

## Advance Invest Mutual Fund Q1 2007 Investment Overview

Advance Invest Mutual Fund, managed by Karoll Capital Management, staged a strong performance in the first quarter of 2007. The fund's 13.3% return (NAV/share change from BGN 2.4005 to 2.7188 for the period) is nearly 3 times higher than the modest rise of the BSE official index SOFIX (+ 4.42%). The fund's benchmark SOFIBET (+5.21% for the period) was defeated categorically as well.

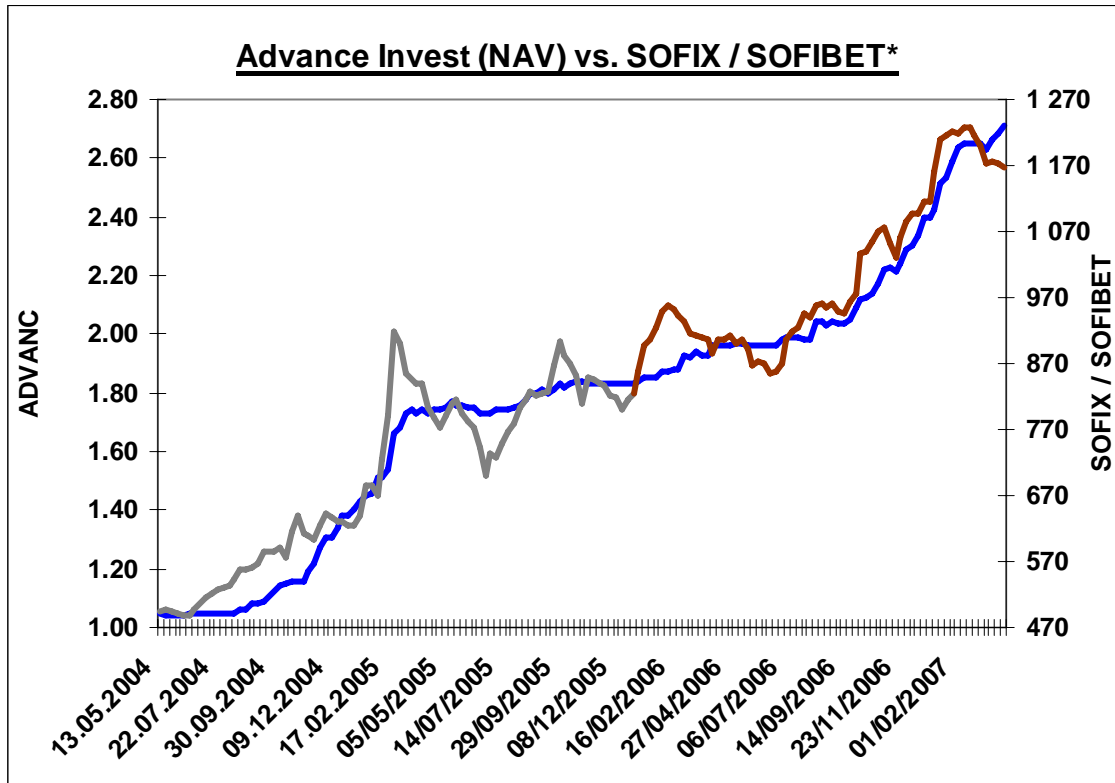
<b>Fund Performance</b>	
Return for Q1 2007	13.26%
<i>Benchmark (SOFIBET*) for 2007</i>	5.21%
Return for 2006	31.17%
<i>Benchmark (SOFIBET*) for 2006</i>	35.26%
Return for 2005	32.60%
<i>Benchmark (SOFIX) for 2005</i>	32.02%
Return for 2004	38.00%
<i>Benchmark (SOFIX) for 2004</i>	37.63%
*index constructed by Karoll comprising 50% of Bulgarian SOFIX & 50% of Romanian BET as of 2006 beginning	

It must be pointed out that the fund's high return was realized by assuming less than half of the risk of the SOFIBET benchmark (standard deviation of around 8% for the fund compared to above 17% for the benchmark). The statistical measures below further demonstrate the excellent performance of Advance Invest in terms of risk and return, e.g. alpha of +28.9%, Sharpe Ratio of above 3.3, etc.

