

KCM – EMERGING EUROPE STRATEGIES

Jan 2023

www.karollcapital.bg/en

This is marketing material.



Sofia, Bulgaria

Rila Monastery, Bulgaria

KAROLL CAPITAL: COMPANY OVERVIEW



30 EXCITING YEARS OF SUCCESS | TEAM OF 200 EXPERTS

ASSET MANAGEMENT

Wealth Management products:

- ◆ Advance Emerging Europe Opportunities UCITS
- ◆ Advance Invest (Balkans) UCITS
- ◆ Advance Eastern Europe UCITS
- ◆ Advance Global Trends UCITS
- ◆ Global SMAs and (sub) advisory mandates
- ◆ Partner of Schroders Investment Management, distributing 100+ global funds in Bulgaria and Romania
- ◆ Structured notes in partnership with Credit Suisse

SMA Strategies for Professional Investors:

- | | |
|------------------|-------------------|
| ◆ Central Europe | ◆ Emerging Europe |
| ◆ Eastern Europe | ◆ Aggregate |
| ◆ Balkans | ◆ Mixed/Custom |

BROKERAGE

- ◆ Local and regional markets
- ◆ Global capital markets
- ◆ Leader in Bulgaria by market share

INVESTMENT BANKING

- ◆ IPO and SPO capital markets
- ◆ M&A, Restructuring, Consulting
- ◆ Official representative of Oaklins

ALTERNATIVE INVESTMENTS

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

Unique heritage in Emerging Europe

- ❖ Founded in Sofia in 2003 with 20-year track record in regional market allocation and stock selection
- ❖ Independent, specialized and pioneering
- ❖ Highly qualified team with very low turnover (+10 years avg. company tenure for key management and investment personnel)
- ❖ Part of Karoll Financial Group – a diversified financial conglomerate founded in 1993, with asset management, investment banking, brokerage, private equity and insurance arms

Steady business growth from diversified business lines

- ❖ AUM of \$300+ mln in funds, SMAs, advisory mandates and wealth management, incl. 4 UCITS funds managed in-house
- ❖ Regional distributor of 100+ third-party global funds

Crisp focus on Emerging Europe

- ❖ Native understanding of local market dynamics, no language or cultural barriers
- ❖ On-the-ground research coverage of wide range of companies
- ❖ +100 years of combined financial markets experience of Investment Committee members
- ❖ Investment strategies consistently outperforming benchmarks

International perspective

- ❖ Represented by Waystone Fund Services in Switzerland and HDC (Hyundai) Securities in Korea
- ❖ Regional representative of Schroders Investment Management, UK
- ❖ Structured product partnership with Credit Suisse
- ❖ The first local signatory of the UN's Principles of Responsible Investing

entrepreneurial

flexible

independent

Our founders



Stanimir Karolev, Chairman and owner

Born 1966. MA, Macroeconomics, University for National and World Economy, Sofia. Following post-graduate studies in London, Zurich, and New York, he founded Karoll Financial House in 1993, Karoll Brokerage in 1997, and Karoll Capital Management in 2003. In addition to his entrepreneurial activities, he established the Karoll Knowledge Foundation to support local science and education. Fluent in English and Russian.



Daniel Ganev, Chief Executive Officer

Born 1977. BSc, Business and Finance, William Paterson University, New Jersey; MBA, University of Cambridge, UK. After internships with Merrill Lynch and Sony in the USA, he became an analyst with SG Cowen, New York, then returned to Bulgaria in 2003 to assist Stanimir Karolev in establishing Karoll Capital Management. Fluent in English and Russian.

KAROLL CAPITAL MANAGEMENT ORGANIZATIONAL STRUCTURE



Karoll Capital's Investment Committee Key Members

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



Konstantin Prodanov, Chief Investment Strategist, Board Member

Born 1977. BA/MA in International Relations, Sofia University; MA in International Economics, International University of Japan. 21+ yrs of experience in trading, multi-asset portfolio management and research on the Global, Asian and Emerging Europe markets; Responsible for Emerging Europe institutional mandates and UCITS funds; Previous employers include Goldman Sachs, UBS, Allianz, Dresdner Kleinwort Wasserstein. Fluent in English, and Russian, working knowledge of French and Japanese.



Georgi Georgiev, Sr. Portfolio Manager, Global Markets

Born 1981. MA, Finance, University of National & World Economy, Sofia. 17+ yrs of experience in research, fundamental analysis, valuations, portfolio management and trading on the global financial markets; Portfolio Manager of Discretionary Accounts; Previous employers include Kraft Foods, Northfield, USA, Alfa Finance Holding, Sofia. Fluent in English and German.

Karoll Capital's PMs and Analysts

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



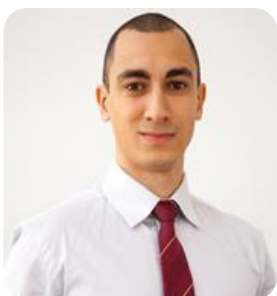
Georgi Raykov, Portfolio Manager – Eastern Europe

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



Florian Munteanu, Sr. Investment Analyst

- ♦ 17+ yrs of experience in financial analysis, wealth planning, international auditing in multinational environment; based in Bucharest, Romania



