



Advance Invest Mutual Fund

**Investment Commentary
as of March 31, 2008**

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Advance Invest Mutual Fund Overview as of 31 Mar 2008

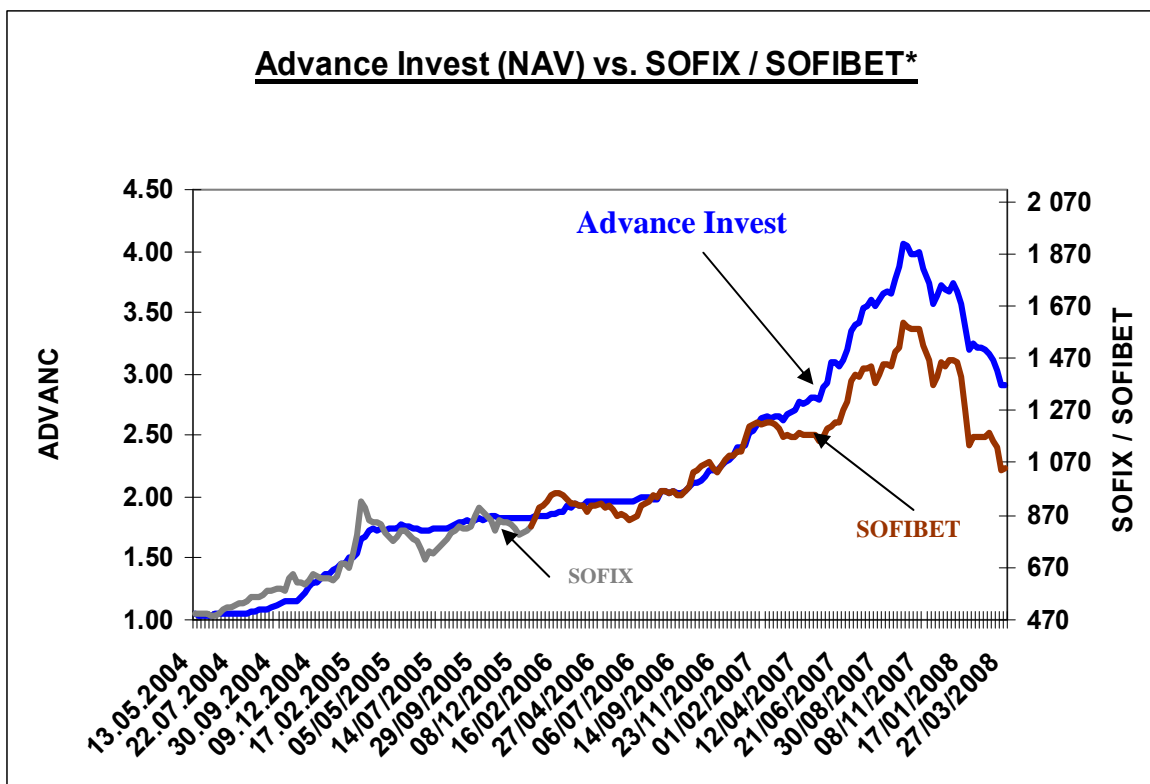
In the beginning of 2008 ADVANCE INVEST Mutual Fund, recorded its weakest performance ever with a 22% loss in Q1 (NAV/share change from BGN 3.7297 to 2.9092 for the quarter). The reason for this result is the extremely negative development of the regional markets, particularly Bulgaria and Romania (in combination with the continued depreciation of the Romanian leu), where the fund's investments are focused. The fund's drop from January to the end of March is still much lower than that of the SOFIBET benchmark (- 29.2 % for the period). A partial damage reduction has been achieved through the maintenance of a larger share of cash in the portfolio (despite the substantial redemptions in the first 3 months), and betting to a greater extent on defensive stocks such as REITs and other stocks with lower relation to the general market. Thus, as much as the low liquidity allows it, the manager followed the strategy announced in the January investment commentary.

