

## FFBH Vostok

December 2017

Data as per 31 December 2017

NAV		Return (%)		Statistics (%)	
NAV	BGN 752,038	Monthly (MoM)*	-0.84%	Standard Deviation*	18.64%
NAV per share	BGN 0.6747	Annual (YoY)*	-8.06%	Monthly Alpha – MSCI Russia*	-2.03%
		Year-to-date*	-8.06%	Beta (β) – MSCI Russia*	0.602
		Since Inception (annualized)	-4.98%	R <sup>2</sup> – MSCI Russia*	85.57%
				Sharpe Ratio (0%)*	-0.01

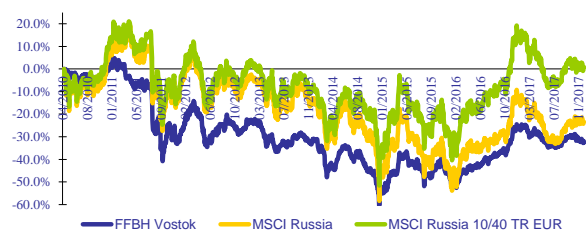
\* see notes

### Investment objective overview

FFBH Vostok is a high-yield, actively managed, open-end mutual fund with regional focus on Russia & CIS, incepted on Apr 16, 2010. The Fund's investment objective is to achieve high long-term growth, bearing medium to high level of risk. The Fund may have up to 95% in equities and up to 50% invested in bonds.

We assume further recovery of the Russian economy in 2018, supported by several key rate cuts and relatively stable oil prices, and prefer higher allocation to equities and cyclical sectors. The portfolio remains comprised mainly of blue chip companies with leading and stable market positions.

### FFBH Vostok vs. MSCI Russia 10/40 EUR



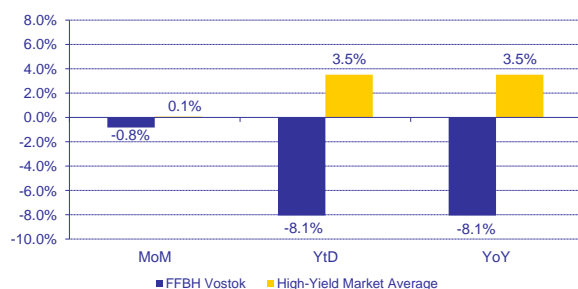
Source: Bloomberg, FFBH Asset Management

### Fact sheet and fee information

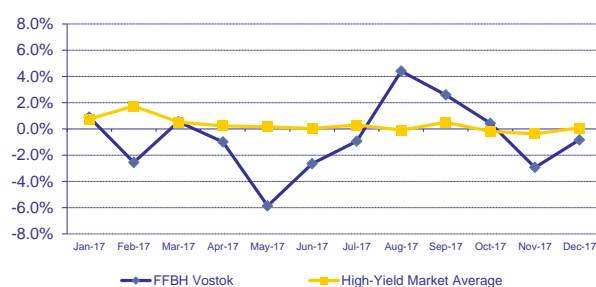
Type	Open-end equity fund	Subscription*	up to BGN 100,000	more than BGN 100,000
Classification	High-yield fund	Entry fee	0.50%	0.00%
Manager	FFBH Asset Management	Holding Period	up to 24 months	over 24 months
Custodian	First Investment Bank	Redemption fee	0.50%	0.00%
Subscriptions/ Redemptions	Every Business Day	Management fee (annual % of average AUM)		2.50%
Incorporation	Bulgaria			

\* Minimum subscription is BGN 50

### MoM, YoY and YtD return to HY market average\*

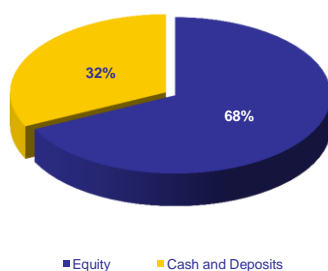


### MoM return to HY market average\*

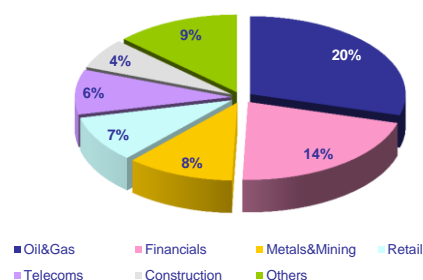


Source: BAAMC, FFBH Asset Management calculations

### Asset Allocation



### Equity Portfolio (% of total assets)



Source: FFBH Asset Management

## FIB Avangard

December 2017

Data as per 31 December 2017

NAV	
NAV	BGN 1,868,102
NAV per share	BGN 0.6355

Return (%)	
Monthly (MoM)*	-0.41%
Annual (YoY)*	5.03%
Year-to-date*	5.03%
Since Inception (annualized)	-4.38%

