

Sofia, Bulgaria

EMERGING EUROPE OPPORTUNITIES



I. KAROLL CAPITAL MANAGEMENT OVERVIEW



Karoll Financial Group Product Range



BROKERAGE

- ◆ Bulgarian and regional capital markets
- ◆ Global capital markets

ASSET MANAGEMENT

Wealth Management products:

- ◆ Advance Invest (Balkans) UCITS
- ◆ Advance Eastern Europe UCITS
- ◆ Advance Emerging Europe Opportunities UCITS
- ◆ Advance Global Trends UCITS
- ◆ Advance Conservative UCITS
- ◆ Global SMAs
- ◆ Schroder Investment Management (Luxembourg umbrella of 100+ global funds)

SMA Strategies for Professional Investors:

- ◆ Emerging Europe Opportunities
- ◆ Central Europe
- ◆ Balkan
- ◆ Thematic equity
- ◆ Mixed / Custom

INVESTMENT BANKING

- ◆ IPO and SPO capital markets
- ◆ M&A
- ◆ Restructuring
- ◆ Consulting

REAL ESTATE

ADVANCE
TerraFund

PRIVATE EQUITY

ADVANCE
Equity holding

25 EXCITING YEARS OF SUCCESS | TEAM OF 200 EXPERTS

KAROLL BROKERAGE

- *Market volume leader for past 16 yrs
- *30% Bulgarian market share by trade volume

KAROLL CAPITAL MANAGEMENT

- *Pioneered 1st national mutual fund in 2004
- *Strategic local partner of Schrodgers UK since 2012

KAROLL FINANCE

- *Manages Bulgaria's largest farmland REIT, a market index constituent
- *IFC / World Bank - key stakeholder
- *Launched 1st Bulgarian private-equity fund in 2006

KAROLL FINANCIAL HOUSE

- *Licensed foreign exchange dealer since 1993

KAROLL INVESTMENT

- *Corporate adviser on M&A, IPOs, and restructuring

KAROLL STANDARD

- *Leading broker for pensions, health, life and other insurance

KAROLL CAPITAL MANAGEMENT ORGANIZATIONAL STRUCTURE



Stanimir Karolev
Founder



Daniel Ganev
Chief Executive Officer



Bistra Koceva
Head of Client Relationship



Peter Ketenev
Head of IT

IT Team



Stoyka Koritarova
Chief Operations Officer

Ops & Fund Admin Team



Kameliya Stoyanova
Head of Legal & Compliance

Legal & Compl. Team



Vasil Karaivanov
Chief Risk Officer

Inv. Committee: PMs & Analysts



Nadia Nedelcheva
CIO & Head of Portfolio Management



Kristina Doncheva
Head of Sales & Marketing

Sales, Mktg., Digital, B. Dev. Team

Karoll Capital Management Overview

Unique heritage in Emerging Europe

- ◆ Founded in Sofia in 2003, our roots are deep in Emerging Europe
- ◆ 15-year track record in regional market allocation and stock selection
- ◆ Independent, specialized and pioneering

Steady business growth from diversified business lines

- ◆ AUM of \$350+ mln in funds, SMAs, advisory mandates and wealth management, incl. 5 UCITS funds managed in-house,
- ◆ Regional distributor of 100+ third-party funds

Crisp focus on Emerging Europe

- ◆ Our team is specialized in Emerging Europe
- ◆ Native understanding of the cultures and dynamics of our markets
- ◆ On-the-ground research coverage of a wide range of companies

International perspective

- ◆ Regional representative of Schroder Investment Management, UK
- ◆ Our Canadian agent is Chevrny Capital, a Canadian EMD specialist
- ◆ Karoll is the only local signatory of the UN's Six Principles of Responsible Investing

entrepreneurial

flexible

independent

Seasoned investment team with long tenure and unique combination of skills:



Nadia Nedelcheva, CFA, Chief Investment Officer

- ◆ 15+ yrs of experience in portfolio management, research, valuations and modeling in Central & Eastern Europe; responsible for Emerging Europe institutional mandates and UCITS funds



Tihomir Kaundzhiev, Portfolio Manager

- ◆ 12+ yrs of experience in portfolio management, financial analysis, technical analysis on the US, European and CEE markets; fund manager of Advance Invest UCITS and Balkan strategy



Daniel Donchev, CFA, Chief Investment Strategist

- ◆ 15+ yrs of experience in portfolio construction for institutional investors, pension fund management, fund selection, sector selection in the global developed and emerging markets; Portfolio Manager of Advance Global Trends UCITS and Wealth Management products



Georgi Georgiev, Portfolio Manager

- ◆ 14+ yrs of experience in research, fundamental analysis, valuations, portfolio management and trading on the global emerging markets and USA; Portfolio Manager of Discretionary Accounts

Karoll Capital's Analysts Team



Research analysts with quick access to regional companies in search of opportunities:



Georgi Raykov, Sr. Investment Analyst

- ◆ 4+ yrs of experience in research, fundamental analysis and valuations in Central & Eastern Europe, covers 7 regional markets



Emil Yanchev, Investment Analyst

- ◆ 3+ yrs of experience in investment research, fundamental analysis in Developed Europe, Central & Eastern Europe, covers 7 regional markets



Simeon Keranov, Investment Analyst

- ◆ 2 yrs of experience in investment research, economic analysis, focus on global markets and trends



Oguz Ziddioglu , Sr. Investment Analyst

- ◆ 10+ yrs of experience in banking, buy-side equity research and analysis
- ◆ based in Istanbul, Turkey



Artem Perminov, Investment Analyst

- ◆ 3+ yrs of experience in buy-side equity research and analysis
- ◆ based in St. Petersburg, Russia

II. THE MARKET OPPORTUNITY



Riga, Latvia

Emerging Europe buoyant region converging with the rest of Europe

Central & Eastern Europe is a diverse region offering appreciable scale:

350+ mln combined
population



USD 4+ trln GDP
(1/3 of euro-zone total)

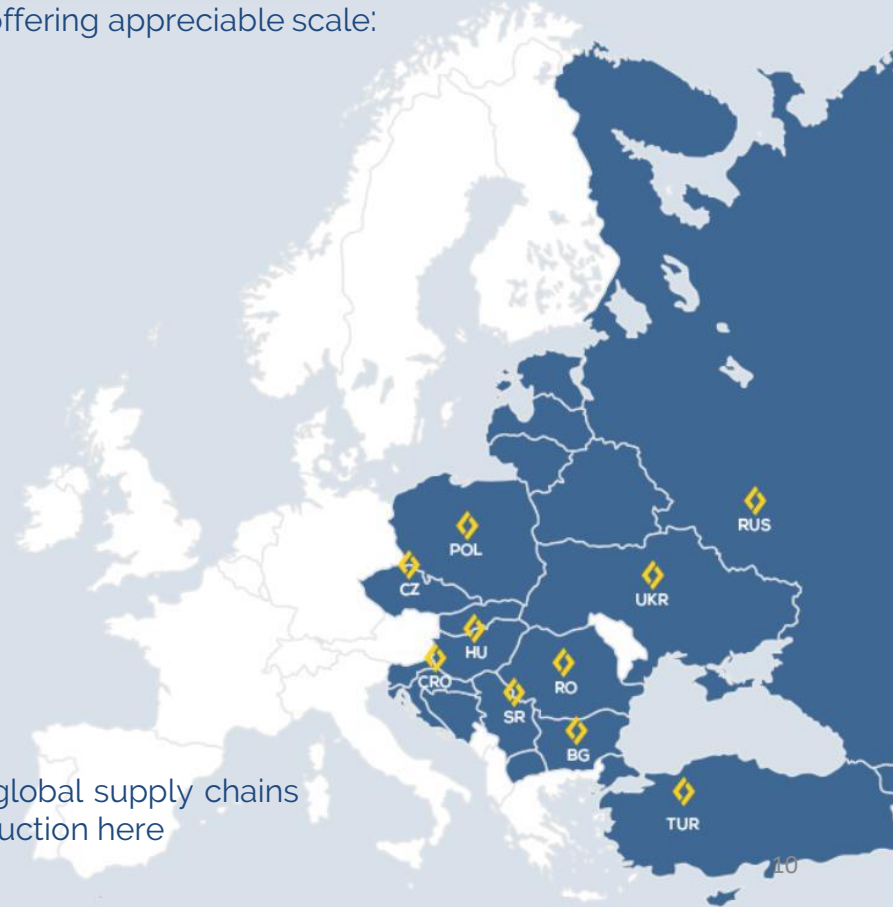


3,000+ listed companies



USD 1+ trln total market cap

- ❖ incubator for thriving companies
- ❖ increasingly participating in European & global supply chains
- vast number of companies shifting production here



Compelling opportunities in Emerging Europe

- ❖ **Strategic location of the region** → ideally situated for building trade links b/n Western Europe, Middle East and Asia. Infrastructure has significantly improved with major investments planned in mid-term
- ❖ **Most countries now members of EU, OECD and NATO** → major changes in economies and business environment. Some have already adopted the Euro. Legal, solid improvement in regulatory and business conditions; regulatory framework synchronized with EU accession
- ❖ **Stable economies with low level of gov. debt** → below 50% of GDP for the region vs. 89% for euro-zone
- ❖ **Well-educated and relatively inexpensive workforce** → labor force with tertiary education on the rise; wages growing, but still lowest labor costs
- ❖ **Favorable tax regimes** → significantly lower tax rates (e.g. 10% corporate income tax in Bulgaria)
- ❖ **Strong support from EU funds** → total: €175.7 bln = 16.2% of GDP on ave. during 2007-2013