In Lipper's (Reuter's funds industry intelligence company) rankings for Eastern Europe, Advance Invest manages to hold first position in term of 1 year return among 286 Austria-registered funds focused on our region.

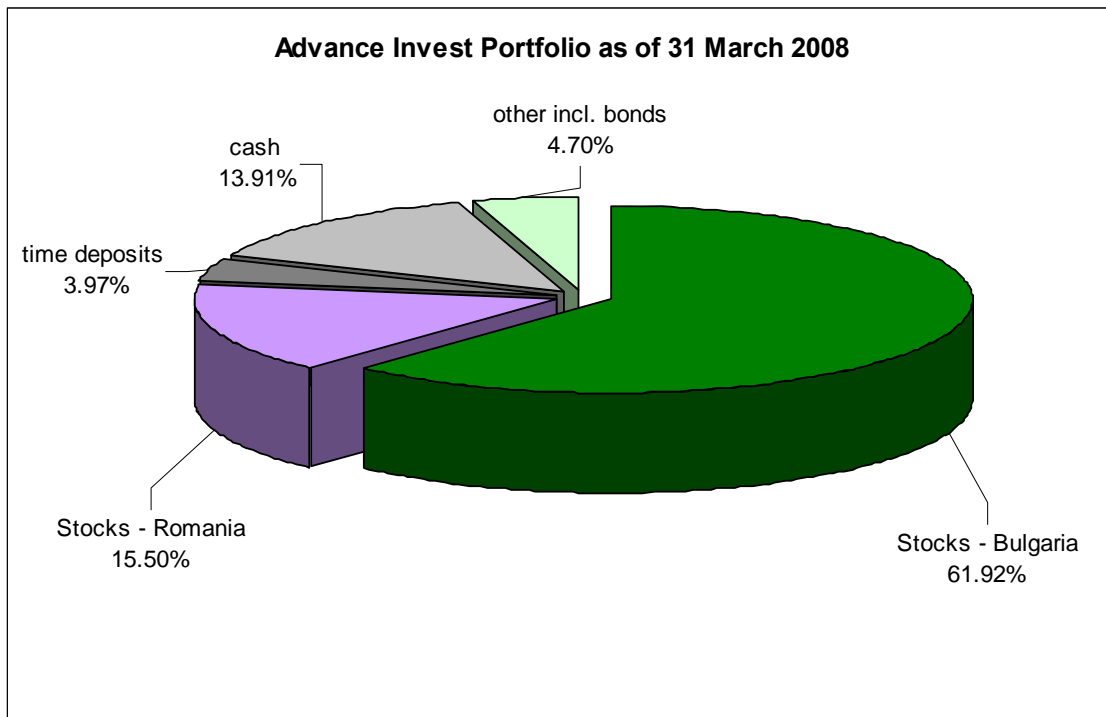
Fund Results	
Return for Q1 2008	-22.0%
<i>Benchmark (SOFIBET*) for Q1 2008</i>	-29.2%
Return for 2007	55.4%
<i>Benchmark (SOFIBET*) for 2007</i>	34.3%
Return for 2006	31.2%
<i>Benchmark (SOFIBET) for 2006</i>	35.3%
Return for 2005	32.6%
<i>Benchmark (SOFIX) for 2005</i>	32.0%
Return for 2004	38.0%
<i>Benchmark (SOFIX) for 2004</i>	37.6%
*index constructed by Karoll comprising 50% of Bulgarian SOFIX & 50% of Romanian BET as of 2006 beginning	

The fund's return was realized by assuming lower risk than the SOFIBET benchmark (standard deviation of 13.6% for the fund compared to almost 20% for the benchmark). The fund's superior performance in comparison to the benchmark is statistically demonstrated below, e.g. alpha of +16%, Sharpe ratio of 1.27, etc.

