



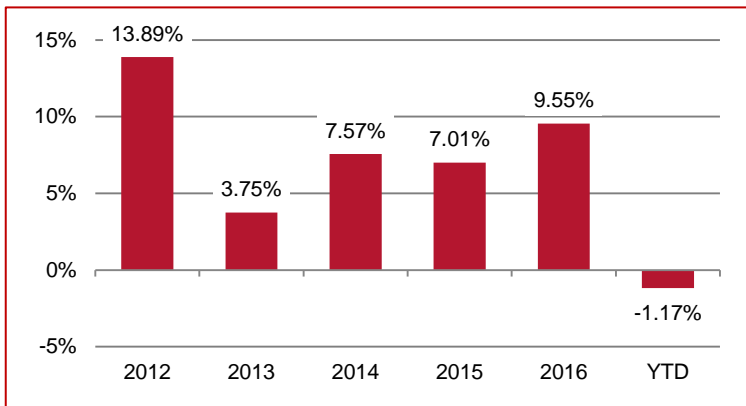
expatcapital

CONTROL YOUR MONEY. **PRESERVE** YOUR WEALTH. **BUILD** YOUR FUTURE.
A REMARKABLY DIFFERENT WEALTH MANAGEMENT EXPERIENCE.

EXPAT MUTUAL FUNDS MONTHLY REPORT

May 2017

Past performance, %

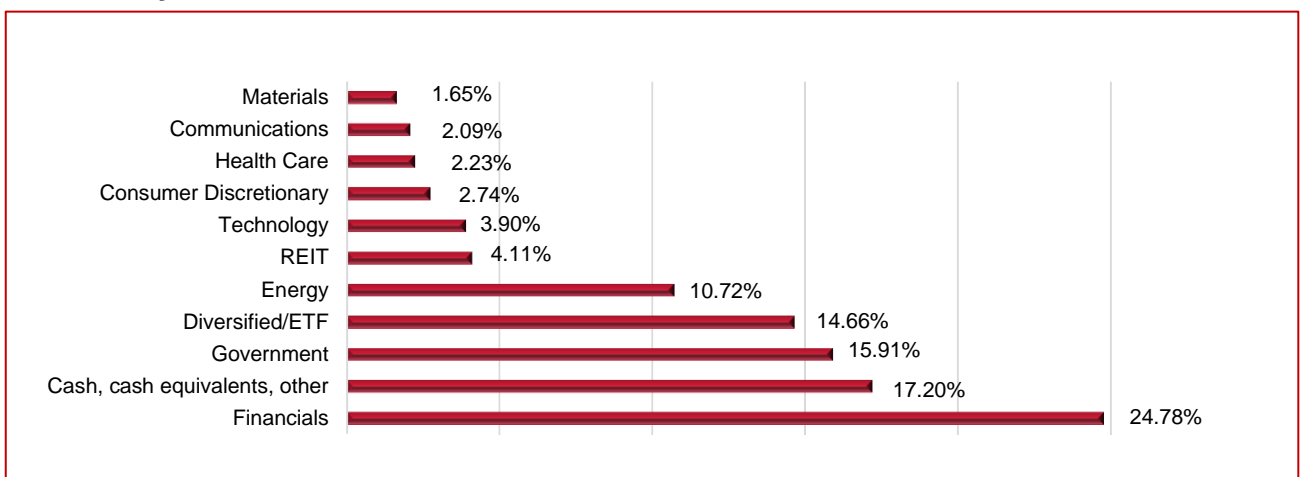


The bar chart of past performance has limited use in predicting future results. Annual expenses are included in the past performance calculations, excluding entry and exit charges.

