX dropping by -5.42%, BG40 by -4.60%, and the real-estate-specific BGREIT by -0.39%. However, for the same period **Expat New Europe Properties** rose by +1.0%, i.e. we outperformed the market. We see three reasons for this:

- 1) **Successful security selection.** Our individual positions did not fall but rather rose, especially the ones we added in the fourth quarter. Benchmark REIT is one example.
- 2) **Successful market timing.** As we wrote in our October and November reports, since September we had been sceptical about the direction of the Bulgarian stock market. Thus, in the fourth quarter we were increasing the weight of bank deposits yielding over 9% p.a.
- 3) **Successful trading.** Simply, "buy low, sell high".

Overall, the fund had a positive, although not good enough year 2009 with a yield of +1.64%. To the best of our knowledge, **Expat New Europe Properties** ranks 1<sup>st</sup> among those mutual funds which target real estate market instruments, which we consider success. We have achieved this with quite low volatility. The fund has actually recuperated most of its losses from 2008, and is now quoted at almost 99% of its initial value.

## OUR STRATEGY FOR 2010

The prospects for the market in 2010 are mixed, in our view. The market is in a typical recession mood – low balance sheet valuations with falling or negative earnings. We intend to follow several strategies:

- 1) **Security selection:** look for stocks (mostly REITs) with very low valuations, as well as for special turnaround situations (mostly involving REITs divesting successfully some of their projects)
- 2) **Market timing:** stay underinvested, and look for the "inflection point" of the market
- 3) **Trading:** look for short term price aberrations, especially in the less liquid stocks

## 1. GENERAL INFORMATION

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### Quotations and statistics

Current indicators and quotations	
Net asset value per share (BGN)	988.6382
Net asset value (BGN)	444 684.41
Outstanding shares	449.7949
Beginning of the public offering	16.06.2008
Issue price (according to the amount) – if you invest now in the fund	
Up to BGN 100,000	BGN 998.5246
Between BGN 100,000.01 and 500,000	BGN 993.5814
Between BGN 500,000.01 and 2,000,000	BGN 990.6155
Above BGN 2,000,000	BGN 988.6382
Redemption price (according to the period) – if you withdraw your investment from the fund	
Up to 12 months	BGN 978.7518
From 12 to 24 months	BGN 983.6950
Over 24 months	BGN 988.6382
Yield (%)	
Since the beginning of the public offering (on an annual basis)	-0.75%
Since the beginning of the year	+1.64%
Average monthly return (after six months from the IPO)	+0.14%
Highest monthly profit	+1.92%
Highest monthly loss	-1.48%