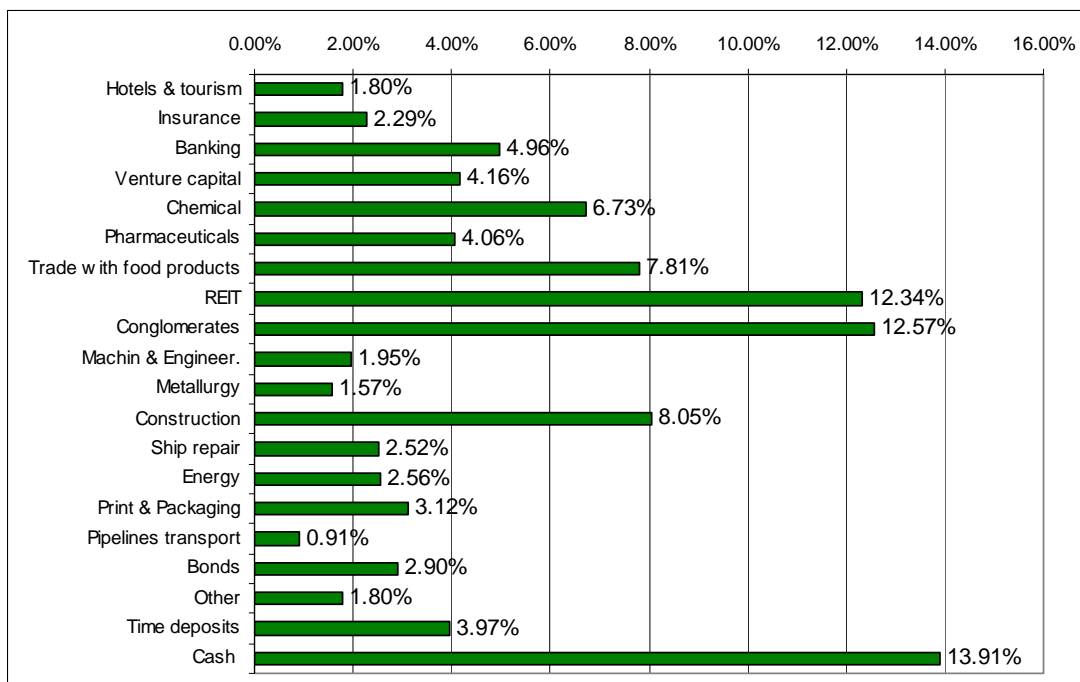
Beta	0.55
Alpha (annualized)	16.1%
Standard Diviation (anualized)	13.6%
Sharpe Ratio	1.27
M Squared	28.9%
Information Ratio	1.95
Tracking Error	8.3%
*Annual data on a weekly basis for 2 yrs trailing. The index used in the calculations is SOFIBET, constructed by Karoll.	



At Q1-end Bulgaria is once again the market with the largest weight in the fund with about 61% of assets (almost as much as at the beginning of the year). The increased presence on the Romanian market in 2007 was drastically reduced (to slightly above 15%) in the last trading days of the year in order to provide quick liquidity and in view of the negative market outlook. At the end of this quarter Romania pulls nearly the same weight. Bonds as a defensive element comprise close to 3% of assets, while the share of cash and time deposits stands at around 18%.