Historical NAV per share, BGN



Industry breakdown, %



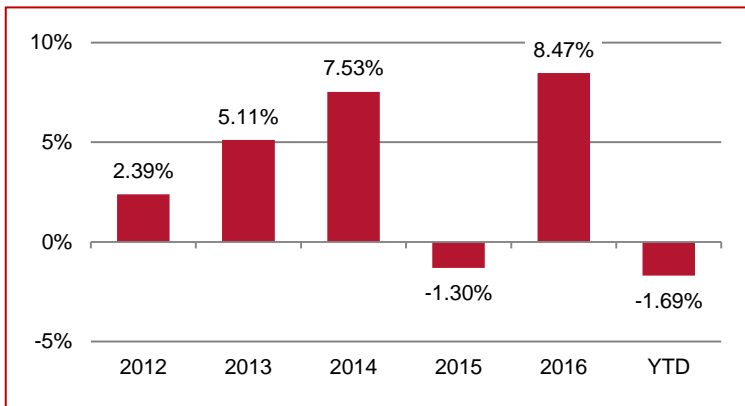
Comments

The Fed is expected to increase interest rates in June. U.S. investment-grade corporate bonds outperformed higher yielding bonds as we were witnessing flattening of the U.S. yield curve since mid-March. However, investors' risk appetite increased as the spread between high-yield and U.S. Treasury bonds has resumed its trend of narrowing down. Awaiting the Fed meeting in June investors were more cautious towards bonds in the emerging markets which posted a modest gains - of only +0.4% for the month.

The elections in France and the positive macro data from the Euro area calmed down the markets leading to some spread narrowing of euro-denominated bonds. Investors are betting on a smooth rate hike schedule by the ECB starting late 2018. Our view is that the end of the QE in the Eurozone is imminent, which is generally good news for European banks, but yet worrisome for European bonds. Thus we remain cautious and underweight on euro-denominated bonds.

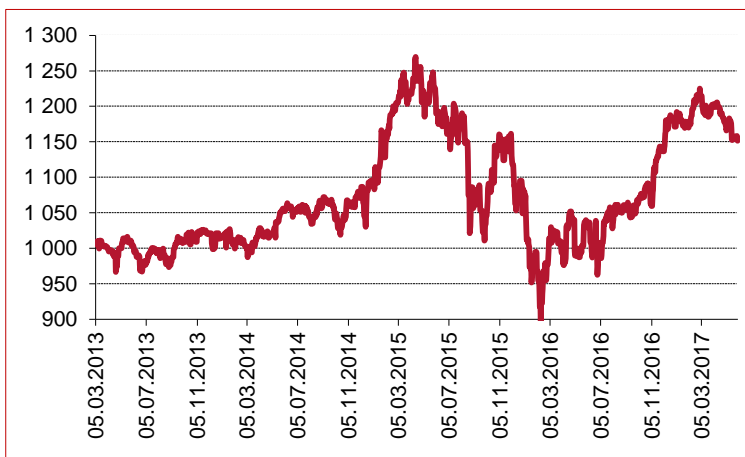
The depreciation of the U.S. dollar vs. euro with -3.0% is the main reason for the Fund's underperformance during May. Our team remains positive towards bonds from the financial and energy sectors and prefer the higher carry from dollar-denominated bonds. We kept our overweight position in Emerging Markets but lowered the Fund's duration as we see steeper path of rate hikes than the market.