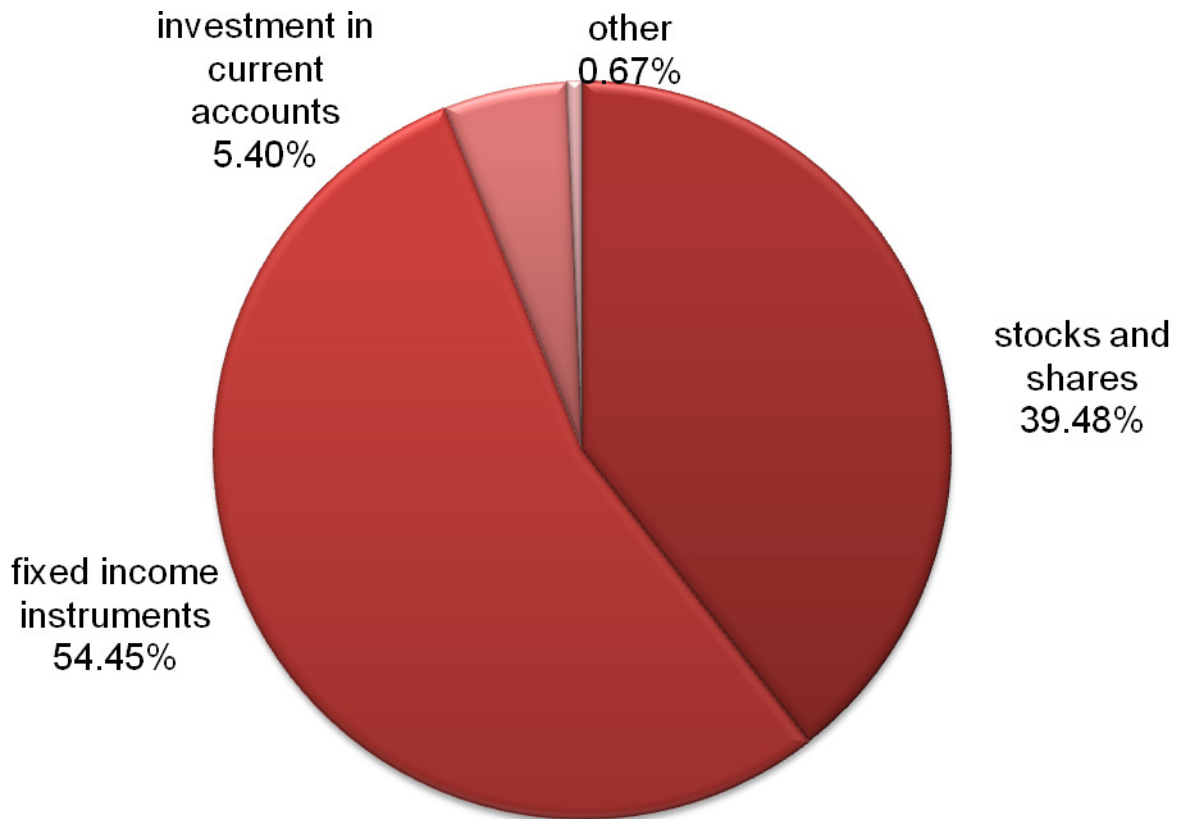
Source: Expat Asset Management

#### COMMENT – COMBINING POSSIBLE HIGH RETURNS WITH GOOD LIQUIDITY

The mutual fund **Expat New Europe Properties** is suitable for investors who would like to have exposure to the Bulgarian and East European real estate markets through collective investment schemes. In “good years”, profits could be significant. Our team is doing everything necessary to decrease the risk through skilful management in times of market crises such as during the last two years. Despite the crisis, our funds keep their quotations very close to their starting levels of 2008, which we consider success. We advise our clients to combine the investments in this fund with investments in other funds of ours, in order to additionally decrease the risk. A big advantage of mutual funds such as this one is that the clients can draw out or deposit their money every day, as well as liquidate the entire investment, if they decide to do so.