Beta	<b>0.13</b>
Alpha (annualized)	<b>28.96%</b>
Standard Diviation (anualized)	<b>8.07%</b>
Sharpe Ratio	<b>3.36</b>
M Squared	<b>45.74%</b>
Information Ratio	<b>4.06</b>
Tracking Error	<b>7.13%</b>
*Annual data on a weekly basis for the period	

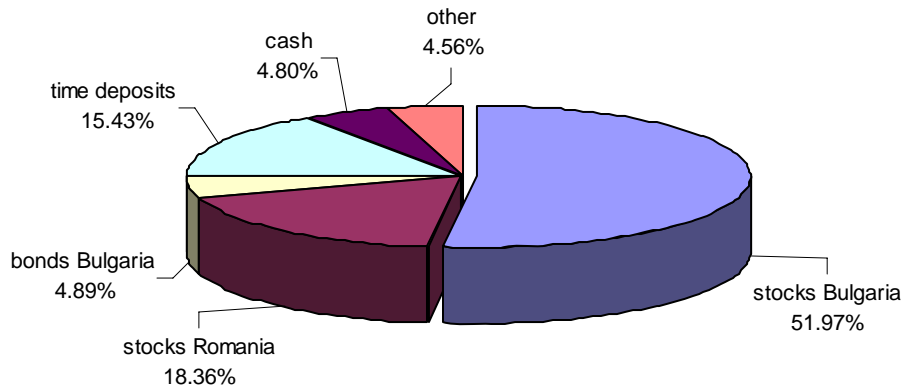
10.03.2005 - 29.03.2007. The index used in the calculations is SOFIBET, constructed by Karoll.

These results were achieved through the implementation of the strategy announced at the start of the year – rebalancing of the investment portfolio by reducing Bulgarian blue chips, raising the weight of defensive positions such as REITS, and funneling more funds toward Romanian small caps - based on the accurately forecasted market correction in March.