Statistics (%)	
Standard Deviation*	8.62%
Monthly Alpha – MSCI ACWI*	-0.81%
Beta (β) – MSCI ACWI*	0.318
R <sup>2</sup> – MSCI ACWI*	26.23%
Sharpe Ratio (0%)*	0.88

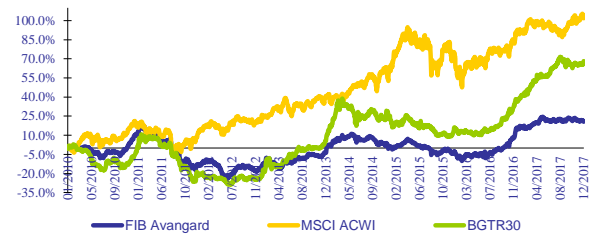
\* see notes

### Investment strategy

FIB Avangard is a high-yield, actively managed, mutual fund, inception on Nov 11, 2007, whose investment objective is to achieve high long-term growth, bearing medium to high level of risk. Its portfolio is allocated into global equity with regional focus on Bulgaria. Tactically, most of its funds might be invested in capital markets outside Bulgaria that are expected to be among top performing world regions.

FIB Avangard's investment strategy for 2018 includes allocation to export-oriented, financially stable and dividend-paying Bulgarian companies and allocation to developed markets blue chips based on favourable macroeconomic conditions and attractive valuations. We will increase exposure to cyclical sectors and/or companies with competitive positions in disrupting industries. The overall risk of the portfolio will be mitigated through sector and company diversification.

### FIB Avangard vs. MSCI ACWI



Source: Bloomberg, BSE-Sofia, FFBH Asset Management

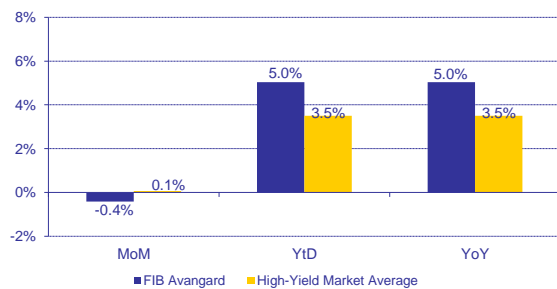
### Fact sheet and fee information

Type	Open-end equity fund
FSC Classification	High-yield fund
Manager	FFBH Asset Management
Custodian	First Investment Bank
Subscriptions/ Redemptions	Every Business Day
Incorporation	Bulgaria

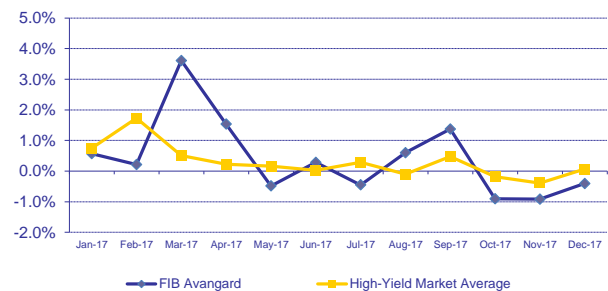
Subscription*	up to BGN 100,000	more than BGN 100,000
Entry fee	0.50%	0.00%
Holding Period	up to 24 months	over 24 months
Redemption fee	0.50%	0.00%
Management fee (annual % of average AUM)	3.00%	

