



# **Avaron Eastern Europe Fixed Income Fund**

**ANNUAL REPORT FOR THE FINANCIAL YEAR 2013**

## TABLE OF CONTENTS

FUND FACTS .....	3
MANAGEMENT REPORT.....	4
CONFIRMATION OF THE MANAGEMENT BOARD OF THE FUND MANAGEMENT COMPANY TO THE ANNUAL FINANCIAL STATEMENTS OF 2013 .....	5
BALANCE SHEET .....	6
STATEMENT OF INCOME AND EXPENSES .....	7
STATEMENT OF CHANGES IN NET ASSETS .....	8
STATEMENT OF CASH FLOWS .....	9
NOTES TO THE FINANCIAL STATEMENTS.....	10
NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED.....	10
NOTE 2. RISK MANAGEMENT.....	17
NOTE 3. CASH AND CASH EQUIVALENTS .....	21
NOTE 4. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES TO CATEGORIES AND LEVELS .....	22
NOTE 5. NET GAIN/LOSS FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS.....	23
NOTE 6. TRANSACTIONS WITH RELATED PARTIES.....	23
NOTE 7. COMPARATIVE ANALYSIS OF THE NET ASSET VALUE.....	24
NOTE 8. DERIVATIVE INSTRUMENTS.....	25
STATEMENT OF INVESTMENTS .....	26
STATEMENT OF COMMISSIONS .....	28
INDEPENDENT CERTIFIED AUDITOR’S REPORT .....	29

## FUND FACTS

Avaron Eastern Europe Fixed Income Fund (hereinafter: „the Fund”) is registered in the Republic of Estonia as a contractual open-ended investment fund the units of which are publicly offered. The Fund complies with the requirements set out in the Directive 2009/65/EC of the European Parliament and of the Council.

Name of the Fund	Avaron Eastern Europe Fixed Income Fund
Fund management company	AS Avaron Asset Management
Registered address and contact details of the fund management company	Address: Narva road 7D, Tallinn 10117, Estonia Phone: +372 66 44 200 Facsimile: +372 66 44 201 E-mail: <a href="mailto:info@avaron.com">info@avaron.com</a> <a href="http://www.avaron.com">www.avaron.com</a>
Depository	AS Swedbank
Fund administration (NAV calculation)	AS Swedbank
Auditor	AS Deloitte Audit Eesti
Supervisor	Estonian Financial Supervision Authority
Fund managers	Kristel Kivinurm-Priisalm, Valdur Jaht, Peter Priisalm
Fund established	July 4 <sup>th</sup> , 2012
Start of the Fund’s activities	July 10 <sup>th</sup> , 2012
Reporting period	July 10 <sup>th</sup> , 2012 –December 31 <sup>st</sup> , 2013

## MANAGEMENT REPORT

Avaron Eastern Europe Fixed Income Fund (hereinafter „the Fund“) invests in high yield corporate bonds, government bonds and convertibles in Emerging Europe, Russia and CIS countries. The Fund may also invest in regional currencies, if deems them undervalued or may hedge its currency exposure to its base currency euro. It adheres to the UN Principles for Responsible Investment.

2013 was the first full financial year for the Fund. For 2013 Avaron Eastern Europe Fixed Income Fund posted a solid +5.5% return vs. +0.6% for Bank of America Merrill Lynch High Yield EMEA Emerging Markets Corporate Plus Index. Global Emerging Market Bond index performance was -10.2% for 2013. The Fund total assets increased to €6.3 million (2012: €5.1 million).

	<b>10.07.2012- 31.12.2013</b>
A Unit	10.3%
B Unit	9.8%

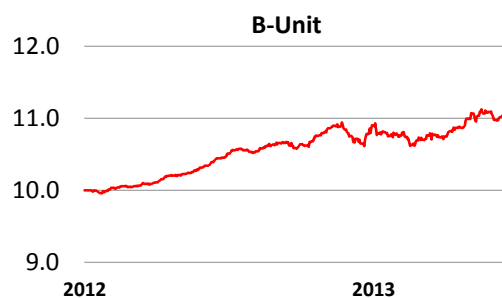


Table 1. Net return of the Fund units, in euros

Graph 1. Fund B-unit's performance (10.07.2012-31.12.2013)

As at the end of the year the Fund's bond portfolio had a weighted average maturity of 5.4 years without perpetuals. Current yield of the portfolio is 5.8%. Yield to maturity is 5.7%. Perpetuals make up 9.3% of the Fund and have a current yield of 6.1%. Corporate bonds form 77% of the bond portfolio and the sovereign papers make up the rest. Altogether the Fund held 28 instruments (excluding forward contracts and deposits) at the end of the year.

