QIMCO BALKAN EQUITY

MONTHLY UPDATE – APR 2013

Advisory Invest GmbH
Team – QIMCO
Palais Kollonitsch
Schmiedgasse 21
A–8010 Graz
Tel.: +43 316 228049 - 0

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Management commentary

Emerging markets and Western Balkans

Due to weak economic data, bad job reports and the bombings in Boston international stock markets traded sideways/negative in the first three weeks of April. The commitment of the US Fed (and the ECB as well) to retain their loose monetary policy and some favorable earnings reports finally turned international stock prices around. When measured in EUR the MSCI World Index for developed markets increased by 0.25 % while the companion for global emerging markets lost 2.15 % in April. With -1.4 % Central and Eastern European stock markets also showed a negative performance while the Russian market plunged by more than 6 % and was among the top losers worldwide. Stock price development in the former Yugoslav Countries was quite mixed but also negative on average with Slovenian stocks prices holding-up the best. The net asset value of the QIMCO Balkan Equity was up by 0.93 % in April and has increased by more than 16 % in this year.

The highlight of the month was clearly the agreement on the long awaited Serbia-Kosovo deal. With this positive accomplishment the final hurdle to a possible EU-membership has been cleared and after showing the willingness to implement the agreement the multi-year convergence process can start. All representatives of the EU and the US-administration have welcomed the deal and we expect the EU leaders to set a date for opening the accession talks with Serbia in the early summer.

Also the macro economic side is showing improvements in Serbia. An accelerating production of automobiles and an improving business activity in the energy, steel and electronics segment has led the overall level of industrial production to recover and GDP for the Q1 to increase by 1.9 % YoY. The 2 % growth expectations by the IMF/EBRD should at least be met. Foreign direct investments are also expected to pick-up considerably vs. the previous year and should sum up to around EUR 2bn in this year which should mark the highest level since the start of the financial crisis in 2007. A soaring level of exports that are up by 22 % in Q1 YoY helped the trade deficit to narrow considerably and also the current account deficit should improve in 2013. While the level of GDP growth is still too low to considerably lower the unemployment rate in the short run – progresses are made into the right direction.

Positive news were also released by some of our top holdings in the fund. The Serbian heating appliance, furnaces and stove maker Alfa Plam reported business results for 2012. Sales improved by 6.8 % to RSD 4.1bn – due to lower input costs operating expenses were down by more than 8 % to RSD 3.3bn. The company generated an EBITDA of RSD 1.1bn – the level of EBIT was up by 150 % to nearly RSD 950mn. Thanks to good financial results the level of net income also increased substantially by 120 % to RSD 1.03bn. Alfa Plam trades at a market capitalization of around RSD 1.4bn. By the year end the company held RSD 2.2bn cash & equivalents on its balance sheet and a minor portion of RSD 570mn debt. Stocks of the company are trading below net cash and at around 1.4x earnings. The downside to all those positives is the lower degree of liquidity of shares on the stock market. However, the stock price is up by more than 50 % since the beginning of the year and the company is now among the top 5 holdings in the portfolio.

Throughout the region the financial sector was hit hard in the previous years. The Serbian Komercijalna Bank is our largest bank holding in the portfolio. 42.6 % of the shares are owned by the state with the EBRD and the IFC also being among the largest shareholders. Important to note is the controlling function the EBRD is executing – a large positive in our view and an important factor why the bank is better and more conservative managed than other institutions. After a comparably good 2012 the Q1 2013 result is showing further improvements. With interest income soaring by more than 20 % and the cost side being under control pre-tax profits were up by 28.4 % YoY (fee and commission income were almost flat). Credit activity expanded by 6 % YoY and the level of non performing loans are currently at around 13 % - much lower than the industry's average of more than 25 %. The earnings multiple is below 4x 2012 earnings and is showing a huge discount of ca. ~70 % to CEE peers.

Concerning to the asset allocation we stick to our strategy to use cash in the fund in order to carefully increase our weighting of some selected Slovenian companies.