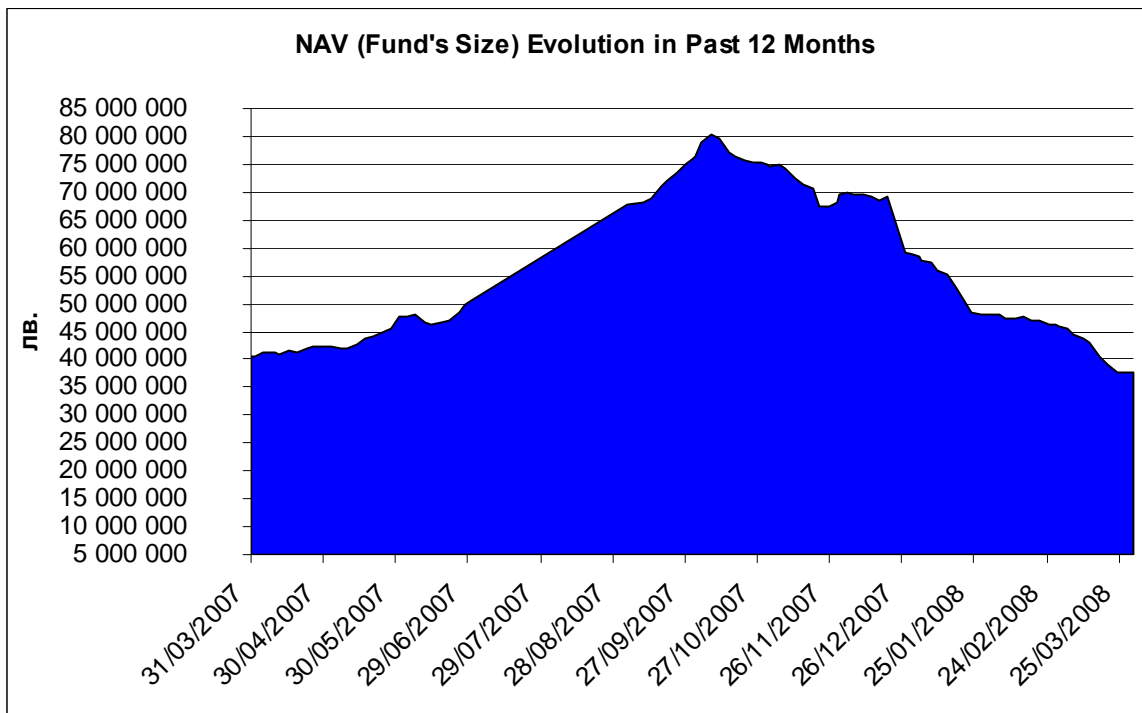


Sector-wise, now conglomerates take up the leading position (almost 13% weight), followed by REITs (around 12% of assets), construction (around 8%), trade with food products (appr. 8%). In accordance with the adopted strategy, in the first quarter almost all fund trades represented sales with the purpose of reducing certain positions endangered by further declines, as well as assuring liquidity for potential redemptions.



Top 10 Portfolio Holdings	
COMPANY	KEY BUSINESS
SAF Magellan (SAF)	Trade
Orgachim (ORGH)	Chemical
Aktiv Properties (AKTIV)	REIT
Advance Terrafund (ATERA)	Land REIT
Advance Equity (ADVEQ)	Venture Capital
Chimimport (CHIM)	Conglomerate
Sinergon Holding (PETHL)	Conglomerate
BG American Credit Bank (BACB)	Banking
Osesos Shiprepair (ODES)	Ship repair
Eurohold Bulgaria (EUBG)	Conglomerate

As of March 31 the NAV of ADVANCE INVEST falls to BGN 37.7 mln following the depreciation of portfolio holdings and the net outflows.



BULGARIAN Stock Market Development in Q1 2008

The first quarter of 2008 was among the poorest periods for investors in Bulgarian stocks with the red color prevailing most of the time. During the first three months of the year the major index, SOFIX lost 29% of its value shedding 35.7% from its all-time high registered in mid-October 2007. In January alone the market lost 20% and during the trading session on January 22, the benchmark plummeted by more than 11% intraday, but recovered before the close. Such wide fluctuations were commonplace during the whole quarter. The negative sentiment was widespread among investors, and the trading volumes fell substantially. The average daily turnover with shares in the first quarter decreased to EUR 5.2 mln., down from EUR 14.1 mln. in Q4'07.