Past performance, %

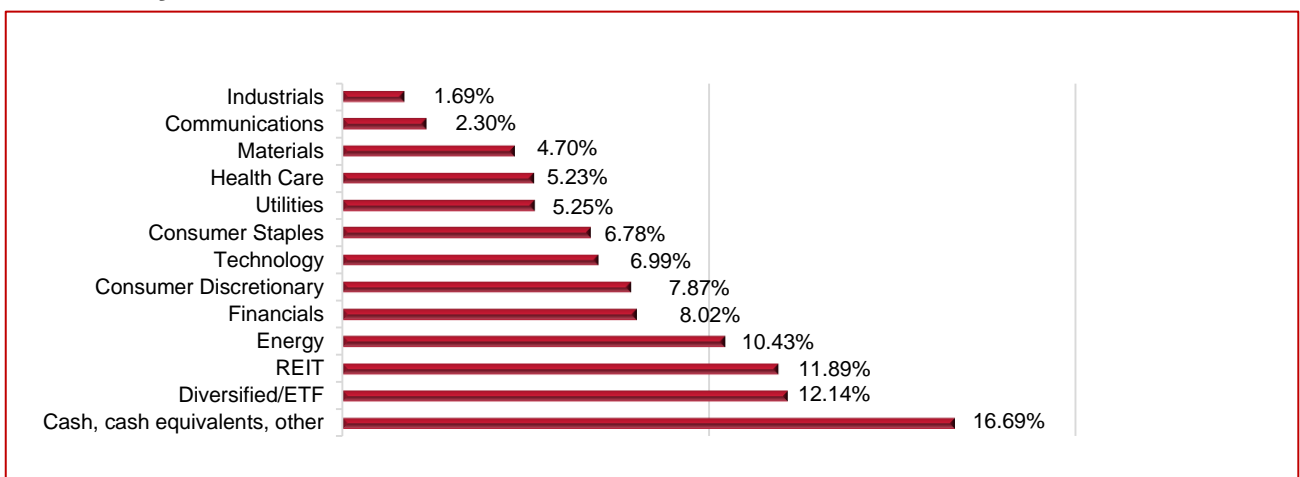


The bar chart of past performance has limited use in predicting future results. Annual expenses are included in the past performance calculations, excluding entry and exit charges.

Historical NAV per share, BGN



Industry breakdown, %



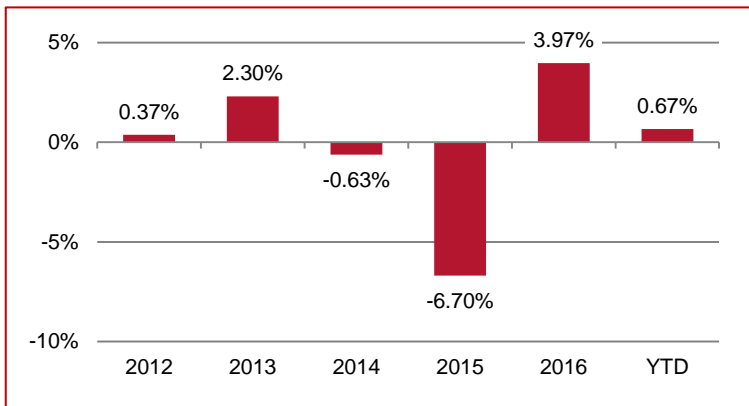
Comments

In May, economic data in Europe was generally positive suggesting a possible end of the QE at the end of 2018. The elections in France ended fears of FREXIT and gave additional boost to markets as political risk receded. EU purchasing managers' index (PMI) registered 56.8 points in May, an all-time high. Those factors contributed to the appreciation of the euro vs. U.S. dollar and boosted equity prices of European stocks. The French CAC and the German DAX closed the month with gains of respectively +0.3% and +1.4%.

The best performing sectors in the U.S. were once Utilities and Technology. The US equity indices ended the month with gains: The broad S&P 500 Index closed +1.2%, whereas the blue-chip NASDAQ Index appreciated by +2.5%. Manufacturing data showed some signs of softening but, Services PMI were robust and price indices increased modestly. Data for the labor market was weaker than expected, suggesting consumption could run out of steam in the coming months. Nevertheless our team is expecting U.S. economy to reaccelerate in H2 and to witness the Trump's tax reforms until the end of the year.

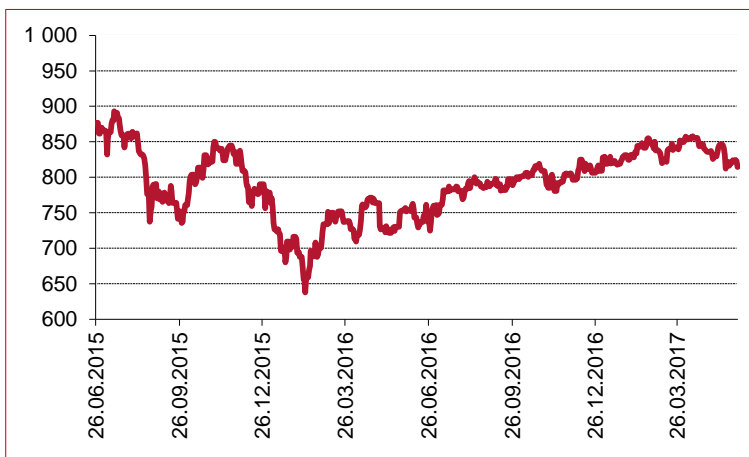
The depreciation of the U.S. dollar vs. euro with -3.0% affected negatively our Fund's performance. We decreased our exposure to companies in the utilities sector with expectation for U.S. rate hike in June. We prefer stocks with exposure to steepening of the U.S. yield curve and some reflationary trades like Energy, Materials and REITs.

