

Sofia, Bulgaria

EMERGING EUROPE OPPORTUNITIES

April, 2019



I. KAROLL CAPITAL MANAGEMENT OVERVIEW



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
 - ◆ Balkan
 - ◆ Thematic Equity
 - ◆ Mixed / Custom
- ◆ Central Europe

BROKERAGE

- ◆ Local and regional markets
- ◆ Global capital markets

INVESTMENT BANKING

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

ALTERNATIVE INVESTMENTS

- ◆ Advance Equity Holding (private equity)
- ◆ Advance TerraFund REIT (farmland)

25 EXCITING YEARS OF SUCCESS | TEAM OF 200 EXPERTS

KAROLL BROKERAGE

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

KAROLL CAPITAL MANAGEMENT

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

KAROLL FINANCE

- *Manages Bulgaria's largest farmland REIT
- *IFC / World Bank - key stakeholder
- *Launched 1st 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 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 \$300+ 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
- ◆ Placement agent in Canada - Chevrny Capital
- ◆ Expanding towards Switzerland , Dubai, S. Korea
- ◆ Karoll is the only local signatory of the UN's Principles of Responsible Investing

entrepreneurial

flexible

independent

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



Nadia Nedelcheva, CFA, Chief Investment Officer

- ◆ 16+ 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

- ◆ 13+ 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

- ◆ 16+ 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

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

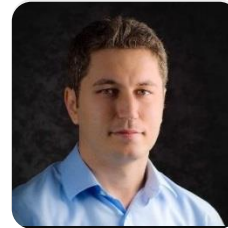
Karoll Capital's Analysts Team

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



Georgi Raykov, Sr. Investment Analyst

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



Florian Munteanu, Representative for Romania

- ◆ 16+ yrs of experience in financial analysis, wealth planning, international auditing in multinational environments; based in Bucharest, Romania



Emil Yanchev, Sr. Investment Analyst

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



Oguz Ziddioglu, Sr. Investment Analyst

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



Simeon Keranov, Investment Analyst

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

Investment Analyst based in Moscow, Russia

II. THE MARKET OPPORTUNITY



Riga, Latvia

Buoyant region converging with developed Europe

Emerging Europe is a diverse region offering a significant scale:

350+ mln combined population



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

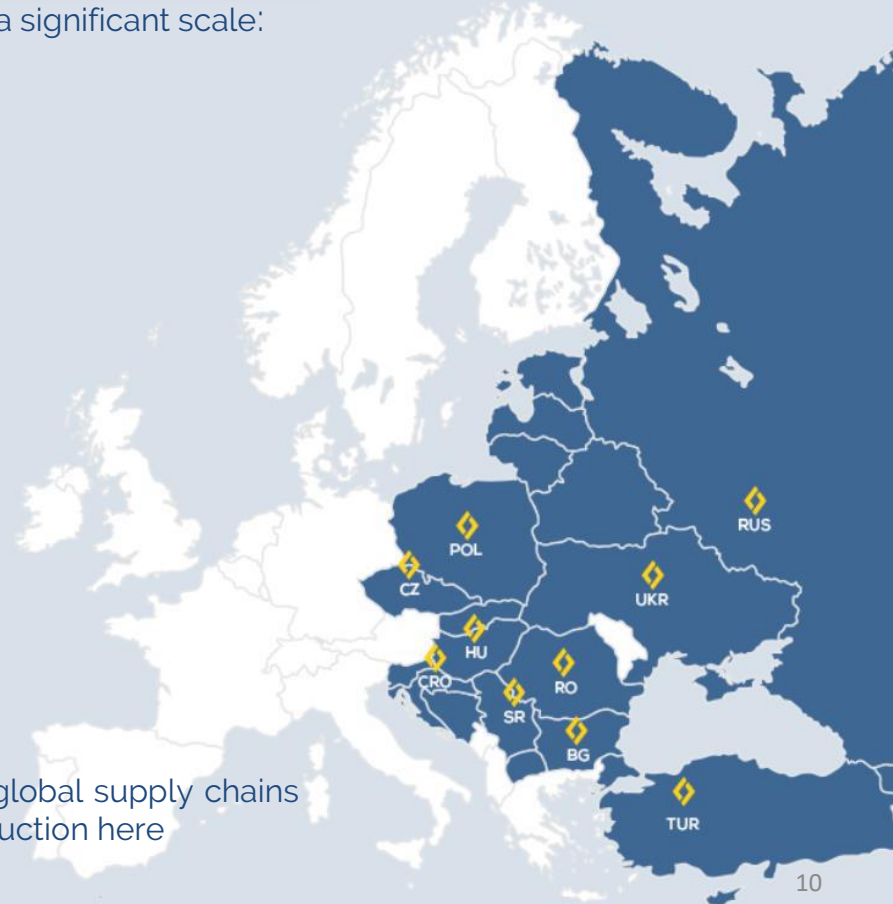


3,000+ listed companies



USD 1+ trln total market cap

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



Why Emerging Europe?

- ◇ **Emerging Europe growing much faster than developed Europe** → **+3.7%** on ave. b/n 2008-2018 vs. +0.8% for euro-area; stable economies with low govt. debt (**50%** of GDP vs. 89% for euro-zone)
- ◇ **Strong catch-up potential due to lagging performance** → regional markets yet to recover since GFC (still **50%** below 2007 peak)
- ◇ **Lowest valuations globally** → ave. P/E ~ **7x** vs. 15x for developed world, highest dividend yields (>**6%**)
- ◇ **Very low labor costs and business expenses** → Well-educated and cheap workforce, low overall costs attracting international business; lowest taxes in Europe
- ◇ **High growth of employment in science & tech** → innovation boosted by EU funds and private investments in tech incubators
- ◇ **Strategic location of the region** → ideally situated for trade links b/n Western Europe, Middle East and Asia; infrastructure significantly improving with major investments in pipeline

