

EXPAT NEW EUROPE STOCKS

ANNUAL REVIEW: JANUARY – DECEMBER 2009

SUMMARY: EXCELLENT DECEMBER 2009 (+2.3%) AND A GOOD YEAR OVERALL (+18.66%). RANKING: 4th AMONG OVER 100 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% and BG40 by -4.60%. However, for the same period **Expat New Europe Stocks** rose by +2.3%, i.e. we outperformed the market by some +7.7%. 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. Examples are Benchmark REIT and Mekom.
- 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 selling the banks and some industrials at higher levels before they fell further.
- 3) **Successful trading.** Simply, "buy low, sell high".

Overall, the fund had a good year 2009 with a yield of +18.66%. To the best of our knowledge, **Expat New Europe Stocks** ranks 4th among more than 100 mutual funds in Bulgaria, 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 about 96% 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 with very low valuations, as well as for special turnaround situations
- 2) **Market timing:** stay underinvested, especially in banks, and look for the "inflection point" of the market
- 3) **Diversify** in CEE, especially Russia
- 4) **Trading:** look for short term price aberrations, especially in the less liquid stocks

1. GENERAL INFORMATION

Quotations and statistics

Current indicators and quotations	
Net asset value per share (BGN)	959.7449
Net asset value (BGN)	393 454.63
Number of outstanding shares	409.9575
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 969.3423
Between BGN 100,000.01 and 500,000	BGN 964.5436
Between BGN 500,000.01 and 2,000,000	BGN 961.6644
Above BGN 2,000,000	BGN 959.7449
Redemption price (according to the period) – if you withdraw your investment from the fund	
Up to 12 months	BGN 950.1475
From 12 to 24 months	BGN 954.9462
Over 24 months	BGN 959.7449
Yield (%)	
Since the beginning of the public offering (on an annual basis)	-2.63%
Since the beginning of the year	+18.66%
Average monthly return (after six months from the IPO)	+1.60%
Highest monthly profit	+10.05%
Highest monthly loss	-5.70%

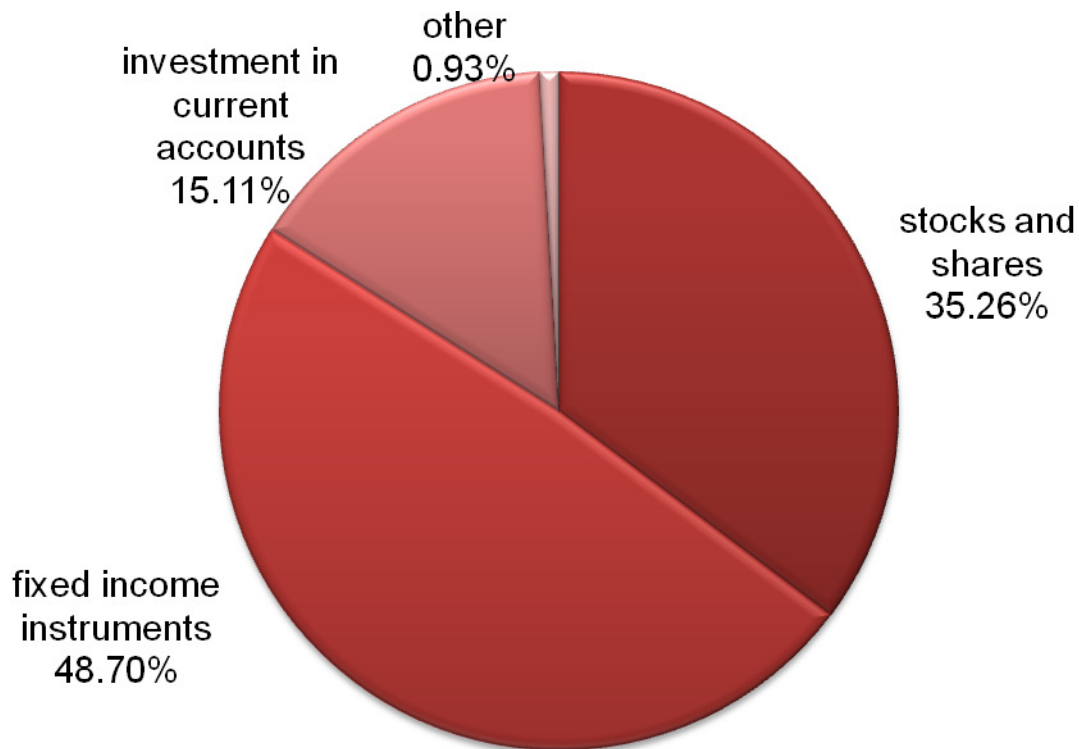
Source: Expat Asset Management

COMMENT – COMBINING POSSIBLE HIGH RETURNS WITH GOOD LIQUIDITY

The mutual fund **Expat New Europe Stocks** is suitable for investors who would like to have exposure to the Bulgarian and East European stock 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 crisis such as during the last two years. Despite the crisis, all our funds have kept 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