To a large extent we have maintained our view that in Europe ECB is not likely to raise rates in the foreseeable future as governments cannot afford higher interest expenses and the economy needs a boost from low rates. Therefore, we continue to hold bonds with relatively longer maturity in order to benefit from potential decline of interest rates for corporates. On the other hand we are more cautious in taking exposure in higher risk instruments like perpetuals.

We continue to hold the view that Turkish lira can provide significant upside when political crisis calms down. We also believe that stronger economic growth in the US and the start of tapering can bring along appreciation of the USD, which is also considered a safe haven in case of sell-offs. Therefore, we aim to maintain exposure in these currencies via forward contracts.

January 15<sup>th</sup> 2014

Kristel Kivinurm-Priisalm  
Fund Manager and Member of the Management Board

**CONFIRMATION OF THE MANAGEMENT BOARD OF THE FUND MANAGEMENT COMPANY TO THE ANNUAL FINANCIAL STATEMENTS OF 2013**

The Management Board of the fund management company has prepared the annual Financial Statements of Avaron Eastern Europe Fixed Income Fund on April 11<sup>th</sup>, 2014.

The Financial Statements have been prepared in compliance with the requirements stipulated in the Estonian Accounting Act, the Investment Funds Act and Minister of Finance Regulation no 21 of 13.04.2011 „Requirements for the reports of investment funds to be published". It gives a true and fair view of the assets, liabilities, net asset value and performance results of Avaron Eastern Europe Fixed Income Fund. The Management Board considers Avaron Eastern Fixed Income Fund to carry its activities as a going concern.

The annual Financial Statements of Avaron Eastern Fixed Income Fund have been approved by the fund management company and the fund managers.

<b>Name</b>	<b>Date</b>	<b>Signature</b>
Kristel Kivinurm-Priisalm Member of the Management Board of the fund management company / Fund manager	11.04.2014	_____
Valdur Jaht Member of the Management Board of the fund management company/ Fund manager	11.04.2014	_____
Peter Priisalm Fund manager	11.04.2014	_____

**BALANCE SHEET**

In EUR

<b>ASSETS</b>	<b>Note</b>	<b>31.12.2013</b>
Cash and cash equivalents	3	543,689
Term deposits		330,520
Financial assets at fair value through profit or loss:	4	
Bonds		5,346,388
Derivative instruments		-57,516
Receivables and prepayments	4	106,012
<b>TOTAL ASSETS</b>		<b>6,269,093</b>
<b>LIABILITIES</b>		
<b>Other financial liabilities</b>	4	
Payables to the management company		3,625
Payables to the depository		1,549
Other liabilities		1,715
<b>TOTAL LIABILITIES (excluding net assets attributable to holders)</b>		<b>6,889</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS</b>		<b>6,262,204</b>

## STATEMENT OF INCOME AND EXPENSES

In EUR

	Note	10.07.2012- 31.12.2013
<b>INCOME</b>		
<b>Net gain/loss from financial assets at fair value through profit or loss</b>		
From shares and units	5	15,682
From bonds	5	409,251
From derivative instruments	5	-53,711
<b>Interest income</b>		
From bonds		305,931
From deposits		2,017
<b>Net gain/loss from foreign exchange</b>		-109,250
<b>TOTAL INCOME</b>		<b>569,920</b>
<b>OPERATING EXPENSES</b>		
Management fees		52,980
Custodian fees		18,503
Transaction costs		1,578
Other operating expenses		1,721
<b>TOTAL OPERATING EXPENSES</b>		<b>74,782</b>
<b>NET INCOME</b>		<b>495,138</b>