Emil Yanchev, Portfolio Manager – Central Europe

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



Simeon Keranov, Portfolio Manager

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

KAROLL CAPITAL'S INVESTMENT CAPABILITIES



INVESTMENT PHILOSOPHY

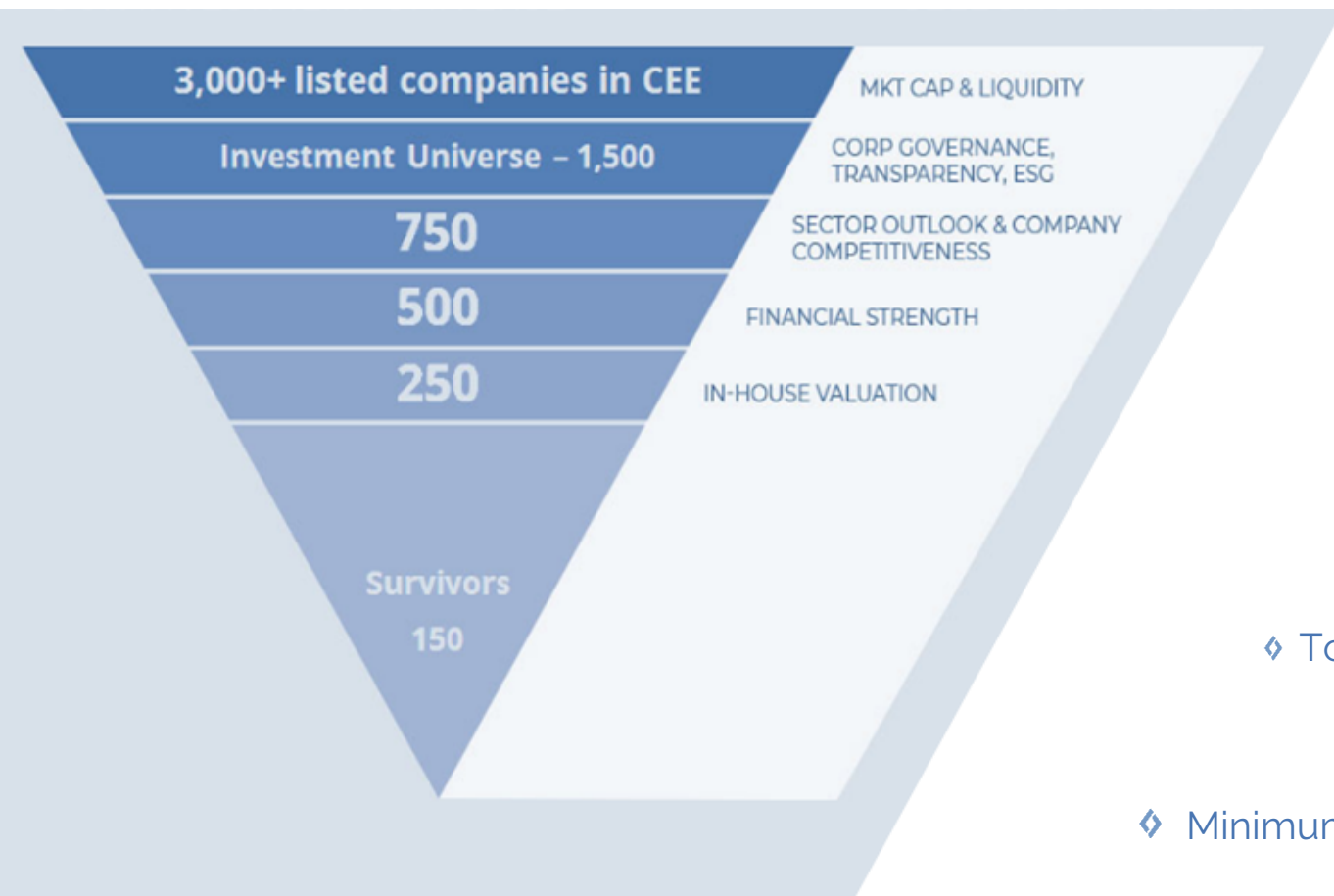
- ❖ Market inefficiencies abound in less developed markets due to asymmetric information, liquidity constraints, and behavioral biases. This creates opportunities, but one must have the capabilities and processes to identify them on time and profit from them. Here're our investment pillars:
- ❖ Maintain contrarian bias and long-term investment horizon
- ❖ Approach each investment with an ownership mentality rather than as a speculative trade
- ❖ Prioritize free cash flow generation ability, niche market positioning, pricing power and margin of safety when selecting investments
- ❖ Have each investment proposal purposefully challenged by Investment Committee member to avoid group think; perform investment post-mortems
- ❖ Stay ahead of the curve through regular company visits and access to local news sources
- ❖ Liquidity management during periods of market turmoil – maintain an adequate cash buffer to meet unexpected drawdowns or act upon investment opportunities
- ❖ Maintain rigorous discipline with regards to liquidity and concentration risk
- ❖ Transaction and hedging costs can be prohibitively expensive so keep portfolio turnover low (<20% p.a.) and hedge FX risk only on an ad hoc basis ahead of potential black swan events

long-term horizon

liquidity management

OUR INVESTMENT UNIVERSE

Selection Filters:



Investment Constraints:

- ♦ Entry/exit up to 3 days for more liquid markets, up to 7 days for less liquid ones
- ♦ Maximum 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