strategic location

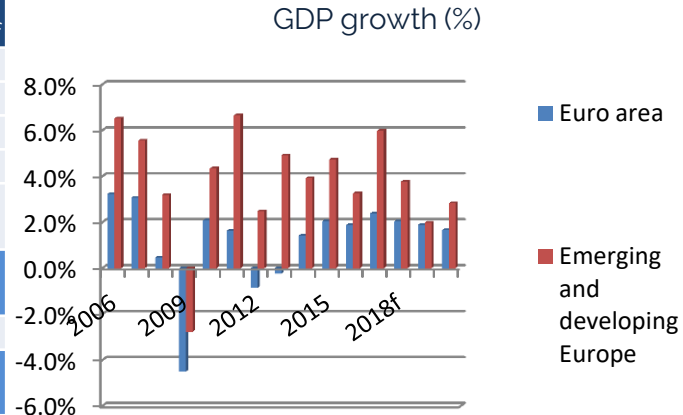
growing economies

Emerging Europe among the fastest growing regions

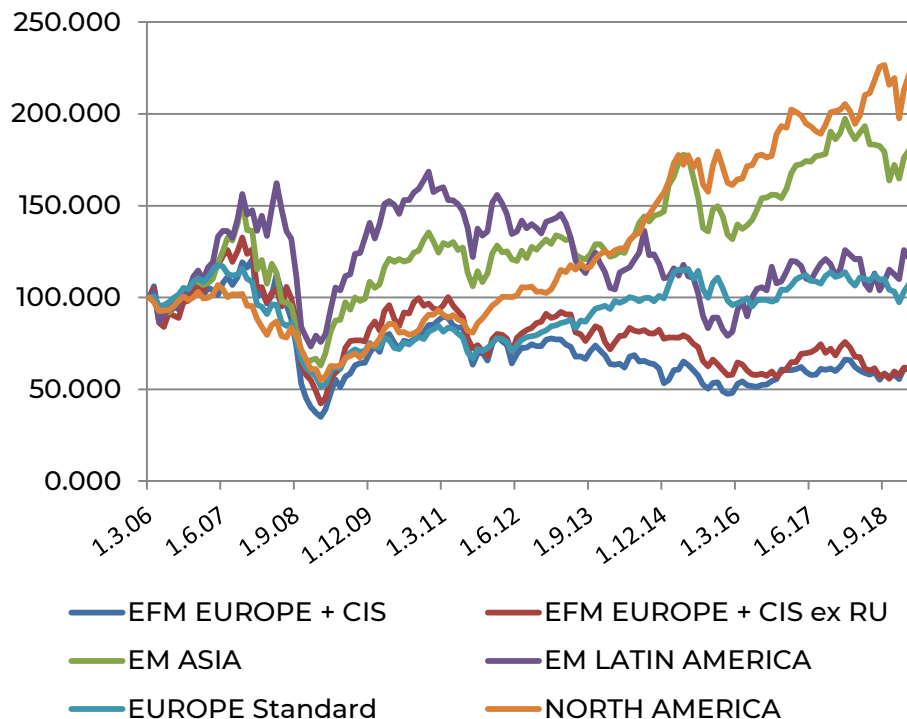
	2015	2016	2017	2018 e	2019f	2020f
World	3.4%	3.3%	3.7%	3.7%	3.7%	3.7%
Advanced economies	2.3%	1.7%	2.3%	2.4%	2.1%	1.7%
Euro area	2.1%	1.9%	2.4%	2.0%	1.9%	1.7%
European Union	2.4%	2.0%	2.7%	2.2%	2.0%	1.8%
Emerging market and developing economies	4.3%	4.4%	4.7%	4.7%	4.7%	4.9%
Commonwealth of Independent States	-2.0%	0.4%	2.1%	2.4%	2.4%	2.4%
Emerging and developing Asia	6.8%	6.5%	6.5%	6.5%	6.3%	6.4%
Emerging and developing Europe	4.7%	3.3%	6.0%	3.8%	2.0%	2.8%
Latin America and the Caribbean	0.3%	-0.6%	1.3%	1.2%	2.2%	2.7%
Middle East and North Africa	2.4%	5.2%	1.8%	2.0%	2.5%	2.9%
Sub-Saharan Africa	3.3%	1.4%	2.7%	3.1%	3.8%	3.9%

Source: IMF WEO October 2018

- Emerging Europe growing much faster than developed Europe: +3.7% on ave. b/n 2008- 2018 vs. +0.8% for euro-area
- Positive trend to persist in the following years
- GDP per capita way below Eurozone average = catch-up potential



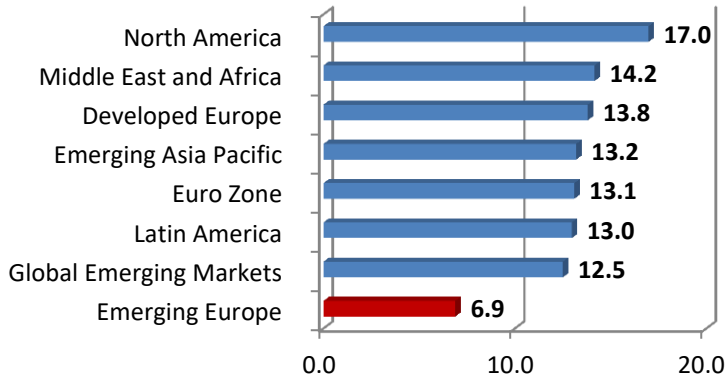
Strong catch-up potential due to lagging performance