Undoubtedly the crisis in the global financial markets contributed to the acceleration of the bearish mood on the BSE, yet the major reason behind the interruption of the upward trend was the overheating of the market and the unrealistically high price levels of equities. The average P/E ratio for SOFIX when it set its all-time high was above 30x, which did not correspond to the fundamental picture and growth prospects. After the consequent market crash, when a lot of shares lost more than 50 % compared to their maximums reached earlier, currently the index components traded at around 2007 P/E of 18x on average. These levels of the basic valuation ratio (with some stocks it was as low as 10x) provoked commonly repeated statements that the market had reached attractive levels. Still what we observed in practice was that when stocks attempted a recovery, higher levels were immediately used as an exit opportunities - mostly a result of the problem with the poor liquidity of the Bulgarian market.

While the last quarter of 2007 was full of records in terms of initial public offerings (the greatest oversubscription rate and the greatest first-day change – the IPO of Trace Group Hold [TRACE], largest offering – the one of Grain Foods Bulgaria [ZHBG]), during the first three months of 2008 the conditions on the IPO segment were very unfavorable. Quite a lot of companies preferred to postpone their listings till the situation on the market improves. The results for those who chose to follow their initial plan and go public in Q1'08, as it was to be expected, were rather disappointing. Apart from the lower risk tolerance of investors as a whole, as well as the negative sentiment towards equity investments in general, the low appetite for IPOs in the first quarter of 2008 was also due to the poor performance of stocks that recently staged their debut.

If one of the factors that was supporting the upward trend of the market until several months ago was the strong cash inflows, currently that is no longer valid. On the one hand foreign investors withdrew from the market due to the high stock prices and the global financial crisis, and on the other hand, Bulgarian institutional investors suffered significantly – both as a result of the market fall, as well as due to high redemptions. At the end of March, 2008 the assets under management of the collective investment undertakings amounted to EUR 344 mln., down from EUR 452 mln. at 2007-end.



Expected Development of the BULGARIAN Stock Market

As much as we would like to finally find grounds for optimism, at present the outlook of the Bulgarian capital market remain negative, thus further losses are likely due to the reasons given below. In the long run we confirm our positive view even to a greater extent, since the recovery will eventually start from a much lower base.

From a fundamental perspective, although lower than the levels around the market top, the average P/E ratio is still above those of many regional markets. Even the forward 2008e P/E is still higher than the current ratios of some countries in CEE (e.g., Poland, the Czech Republic, Hungary, Turkey, Russia, etc.) On the average earnings growth of SOFIX components was 54% in 2007 vs. 2006, which is owing to the improved business climate in the country as a whole, the EU accession, as well as the decrease of the corporate income tax and the following "whitening" of corporate earnings.

Our forecasts for 2008 are for a 25% average earnings growth because most of the above-mentioned factors will be in play this year too. Thus the current P/E of 18x seems reasonable, yet it is a fact that regional markets with similar characteristics and potential are trading at even lower multiples. What's more, in troubled times such as now one should definitely price in the probability of deterioration of the fundamentals on the basis of negative corporate surprises this year or next year (should potential economic problems in the West affect our region).

It is also interesting to point out that according to the statistics in the developed markets usually multiples deteriorate close to market bottoms (e.g., the P/E of S&P500 rose substantially around the lowest levels of the index, because on the way down corporate results deteriorated faster than stock prices fell). This logic is at first glance hard to digest and in contrast to the expectations of most investors, who hope that the market support will arrive at the lowest possible valuation multiples. In reality it may turn out that at the bottom the P/E ratio would be higher than the current value, and that it would normalize on the way up as corporate earnings improve faster than stock prices. Whether Bulgaria will witness this scenario will become clear much later this year or at the beginning of next year. Anyway, the fact is that for some time now (some experts believe this has always been the case) stock price evolution has severed its connection to fundamentals – in 2007 when stocks were overpriced according to hundreds of analysts, the market climbed 40%, while now when everyone is talking about how undervalued equities are, prices continue to fall.