strategic location

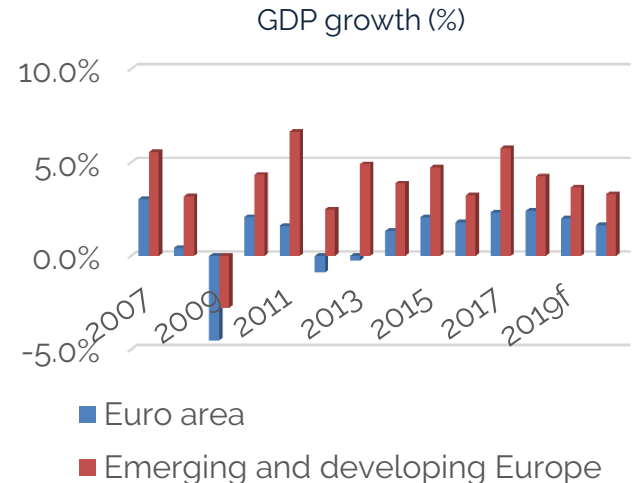
growing economies

Emerging Europe among the fastest growing regions

	2015	2016	2017	2018f	2019f	2020f
World	3.4%	3.2%	3.7%	3.9%	3.9%	3.8%
Advanced economies	2.1%	1.7%	2.4%	2.5%	2.2%	1.7%
Euro area	2.0%	1.8%	2.4%	2.2%	2.1%	1.7%
European Union	2.4%	2.0%	2.7%	2.5%	2.1%	1.8%
Emerging market and developing economies	4.2%	4.4%	4.7%	4.9%	5.1%	5.1%
Commonwealth of Independent States	-2.2%	0.4%	2.1%	2.3%	2.2%	2.2%
Emerging and developing Asia	6.7%	6.5%	6.5%	6.5%	6.5%	6.5%
Emerging and developing Europe	4.7%	3.2%	5.9%	4.3%	3.6%	3.3%
Latin America and the Caribbean	0.1%	-0.6%	1.3%	1.6%	2.6%	2.8%
Middle East and North Africa	2.6%	5.0%	2.2%	3.5%	3.9%	3.5%
Sub-Saharan Africa	3.4%	1.5%	2.8%	3.4%	3.8%	3.8%

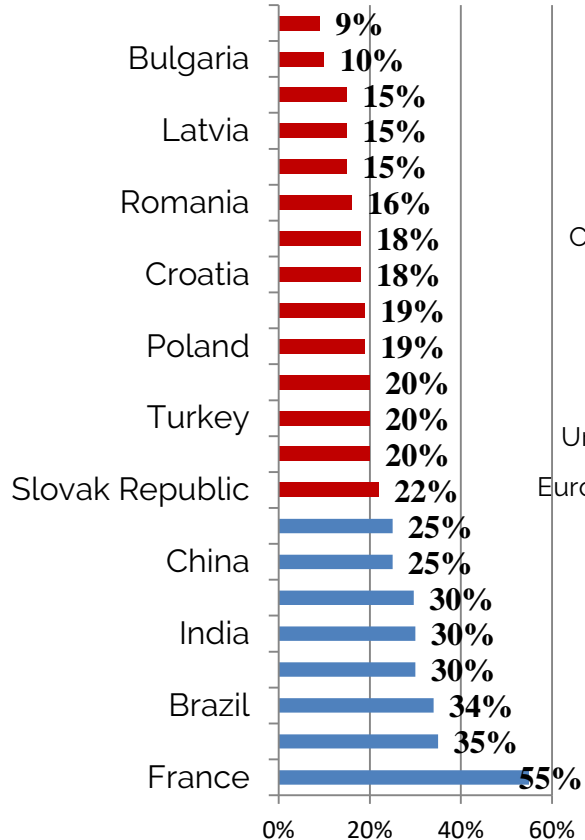
Source: IMF WEO July 2018

- Emerging Europe growing much faster than developed Europe: +3.8% on ave. b/n 2007- 2017 vs. +0.8% for euro-area
- Positive trend to persist in the following years
- GDP per capita way below Eurozone average = catch-up potential