## STATEMENT OF CHANGES IN NET ASSETS

In EUR

	<b>10.07.2012- 31.12.2013</b>
<b>NET ASSET VALUE AT THE BEGINNING OF THE PERIOD</b>	<b>0</b>
Cash received for fund units issued	6,696,950
Cash paid for fund units redeemed	-929,884
Net result of the Fund	495,138
<b>NET ASSET VALUE AT THE END OF THE PERIOD</b>	<b><u>6,262,204</u></b>
Number of A units in circulation at the end of the period:	129,791.570
Number of B units in circulation at the end of the period:	438,385.616
Net asset value of an A unit:	10.9775
Net asset value of an B unit:	11.0346



## STATEMENT OF CASH FLOWS

In EUR

	<b>10.07.2012- 31.12.2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Interest received	301,505
Net result from foreign exchange	4,086
Sale of investments	3,699,496
Purchase of investments	-9,160,589
Operating expenses paid	-67,887
	<u>-5,223,389</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from issue of unit	6,696,950
Payments on redemption of units	-929,884
	<u>5,767,066</u>
<b>TOTAL CASH FLOWS</b>	<b>543,677</b>
<b>CASH AND CASH EQUIVALENTS</b>	
Cash and cash equivalents at the beginning of the period	0
Effect of exchange rate fluctuations on cash and cash equivalents	11
Cash and cash equivalents at the end of the period	<u>543,688</u>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED

The annual financial statements of Avaron Eastern Europe Fixed Income Fund (hereinafter „the Fund“) for 2013 have been prepared in compliance with the Estonian Accounting Act, effective Investment Funds Act as supplemented by the regulations of the Minister of Finance. As stipulated in Minister of Finance Regulation no 21 of 13.04.2011 „Requirements for the reports of investment funds to be published“ the financial statements have been prepared using the accounting policies and information presentation principles of International Financial Reporting Standards (hereafter: “IFRS”) approved by European Commission taking into account the specifications of the regulation and Rules for Calculating Net Asset Value of Funds.

The annual financial statements have been prepared in compliance with the regulation of the Minister of Finance no 21 of 13.04.2011 „Requirements for the reports of investment funds to be published“ according to which, the reports are compiled based on IFRS as adopted by the European Commission.

The financial statements have been prepared in EUR, which is also Fund’s functional and presentation currency.

The main accounting principles used when preparing the financial statements have been set out below.

#### The following standards and interpretations have been used for the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- Amendments to IFRS 1 “First-time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 “First-time Adoption of IFRS” – Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 “Financial Instruments: Disclosures” - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 1 “Presentation of financial statements” – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to various standards “Improvements to IFRSs (cycle 2009-2011)” resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a

view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards has not led to any changes in the Fund's accounting policies.

### **Standards and Interpretations issued by IASB that are adopted by the EU but have not yet been implemented**

At present EU has approved the following standards, amendments to the existing standards and interpretations, which were not yet applicable:

- IFRS 10 "Consolidated Financial Statements" - adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 "Joint Arrangements" - adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 "Disclosures of Interests in Other Entities" - adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements" – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 "Separate Financial Statements" (revised in 2011) - adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 "Investments in Associates and Joint Ventures" (revised in 2011) - adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 32 "Financial instruments: presentation" - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 "Impairment of assets" - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

### **Standards and interpretations issued by IASB but not yet adopted by the EU**

At present, the IFRS' as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at date of publication of the financial statements:

- IFRS 9 "Financial Instruments" and subsequent amendments (effective date was not yet determined),

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- IFRIC 21 “Levies” (effective for annual periods beginning on or after 1 January 2014).

The Fund anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Fund in the period of initial application.

At the same time the hedge accounting principles for the portfolio of financial assets and liabilities that have not been adopted by the EU, are still unregulated. According to the Fund’s estimates, the application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement”, would not significantly impact the financial statements, if applied as at the balance sheet date.

### **Use of estimates and judgements**

The preparation of the financial statements calls for the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgements have been used according to the best knowledge based on prior experience and other factors that the management considers reasonable under circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis.