Other factors play a much bigger role, for instance the market liquidity and cash flows toward it. The volatility in recent weeks has no longer been as high as that of developed markets, where periodically rallies can be observed, although lasting just 2-3 days. This is hardly the case here due to the lack of possibility to trade short-term speculative ideas (poor liquidity) and because of the lack of financial infrastructure such as short selling and derivatives trading, typical of more developed markets. The average daily volumes died down to under BGN 10 mln in comparison to 3 times more at 2007-end. The downward trend has settled in persistently, whereby the decline has been gradual, on low volatility and volumes. This strengthens our conviction that currently the trend is correcting the entire steep rise, which started in 2001. If this scenario is realized, it is probable that the bottom would be reached at SOFIX levels below the psychologically significant 1000 points. In fact we are not too far from these levels, but the hardest part is to position this move in the course of time. It is likely that before hitting a bottom so that the trend turns upward convincingly, by year-end we could witness some recovery. The following months will bring more clarity to this development.

As far as flows are concerned, what we saw in the first quarter was the mass exodus of foreign investors, followed by local individuals (most reluctant and painful being the departures of those who made speculative bets on leverage), and then local mutual funds with need for liquidity to process frequent redemptions. At present it seems that foreigners are done with the sales, repo's and leverage are gradually clearing off the market, and mutual funds sell only when absolutely necessary. This is exactly why lately the trading activity has subsided significantly. We don't expect any major changes next quarter – there won't be significant offering volumes, but the demand will be quite thin too (even by pension funds, regularly nominated as the "knights in shining armor" who will come to the market's rescue).

In the end, if there is a positive side to the raging crisis, it is that once the market "gets back on its feet", it will be a lot more mature and normal, having shaken off the unrealistic super-expectations for stellar returns at least for some time. Finally, let me quote the advice of two of the most successful portfolio managers in the world:

Anthony Bolton (Fund Manager at Fidelity Investments, London) - *"Don't get more bearish as prices fall – the outlook is worst at the bottom."*

and

Warren Buffett (Fund Manager of Berkshire Hathaway Inc.) - "*Be fearful when others are greedy, and greedy when others are fearful.*"

This advice, of course, is more useful to professional investors. As far as mutual fund investors, the most important thing to be noted once again is that a consistent long term approach is a must. Truly L.T. investors – such that all investors in mutual funds should be - must not anyhow attempt to practice market timing trying to enter at the lowest possible prices and exit at the highest possible levels. This is always a question of luck and is incompatible with the concept of mutual fund investing.