Screen

Study

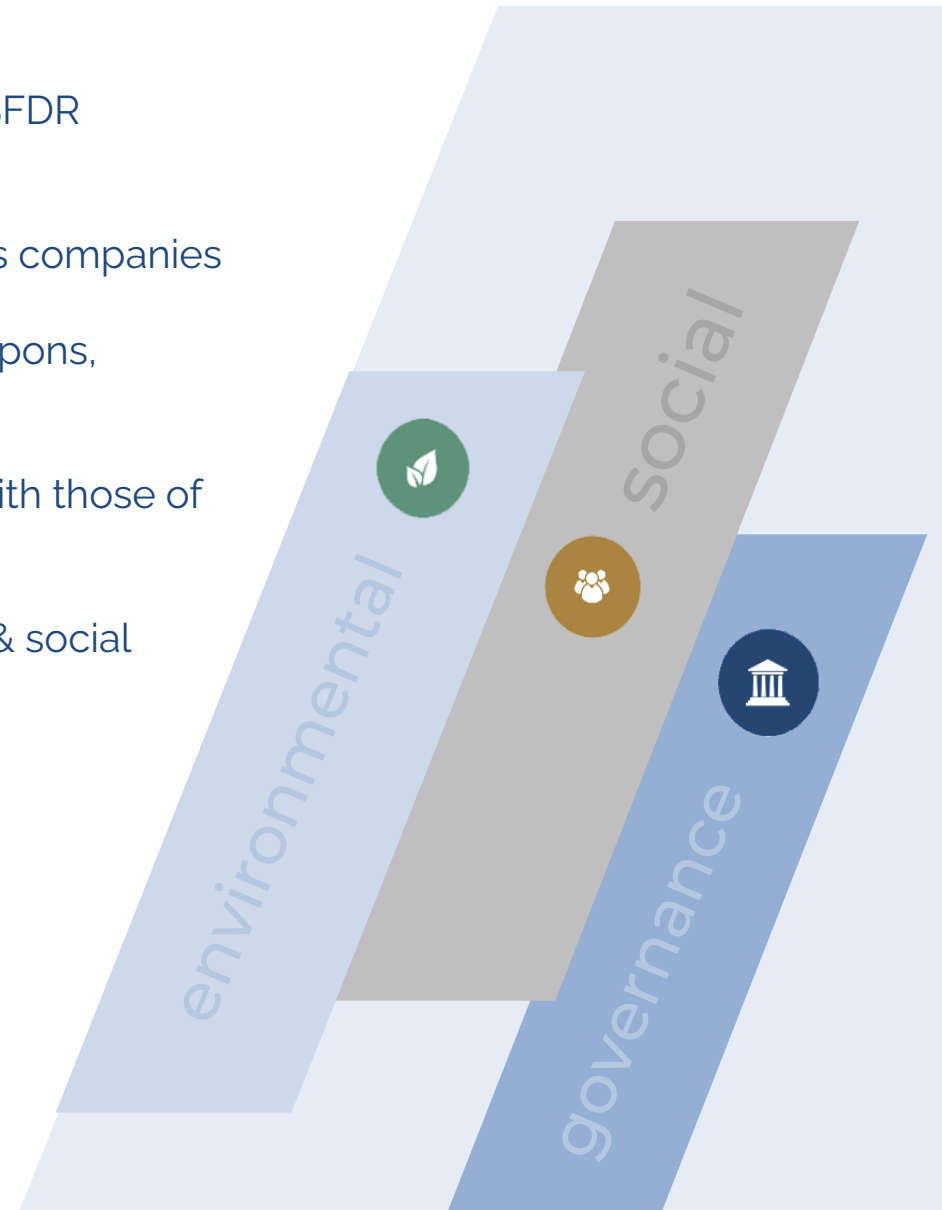
Shape

Supervise

KAROLL CAPITAL'S ESG PROCESS & CRITERIA

- ❖ Internal Sustainable Investment Policy in place, in compliance with the EU SFDR directive
- ❖ Using a blend of external and internal ESG scores to select the best-in-class companies
- ❖ Exclusion of companies generating majority of revenues from tobacco, weapons, pornography, fracking, coal mining
- ❖ 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:



THE MARKET OPPORTUNITY



Riga, Latvia

Buoyant region converging with developed Europe

Emerging Europe is a diverse region, considerable in scale and thriving with opportunities:



- ❖ incubator for fast-growing companies
- ❖ increasingly participating in global supply chains



Emerging Europe economy at a glance

- ♦ **EE is growing over 5 times faster than developed Europe** → **+2.4%** on ave. b/n 2011-2020 vs. +0.5% for the euro-area
- ♦ **Resilient domestic demand** → tight labor market and supportive fiscal initiatives
- ♦ **EU/Eurozone membership & ties** → access to the common European market, cohesion funds and financial stability mechanisms. Regulatory framework synchronized with EU legislation.
- ♦ **Strong support from EU funds** → apprx: **€500 bln** = 39% of the new EU members' 2019 GDP for the period from 2021 to 2027. Apprx. **€ 100 bln** in grants from the EU recovery fund are allocated to Emerging Europe
- ♦ **Low labor costs, business expenses and taxes** → Well-educated and cheap workforce, low overall costs attracting international business; lowest taxes in Europe
- ♦ **Strategic location of the region** → ideally situated for trade links b/n Western Europe, Middle East and Asia. Significant improvement in infrastructure with further major projects in the works.
- ♦ **Nearshoring trends** driven by COVID and East-West geopolitics should benefit Emerging Europe as global supply chains are forced to shorten and prioritize resilience
- ♦ Buoyant **technology** sector (online shopping; gaming; cyber-security; digital services)