Financial instruments are recognized in the balance sheet at fair value taking into account the principles stipulated in the Rules for Calculating Net Asset Value of Funds approved by the management board. Prices quoted in active markets are mostly used for measuring the fair value of financial instruments. If the prices in active markets are not available other valuation models are being used according to the Rules for Calculating Net Asset Value of Funds. Main risks involved with the estimates and judgements that may affect the value of the Fund’s assets and liabilities are related to measuring the fair value of financial instruments that are based on valuation models that use unobservable inputs.

### **Foreign currency transactions**

Upon recording foreign currency transactions, the last bid rate established by the depository for the funds managed by AS Avaron Asset Management on the transaction date has been used (hereinafter referred to as the depository bid rate). The assets and liabilities fixed in foreign currency are translated into EUR based on the depository bid rate applicable on the balance sheet date.

Gains and losses from foreign currency transactions are recorded in the statement of income and expenses under “Gain/ (loss) from transactions in foreign currencies” on net basis.

## **Financial instruments**

Financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets include cash, contractual right to receive cash or another financial assets (for example receivables) from another entity, equity instruments of other entity and contractual rights to exchange financial assets with another entity under potentially favourable conditions. Financial liabilities include contractual obligation to deliver cash or other financial assets to another entity or to exchange financial assets with another entity under potentially unfavourable conditions.

Financial assets and liabilities are initially recorded at cost, which is the fair value of the consideration paid or received to acquire the financial asset or liability. Financial instruments are later divided into four categories in accordance to the principles of IAS 39 taking into account the purpose of their acquisition:

1. financial assets at fair value through profit or loss;
2. financial assets held to maturity;
3. loans and receivables;
4. financial assets available for sale.

The Fund does not hold financial assets held to maturity and available for sale.

## **Financial instruments at fair value through profit and loss**

### *Classification*

The Fund classifies its investments into debt, equity and derivative instruments as financial assets or liabilities through profit or loss. This category has two sub-categories: held for trading and financial assets and liabilities through profit and loss – designation upon initial recognition. The Fund reports all the investments under the second category as designated at fair value through profit and loss using the fair value option on initial recognition according to the Fund's investment strategy.

### *Recognition*

During normal operation recognising investments into shares and units, bonds and derivative instruments trade date accounting principles are used. Trade date is defined as when the Fund takes the obligation to buy or sell the investment. Financial assets and liabilities are initially recognised at acquisition cost, which is the fair value of the consideration paid for the financial asset. The acquisition cost includes all direct expenses related to the acquisition of the financial asset including commissions that arise and are paid in acquisition of financial asset but are not clearly identifiable.

After initial recognition all financial assets and liabilities are measured at fair value in the category "at fair value through profit or loss". Gains/(losses) from the revaluation of securities are recorded in the statement of income and expenses under "net gain/loss from financial assets at fair value through profit or loss"

Dividend income from financial assets at fair value through profit or loss are recorded in the statement of income and expenses under "Dividends" at the moment when the Fund's right to the dividend is fixed.

### *Fair value of financial instruments*

To measure the fair value of financial assets and liabilities of the Fund the principles of IFRS 13 are followed, applying IFRS 13 also for the previous periods.

Fair value is the price that would be received upon selling an asset or paid upon transferring a liability in an orderly transaction in the principal market (or the most advantageous market) (i.e. exit price)

between market participants at the measurement date, irrespective if the price is easily traceable or shall be determined using other valuation techniques. According to the fair value hierarchy stipulated in IFRS 13 the financial instruments at fair value shall be divided into three levels depending on the rate of observable inputs used:

- level 1 – unadjusted quoted prices in active market for identical assets or liabilities;
- level 2 – inputs other than quoted prices in level 1 that are observable directly or indirectly;
- level 3 – unobservable inputs for an asset or liability.

Observable inputs are considered inputs that shall be determined based on the market data (such as publicly available information about actual events or transactions) that reflect the assumptions which market participants would use when pricing an asset or liability. When a fair value measurement is developed using inputs from multiple levels of the fair value hierarchy, the fair value measurement of that instrument shall fall entirely into the lowest level from which the inputs have been used.

If an instrument is traded on multiple regulated markets the one that is more liquid and the most representative based on professional judgement is considered as the principal market.