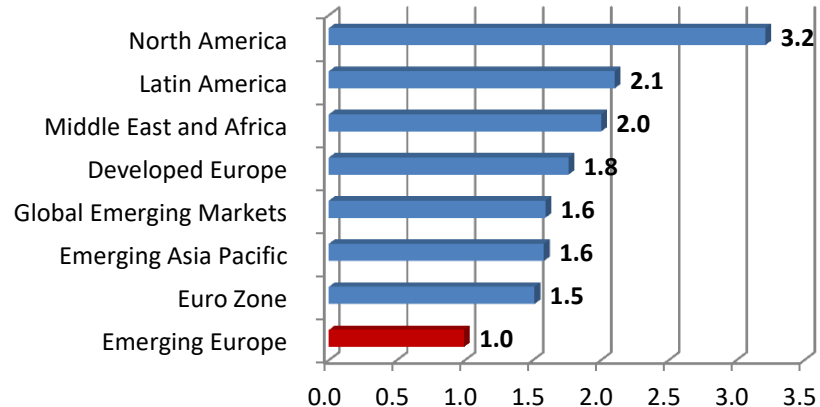
	MSCI EFM Europe+CIS, € 31.03.2019	MSCI EFM Europe+CIS ex RU, € 31.03.2019
YTD	9.10%	2.82%
1Y	-2.56%	-12.47%
3Y, annualized	+4.57%	-2.79%
5Y, annualized	-1.08%	-5.57%
10Y, annualized	+4.47%	+2%