strategic location

growing economies

Emerging Europe markets at a glance

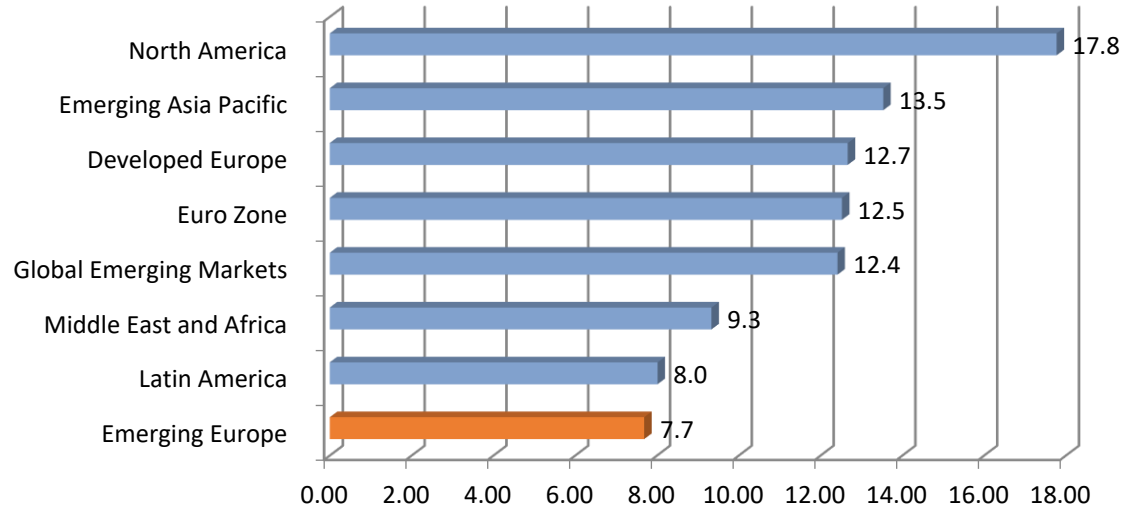
- ♦ Rising global rates favor **value sectors** (75%-80% share of value sectors in Emerging Europe markets)
- ♦ **Growth potential through leverage** → govt. debt to GDP is 50% vs. 95.6% for the Eurozone; gross private debt is 95% (65% corporate/30% household) vs 203% (143% corporate/60% household) for the Eurozone
- ♦ Low debt levels in the region make it less vulnerable to rising rates
- ♦ **Strong catch-up potential** → regional equity markets are more than 50% below their 2007 peak)
- ♦ **Lowest valuations globally** → ave. **P/E ~ 7.7x** vs. 12.4x for Global EM (**38% discount**, 1.5 StDev below 10Y average); high dividend yields (apprx. 5%);
- ♦ **Post-war Ukraine recovery plan and weaker USD** are strong positive catalysts
- ♦ The region is **extremely underweight in global investment portfolios**
- ♦ **Low Mkt Cap/GDP** → appx. 40% vs 120% for global market, so ample room for growth
- ♦ **Fertile ground for stock picking** → local knowledge and first-mover advantage have allowed us to consistently outperform our benchmarks. Our main Central Europe focused fund beat his by almost 16pp for the last 3 years, generating **alpha of 2.87%**.
- ♦ **Evolving market structure:** "New" economy stocks make up the bulk of IPOs