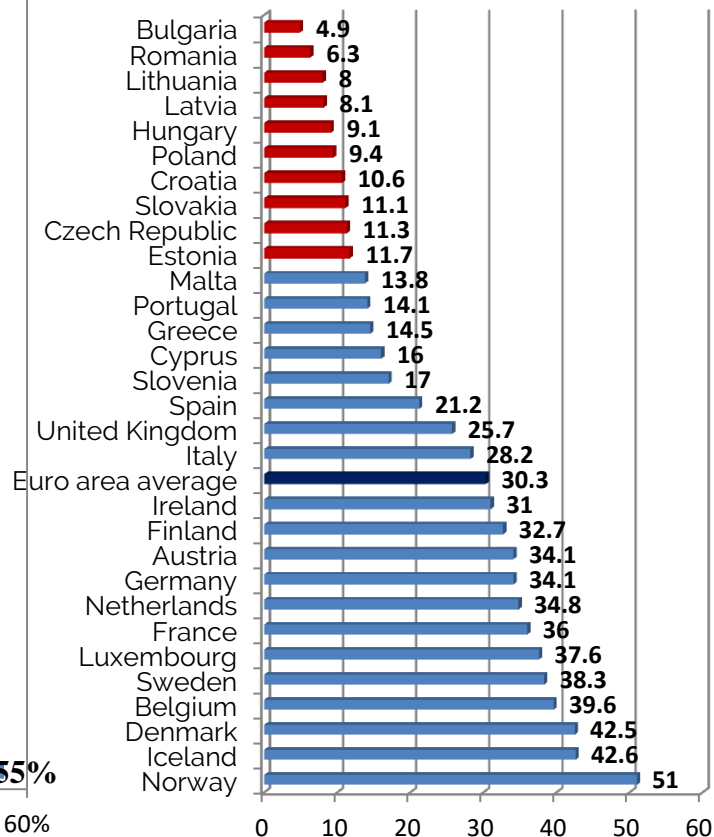


Emerging Europe boasts lowest taxes & labor costs

Corporate tax rates

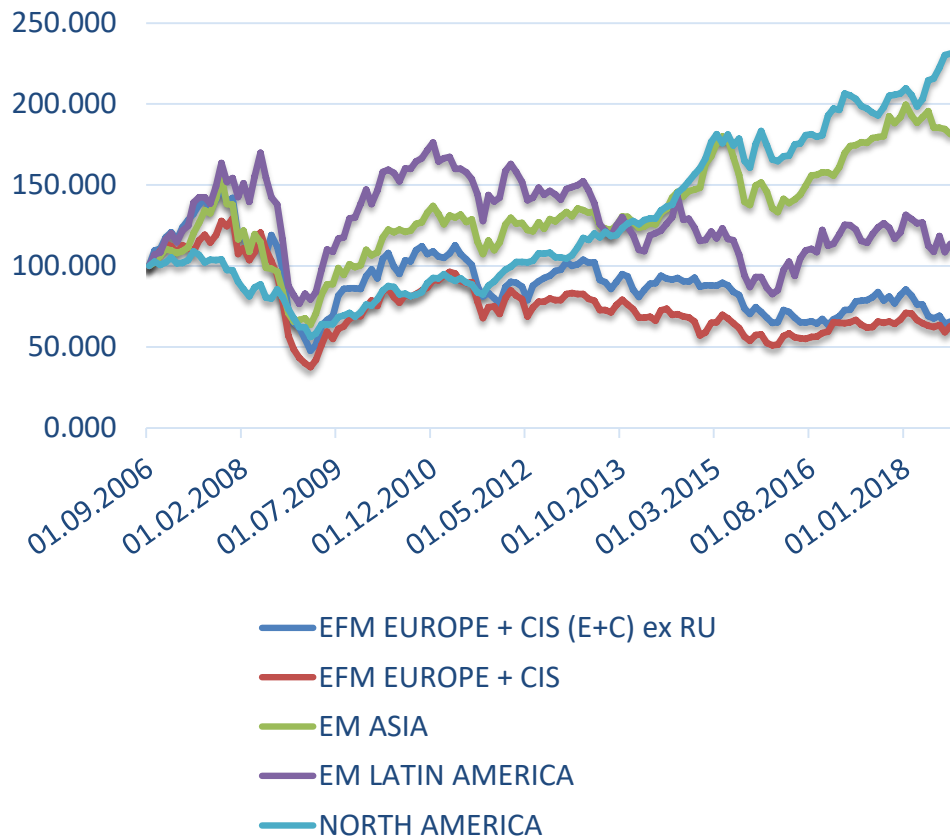


Labor costs per hour (€), 2017



- ◆ Taxes much lower in CEE vs. developed world
- ◆ States provide tax incentives & additional stimulus to attract foreign investors
- ◆ Convergence driving income growth, but wages still far below European averages
- ◆ Min wages range b/n €194 in Bulgaria and € 425 in Turkey, to €1,473 in Germany and €1,500 in UK

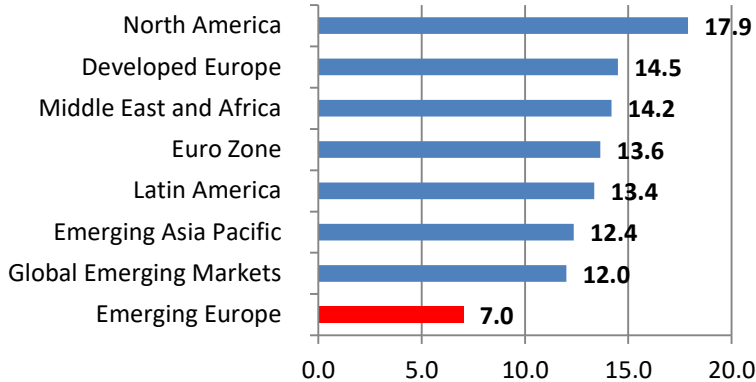
Emerging Europe stock markets lagging behind