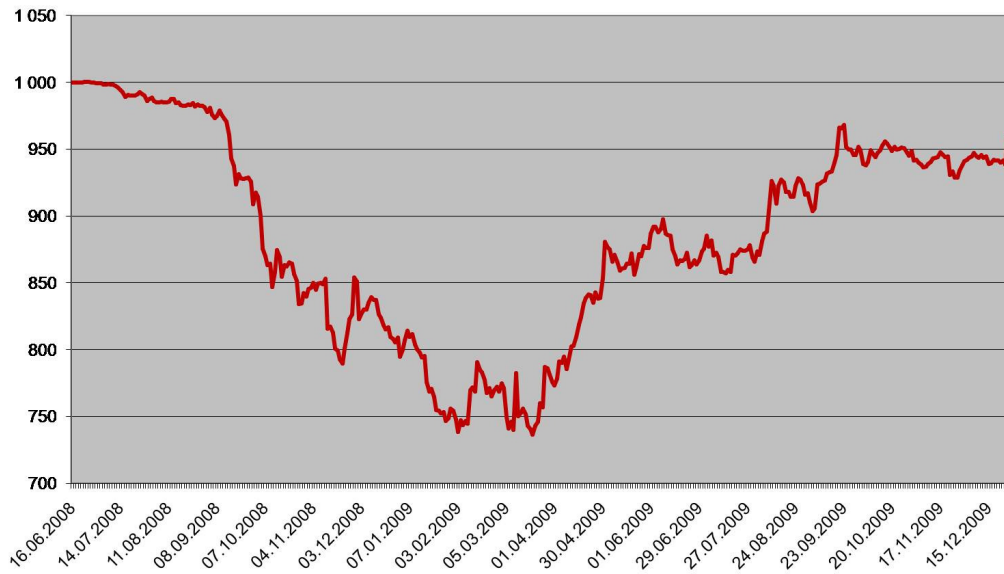
Source: Expat Asset Management

COMMENT – GOOD PERFORMANCE IN DECEMBER AND OVERALL FOR 2009

We are currently continuing our strategy for the mutual fund **Expat New Europe Stocks** to invest minimum amounts in stocks, because we are not optimistic about the short-term direction of the markets. The month of December was worse than November for the capital market in Bulgaria, as SOFIX dropped by -5.42% and BG40 by -4.60%. Last month we divested one of our positions in Bulgaria with a good yield as we decided that it had reached its fair price level. We have also added to our portfolio a new company operating in the food processing industry in Bulgaria, at a very attractive price. We have slightly increased the amount of assets in deposits with banks at high interest rates (above 9% p.a.), which we are ready to redirect to shares which we might consider strongly undervalued. Currently, we pay high attention to the analysis of the real estate and bank markets, and we continue to identify interesting companies in which we could eventually invest.

3. NET ASSET VALUE PER SHARE

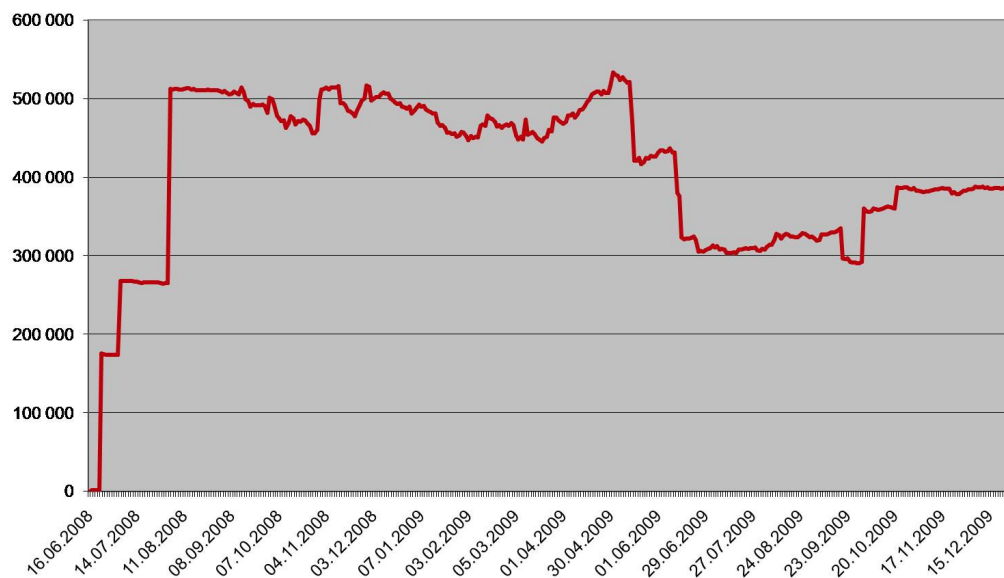
Net asset value per share (BGN per share)