strategic location

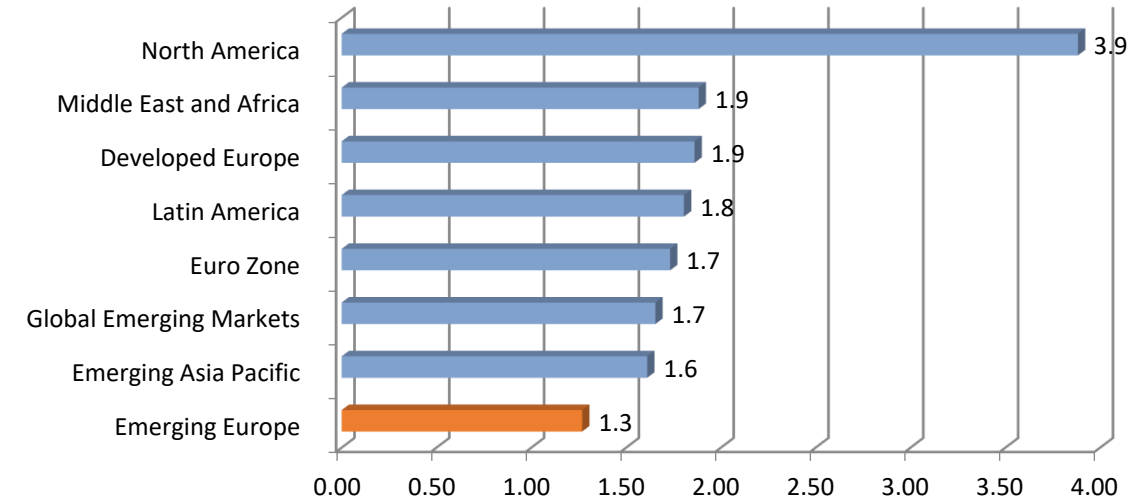
growing economies

Compelling valuations in Emerging Europe

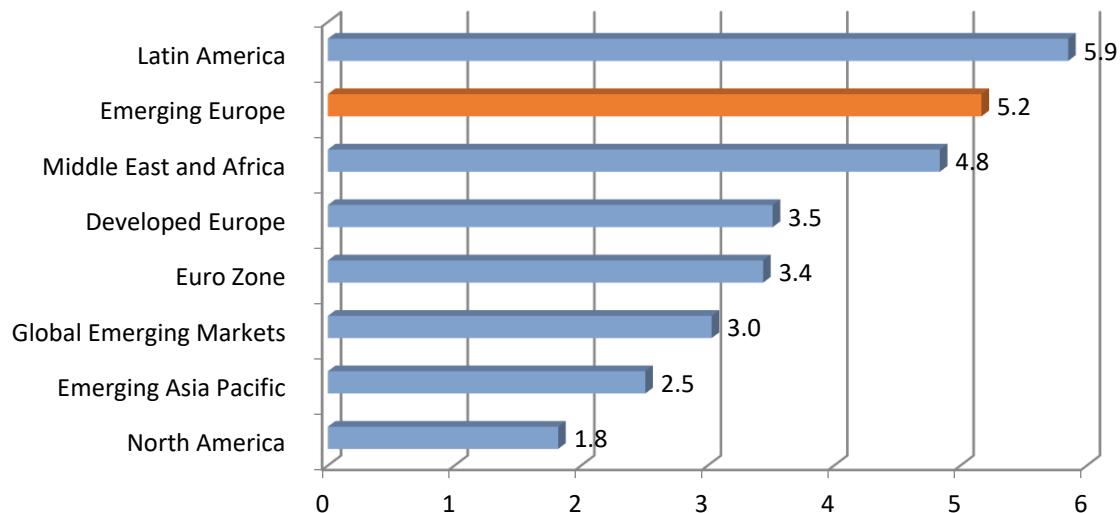
Forward P/E



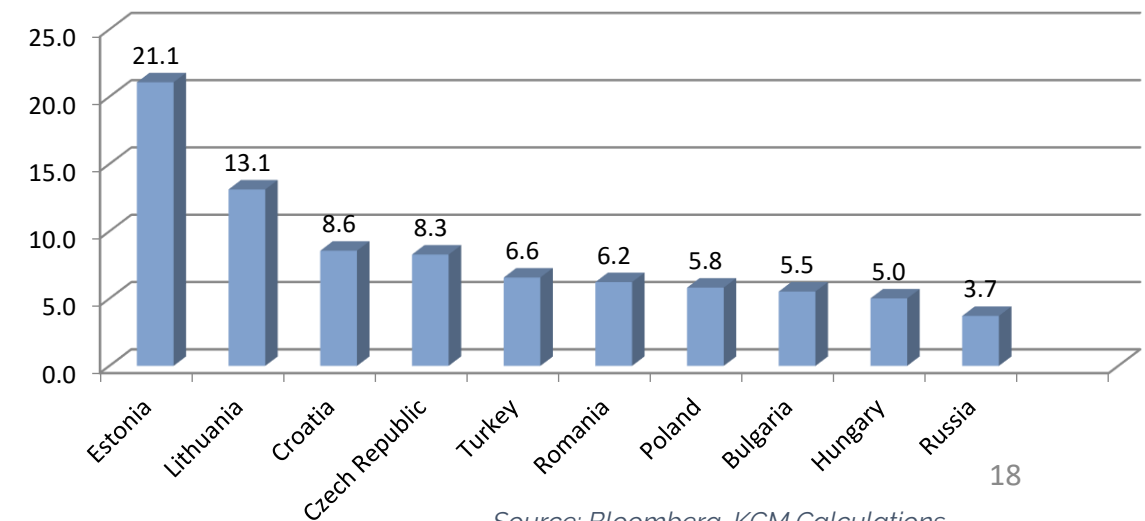
P/B, mrq



Dividend Yield, %

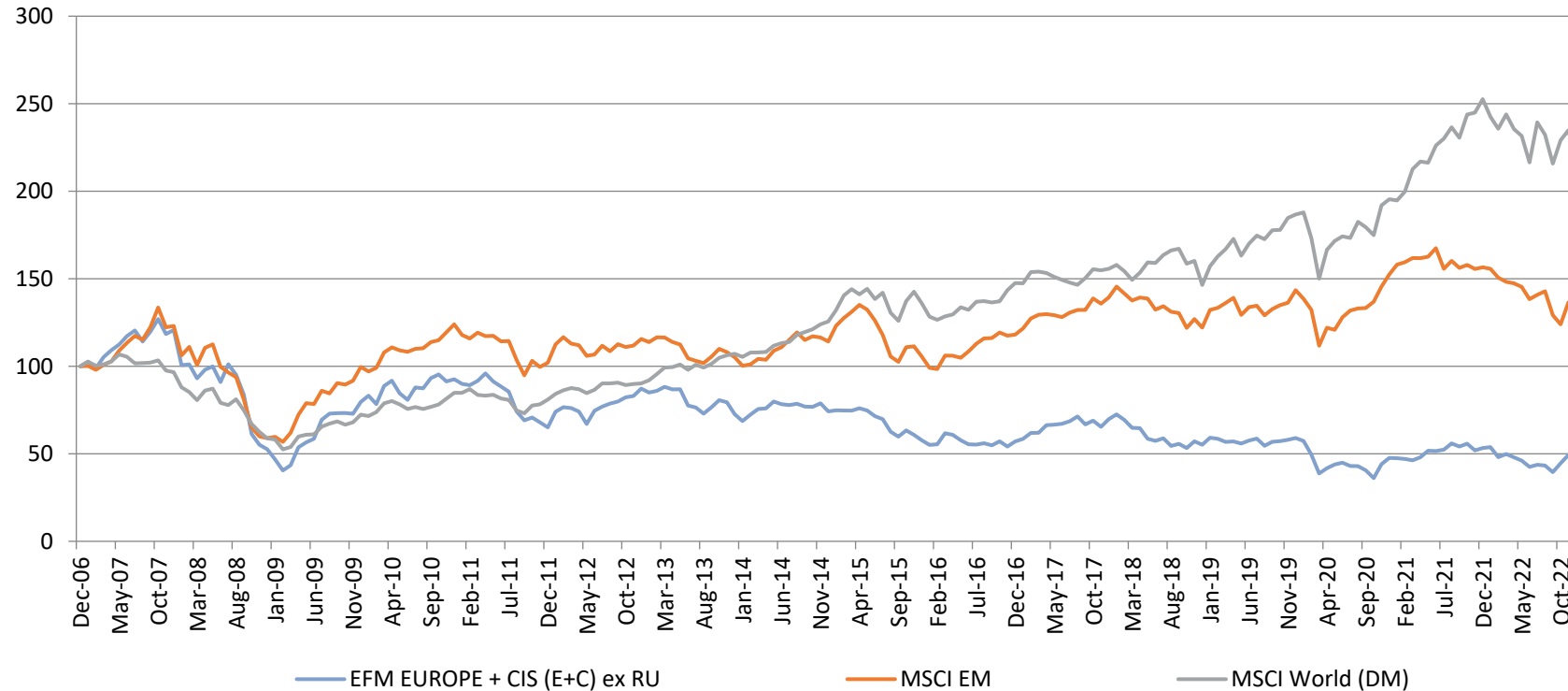