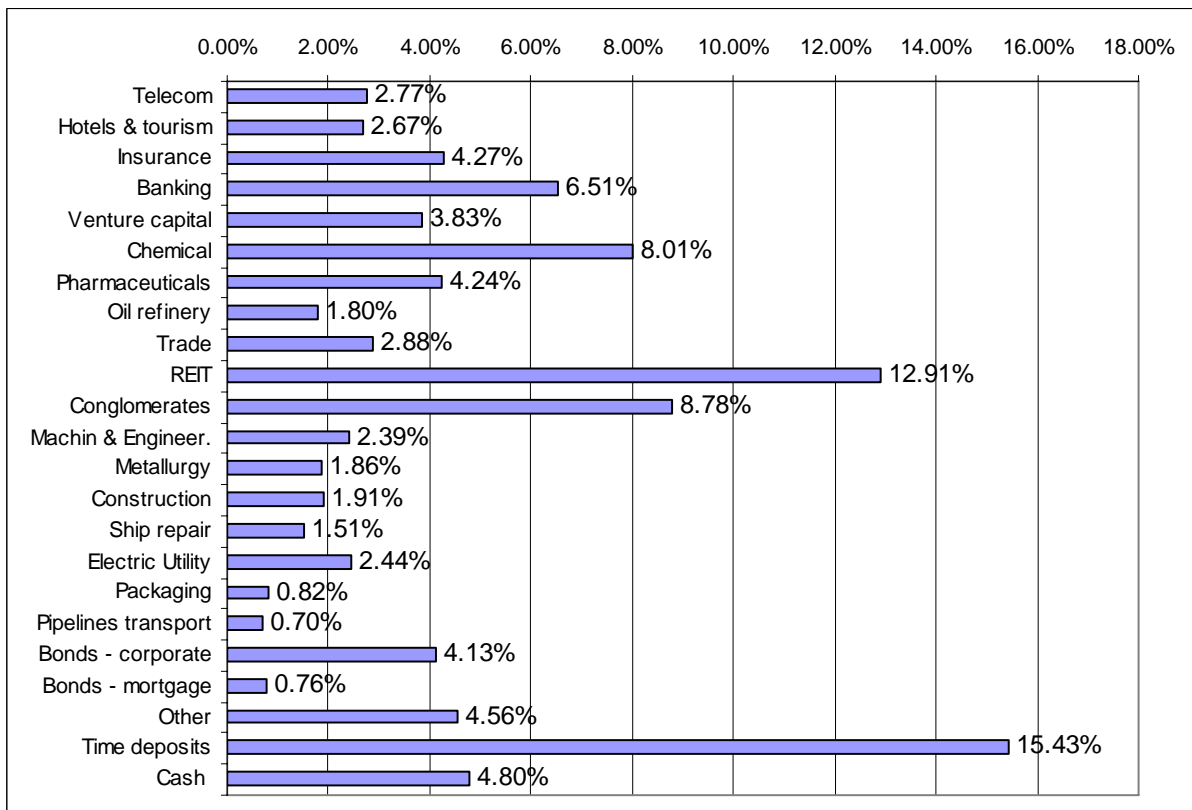


Since early 2007 Advance Invest has gradually been increasing its presence on the Romanian market, where now over 18% of the assets are invested as of Q1-end (compared to 11.7% as of 2006-end). Bulgaria accounts for under 52% of the fund's investments (vs. 61% 3 months ago). The portion of bonds continues to shrink and is now below 5%. The share of cash and time deposits remains at around 20% of assets due to the anticipation of attractive deals in the next quarter.

### Advance Invest Portfolio as of Mar 31, 2007



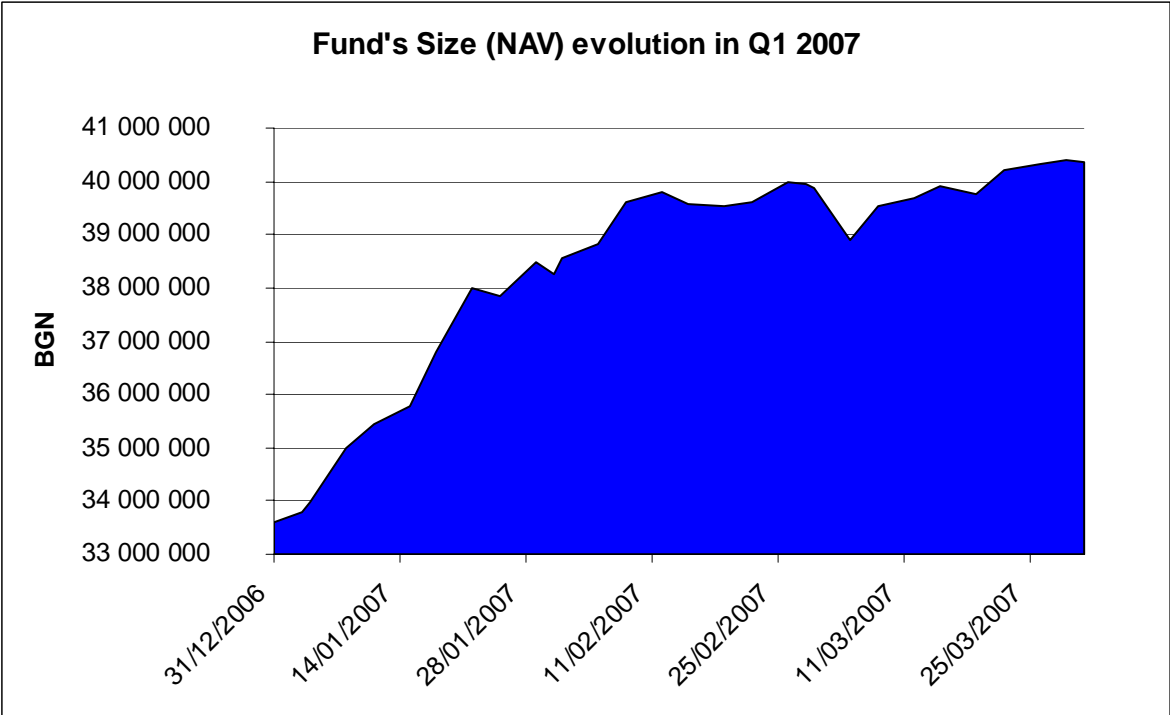
Sector-wise, once again REITS take up the leading position (with about 13% of assets), followed by conglomerates (close to 9% weight after the sale of a large portion of Chimimport right before the drop), insurance (4.3% weight after the chipping of DZI), chemical (up to 8% on the basis of Orgachim's appreciation).



