



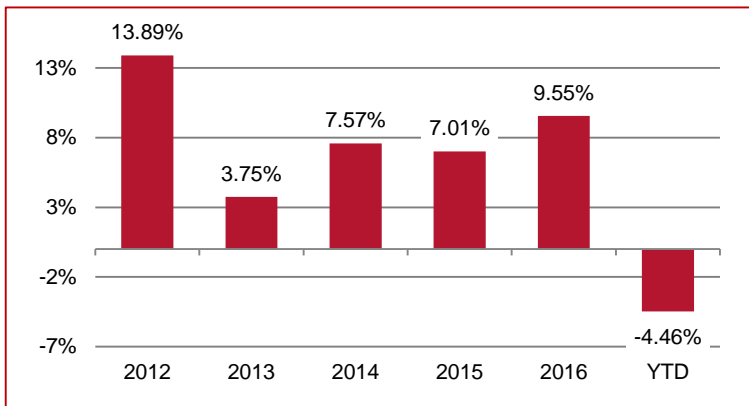
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EXPAT MUTUAL FUNDS MONTHLY REPORT

Sept 2017

Past performance, %

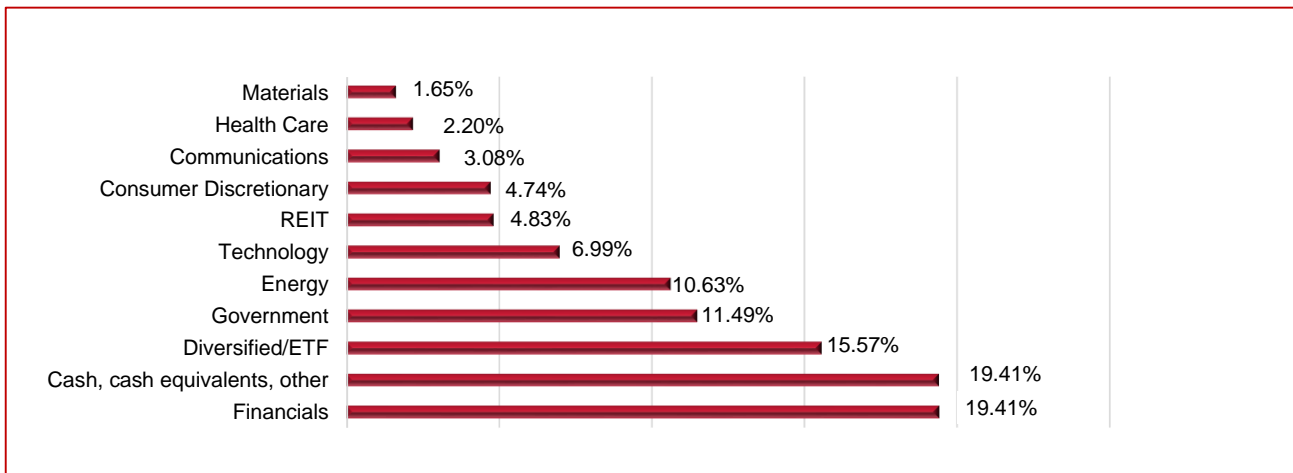


The bar chart of past performance has limited use in predicting future results. Annual expenses are included in the past performance calculations, excluding entry and exit charges.

Historical NAV per share, BGN



Industry breakdown, %



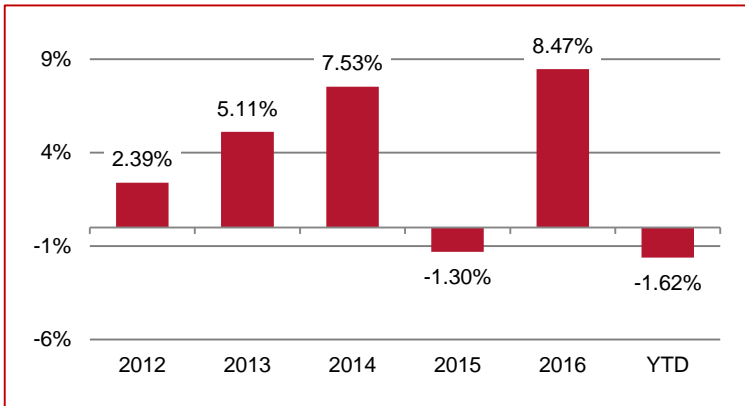
Comments

The Fed did not increase interest rates in September but hinted at another hike this year, resulting in a rebound of the US dollar. The American currency rose alongside short-term bond Treasury yields, suggesting interest rate hike bets. Investment grade bonds decreased by -0.3%, as compared to High Yield corporate bonds which registered an increase in the prices of +0.2%. In the months to come important decisions about the budget, the debt ceiling, measures suggested by Trump will have to be made in the U.S.

Emerging markets bonds registered a drop in prices (-0.6%) as a pick-up in inflation and the US dollar makes national banks in emerging markets more cautious to cut rates. Stronger dollar will put in risk their dollar-denominated bonds, especially South-East Asia, where foreign investors have a big share. Gold after the ease of the North Korea tensions fell down by -3.2%.