Why now: compelling valuations in Emerging Europe

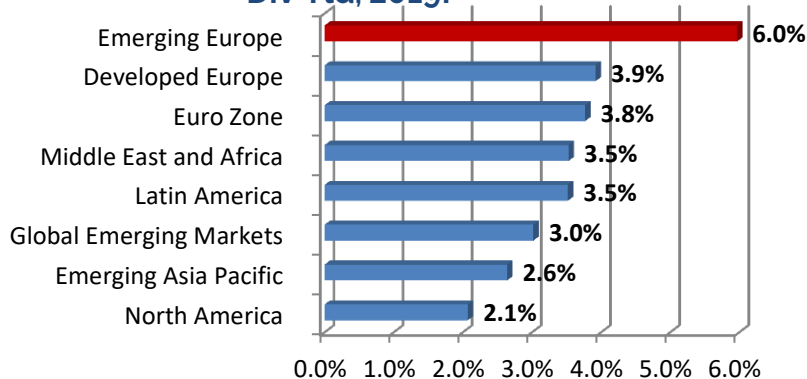
P/E 2019f



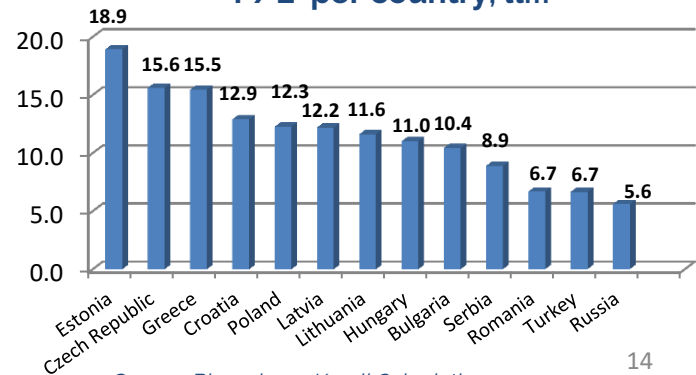
P/B, mrq



Div Yld, 2019f

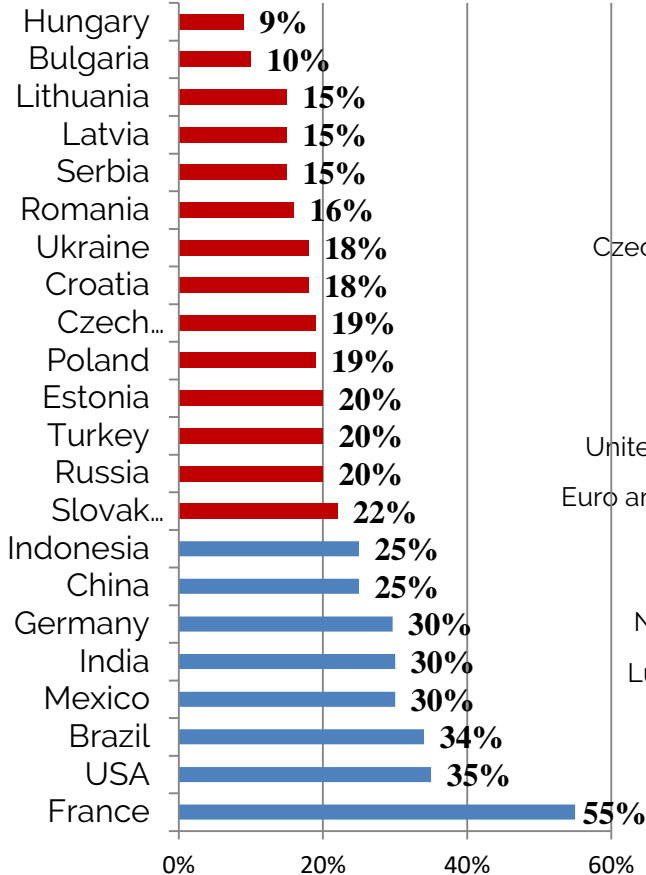


P/E per country, ttm

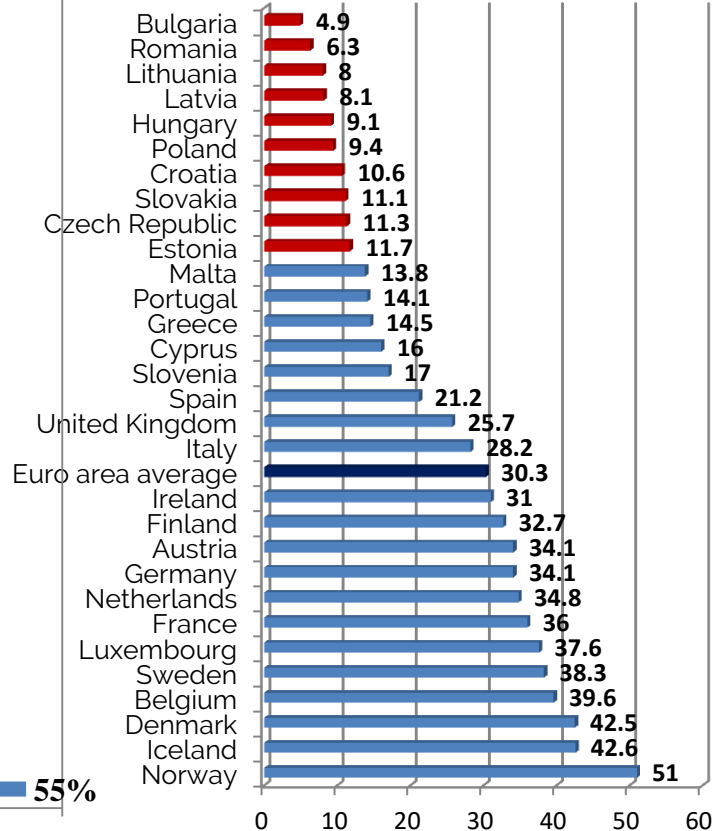


Emerging Europe boasts lowest taxes & labor costs

Corporate tax rates



Labor costs per hour (€), 2017



- ◇ Taxes much lower in CEE vs. developed world
- ◇ States provide various tax incentives to attract foreign capital
- ◇ Convergence driving income growth, but wages still far below European averages
- ◇ Min wages range from €194 in Bulgaria to €1,473 in Germany

Source: Eurostat

Why Karoll Capital?