\* Minimum subscription is BGN 50

### MoM, YoY and YtD return to HY market average\*

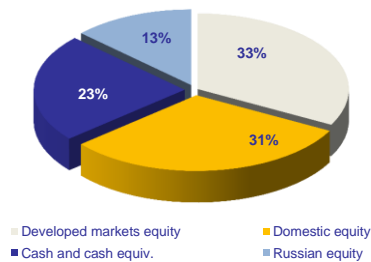


### MoM return to HY market average\*

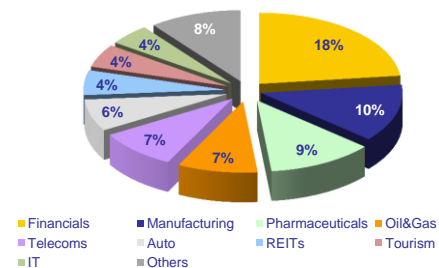


Source: BAAMC, FFBH Asset Management calculations

### Asset Allocation



### Equity Portfolio (% of total assets)



Source: FFBH Asset Management

## FIB Classic

December 2017

### Data as per 31 December 2017

NAV	
NAV	BGN 1,759,094
NAV per share	BGN 0.9590

Return (%)	
Monthly (MoM)*	-0.17%
Annual (YoY)	2.83%
Year-to-date	2.83%
Since Inception (annualized)	-0.41%

Statistics (%)	
Standard Deviation*	5.45%
Monthly Alpha – MSCI ACWI*	-0.56%
Beta (β) – MSCI ACWI*	0.126
R <sup>2</sup> – MSCI ACWI*	10.27%
Sharpe Ratio (0%)*	1.11

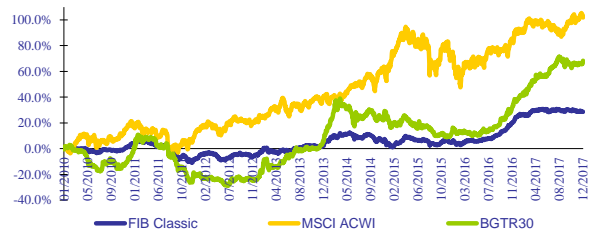
\* see notes

### Investment strategy

FIB Classic is a balanced mutual fund, inception on Nov 11, 2007, whose investment objective is to achieve medium to high long-term growth of its assets, bearing medium level of risk. The Fund invests in equities and bonds, as the equity-bond proportion depends on the stage of the economic cycle and macro conditions in covered regions and the expected central banks' monetary policy decisions.

FIB Classic's investment strategy for 2018 remains equity-focused, which includes holding equity allocation close to the fund's limits. Equities will be concentrated in Bulgaria and Western Europe with preference to dividend-paying value companies. Bond portfolio would comprise of domestic and foreign corporate bonds.

### FIB Classic vs. MSCI ACWI



Source: Bloomberg, BSE-Sofia, FFBH Asset Management

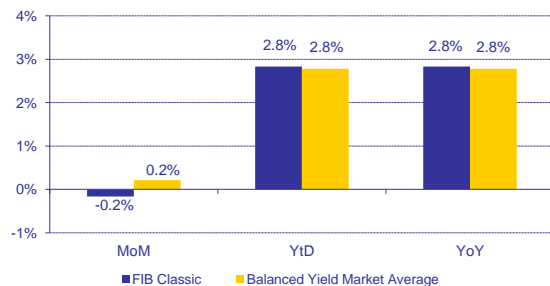
### Fact sheet and fee information

Type	Open-end equity fund
Classification	Balanced fund
Manager	FFBH Asset Management
Custodian	First Investment Bank
Subscriptions/ Redemptions	Every Business Day
Incorporation	Bulgaria

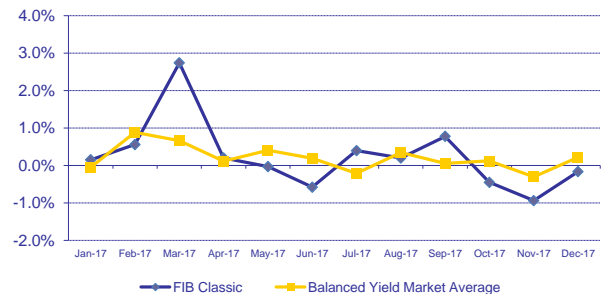
Subscription*	up to BGN 100,000	more than BGN 100,000
Entry fee	0.35%	0.00%
Holding Period	up to 24 months	over 24 months
Redemption fee	0.35%	0.00%
Management fee (annual % of average AUM)	2.50%	