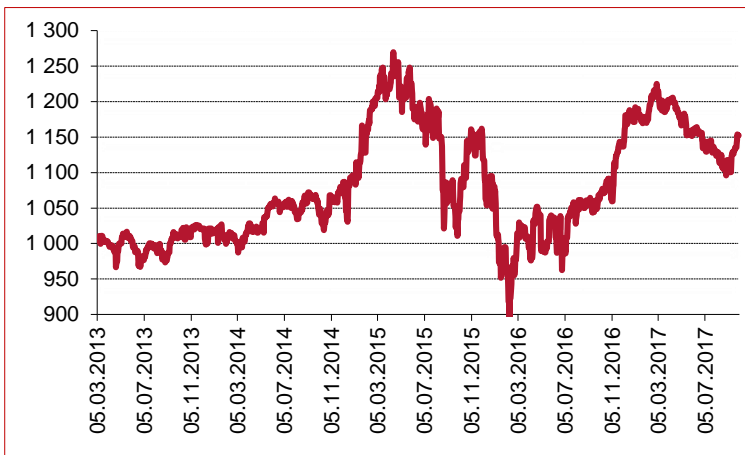
Our view is that the developed countries are starting to tighten their monetary policies and the end of the QE in the Eurozone is imminent. Thus we remain cautious and underweight on euro-denominated bonds. Our team also remains positive towards perpetual bonds with higher carry and interest rate hedged high yield bonds from U.S, as we see a steeper path of rate hikes than the market.

Past performance, %

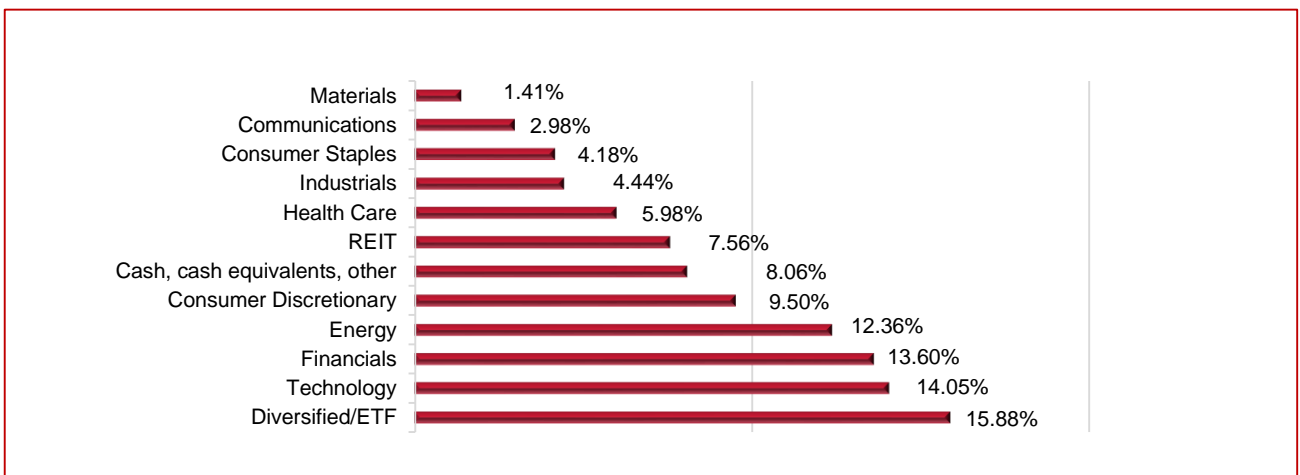


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Historical NAV per share, BGN



Industry breakdown, %



Comments

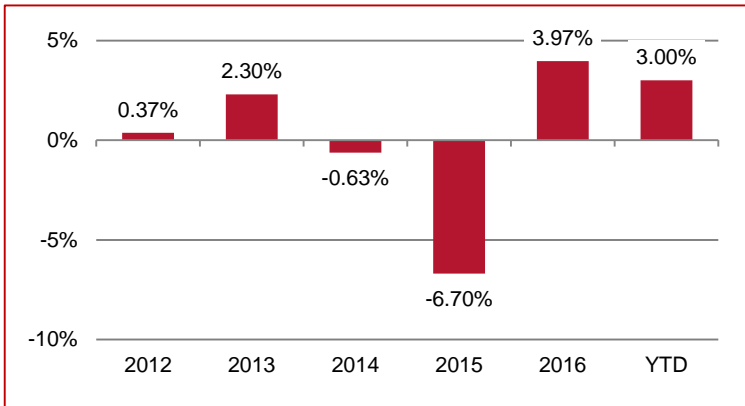
In September, EU manufacturing purchasing managers' index (PMI) jumped to 58.2 points vs. 57.4 points in August. Consumer confidence in the EU kept rising and companies struggled to cope with the high demand. The French CAC and the German DAX closed the month with gains of +4.8% and +6.4%.