Fund Management, April 2013

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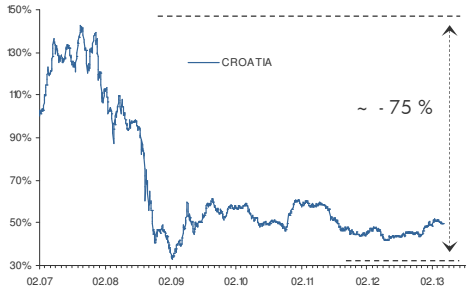
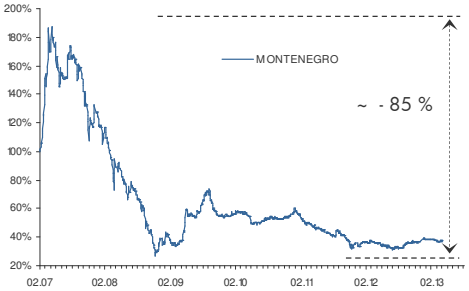
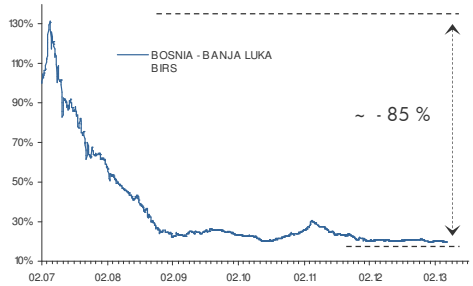
Stock market performance (since Feb. 2007)







Source: Bloomberg and local stock exchanges, performance in EUR

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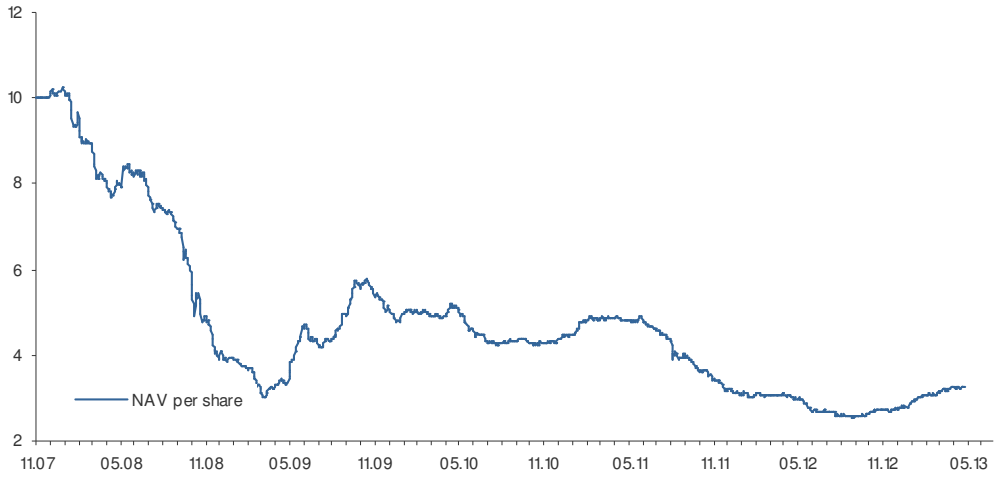
Fund facts

PERFORMANCE	1 M	YTD	1 Y	3 Y	5 Y	Nov 5th 2007
QIMCO BALKAN EQUITY	0,93%	16,49%	8,73%	-35,77%	-59,15%	-67,25%
QIMCO BALKAN EQUITY (P.A.)				-13,71%	-16,38%	-18,40%
LOCAL STOCK INDICES						
BiH Banja Luka – BIRS Index	-2.91%	-3.61%	-6.26%	-1.03%	-16.81%	-19.23%
BiH Sarajevo – SASX 10 Index	-1.88%	2.65%	1.82%	-8.48%	-20.68%	-26.35%
Croatia – CROBEX Index	-2.87%	11.30%	6.83%	-2.42%	-11.18%	-14.17%
Montenegro – MONEX 20 Index	0.00%	-1.59%	3.65%	-12.92%	-16.00%	-21.29%
Serbia – BELEX 15 Index	-2.33%	8.57%	15.39%	-12.45%	-23.89%	-28.87%
Slovenia – SBI TOP Index	7.16%	0.02%	6.80%	-8.78%	-16.68%	-20.32%

Source: Bloomberg, Montenegro Stock Exchange, periods <= 1Y are based on price indices, periods > 1Y in p.a. terms, price index used for MONEX 20, it should be noted that past performance is not a reliable indicator of the fund's future performance



Source: Bloomberg, ERSTE - SPARINVEST KAG, T-shares
It should be noted that past performance is not a reliable indicator of the fund's future performance.