## 2. CURRENT PORTFOLIO STRUCTURE

### Portfolio structure according to the fund's assets



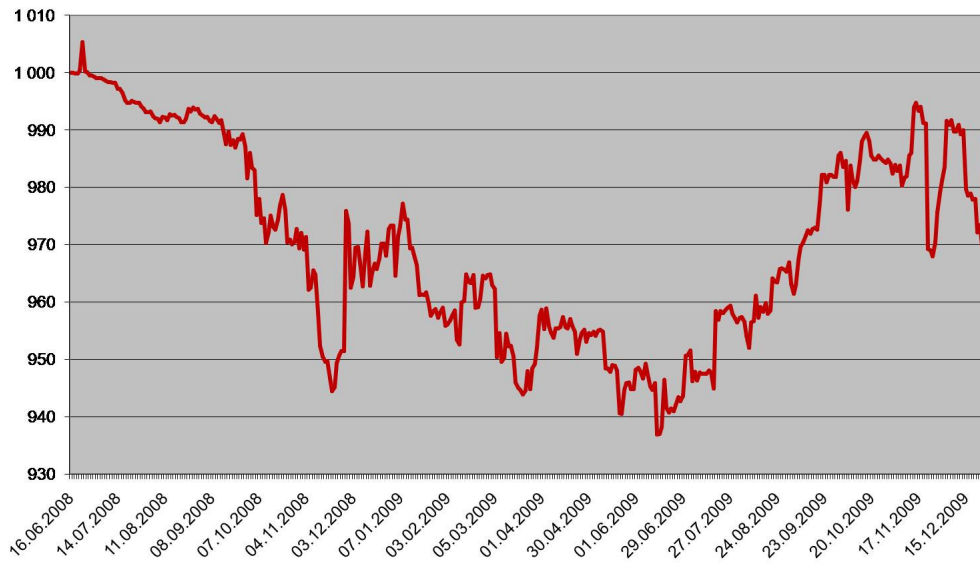
Source: Expat Asset Management

#### COMMENT

We are currently continuing our strategy for the mutual fund **Expat New Europe Properties** to invest minimum amounts in stocks and other funds, because we are not optimistic about the short-term direction of the financial and real estate markets. The month of December was worse than November for the real estate market – BGREIT is down -0.39%. However, we have succeeded to keep the positive yield – +0.99%. In December, we did not add new companies to our portfolio as we are waiting for the stocks that we find attractive to reach suitable levels. We continue to keep a considerable part of the investments in the high-yielding term bank deposits, and we are ready to redirect to stocks that we consider undervalued. Currently, we pay high attention to the analysis of the real estate market, and we continue to identify interesting companies in which we could eventually invest.

### 3. NET ASSET VALUE PER SHARE

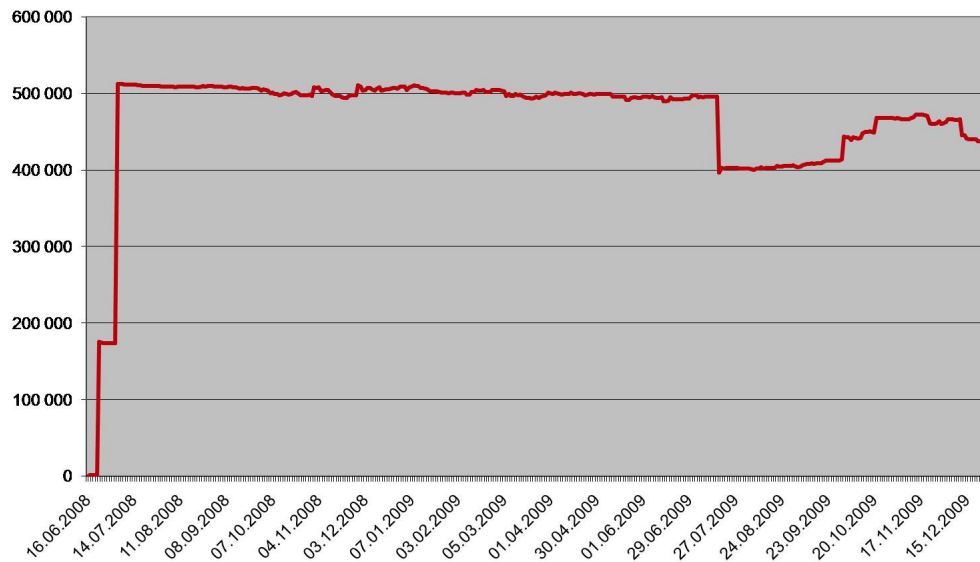
#### Net asset value per share (BGN per share)