ROMANIAN Stock Market Development in Q1 2008

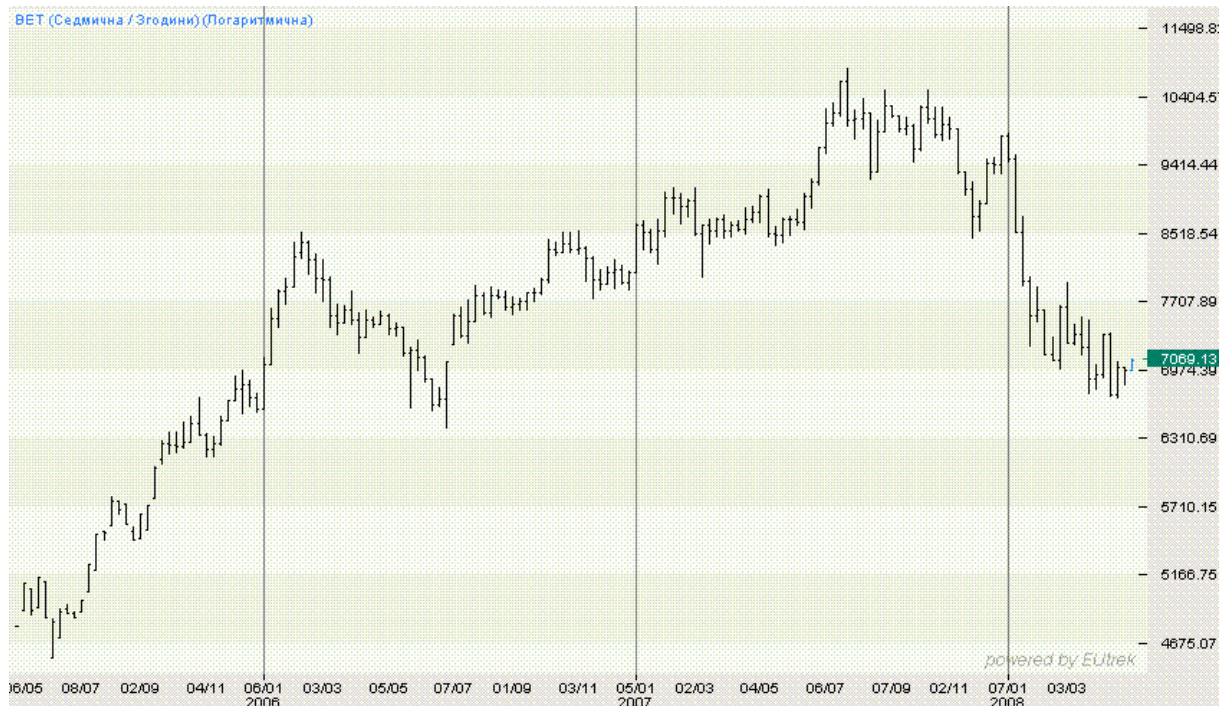
The Romanian stock market performed very disappointingly at the start of the year. The sharpest drop was in January, in unison with the depreciation of the Romanian leu. The hike of the prime interest rate by 50 bps in early January and another 150 bps in Feb-March put additional pressure on equities. Further hikes by the National bank are possible in order to protect the national currency in a situation of global financial turmoil. The largest public companies - BRD and Bank Transilvania, as well as Petrom и Rompetrol – accounting for nearly 80% of the BET index and obviously determining the market direction, suffered a lot at the very beginning of the year. Banks because of investors' disdain toward the sector, and oil companies because of macroconcerns and firm-specific issues. In the first 3 months the market erased 29.6%, or more than EUR 10 bln from its capitalization.

The strong correlation with western markets persisted in its gravest version – especially on the way down. The fluctuations were more significant than those in Bulgaria, and the rebound attempts (though only intraday) more frequent. Such bounces were immediately punished with selling, mostly by large international investors (statistics show that for yet another quarter they remained net sellers), who used such opportunities to cut their exposure to the market. The latter, while more developed than the Bulgarian market, still cannot brag adequate liquidity. Here daily turnover also contracted drastically from over EUR 15 mln to under EUR 7 mln.

The BET index average P/E now stands at around 14.0x, compared to 18.0x at the start of the year, which is mainly due to the stocks depreciation. As a result valuation multiples are now similar to the ones in Prague and Warsaw, and keep approaching the lowest one in the region – that of Bucharest (around 9.0x)

In March, despite the negative sentiment, 2 IPOs were conducted successfully – one of the offerings was subscribed at 101%, and the other one at 42%. In April a new IPO is expected – PVC profile producer Teraplast. It is the only public offering as of now with a set date. There has been some movement around some privatization procedures and steps toward the listing of residual stakes have been made, but the actual deals are still remote in time (because of the

negative market situation. Recently derivatives trading has been officially launched in Bucharest – blue chips options and currency futures.



Because of their modest size mutual funds are still not a major factor for the domestic market, but their role is expected to grow along with the accumulation of assets by pension funds. The latter also remain on stand by and are acting with caution.