Among the most profitable investments in Bulgaria for the first quarter could be pointed out Orgachim (ORGH), BACB (BACB), Albena (ALB), Euroins (EURINS), SAF Magellan (SAF), Odesos (ODES), BTC (BTC) and Doverie Holding (DOVUHL), while in Romania – Transelectrica (TEL), Impact (IMP), Artrom (ART), BRD (BRD), Policolor (PCL), etc. Thus the positive return was evenly distributed among dozens of portfolio holdings through the process of diversification, which reduced the unsystematic risk typical of each individual position and lessened the volatility of the fund's price.

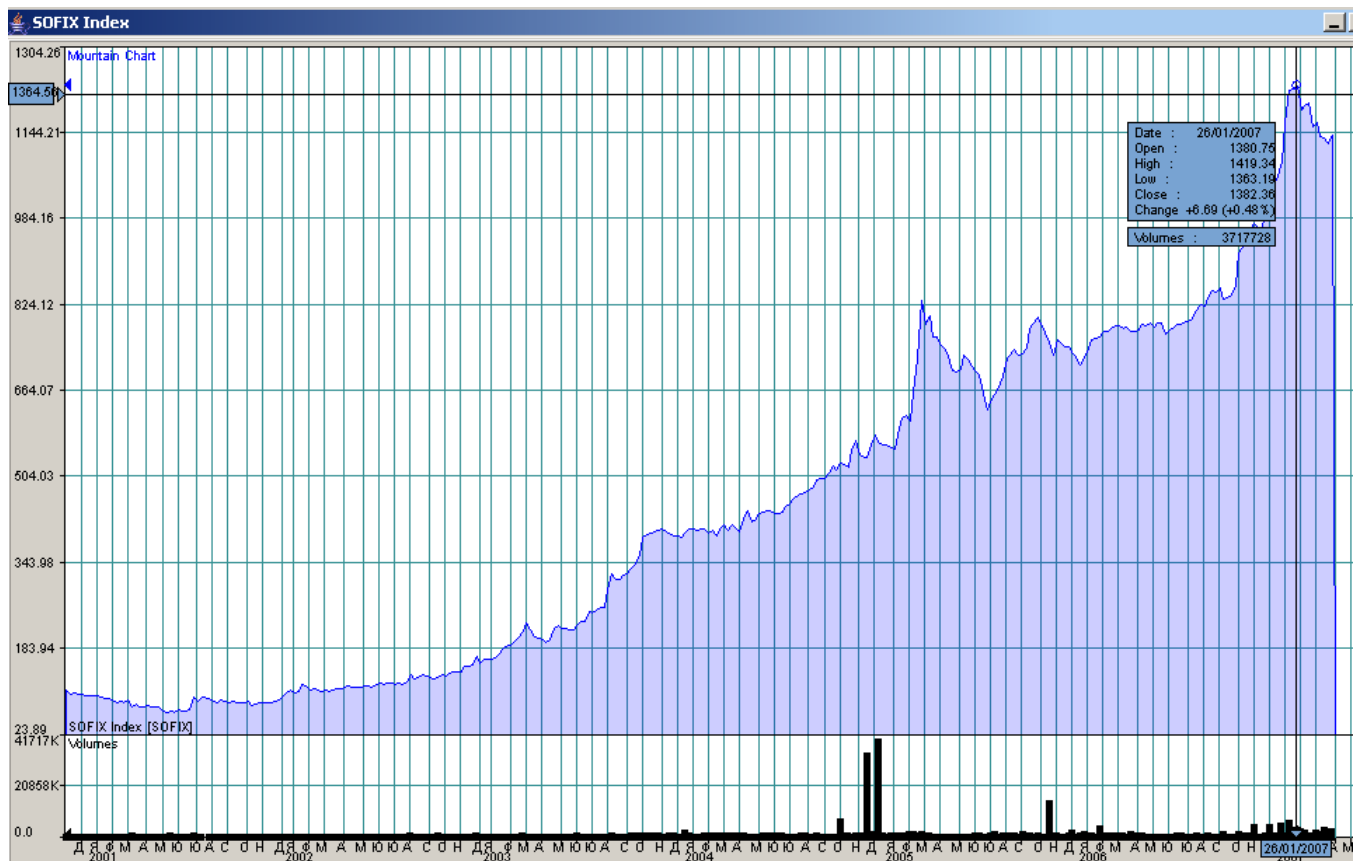
Top 10 Portfolio Holdings	
COMPANY	KEY BUSINESS
Advance Terrafund (ATERA)	land REIT
Orgachim (ORGH)	Chemical
Advance Equity (ADVEQ)	Venture Capital
BG American Credit Bank (BACB)	Banking
Chimimport (CHIM)	Conglomerate
SAF Magellan (SAF)	Trade
BTC (BTC)	Telecom
Albena (ALB)	Tourism
Translectrica, RO (TEL)	Electric Utility
DZI (DZI)	Insurance