Measuring the fair value of financial instruments is based on the Rules for Calculating Net Asset Value of Funds approved by the management board. General principles are the following:

- The market value of shares traded on a regulated market is determined on the basis of the official closing price on the balance sheet date. If the closing price is unavailable, the official mid price is used. If mid price is also unavailable, the last official bid price is used.
- In Avaron's opinion the market price of bonds may not reflect the fair value of the securities even when the market price is available. The value of bonds not traded on a regulated market is determined based on the average of the bid and ask quotes as provided by the price feed service provider being used. If the quotes are not available or if the quotes do not reflect the fair value of the bond in the opinion of the fund management company, the price is determined based on the yield curve method.
- The value of options not traded on a regulated market is determined based on the Black & Scholes valuation model. The inputs that are necessary for the calculation are determined by the fund management company after consulting with the counterparty of the option.

### *Derecognition*

Securities are removed from the balance sheet when the Fund has lost control over the corresponding financial assets either as a result of selling or expiry of their term. FIFO method is used in accounting for the realised gains/ (losses) from securities transactions. The line „Sales profit/ (loss)“ in the statement of income and expenses indicates the difference between the sales amount of an instrument and the corresponding acquisition cost. The sales amount of securities is the quantity of securities sold multiplied by the sales price less paid commissions.

### **Offsetting**

Financial assets and liabilities at fair value through profit and loss are offset only when the Fund has a legal right to offset the amounts and intends to use the right.

### **Cash and cash equivalents and cash flows**

Cash and cash equivalents comprise Fund's current accounts and over-night deposits that are subject to an insignificant risk of changes in their fair value

Cash flows from operating activities are reported using the direct method.

### **Deposits**

Deposits comprise term deposits of credit institutions given that their term is at maximum 12 months. Deposits are initially recognised at acquisition cost and subsequently measured at amortized cost using effective interest rate method.

### **Receivables and prepayments**

Receivables include revenues calculated on the accrual basis but not received yet including dividend receivables and other accrued income. Miscellaneous receivables include receivables from unsettled sale transactions.

Receivables and prepayments are initially recognised at fair value and subsequently recorded at amortized cost using the effective interest rate method from which any possible impairment loss has been deducted.

### **Other financial liabilities**

Other financial liabilities include management fee and performance fee payables to the fund management company, depository fee and transaction fee payables to the depository. Liabilities also include payables to Fund unit holders for redeemed units. Miscellaneous liabilities include payables for securities purchase transactions.

Other financial liabilities are initially recognised at fair value and subsequently recorded at amortized cost using the effective interest rate method.

### **Fund units**

The Fund has two classes of units which are redeemable at demand of unit-holder. Different rights are attached to different unit classes. All the unit classes are reported as financial liabilities. Units shall be issued, redeemed and switched on every banking day according to the Fund rules. The redemption price of a unit is equal to the net asset value of the unit as of the trade date from which the redemption fee and penalty charge may be deducted.

The net asset value of a Unit is determined by dividing the total net asset value of a class of Units by the number of Units of that class that have been issued and not redeemed (adjusted by the number of Units from unsettled subscription and redemption orders that have been received by the management company). The income of the Fund shall not be distributed to unit holders but shall be reinvested. A unit holder's profit or loss shall be reflected in changes in Unit's net asset value.

### **Interest and dividend income**

Interest income is recognised on accrual basis using the effective interest rate method. It comprises reported interest from cash and cash equivalents, deposits and debt instruments at fair value through profit or loss.

Received dividends are recorded under "Dividends" at the moment when the shareholder's right to the dividend is fixed.

### **Operating expenses**

The operating expenses of the Fund include the management fee and performance fee payable to the management company, the depository fee payable to the Fund's depository, fund administration fees, fees to the registrar of fund units, transaction fees and other operating expenses stated in the Fund rules. Transaction fees related to security purchase and sales transactions are recorded under "Transaction fees" in the statement of income and expenses. Commissions which arose and were paid

in acquisition of securities, but are not clearly identifiable are included within the acquisition cost of securities.

### **Related parties**

Parties that are considered as related parties to the Fund are management company AS Avaron Asset Management, other investment funds managed by the management company, all companies belonging to the group of Avaron Partners OÜ. According to the Fund rules the Fund pays management fees to the management company on monthly basis. Transactions with group companies have been made at market conditions.