Source: Expat Asset Management

4. NET ASSET VALUE OF THE FUND

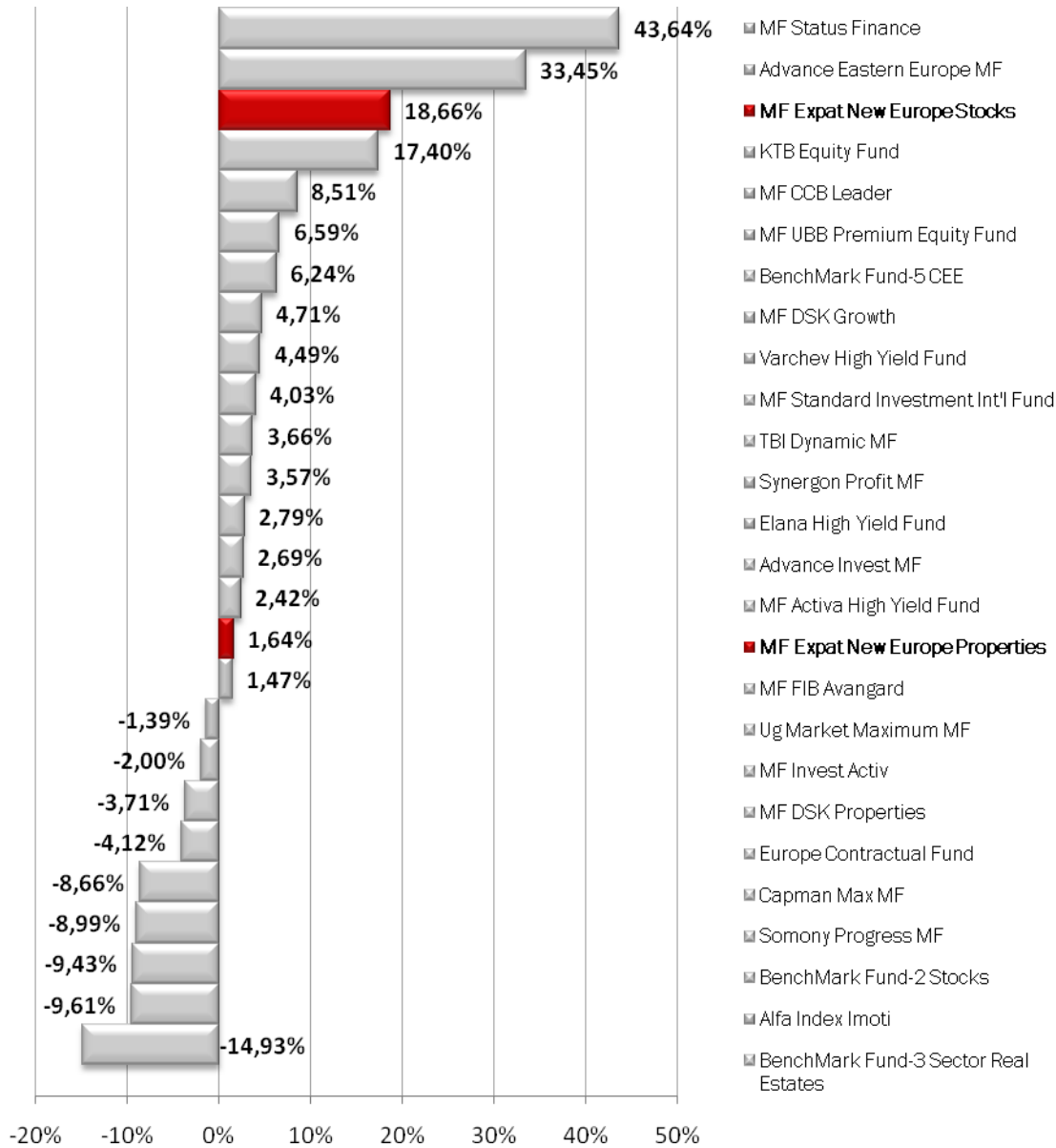
Net asset value (BGN) – all the assets of the fund



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

Our mutual fund **Expat New Europe Stocks** has achieved one of the highest returns in the market during 2009: +18.66% for the whole year. However, the fund has comparatively low risk and volatility of prices (movements up and down) for two reasons: 1) Part of the stocks are in other countries, for example Russia; 2) A large part of the funds are in instruments other than stocks (bank deposits, instruments with higher-yield and repurchase agreements, etc.) – especially during periods when we expect the markets to move down, as it has been during the autumn of 2009. Such a strategy provides better protection at market crashes and lower than the maximum possible profit at market rises. We expect the share of highly undervalued, according to our opinion, stocks to increase in the future.

6. CONTACTS

EXPAT CAPITAL

96A Georgi S. Rakovski Str.
1000 Sofia, Bulgaria
Tel.: +359 2 980 1881
Fax: +359 2 980 7472
E-mail: office@expat.bg
www.expat.bg

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