Expected Development of ROMANIAN Stock Market

The insecurity prevalent in Romania will continue in the months to come, thus the higher risk premium will act as brakes for a potential market turnaround. Here too we expect to see lower prices on numerous positions before the market lands a bottom and bounces up more bravely. The average P/E ratio of the BET index – now at around 14.0x – falls behind the expected growth of corporate results in the next several years. The forecasted average earnings growth for the index components in 2008 is around 19-20%, which logically results in a lower PEG ratio. Unlike the beginning of the year, when the PEG ratio stood between 1.2 and 1.5, now this number ranges between 0.84 и 1.00, suggesting a fair valuation from a fundamental perspective (certainly, this is conditional on the probability of some sectors and issuers to deliver negative surprises by year-end). To underscore the potential of the banking sector, for example, local analysts cite the low penetration of domestic banking products vs. EU levels, and even Southeast European levels. With regard to the pharmaceutical industry, in the same

way analysts refer to the low medications expenditure per capita in comparison to regional averages.

At the same time, however, some troublesome facts pointing to potential slowdown of earnings growth in many sectors of the Romanian economy must be considered. On the one hand, since the summer of 2007 we have witnessed high inflation raising the costs of domestic production and services (rising prices of energy, food, services, labor, etc.) On the other hand, there is the rising competition in the domestic market and saturation in many sectors of the economy. In view of the above, the expected growth rates are uncertain, which could impair the mid-term prospects of some Romanian sectors.

The following factors should also be considered, as they could affect the evolution of the stock market in the next months:

- Macroeconomic risks, which if deepened, will impede the return of international investors back on the exchange. So the statistics to be followed closely are the CPI numbers, the domestic demand, and current account deficit.
- The development of the political situation, although with weakening effects, may influence the decisions of international players. The upcoming local elections, subsequently parliamentary elections, whose outcome could affect investor sentiment; surprises are possible in either direction in the battle between president and prime minister.
- The changes in the pension assurance system coming into effect in April will lead to an increased percentage of participation in the mandatory and voluntary pension schemes. After the changes they will be able to invest up to 50% of assets in stocks. In the long run this is expected to boost the capital market, but in the short run analysts expect them to invest mostly abroad.

The management of the Bucharest Stock Exchange have decided to implement the closing auction in April, and starting June to extend trading hours by 2 hours to 4:30 pm local time (in order to achieve higher intraday correlation with western Europe and the USA). Probably, this would lead to more active trading, more market participants from those countries, and higher turnovers and liquidity.

Investment Strategy of Advance Invest Mutual Fund

The strategy of the fund is based on the stock picking approach – selection of Bulgarian and Romanian stocks, which the asset manager believes to perform better than the market as a whole. In a negative market as is the case now, the latter should be stocks that are defensive by nature (preserve or increase in value when the rest of the stocks decline). As far as such instruments are available in these markets, the best candidates are REITs (especially those investing in agricultural land) and some other smaller low-liquidity stocks with low correlation with the market (low beta stocks). Based on the above-mentioned views for the

market development in Bulgaria and Romania, 2008 will be the year of caution. The main goals of the asset manager will be to strictly control the liquidity risk, to attempt to reduce the volatility of the fund's price as much as possible despite the expected high volatility in the markets, and at the same time to try to make the most of the emerging investment opportunities.

These goals are to be achieved through the increase of the cash portion to $\frac{1}{4}$ of Advance Invest's portfolio, maintaining the share of Bulgarian stocks to about 40%, Romanian stocks – 15%, and alternative investments (REITs, private equity and other defensive – 20% of assets. The portfolio should become more concentrated, the bigger weight being pulled by equities with low relation with the market (low beta stocks).

The portfolio management will continue to aim at achieving an optimally high return, potentially better than that of the selected benchmark – SOFIBET, in observance of the adopted risk-return parameters.

For further information: www.karoll.bg

Risk statement

The value of shares and the income from them can go down as well as up, profits are not guaranteed, and investors assume the risk that they may not recover the full amount of their investment. Investments in the mutual fund are not guaranteed by a state guarantee fund or any other institution. Past performance of the fund should not be viewed as a guide to future performance. Before making an investment decision, please read carefully the prospectus of Advance Invest. The prospectus and the fund's charter documents are publicly available for investors in all offices of Karoll Capital Management as well as at its website.