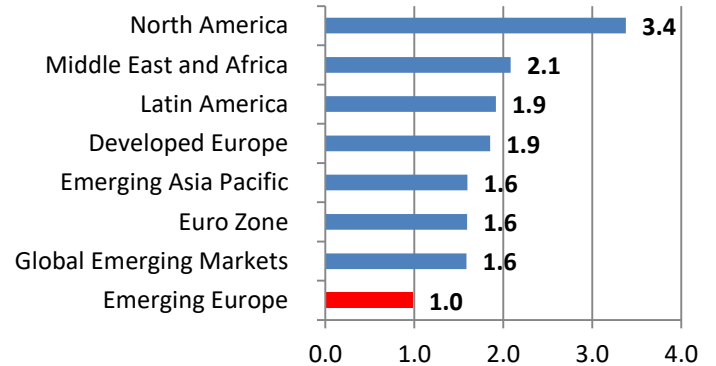
	MSCI EFM Europe+CIS, € 30.09.2018	MSCI EFM Europe+CIS ex RU, € 30.09.2018
YTD	-6.07%	-20.18%
1Y	-3.24%	-16.64%
3Y, annualized	+5.28%	-2.31%
5Y, annualized	-3.72%	-6.16%
10Y, annualized	-2.22%	-3.99%

Emerging Europe: compelling valuations across the region

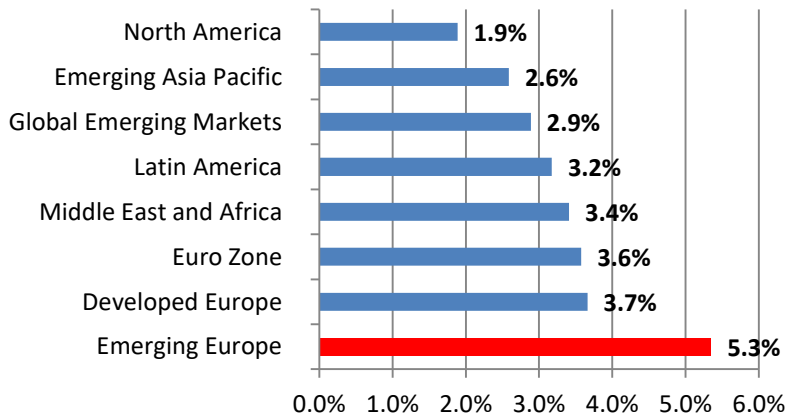
P/E 2018f



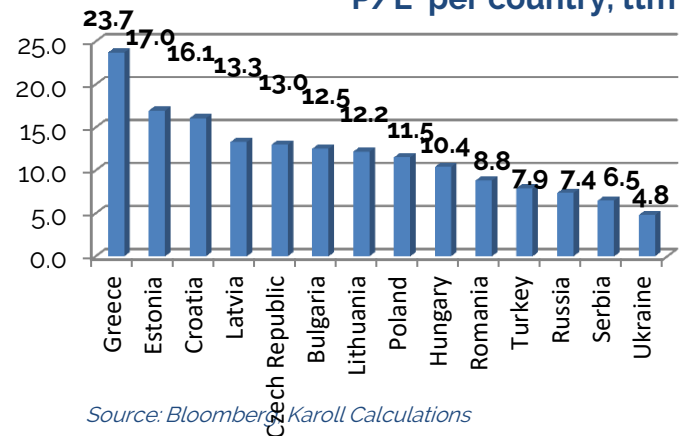
P/B, mrq



Div Yld



P/E per country, ttm



III. KAROLL CAPITAL'S INVESTMENT CAPABILITIES

Vienna, Austria



Our Investment Universe

Selection Filters:

3,000+ listed companies in CEE

Investment Universe – 1,500

750

500

250

Survivors

150

MKT CAP & LIQUIDITY

CORP GOVERNANCE,
TRANSPARENCY, ESG

SECTOR OUTLOOK & COMPANY
COMPETITIVENESS

FINANCIAL STRENGTH

IN-HOUSE VALUATION

Investment Constraints:

- ◆ Entry/exit up to 3 days for more liquid markets, up to 7 days for less liquid
- ◆ Not more than 10% in a single issuer
- ◆ Investment in a single small-cap company < 5%
- ◆ Total investment in less liquid < 30% of assets
- ◆ Minimum threshold by mkt cap: \$300 mln.