\* Minimum subscription is BGN 50

### MoM, YoY and YtD return to BY market average\*

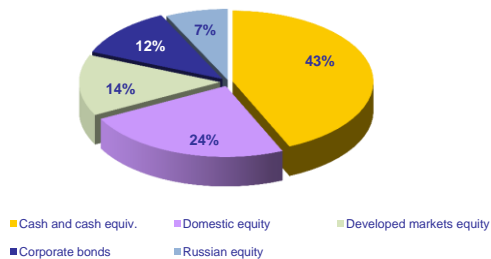


### MoM return to BY market average\*

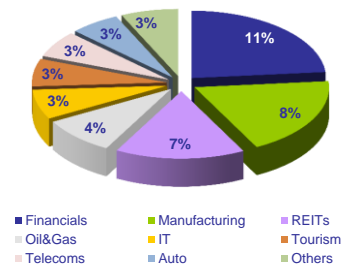


Source: BAAMC, FFBH Asset Management calculations

### Asset Allocation



### Equity Portfolio (% of total assets)



Source: FFBH Asset Management

## FIB Garant

December 2017

### Data as per 31 December 2017

NAV	
NAV	BGN 1,374,354
NAV per share	BGN 1.3255

Return (%)	
Monthly (MoM)*	-0.02%
Annual (YoY)*	2.30%
Year-to-date*	2.30%
Since Inception (annualized)*	2.83%

Statistics (%)	
Standard Deviation*	2.44%
Sharpe Ratio (0%)*	1.87
Interest rates (%)	
Sofibor (3 month)	0.03%
Sofibor (12 month)	0.66%

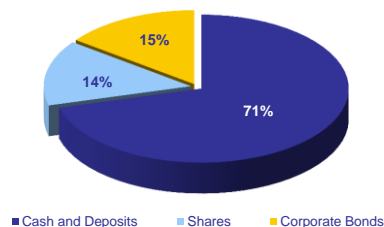
\* see notes

### Yield on selected Bulgarian treasuries (%)

Type	Coupon	Maturity (dd/mm/yy)	Currency	Yield
Treasury	0.50%	17/02/19	BGN	-0.23%
Eurobond	2.00%	26/03/22	EUR	0.00%
Eurobond	1.88%	21/03/23	EUR	0.22%
Eurobond	2.95%	03/09/24	EUR	0.66%
Eurobond	3.00%	21/03/28	EUR	1.50%
Eurobond	3.13%	26/03/35	EUR	2.26%

Source: Bloomberg

### Asset Allocation



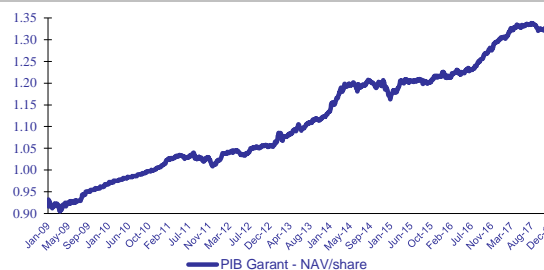
Source: FFBH Asset Management

### Investment objective

FIB Garant is a conservative mutual fund, inception on Nov 11, 2007, whose investment objective is to achieve medium long-term growth of its assets, bearing low level of risk. The Fund invests mainly in fixed-income and money market instruments, but it may have up to 20% exposure to equity used to improve its risk-return profile.

FIB Garant's 2018 investment strategy includes significant allocation to Bulgarian equities on valuations and sentiment improvement on the BSE. At certain points investments in foreign large cap dividend-paying blue chips can be made but currency risk should be controlled. Low local deposit rates would also lead to an increase in the Fund's exposure to foreign corporate and sovereign bonds.

### FIB Garant



Source: FFBH Asset Management

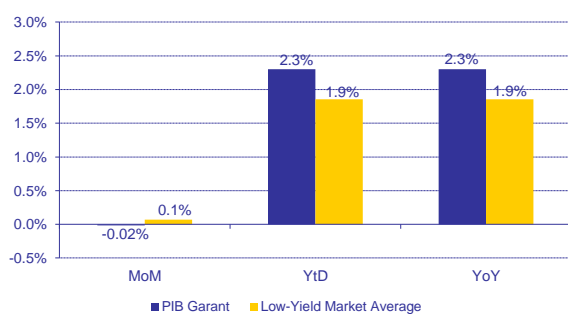
### Fact sheet and fee information

Type	Open-end equity fund
Classification	Balanced-conservative
Manager	FFBH Asset Management
Custodian	First Investment Bank
Subscriptions/ Redemptions	Every Business Day
Incorporation	Bulgaria