PROGRAM INFORMATION	
ISIN T – shares	AT0000A07HY5
ISIN VT – shares	AT0000A07HZ2
NAV (T) – 30.04.2013	EUR 3.25 (3.25/3.41)
NAV (VT) – 30.04.2013	EUR 3.28 (3.28/3.44)
Fiscal year	Jul 1 – Jun 30
Fund administrator	ERSTE - SPARINVEST KAG
Custodian	ERSTE - Group Bank AG
Auditor	Ernst & Young
Front load	Up to 5 %
Management fee	2 %
Performance fee	15 % (HWM)

TOP 5 HOLDINGS
Adris Grupa Pref. D.D. (Croatia)
Alfa Plam A.D. (Serbia)
Galenika Fitofarmacija A.D. (Serbia)
Komercijalna Banka A.D. (Serbia)
Metalac A.D. (Serbia)

OTHER	
Fund volume	EUR 9.8mn
Registered for public distribution	Austria, Germany
Bloomberg Ticker T – shares	QIMBEQT AV
Bloomberg Ticker VT – shares	QIMBEVA AV

Source: ERSTE - SPARINVEST KAG, Advisory Invest GmbH

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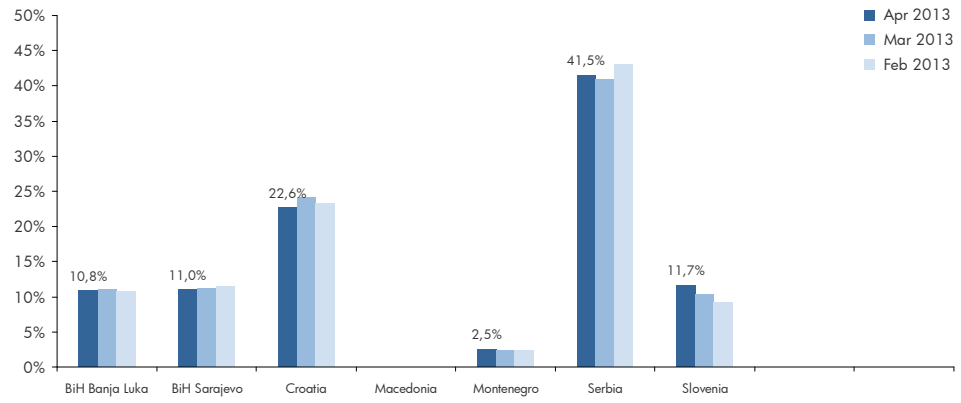
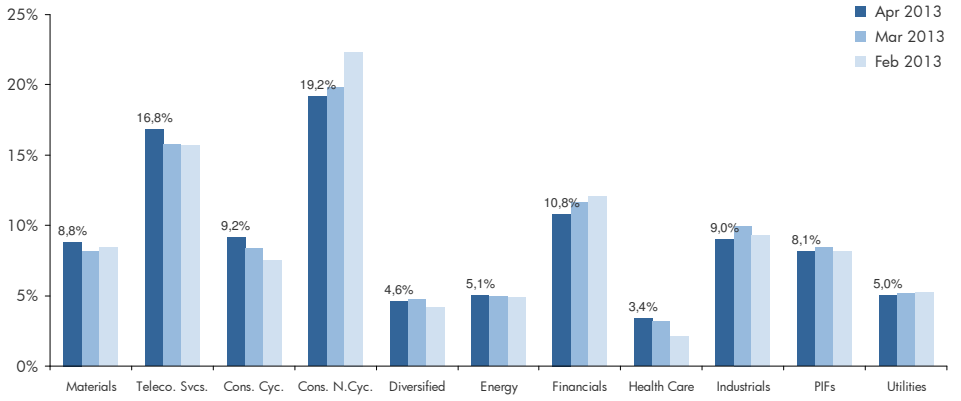
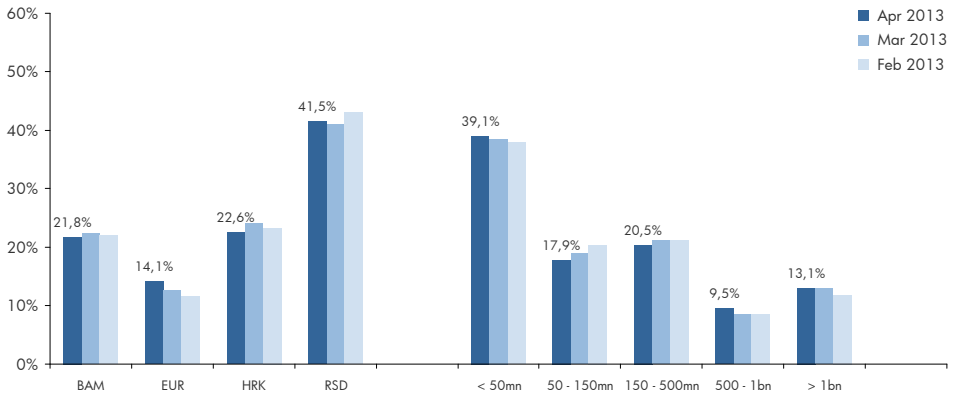
Country exposure