Karoll Capital's Investment Process

1. Screen

- In-house and external screening tools
- Sourcing ideas from 3rd party research
- Conference attendance
- Company visits
- ESG sector exclusions
- Market intelligence

2. Study

- In-depth analysis conducted in-house
- Sector dynamics assessment
- Business model review, assessment of ability to generate return > cost of capital
- Identifying companies with increasing margins and low debt
- Calculation of intrinsic value
- Analyst proposal to PMs

3. Shape Investment

- Committee decides on country and sector allocation limits
- PMs decide on inclusion of stocks in portfolios and weight in line with mandate constraints and risk parameters
- Benchmark unconstrained approach – at a country and individual stock level

4. Supervise

- Regular review of portfolio components' fundamentals
- Exit discipline: excessive valuation; unexpected deterioration in fundamentals; loss of confidence in management
- Monthly attribution analysis to determine how performance is affected by allocation & selection and quantify true alpha
- Risk management: oversight by CRO and investment committee



The Four S's of our Process

Karoll Capital's ESG process & criteria

- ❖ Exclusion of companies generating majority of revenues from tobacco, weapons and pornography sectors
- ❖ Assessment of corporate governance → alignment of interest of owners with those of minorities; does management act in a way to minimize risk of corruption
- ❖ Environmental and social factors → does company address environmental & social issues in its operations
- ❖ Active ownership

Signatory of:



Investment team meetings

WEEKLY MEETINGS

PMs and analysts interact and exchange ideas

MONTHLY MEETINGS

Portfolio reviews of mutual funds / managed accounts, attribution analysis Overview of market development ► modify portfolios if necessary

QUARTERLY MEETINGS

In-depth analysis of investment portfolios Strategic asset allocation decisions

AD-HOC MEETINGS

Reaction based on trigger from the in-house surveillance system

IV. CENTRAL EUROPE SMA STRATEGY



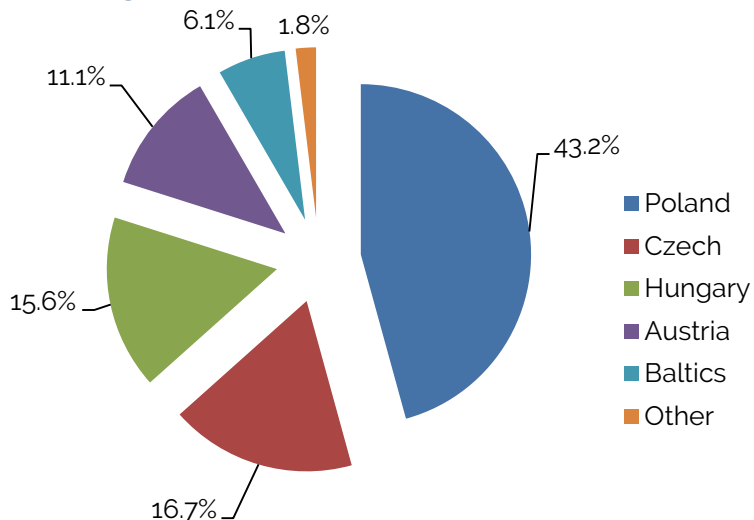
Budapest, Hungary

Karoll Capital's Central Europe Strategy

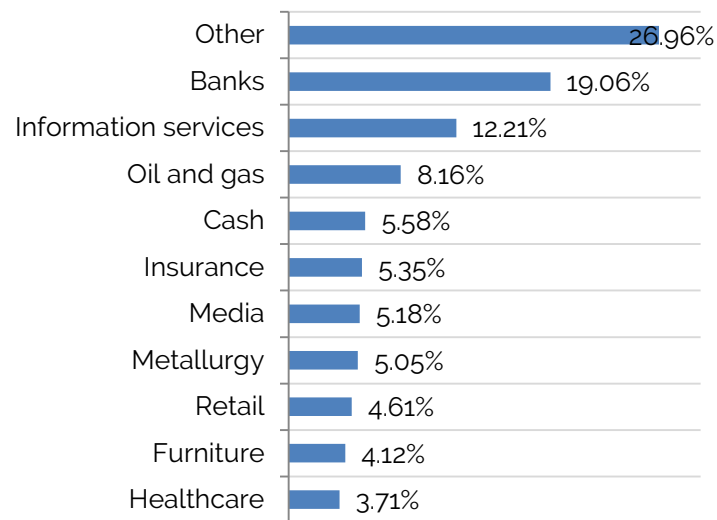
- ❖ Investment theme: invests in the stock markets of Central Europe – Poland, Czech, Hungary, Austria, Baltics
- ❖ Investment style: blended (value & growth), stock-picking, bottom-up combined with top-down and sector views, benchmark agnostic
- ❖ Objective: to generate alpha at lower risk than market
- ❖ Market cap: regional large cap, but also small & mid cap
- ❖ Portfolio components: ~ 50 positions
- ❖ Low portfolio turnover (~20% of assets p.a.) and limited volatility
- ❖ Offering format: Separately Managed Account
- ❖ Benchmark: MSCI EFM Europe + CIS ex. RU
- ❖ Strategy Launch: November, 2007