- ❖ **Our mission** → give you access to under-researched, under-owned, overlooked assets at low operational cost
- ❖ **Our value added** → help you tap into the most undervalued stock markets and provide liquidity
- ❖ **Entrepreneurial by nature** → not only analyzing the potential, we are committed to helping you realize it by unlocking the value

Mission statement

Unique proposition

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

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

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



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 interests of owners with those of minorities; management must act to minimize risk of corruption
- ❖ Environmental and social factors → does company address environmental & social issues in its operations
- ❖ Active ownership approach

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

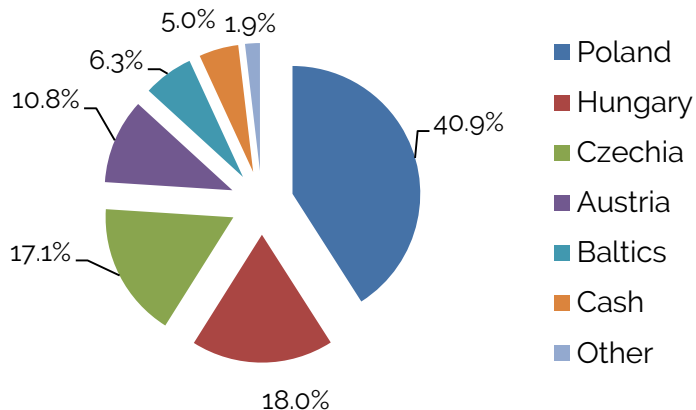


Karoll Capital's Central Europe Strategy

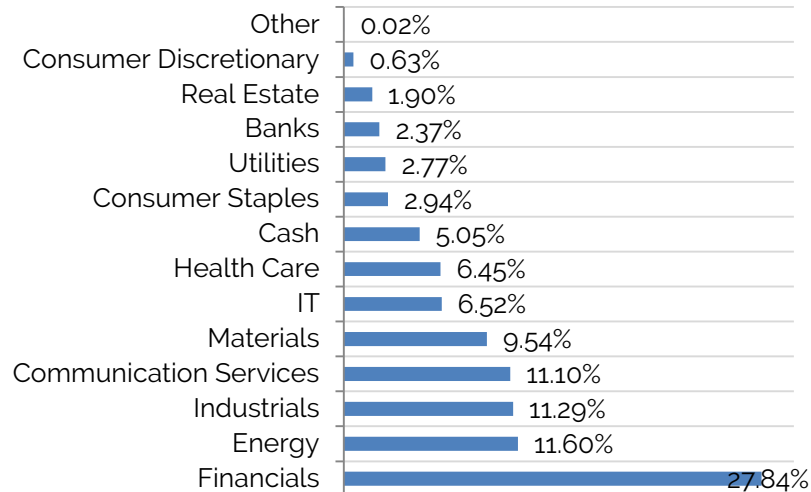
- ◆ Investment theme: invests in the stock markets of Central Europe – Poland, Czech, Hungary, Austria, Baltics
- ◆ Investment style: blended (value & growth), stock-picking, bottom-up combined with top-down and sector views, benchmark agnostic
- ◆ Objective: to generate alpha at lower risk than market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



Geographic breakdown (31.03.2019)