P/E per country, ttm



Source: Bloomberg, KCM Calculations

Large valuation gap and catch-up potential

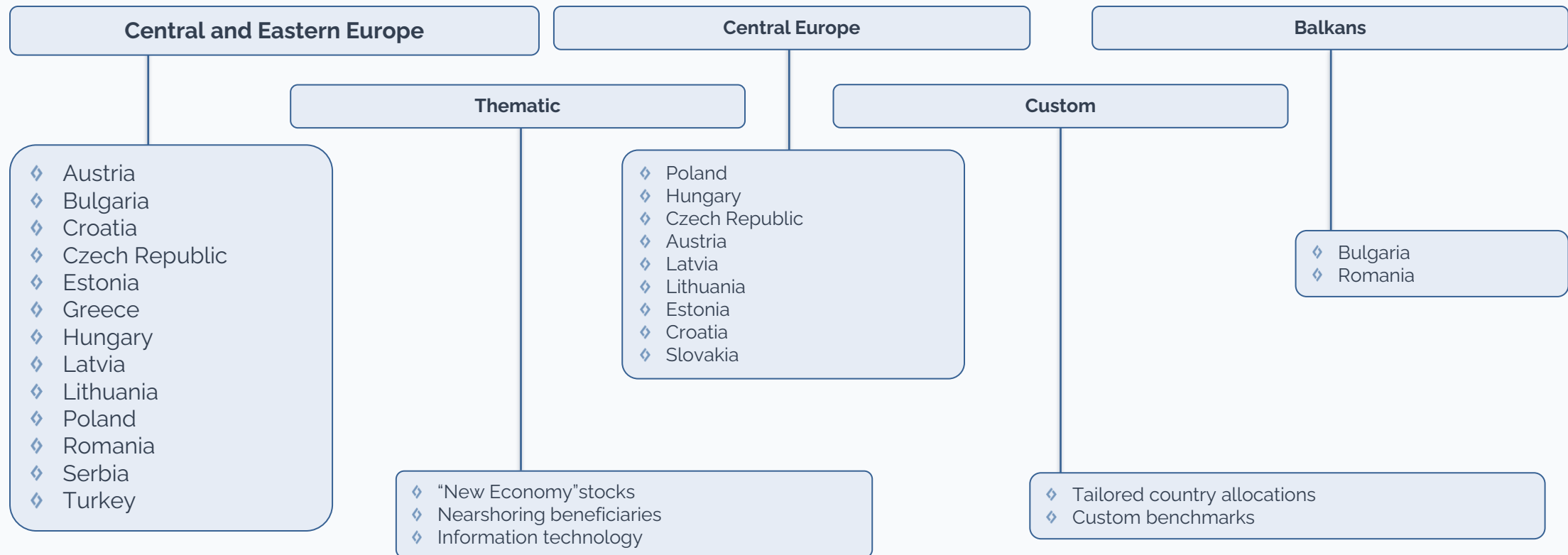


	MSCI EFM Europe+CIS <u>ex RU</u> , € 31.12.2022
1Y	-6.49%
3Y, annualized	-5.49%
5Y, annualized	-6.52%
10Y, annualized	-5.45%