## NOTE 2. RISK MANAGEMENT

### Short Overview of Investment and Risk Management Techniques

The Fund management company deploys value investing and bond-picking investment style with focus on credit, sector and macro analyses. Company-specific credit analysis is the core of the investment process, focusing on the issuer's business model, financial situation and outlook with an aim to assess the company's credit risk.

Various risks that may affect the return from the investment are related to investing into the Fund. The activities of the Fund may or may not be profitable. Taking into account the investment objectives and investment policy of the Fund, the most critical risks that are most likely to have an impact on the market value of the assets of the Fund include market risk, issuer's price risk, liquidity risk, foreign currency risk, credit risk, interest rate risk and the risk arising from the concentration of asset classes or markets.

Portfolio liquidity analysis and diversification among sectors, countries, currencies and instruments are the main risk management tools used. In addition, the Fund management company may use derivatives to hedge or take directional exposure in currencies. Maturity of single securities and the full portfolio and makes relevant changes to the portfolio based on its view on the macroeconomic and interest rate developments.

The Fund management company has established procedures for internal risk management in order to identify, monitor, measure and hedge the risks associated to the Fund's investments. The Fund management company regularly examines that the Fund is in compliance with its investment restrictions.

### Credit risk

Credit risk is the risk that the issuer of securities where the Fund has invested or the counterparty to a transaction on account of the Fund fails to perform its obligations either fully or partially (e.g. an issuer fails to redeem issued debt obligations, a counterparty to a trade does not deliver securities or cash during the settlement, a counterparty defaults on a loan granted by the Fund) cause damage to the Fund.

Maximum exposure to credit risk as of the end of the period in EUR:

	<b>31.12.2013</b>
Corporate bonds	4,125,703
Government bonds	1,220,685
Receivables and prepayments	106,012
Cash and cash equivalents	543,689
Term deposits	330,520
<b>TOTAL</b>	<b>6,326,609</b>

Fund's assets are invested in bonds that are liquid and transferable. Basic financial data of the issuer and terms of the issue (prospectus) will be analysed in case of debt securities with investment grade rating by S&P (or Moody's equivalent) of BBB- or higher. In case of debt securities with no rating / non-investment grade rating, higher due diligence requirements apply.

Allocation of bonds according to rating by Standard & Poor's in EUR:

	<b>31.12.2013</b>
BBB	275,048
BBB-	114,641
BB+	1,362,519
BB	312,211
BB-	144,714
B+	298,604
B	148,265
B-	321,608
No rating	2,368,778
<b>TOTAL</b>	<b>5,346,388</b>

The Fund's cash and cash equivalents are held with Fund's depository Swedbank, which is rated A+ as of 19.08.2013. Term deposits are held in LHV Bank (rating: BBB-) and Nordea Bank Finland Plc Estonia Branch (rating: AA-).

### Liquidity risk

Liquidity risk is the risk that a financial instrument cannot be sold due to low liquidity at the time desired or at a reasonable price, or that it is not possible to sell the asset at all. Liquidity risk is particularly relevant in case of investing into small cap companies and in instruments not traded on a regulated securities market.

Liquidity risk is managed through regular liquidity analysis and limitations on estimated exit times from positions and share capital/ free float ownership.

The Fund maintains the credit lines of 300,000 EUR that it can access to meet short-term liquidity needs. These resources have not been used as of 31.12.2013.

Maximum exposure of financial liabilities according to the maturity as of the end of the period in EUR:

	Up to 1 month	Over 1 month
	<b>31.12.2013</b>	<b>31.12.2013</b>
Payables to the management company	3,625	
Payables to the depository	1,549	
Other liabilities		1,715
Assets attributable to holders		6,262,204
<b>TOTAL</b>	<b>5,174</b>	<b>6,263,919</b>

As of December 31<sup>st</sup> 2013 there were no positions that may take more than 7 days to liquidate based on six month average trading volume.