Source: Expat Asset Management

### 4. NET ASSET VALUE OF THE FUND

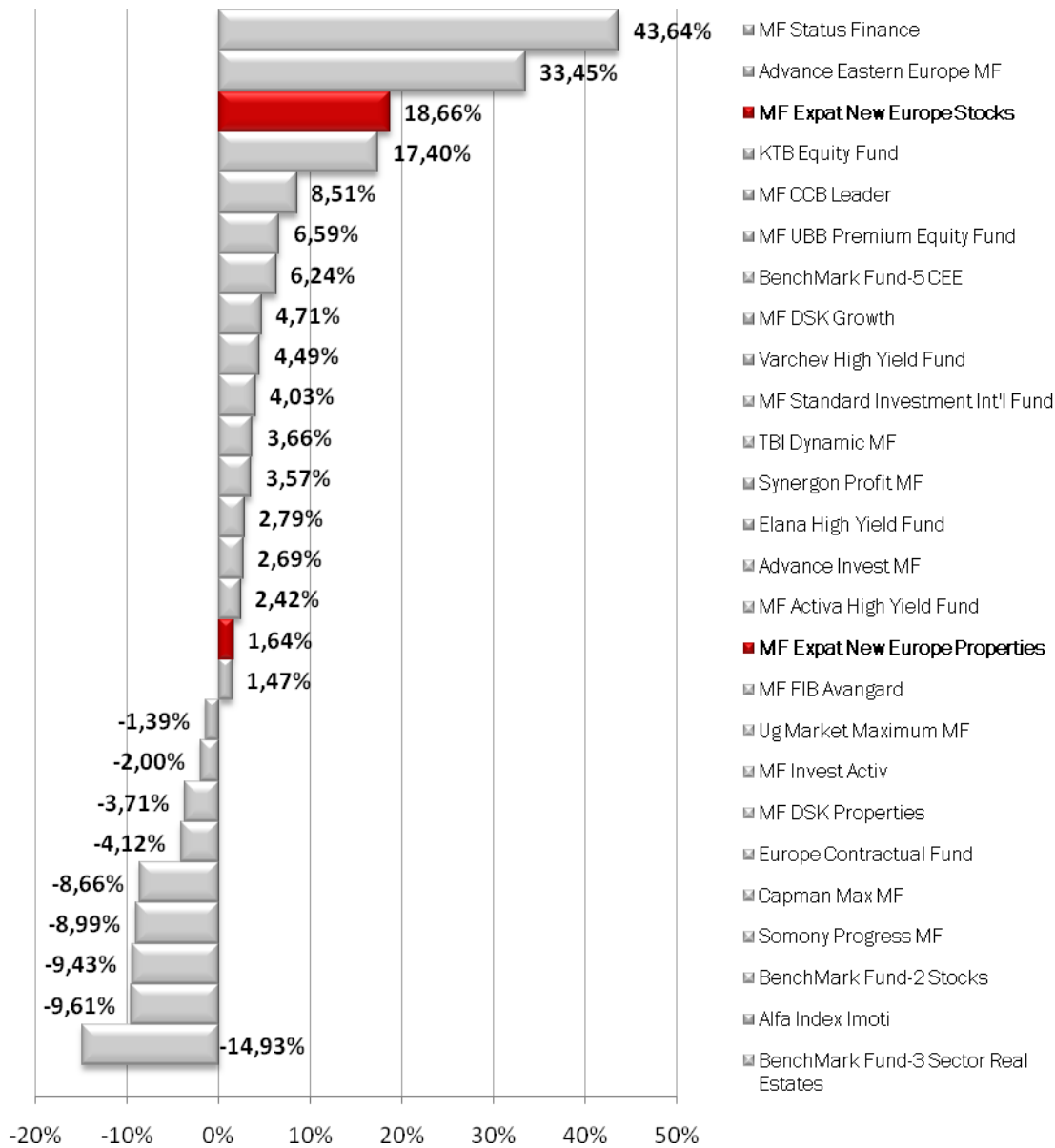
#### Net asset value (BGN) – all the assets of the fund



Source: Expat Asset Management

## 5. COMPARATIVE PERFORMANCE OF THE FUND

### Performance of selected funds for 2009, %



Source: Expat Asset Management, Bulgarian Association of Asset Management Companies

Note: There are about 100 funds in Bulgaria. In this chart we have selected some of the biggest and most popular funds. We have not selected only funds which could be considered favourable for our comparison. The yield of every mutual fund is calculated using the last calculated net asset value per share for 2009.

## COMMENT

As it can be seen from the chart, the return of mutual fund **Expat New Europe Properties** for the whole 2009, although “above zero” at +1.64%, is not very high, because the whole asset category – real estate – is having a tough year. Yet, our fund has a positive year in contrast to most of the instruments related to real estate. In addition, the upper charts show that this fund has very low volatility (movements up and down), and even in its lowest point it had fallen by about -7% from its maximum, which makes it a good defensive instrument. Our expectations about the future profitability are higher, as the fund has invested in shares of REITs which we consider undervalued.

## 6. CONTACTS

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