What we offer

Emerging Europe equity strategies for professional investors

** in the form of SMA mandates, UCITS mutual funds, institutional advisory and sub-advisory services*



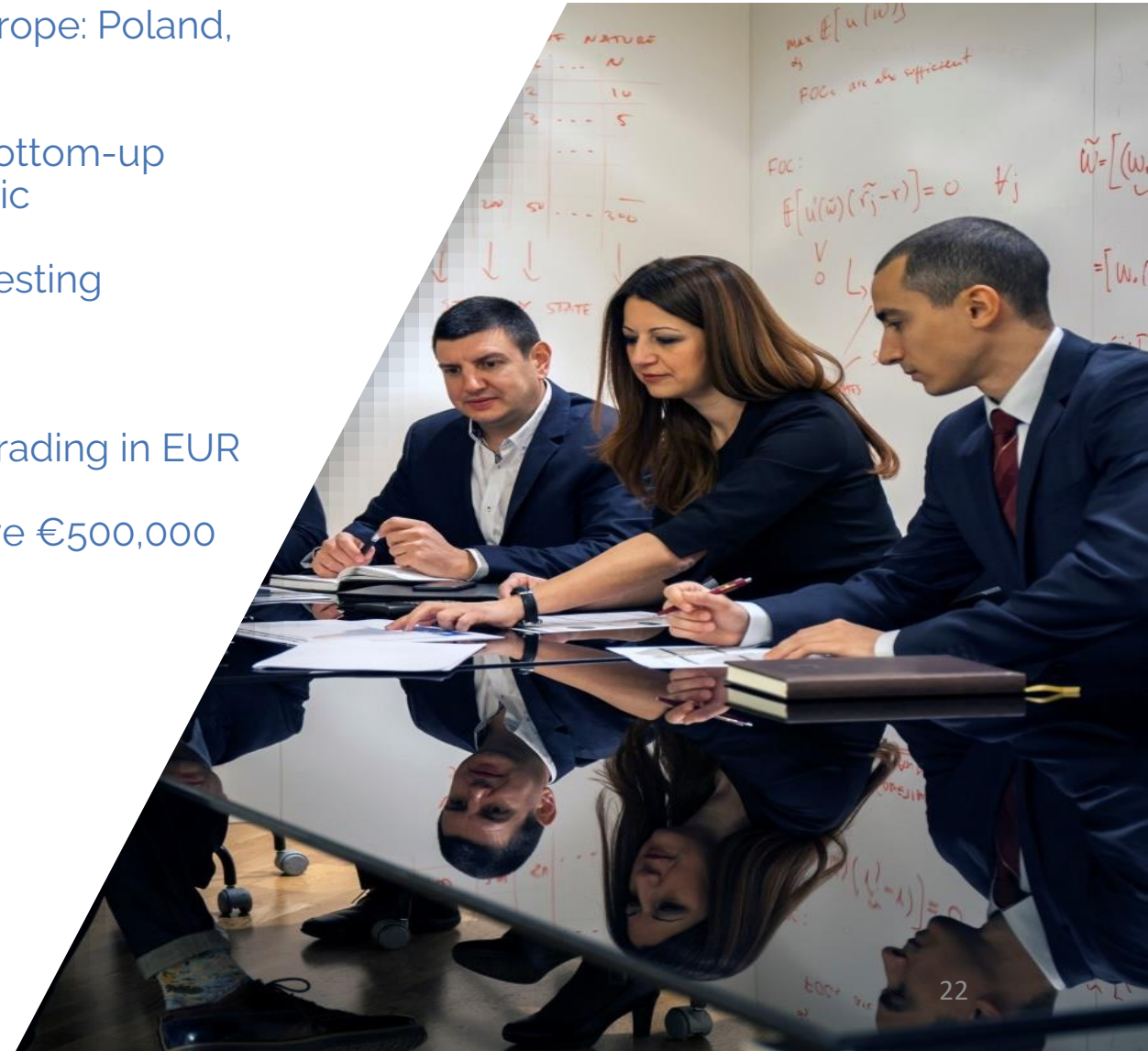
KCM's Flagship Central European Strategy



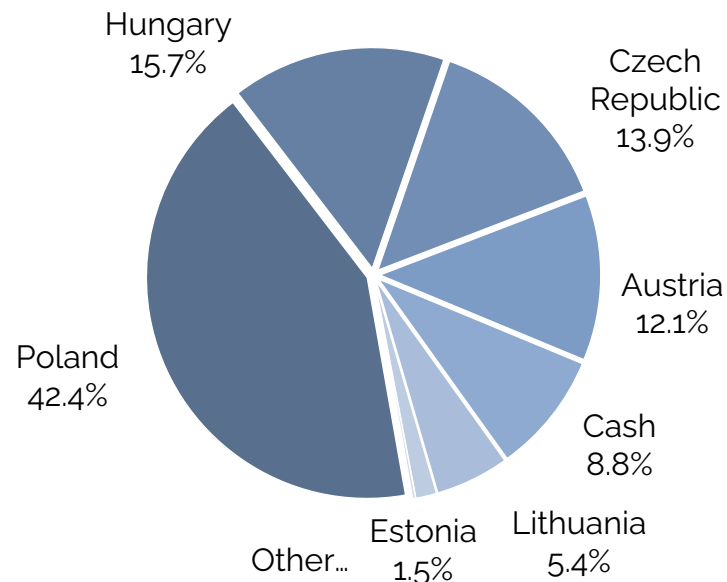
Budapest, Hungary

Central European Strategy

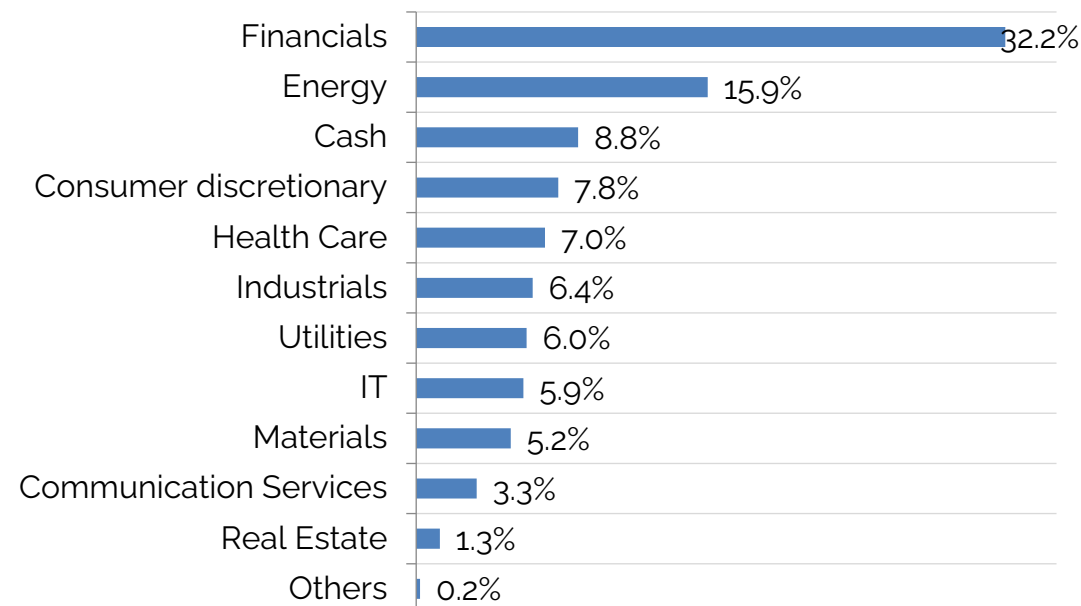
- Investment theme: invests in the stock markets of Central Europe: Poland, Czechia, Hungary, Austria, Baltics
- Investment style: blended (value & growth), stock-picking, bottom-up combined with top-down and sector views, benchmark agnostic
- Areas of strength: “new economy” stocks, off-benchmark investing
- Portfolio components: ~ 50 positions
- Offering formats: UCITS fund; SMA; advisory mandate; daily trading in EUR
- Mgmt. fee: 1.5% of NAV; no front-end fee for investment above €500,000
- Benchmark: MSCI EFM Europe + CIS ex. RU
- Launch: November, 2007
- Consistent **alpha** generation: **2.87% p.a.** for the last 3 years
- Long history with the same team