Past performance, %

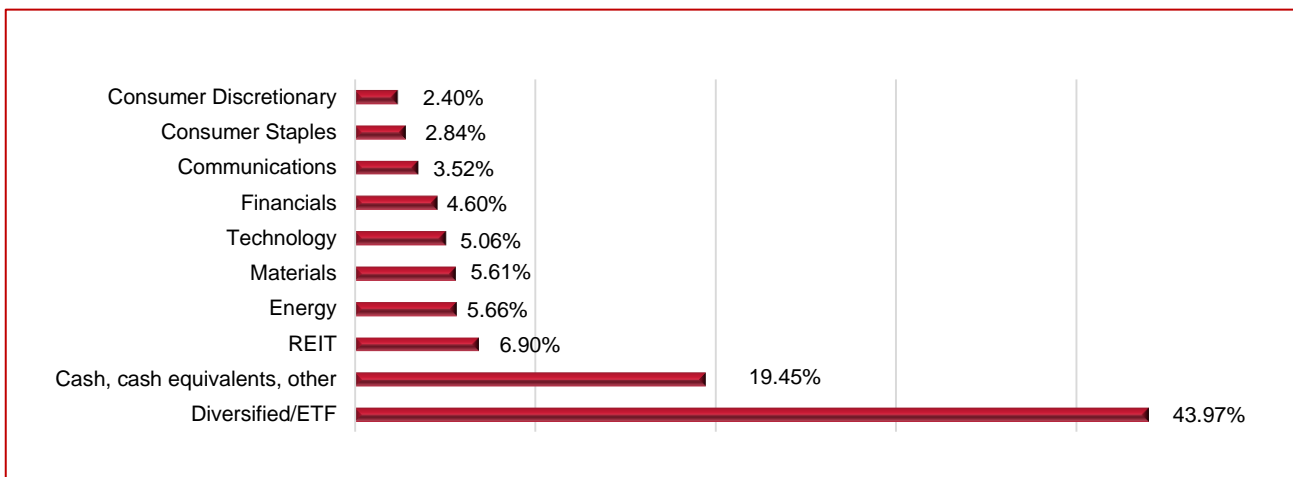


The bar chart of past performance has limited use in predicting future results. Annual expenses are included in the past performance calculations, excluding entry and exit charges.

Historical NAV per share, BGN



Industry breakdown, %



Comments

In May, the emerging markets index MSCI Emerging Markets gained +2.8% in US dollars, helped by the stable global macroeconomic conditions. The best performing stock markets for a third month in a row were the Asian stocks (Hang Seng +4.3%), as well as India (SENSEX +4.1%). However, Latin America underperformed due to political turmoil. Brazilian stocks ended the month in red (-4.1%) after a corruption scandal with meat producers led to impeachment calls against the president Temer, whereas Russian stocks continued to fall down (-5.5% in USD) partly due to the lower oil price.

The price of the WTI crude oil fell averaged below \$50 per barrel on persisting concerns for higher US, Nigeria and Lybia output despite the extension of the OPEC's output cut deal. By quitting the Paris climate accord, Trump added to the doubts on the oil price going up.

The depreciation of the Brazilian real and the Russian ruble against euro affected the performance of our Fund. In May we increased the Fund's position in Southeast Asia - countries such as Indonesia and Malaysia, and India as well. In spite of the negative crude oil price movement, the economies of Brazil and Russia are in a much better condition, as compared to those a year ago. We reckon that these investments will turn out to be profitable.

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.

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.

expatcapital

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

RISK DISCLOSURE

This document has an informative purpose and under no circumstances should any part of it be construed as an offering or solicitation for a trade or investment in any class of investments and/or professional advice connected with investment decisions. Past performance is no guarantee of future performance, and the value of investments can go down as well as up, leading to a significant loss of funds as a result. The investments in a mutual fund or through an investment account are not insured by a guarantee fund or in any other way.

The information included in this document is prepared on the basis of sources which are considered reliable. All the necessary measures are taken to guarantee the precision of the content, but under no circumstances Expat Capital or Expat Asset Management should carry any responsibilities for this content and assume no compensation to the recipients or third parties as far as the precision, completeness and/or the propriety of the information.