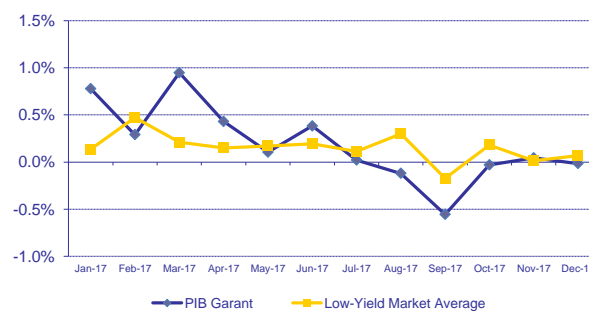
Subscription*	up to BGN 100,000	more than BGN 100,000
Entry fee	0.15%	0.00%
Holding Period	up to 24 months	over 24 months
Redemption fee	0.15%	0.00%
Management fee (annual % of average AUM)		1.50%

\* Minimum subscription is BGN 50

### MoM, YoY and YtD return to LY market average\*



### MoM return to LY market average\*



Source: BAAMC, FFBH Asset Management calculations

## PORTFOLIO MANAGER'S COMMENT December 2017

### MARKET OVERVIEW:

**USA:** Tax bill optimism drove USD-denominated American stock indices higher in Dec, while bond market was negatively impacted by upgraded economic growth forecasts and the largely expected 0.25% target rate hike to 1.25-1.50%. Positive views of economic growth were supported by final Q3 GDP growth rate of 2.3% YoY (accelerating as previously reported) and declining QoQ unemployment rate to 4.1% in Oct-Dec, while Nov core inflation returned to 1.7% YoY, after hitting 1.8% YoY in Oct. The US dollar lost 0.9% vs the euro during the month, thus falling 12.4% YtD. **Though NASDAQ 100 (+0.5% in USD and -0.6% in EUR MoM) slightly underperformed S&P 500 (+1.0% in USD and -0.1% in EUR MoM) in Dec, it was the better performer for the whole 2017, gaining 31.5% in USD and 15.4% in EUR vs 19.4% and 4.8%, respectively, for S&P 500.**

**EUROPE:** European developed countries' stocks (**MSCI Europe, +0.7% MoM**) were also slightly up in Dec, despite the continuing difficulties with the new German government formation and the Catalan separatists' win of the snap regional elections with a slim majority (facts that promise to prolong political tensions in Eurozone). Macroeconomic indicators were better than previously stated or expected with final Q3 Eurozone GDP growth of 2.6% vs preliminary 2.5% and rising MoM Dec manufacturing activity and consumer confidence, though economic news revealed that Catalan crisis had a substantial negative impact on Spain Q4 GDP growth. Nov and Dec Eurozone core inflation remained weak at 0.9% YoY, and the ECB monetary policy – accommodative, despite the shrinkage of the QE stimulus, starting from Jan'18. **Year-to-date MSCI Europe was up 7.3%, marking a better return in EUR than S&P 500.**

**RUSSIA: MSCI Russia rose by 2.1% in USD and by 1.0% in EUR MoM** backed by the bigger Dec key rate cut by 0.50% to 7.75% and the 3.3% MoM increase in Brent price to USD 66.87. Russia Q3 GDP growth was confirmed at 1.8% YoY (decelerating QoQ), but economists raised their 2018 and 2019 growth forecasts for the Russian economy, based on the larger base rate cut and the expectations for subsequent easing in H1'18. Most of MSCI Russia constituents registered price increases for the month, even the loser from the previous months Magnit (MGNT LI, +3.5% in USD and +2.4% in EUR MoM). The largest index member Sberbank kept rising at a decelerated rate (SBER LI, +3.8% in USD and +2.7% in EUR MoM). Finally the dispute between Rosneft and Sistema was resolved out-of-court and Sistema was ordered to pay USD 1.7bn, after Rosneft almost doubled the compensation it was seeking from Sistema to c. USD 5bn in the beginning of the month. Both Sistema (SSA LI, +16.0% in USD and +14.7% in EUR MoM – *not adjusted for Q3 intermediate dividend*) and Rosneft (ROSN LI, +1.2% in USD and +0.1% in EUR MoM) saw monthly increases in their stock prices, with Sistema significantly outperforming the market. **Following a strong recovery of 48.9% in 2016, MSCI Russia finished 2017 relatively flat in USD with only 0.3% YtD rise, as after accounting for the US dollar weakening last year the index return was negative (-12.0% YtD). This compares to better than market 2017 return of -8.1% for our high-yield Russia-based fund FFBH Vostok.**