Geographic breakdown (31.12.2022)

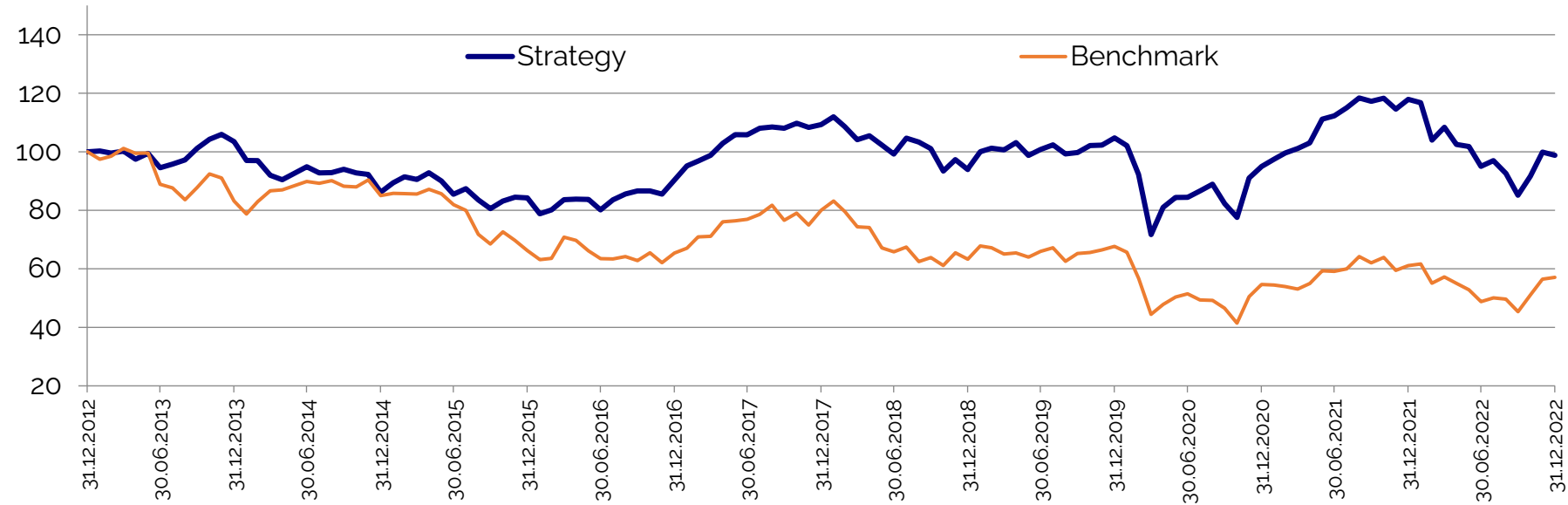


Sector breakdown



Top 5 positions	% of portfolio	Country	Sector
CEZ	6.03%	Czech Republic	Utilities
PKN Orlen	5.62%	Poland	Energy
Richter Gedeon	4.65%	Hungary	Pharmaceuticals
Erste Group Bank	4.6%	Austria	Financials
Moneta Money Bank	4.36%	Czechia	Financials

Performance vs benchmark



EUR, as of 31.12.2022	1 month	1 year	Annualised			Volatility	Alpha
			3 years	5 years	Since inception		
Central Europe Strategy	-1.06%	-16.2%	-1.94%	-2%	-0.35%	25.05%	2.87%
MSCI EFM Europe+CIS ex RU	1.14%	-6.49%	-5.49%	-6.52%	-5.57%	27.73%	

Central European Strategy – key metrics

	Strategy	MSCI EFM Europe + CIS ex. RU
3Y return (annualized)	-1.84%	-5.49%
Alpha (3Y annualized)	2.87%	
Beta	0.83	
Volatility	25.05%	27.73%
Sharpe Ratio	-0.07	-0.19
Sortino Ratio	-0.08	-0.27
Upside Capture	61.56%	
Downside Capture	-40.86%	
Information Ratio	-0.15	
Tracking Error	0.11	
Best Monthly Return (last 3Y)	17.34%	21.87%
Worst Monthly Return (Last 3Y)	-24.64%	-21.67%



CONTACTS

Daniel Ganev

Chief Executive Officer

E-mail: ganevd@karoll.bg

Tel: +359 2 4008 382

Konstantin Prodanov

Chief Investment Strategist

E-mail: prodanov@karoll.bg

Tel: +359 2 4008 386

Headquarters Sofia

1 Zlatovrah Str, 1164, Sofia, Bulgaria, Phone: +359 2 4008 300, E-mail: kcm@karoll.bg, www.karollcapital.bg



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