Geographic breakdown (30.09.2018)

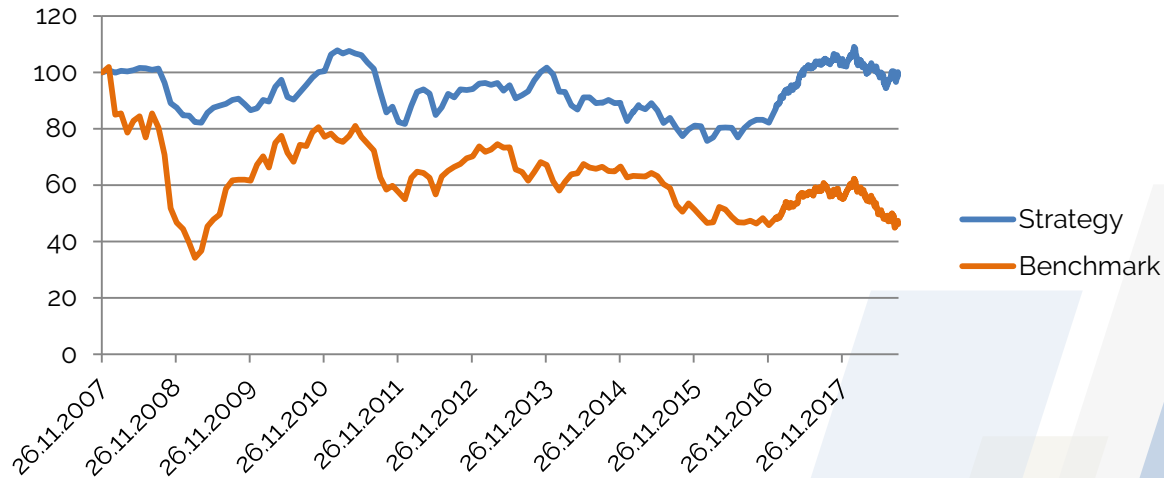


Sector breakdown



Top 5 positions	% of portfolio	Country	Sector
CD Project	5.91%	Poland	Information services
AVAST PLC	3.91%	Czech	Information services
MONETA MONEY BANK	3.57%	Czech	Banks
KOMERCNI BANKA	3.54%	Czech	Banks
MOL HUNGARIAN OIL AND GAS	3.51%	Hungary	Oil and Gas

Outperformance of Central Europe Strategy vs. Benchmark



Strategy vs. Benchmark performance, in EUR, Oct 15, 2018	YTD	1 year	3y return (ann.)	5y return (ann.)	Volatility	Alpha
MSCI EFM Europe+CIS ex RU	-22.77%	-21.50%	-5.35%	-7.51%	23.45%	
Central European Strategy	-10.76%	-11.6%	5.97%	-1.01%	10.57%	5.32%

V. Emerging Europe High-Growth Exporters SMA STRATEGY



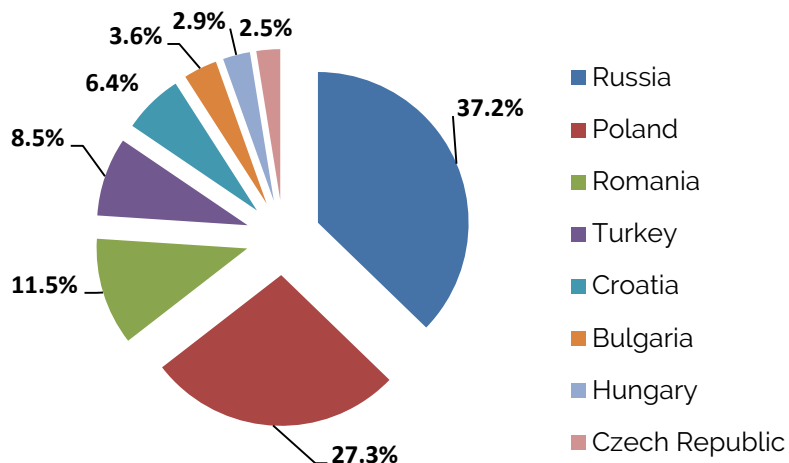
Emerging Europe High-Growth Exporters

- ◆ Investment theme: invests in high-growth industrial, outsourcing and ICT companies benefiting from low labor costs, skilled workforce, lowest taxes in a fast-growing region with strategic location
- ◆ Investment style: growth, bottom-up, benchmark agnostic
- ◆ Market cap: small and mid cap.
- ◆ Concentrated portfolio: 20-30 positions
- ◆ Low portfolio turnover (<20%) and limited volatility
- ◆ Offering format: Separately Managed Account
- ◆ Launch: April, 2013