As of March 31 the NAV of Advance Invest is approximately BGN 40.4 mln (+20% since the start of the year), which again ranks the fund as #1 by asset size among local funds.



## BULGARIAN Stock Market Development in Q1 2007

After an euphoric start of the year, the correction of the emerging markets hurt the Bulgarian capital market as well to some extent, as opposed to previous such crises, when the BSE used to remain largely immune. In January SOFIX registered a new all-time high of slightly more than 1 400 points, but finished the first quarter below 1 300 p., up by modest 4.42 %. As opposed to SOFIX, BG 40 finished the first three months of the year almost 26 % higher, which however is largely a result of the different methodology for the calculation of the broader index (a price-weighted index and the stocks with the highest in absolute terms prices have the largest impact on its value; thus 4 shares account for a weight of more than 50 % of the index). After the risk of a global crisis wore away, the Bulgarian market still continued to slow down in March, volumes remaining at low levels. To a large degree the correction of the market was a consequence of the market upsurge during the previous months that resulted in price levels not corresponding to the fundamentals. The investors refrained from active purchases also in the expectation of a couple of large IPOs during the second quarter of the year



After several years of lack of any changes in the composition of SOFIX which included companies, that had lost their appeal to investors and thus their liquidity as well, during the first quarter the major index was significantly reshuffled, which turned it into a much better barometer for the market sentiment. Bulgartabac Holding [BTH], Blagoevgrad-BT [BLABT], Zlatni Piasaci [ZLP] and Slanchev Bryag [SLB] dropped out and were replaced by the Bulgarian Telecommunication Company [BTC], Chimimport [CHIM], M+C Hydraulic [MCH], Elana Agricultural Land Opportunity Fund REIT [ELARG], the Bulgarian-American

Credit Bank [BACB], Monbat [MONBAT], Industrial Holding Bulgaria [IHLBL] and Toplivo [TOPL]. Thus the number of stocks included in SOFIX increased to 16. The inclusion of companies that were recently listed on the BSE enhanced the attractiveness of SOFIX that was further boosted by the creation of derivative products based on the major index by foreign investment banks, such as ABN Amro and Erste Bank.