Sector exposure



Currency and market cap. exposure



Source: Advisory Invest GmbH, net of cash and net of funds used to cover cash-drag

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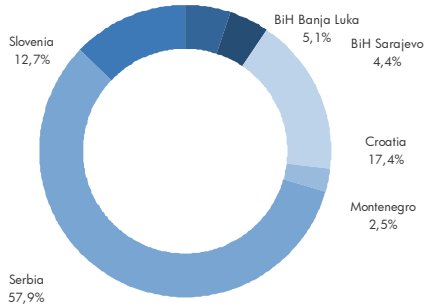
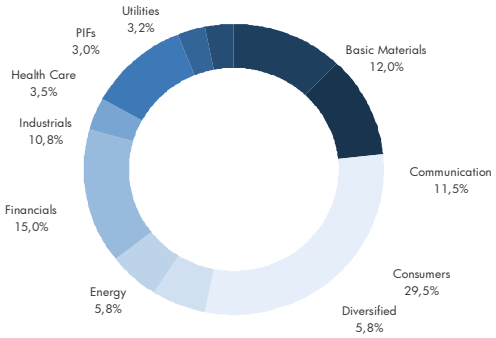
Country risk budget



Sector risk budget



Source: Advisory Invest GmbH, risk budget in % of total portfolio variance (ann. 52w volatility 9.33%, Bloomberg), based on weekly data

Correlation to world markets

	MXWO	MXNA	MXEU	MXPC	CZECH REP	HUNGARY	POLAND	SLOVAKIA	ROMANIA	BiH BANAJ LUKA	BiH SARAEJEVO	CROATIA	SERBIA	SLOVENIA
MXWO	1,00	0,96	0,90	0,76	0,60	0,46	0,63	0,07	0,52	0,11	0,00	0,52	0,29	0,25
MXNA		1,00	0,78	0,66	0,47	0,35	0,51	0,01	0,42	0,01	-0,03	0,46	0,25	0,19
MXEU			1,00	0,61	0,72	0,59	0,76	0,11	0,59	0,20	0,04	0,54	0,38	0,27
MXPC				1,00	0,47	0,28	0,48	0,10	0,41	0,16	0,02	0,43	0,16	0,29
CZECH REP					1,00	0,70	0,79	0,01	0,61	0,24	0,02	0,49	0,30	0,43
HUNGARY						1,00	0,76	-0,02	0,53	-0,03	0,02	0,44	0,25	0,28
POLAND							1,00	-0,02	0,60	0,16	0,08	0,54	0,42	0,36
SLOVAKIA								1,00	0,08	0,17	0,16	0,02	0,03	-0,04
ROMANIA									1,00	0,17	0,07	0,60	0,38	0,37
BiH BANAJ LUKA										1,00	0,35	0,25	-0,02	0,28
BiH SARAEJEVO											1,00	0,19	0,15	0,18
CROATIA												1,00	0,37	0,41
SERBIA													1,00	0,14
SLOVENIA														1,00
	Developed equity markets				CEE equity markets					SEE equity markets				
SEE MGMT. APPROACH	0,17	0,13	0,19	0,18	0,22	0,23	0,27	0,08	0,37	0,13	0,37	0,47	0,64	0,25

Source: Advisory Invest GmbH, 104 week rolling correlation, EUR prices

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Contact

Portfolio Management

Joachim Waltl, CFA — waltl@qimco.advisoryinvest.at
+ 43 316 228049 – 651

Alfred Kober, CFA — kober@qimco.advsioryinvest.at
+ 43 316 228049 – 652

Administration

Gabriele Fritz — gabriele.fritz@advisoryinvest.at
+ 43 1 512 66 66 – 20

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