**BULGARIA:** After four consecutive months of retreat **SOFIX finished Dec at 677 points (+1.9% MoM)**, while **BGTR30 advanced by 1.5% MoM to 556 points**. The price of the largest SOFIX constituent Sopharma remained relatively stable (3JR, +0.3% MoM), as 10% of the company's share capital changed hands during Dec (accounting for c. 76% of turnover within SOFIX and c.70% of turnover within BGTR30), but most of the other SOFIX and BGTR30 members grew in value. The top gainer and the top loser within both of the indices were Eurohold Bulgaria (4EH, +10.8% MoM) and Monbat (5MB, -6.8% MoM). On macro level Bulgaria's 2017 and 2018 GDP forecasts were raised, HICP inflation continued rising to 1.9% YoY in Nov (vs 1.5% for Oct and 1.3% for Sept) and Eurostat seasonally-adjusted unemployment was without change in Oct at 6.1%. **Bulgarian capital market was the best 2017 performer in BGN/EUR within our geographical coverage with annual returns of 21.1% and 15.5% for BGTR30 and SOFIX, respectively.**

### OUTLOOK:

Our 2018 outlook for capital markets is positive as a whole, backed by the combination of broad-based economic growth, accommodative monetary policies, fiscal stimuli and excess liquidity. We expect investment activity to be mostly influenced by the central banks' indications regarding their monetary policies and/or changes in political or geopolitical situations. A higher-than-expected slowdown in China's economy could be a threat to global markets. On regional level there are also several potential sources of volatility.

**In the USA** *the tax reform* should contribute positively to the economic growth, as this would mean more available capital, more investments and lower unemployment, but it is also expected to increase social inequality and discontent, which could affect labour productivity and political stability. *The Senate and the House of Representatives elections* in the USA scheduled for **6 Nov** could be viewed as a check for the confidence in the President Trump's policy. *A more/less accommodative than expected monetary policy* would have a positive/negative impact on the economy. Currently at least two rate hikes are expected in 2018, but this could change, especially if inflation does not gather pace in the conditions of ongoing quantitative tightening (QT). *USA foreign relations with Russia, North Korea and other NAFTA members* create potential risks too, some of which could have global implications.

**In Europe** we forecast continuing economic revival, though the growth may slow down after the strong rebound in 2017 and following the shrinkage of the QE stimulus, starting from Jan'18, as well as under the weight of the strong euro. Investors' focus is expected to be on *the ECB decisions and intentions* with regard to the final term of its QE program (extended till end-Sept'18 currently) and their impact on economic activity. Bloomberg consensus opinion is that there is about 40% probability of interest rate hike in 2018. The European political calendar in 2018 is not going to be as heavy as it was in 2017, but *Italian parliamentary elections* (on **4 Mar**) will be important to watch, in view of the separatist and nationalistic flows in Western Europe. *German government formation* would predetermine the development of key economic sectors. *BREXIT and Catalonia* are additional sources of political and economic uncertainty in the region.

**Russia** is expected to increase *monetary stimuli* and provide for more stable economic recovery in the next quarters, with the next key rate cut expected in Q1'18, followed by a gradual decrease to 7% by the end of 2018. We assume *relatively stable oil prices*, as the positive effects from the OPEC+ production cut deal extension until end-2018, declining oil inventories and increasing global demand (boosted additionally by the cold winter in the USA) would compensate for the expected increase in the US shale production. While *Russia presidential elections* (**18 Mar**) would be most likely won by Vladimir Putin, *the government composition after the elections* will

determine the trajectory of the Russian economy for years ahead (status quo or reform). Until the outcome of US sanctions and the election is known, the market may experience some pressure in H1'18, but then it would most probably return to growth in H2'18.

**In Bulgaria** capital market should be positively influenced by the higher-than-expected GDP growth for 2017 and the upward revised economic growth for 2018, the recent country rating upgrade and the prevailing positive or neutral company earnings in 2017. A strong catalyst for the demand of Bulgarian blue-chip companies could be *the listing of the SOFIX-based ETF Expat Bulgaria in Germany*. Government policy remains supportive towards Bulgarian capital markets. There are plans for the introduction of a voucher program to finance *listings of small and medium-sized enterprises on the BSE* with first IPOs, supported by it, expected in end-2018. Otherwise, *no major elections are scheduled* in 2018 in Bulgaria but political outlook remains delicate and some volatility might be expected after the end of Bulgaria's EU Presidency in end-June.