The turnover with stocks on the Bulgarian Stock Exchange (excluding block transactions in the amount of BGN 156 mln) remains almost unchanged compared to the previous quarter – slightly above BGN 1 bln. The number of trades, on the other hand, increases nearly four-fold to approximately 105 transactions. The market capitalization as of the end of the period surmounts BGN 18.2 bln. The growth of the bond segment is tremendous – by the end of March the turnover here is over BGN 93 mln.

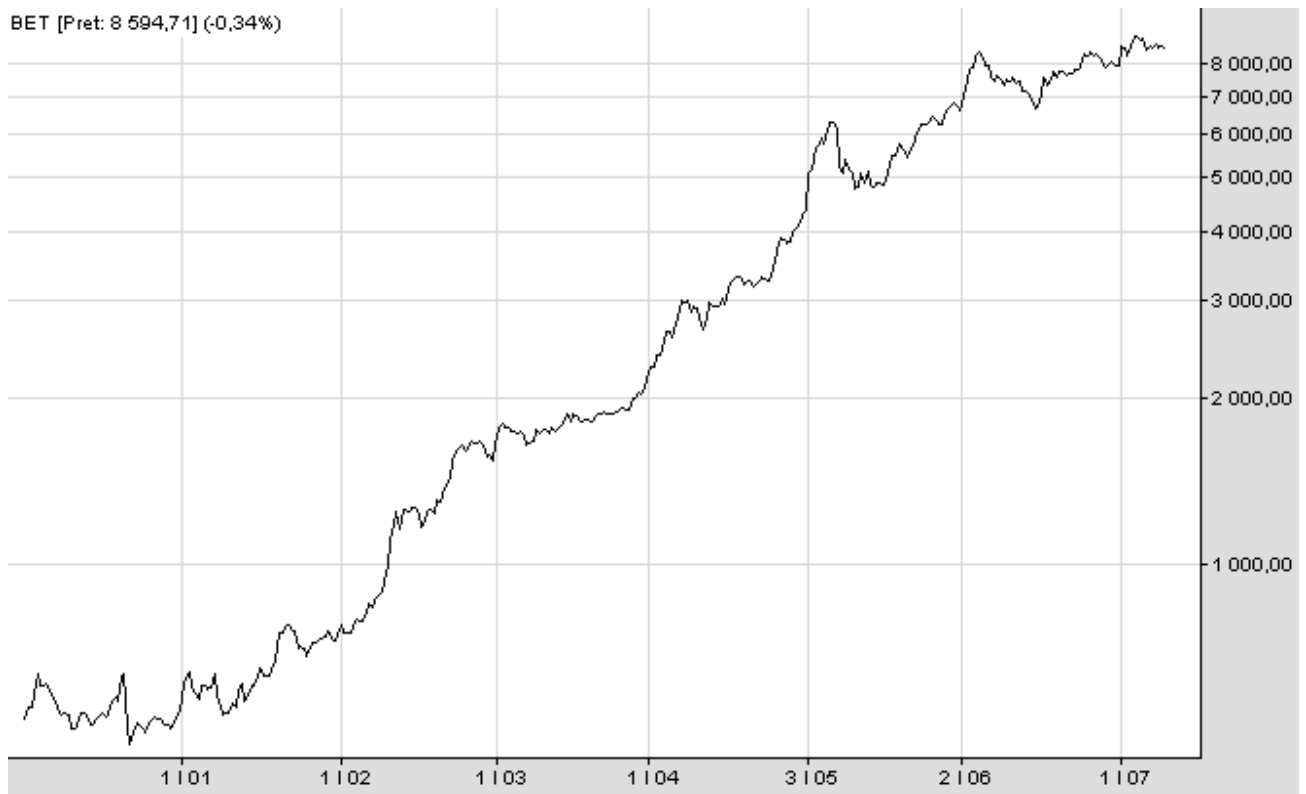
In spite of the high valuation levels of most Bulgarian stocks (average P/E ratio of SOFIX at 28x), the market mood still seems positive. It very probable that the decline from the January peak was just a correction – consolidation following the last upsurge that started in mid-2006. Thus chances are good that after a continuous consolidation over the next 3-6 months, we could witness a new rise as part of the uptrend that started in early 2001.