Merkel clinched another term in Germany's elections. However, her party gathered less support questioning her future power in the EU. As a result, the euro retreated by -0.8% vs. the US dollar, combined with Fed Chair Yellen's somewhat hawkish remarks.

The best performing sectors in the U.S. were Energy with the uptick in the crude oil price, as well as Financial. The broad S&P 500 index added to +1.9%. The tech-heavy NASDAQ ended the month +1.1%. Philadelphia Fed Manufacturing Index increased to 23.8, suggesting positive business conditions. At the end of September the better-than-expected macro data from the USA was strongly contributing to the appreciation of the US dollar.

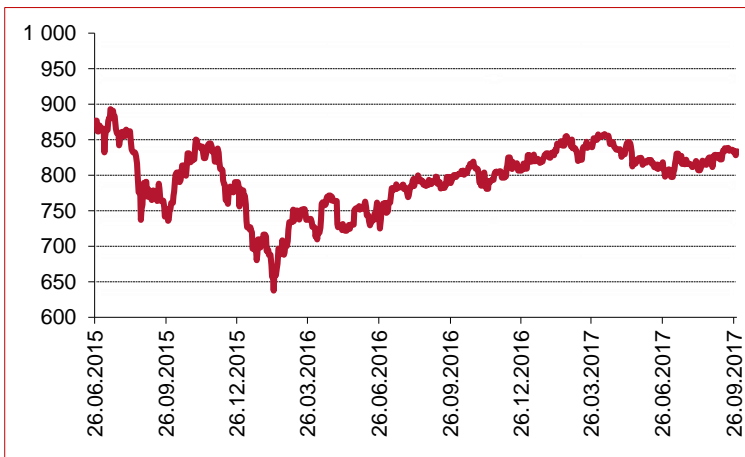
We increased our exposure to the health care sector. We stay positive on U.S. and Japanese stocks and we forecast Financials, Energy and Healthcare to outperform the broad market in H2.

Past performance, %

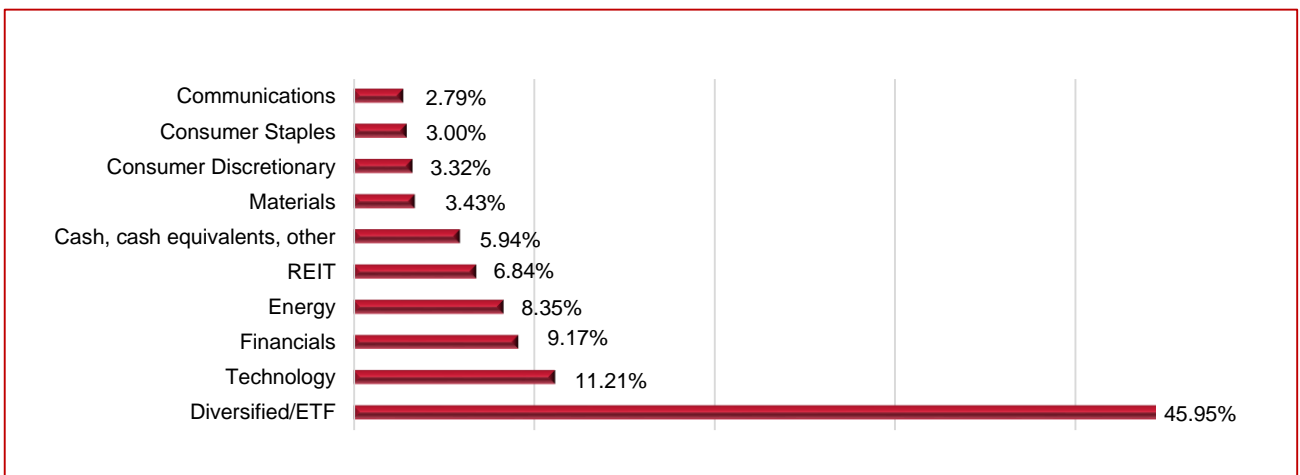


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Historical NAV per share, BGN



Industry breakdown, %



Comments

In September, the MSCI Emerging Markets Index lost -0.6% in US dollars, and Brazil outperformed. The latter benefitted from metal and commodities price stabilization.

The Chinese stocks ended the month with mixed performance (CSI 300 +0.4%, Hang Seng -1.5%). "China's drive to cut pollution could reduce economic growth by -0.25 percentage point in the next six months while boosting factory inflation", according to Société Générale. However, this might reduce metal supplies and thus preventing prices from dropping.

Until recently, India has been experiencing an adverse impact of the implementation of the goods and services tax and the cash ban from the last year, which made the central bank to cut growth expectations, with MSCI India down -1.6%. In September, Mexico lost -3.6% in US dollars. Inflation peaked and the two deadly earthquakes led to a surge in prices hindering the economy.

The price of the WTI crude oil increased to \$51.67 (+9.4%) after inventories kept falling after the aftermath of the hurricane Harvey.

We increased our exposure to Taiwan, India, and South Africa since we consider these equity markets as underpriced.

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.

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- ❑ **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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