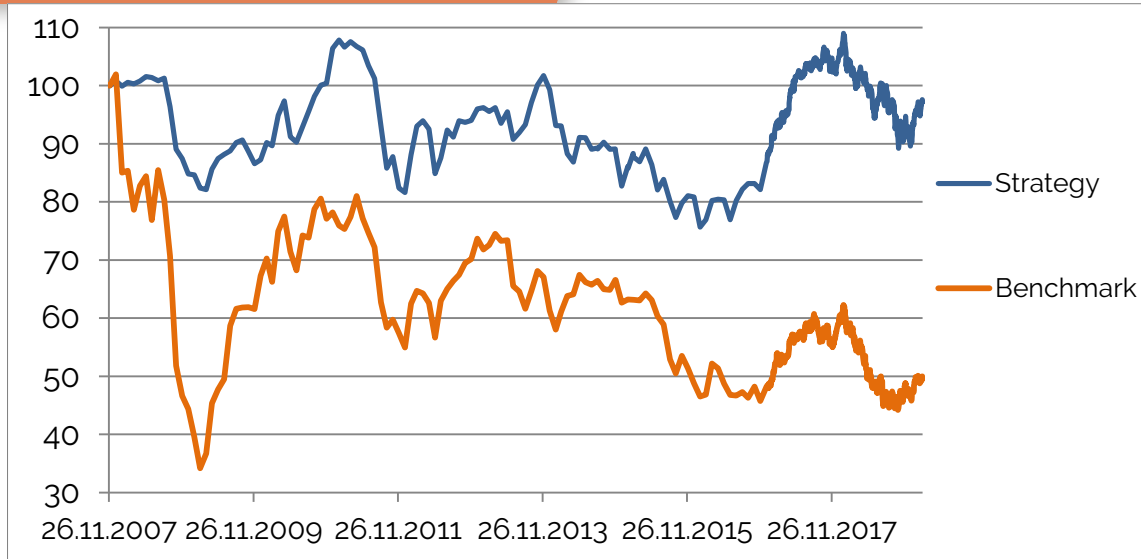


Sector breakdown



Top 5 positions	% of portfolio	Country	Sector
CD Project	5.74%	Poland	Communication services
OTP BANK	4.43%	Hungary	Financials
AVAST PLC	4.20%	Czech	Information technology
MOL Hungarian Oil and Gas	4.03%	Hungary	Energy
KOMERCNI BANKA	3.78%	Czech	Financials

Outperformance of Central Europe Strategy vs. Benchmark



Strategy vs. benchmark, € 31, March, 2019	YTD	1 year	3y return (ann.)	5y return (ann.)	Volatility	Alpha
MSCI EFM Europe+CIS ex RU	+2.82%	-12.47%	-2.79%	-5.57%	22.53%	
Central European Strategy	+6.92%	-3.35%	+6.37%	+1.82%	11.46%	5.83%

V. Emerging Europe High-Growth Exporters SMA STRATEGY



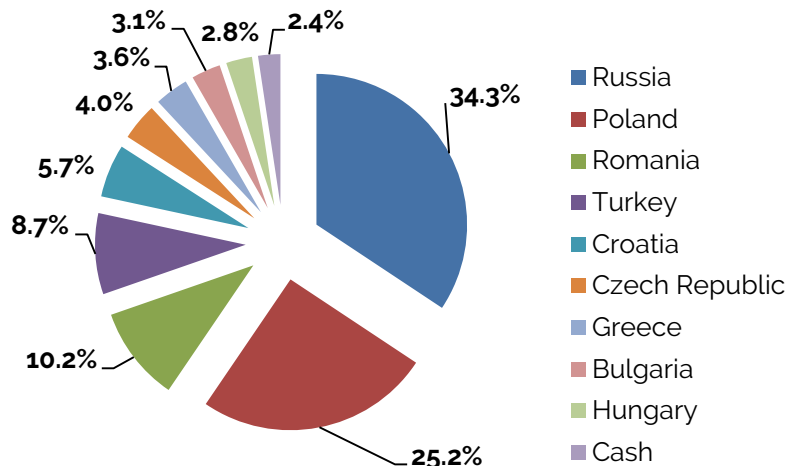
Emerging Europe High-Growth Exporters

- ◆ 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: 25-30 positions
- ◆ Low portfolio turnover (<20%) and limited volatility
- ◆ Offering format: Separately Managed Account (SMA)
- ◆ Launch: April, 2013

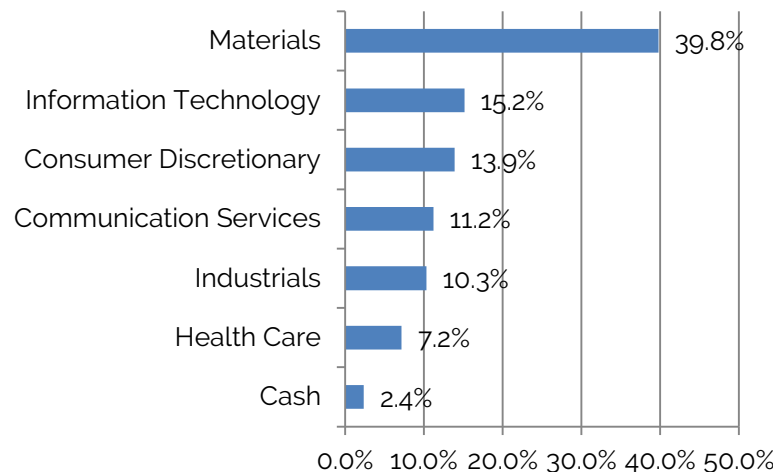


Emerging Europe High-Growth Exporters

Geographic breakdown (31.03.2019)