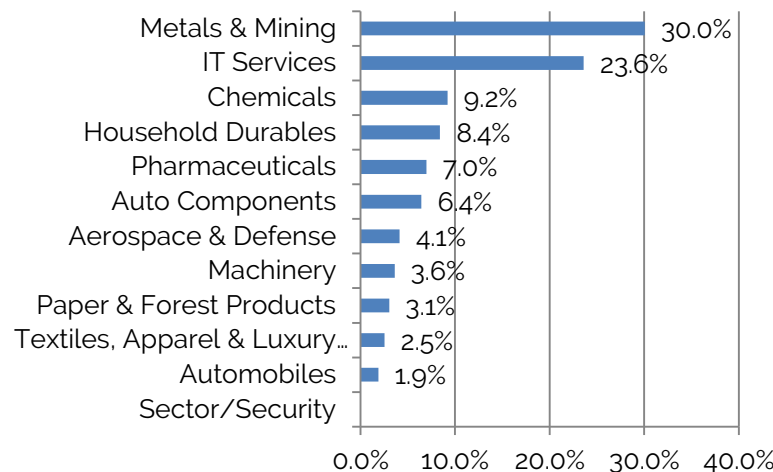


Emerging Europe High-Growth Exporters

Geographic breakdown (30.09.2018)

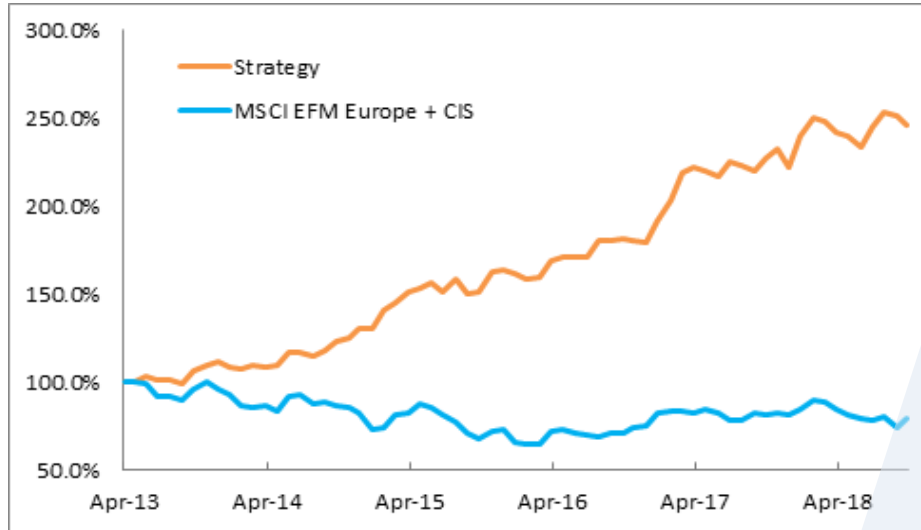


Sector breakdown



Top 5 positions	% of portfolio	Country	Sector
CD Project	11.5%	Poland	Information services
MMC NORILSK NICKEL PJSC	8.5%	Russia	Metals & Mining
EPAM SYSTEMS INC	7.8%	Russia	Information services
ALROSA PJSC	7.4%	Russia	Metals & Mining
NOVOLIPETSK STEEL PJSC	6.5%	Russia	Metals & Mining

Outperformance of Strategy vs. Benchmark



Strategy vs. Benchmark performance, in EUR, Oct 15, 2018	YTD	1 year	3y return (ann.)	5y return (ann.)	Volatility	Alpha
MSCI EFM Europe+CIS	-9.59%	-8.86%	+1.30%	-5.40%	25.49%	
Emerging Europe High-growth Exporters	-2.59%	1.27%	14.38%	16.26%	12.54%	15.85%

VI. KAROLL CAPITAL'S TRACK RECORD



Karoll Capital Management Investment Results



♦ Main strategies offered to professional investors:

Emerging Europe Opportunities , Central Europe, Balkan, Thematic, tailor-made strategies based on specific mandate

♦ Karoll Capital offers the above strategies in the form of:

UCITS mutual funds, SMA mandates, institutional advisory and sub-advisory services

Strategies results vs. benchmarks, as of 15.10.2018	YTD	1 year	3 years, annualized	5 years, annualized	Volatility	Alpha
MSCI EFM Europe +CIS	-9.59%	-8.86%	+1.30%	-5.40%	25.49%	
MSCI EFM Europe +CIS ex RU	-22.77%	-21.50%	-5.35%	-7.51%	23.45%	
Emerging Europe Opportunities strategy	-11.50%	-12.04%	1.89%	-1.28%	8.71%	2.21%
Balkan strategy	-6.10%	-5.21%	7.35%	5.78%	7.72%	5.42%
Central Europe strategy	-10.76%	-11.6%	5.97%	-1.01%	10.57%	5.32%
Emerging Europe High-growth Exporters	-2.59%	1.27%	14.38%	16.26%	12.54%	15.85%

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