### PORTFOLIO ALLOCATIONS:

Mutual fund	Return MoM, %	Equity allocation, %	MoM change in allocation
FFBH Vostok	-0.84%	67.80%	No significant changes
FIB Avangard	-0.41%	76.78%	No significant changes
FIB Classic	-0.17%	44.99%	Increase in bond vs decrease in equity exposure to non-cyclical sectors; decrease in real estate equity exposure
FIB Garant	-0.02%	14.34%	Increase in equity exposure to financials and decrease in real estate equity exposure; Increase in bond exposure to non-cyclical sectors



## NOTES

Monthly return /MoM/ is calculated as the ratio between the NAV/share as per the report date and the NAV per share on the last working day of the previous month.

Annual return /YoY/ is calculated as the ratio between the NAV/share as per the report date and the NAV per share on the last working day of the same month a year ago.

Year-to-date return /YtD/ is calculated as the ratio between the NAV/share as per the report date and the NAV per share on the last working day of the previous year.

Standard deviation is the annualized standard deviation of the weekly return over the last five years or since inception, whichever is smaller.

*FIB Avangard: Monthly Alpha – MSCI ACWI is the difference between the monthly return of NAV per share of FIB Avangard and the monthly return of MSCI All Country World Index.*

*FIB Classic: Monthly Alpha – MSCI ACWI is the difference between the monthly return of NAV per share of FIB Classic and the monthly return of MSCI All Country World Index.*

*FFBH Vostok: Monthly Alpha – MSCI Russia is the difference between the monthly return of NAV per share of FFBH Vostok and the monthly return of MSCI Russia 10/40 Total Return EUR Index.*

*FIB Avangard: Beta ( $\beta$ ) – MSCI ACWI has been calculated using the weekly returns of NAV per share of FIB Avangard and MSCI All Country World Index over the last five years.*

*FIB Classic: Beta ( $\beta$ ) – MSCI ACWI has been calculated using the weekly returns of NAV per share of FIB Classic and MSCI All Country World Index over the last five years.*

*FFBH Vostok: Beta ( $\beta$ ) – MSCI Russia has been calculated using the weekly returns of NAV per share of FFBH Vostok and MSCI Russia 10/40 Total Return EUR Index over the last five years.*

*FIB Avangard: R2 – MSCI ACWI has been calculated using the weekly returns of NAV per share of FIB Avangard and MSCI All Country World Index over the last five years.*

*FIB Classic: R2 – MSCI ACWI has been calculated using the weekly returns of NAV per share of FIB Classic and MSCI All Country World Index over the last five years.*

*FFBH Vostok: R2 – MSCI Russia has been calculated using the weekly returns of NAV per share of FFBH Vostok and MSCI Russia 10/40 Total Return EUR Index over the last five years.*

*Returns of all indices presented in the bulletin or used in the calculations above are converted in BGN.*

Sharpe Ratio for all funds has been calculated using the weekly returns of NAV per share of each fund over the last five years or since the inception of the fund, whichever is smaller, and using 0% as risk-free return.

*FIB Avangard: High-yield market average is calculated through equal weighting of the returns of all high-yield mutual funds, offered on the Bulgarian market by asset management companies - members of the Bulgarian Association of Asset Management Companies (BAAMC).*

*FIB Classic: Balanced yield market average is calculated through equal weighting of the returns of all balanced mutual funds, offered on the Bulgarian market by asset management companies - members of BAAMC.*

*FIB Garant: Low-yield market average is calculated through equal weighting of the returns of all conservative mutual funds, offered on the Bulgarian market by asset management companies - members of BAAMC. Money market funds are not included in the calculation.*

*FFBH Vostok: High-yield market average is calculated through equal weighting of the returns of all high-yield mutual funds, offered on the Bulgarian market by asset management companies - members of BAAMC.*

*Returns are calculated using the net asset values of the mutual funds reported on the web site of BAAMC on the first working day of the month, following the month of performance presentation.*

The market average points are calculated in a standardized way, using the MoM, YoY and YtD returns of each fund ( $R_i$ ,  $i=1$  to  $n$ ), based on formula:  $\sum (1/n \cdot R_i)$ , where  $n$  is the number of mutual funds.

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