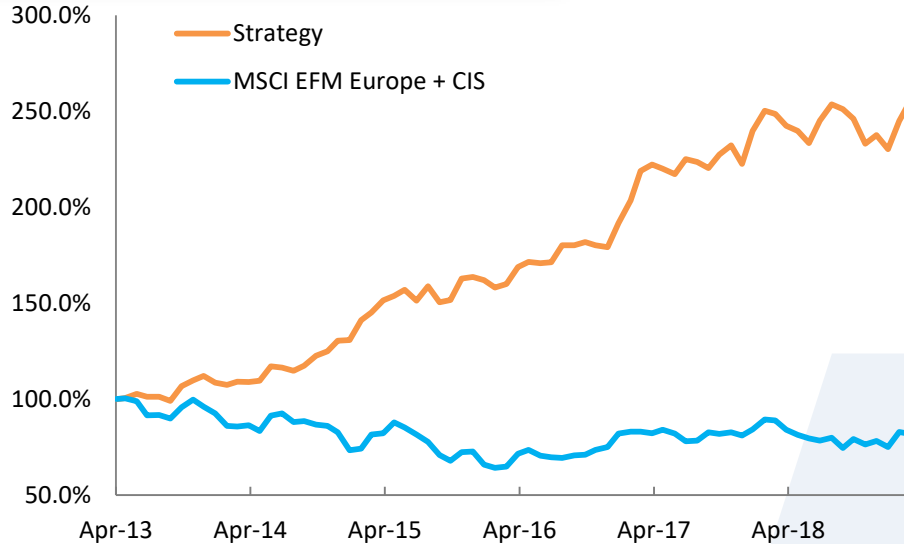


Sector breakdown



Top 5 positions	% of portfolio	Country	Sector
CD PROJEKT SA	11.53%	Poland	Communication Services
MMC NORILSK NICKEL PJSC	8.54%	Russia	Materials
EPAM SYSTEMS INC	7.81%	NA	Information Technology
ALROSA PJSC	7.39%	Russia	Diversified
NOVOLIPETSK STEEL PJSC	6.55%	Russia	Materials

Outperformance of Strategy vs. Benchmark



Strategy vs. benchmark, € 31, March, 2019	YTD	1 year	3y return (ann.)	5y return (ann.)	Volatility	Alpha
MSCI EFM Europe+CIS	9.10%	-2.56%	4.6%	-1.1%	24.48%	
Emerging Europe High-Growth Exporters	10.17%	4.70%	14.55%	18.43%	12.37%	13.57%

VI. KAROLL CAPITAL'S TRACK RECORD



❖ **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 31.03.2019, in EUR	YTD	1 year	3 years, annual.	5 years, annual.	Volatility	Alpha
MSCI EFM Europe +CIS	9.10%	-2.56%	4.6%	-1.1%	24.48%	
MSCI EFM Europe +CIS ex RU	2.82%	-12.47%	-2.79%	-5.57%	22.53%	
Emerging Europe Opportunities strategy	+7.41%	-5.46%	+4.34%	+0.32%	+9.69%	+2.47%
Balkan strategy	+0.2%	-8.2%	+10.2%	+1.9%	+6.86%	+5.48%
Central Europe strategy	+6.92%	-3.35%	+6.37%	+1.82%	+11.46%	+5.83%
Emerging Europe High-Growth Exporters	+10.17%	+4.70%	+14.55%	+18.43%	+12.37%	+13.57%

CONTACTS

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