Over the last months more and more firms have declared their intentions to go public on the Bulgarian Stock Exchange. This year we could expect to see a large number of IPOs of different sizes and sectors - thus 2007 has a real chance to remain in history as the year of the IPOs. This is justified by the unprecedented investor demand, on the one hand, and the valuation levels advantageous to majority stakeholders, on the other hand. The IPOs of Todoroff, Kaolin, and First Investment Bank are imminent.

By the same token, we expect the smaller listed companies to become more active in raising capital through the exchange and thus expanding their free floats. The privatization strategy for the stock exchange itself will also be a very decisive factor. All in all, the managers remain bullish in the long run with regard to the Bulgarian capital market, and expect a double-digit average annual returns in the next 3-5 years.

### **ROMANIAN Stock Market Development in Q1 2007**

The Romanian market continues to evolve in a way similar to the Bulgarian one. In the first 3 months of the year the major BET rose 6.2% (BET-C was up by 10.7%). Here we also witnessed wide fluctuations in the course of the quarter. Money keeps pouring into the market, mainly from foreign institutionals against the background of fundamentals slightly better than those in Bulgaria (e.g., average market P/E of around 22x). The political crisis related to cabinet changes has not affected the market significantly so far. The new government declared as its priority the access to EU funding, and acquiring a post-accession European development plan. Once again on the agenda was the proposal to increase the percentage ownership limit of the Financial Investment Companies (SIFs) from 1% to 5%. Here the speculations in the lack of any decisive development on this matter brought about high volatility for these stocks.



The capitalization of the Bucharest Stock Exchange rose by more than EUR 2 bln in the first quarter to EUR 23.6 bln. The top 5 companies by this measure are oil refinery Petrom, BRD bank, aluminum manufacturer Alro Slatina, Banca Transilvania, and utility company Transelectrica. The tendency for liquidity improvement for Romania persists. Already 7 equities command an average daily turnover of EUR 1 mln each (there were only 5 such stocks in the previous quarter). SIFs, financials, and oil stocks are still the most liquid in the market.

The Romanian market in 2007 will be far from boring. After several very strong years in a row, we forecast a more modest performance for the indices this year, similar to Bulgaria. Although many of the large caps in Bucharest are fairly priced, we continue to find value and opportunities in smaller companies and other non-popular stocks listed on the RASDAQ segment.

After the Romanian government and law-makers have lately often stated that the domestic capital market will be priority in the country's economic development, investors eagerly await a number of state shares to be placed on the privatization segment – e.g., Romtelecom, Romgaz, Bucharest Airport, etc. The Proprietary Fund – a restitution vehicle with about EUR 4.5 bln in assets comprising the residual shares of the largest domestic companies such as Petrom, Alro Slatina and others – is expected to appear on BSE in the first half of the year. Despite the risk of short-term losses, Karoll Capital Management is optimistic about the development of the Romanian stock market in the long run, since there are many factors that support the positive scenario.

## **Investment Strategy of Advance Invest Mutual Fund**

On the basis of the above-mentioned prognosis for the markets development this year, as we announced 3 months ago, the asset manager intends to rely on Romania to a greater extent than last year (over 20% of Advance Invest's portfolio). Thus the natural focus of the fund is equities listed in the new EU member states – Bulgaria & Romania. In Bulgaria the accent will be placed on quality initial public offerings. The fund's strategy will be focused – selection of the most attractive IPOs and participation with larger weight rather than buying into all (or many) IPOs with small weightings. Thus by the end of the year the portion of Bulgarian stocks (including the current positions, new IPOs and alternative investments like REITs) will approach 60%. Romania (between 20 and 25% of the portfolio) will comprise more and more small & mid caps as well new issues from the IPO and privatization segment.

**For further information: [www.karoll.net](http://www.karoll.net)**

### **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 [www.karoll.net](http://www.karoll.net).