### Market risk

Market risk is the risk of suffering losses due to adverse price movements at a specific securities market or at a market for other assets. Adverse price movements may be caused by a country's weak macroeconomic data, poor financial results of an industry sector, unstable securities market, investor behaviour and psychology and other factors.

Diversification among sectors, countries, currencies and instruments are the main risk management tools used.

**Currency risk**

Fund is open to foreign currency risk. Currency risk is the risk that the value of an investment denominated in a foreign currency shall change in an adverse direction due to fluctuations in exchange rates.

Currency breakdown of Fund's assets in EUR:

	<b>31.12.2013</b>
EUR	2,799,423
USD	2,546,965
<b>TOTAL</b>	<b>5,346,388</b>

Taking active views on regional currencies is part of the Fund's investment strategy. It is based on in-house regional macroeconomic analysis. Derivatives may be used for taking currency positions or for hedging.

**Currency risk sensitivity analysis**

Fund's net asset value would have been affected by the weakening of foreign currencies against EUR on December 31<sup>st</sup>, 2013. The sensitivity analysis uses the weakening of foreign currency rates against EUR during the last seven years from the highest value to the lowest. The analysis assumes that all the other variables remain constant.

	<b>Currency weakening</b>	<b>Possible negative effect 31.12.2013</b>
USD	-26%	-905,706
TRY	-45%	-177,542

**Instrument's price risk**

Price risk is closely related to market risk but mainly affects a specific security or investment. Price risk is the risk of suffering losses due to adverse price movements of a specific stock or another investment. The price of an issuer's securities is affected by developments in the issuer's financial results, changes in competitive environment, analyst estimates and commentaries, etc.

Concentration of risk of Fund's investments based on sectors as of the end of the period in EUR:

	<b>31.12.2013</b>
Consumer Staples	607,509
Energy	650,364
Consumer Discretionary	568,695
Financials and real estate	1,893,637
Sovereign	1,220,686
Industrial	128,921
Telecom	128,311
Materials	148,265
<b>TOTAL</b>	<b>5,346,388</b>

Concentration of risk of Fund's investments based on geographic location as of the end of the period in EUR:

	<b>31.12.2013</b>
Turkey	1,185,901
Slovenia	965,835
Hungary	803,837

	<b>31.12.2013</b>
Austria	641,831
Poland	331,634
Ukraine	321,608
Cyprus	285,901
Luxembourg	277,468
Serbia	268,521
Russia	149,211
Romania	114,641
<b>TOTAL</b>	<b>5,346,388</b>

Main technique to manage issuer's price risk is diversification of instruments.

#### *Instrument's price risk sensitivity analysis*

Sensitivity analysis is based on standard deviation of the Fund since launch, whereas the Fund's risk profile has been calculated based on normal distribution. The analysis assumes that all the other variables remain constant.

	probability	+/- possible change of Fund's NAV during year <b>2013</b>
$\sigma$	68.27%	3.41%
$2\sigma$	95.45%	6.83%
$3\sigma$	99.73%	10.24%

#### *Interest risk*

Interest rate risk is the risk that investment's value will change due to a change in the absolute level of interest rates. Interest rate risk depends on portfolio's maturity profile, the level of yield to maturity, and the size and frequency of the coupon payments of the underlying instruments. Interest risk exposure is managed based on in-house security and macroeconomic analysis. Macaulay and modified duration are used for monitoring the level of interest rate risk.

Macaulay duration measures the sensitivity of the bond portfolio to a change in interest rates. It indicates the number of weighted average years required to recover the true cost of the bond portfolio, taking into account the present value of all coupon and principal payments received in the future. Modified duration measures the responsiveness of the portfolio's value to interest rate changes. It is reflected as the percentage change in value for a 100bps point change in interest rates.

Portfolio structure of the Fund across the maturity of underlying instruments and Fund's risk metrics as of the end of the period:

<b>Period</b>	<b>% of Fund NAV</b>
	<b>30.12.2013</b>
Up to 1 year	4.3%
1-3 years	20.1%
3-5 years	16.9%
5-10 years	41.6%
Over 10 years	2.5%
<b>TOTAL BONDS</b>	<b>85.4%</b>

Avaron Eastern Europe Fixed Income Fund

<b>Risk metrics</b>	<b>30.12.2013</b>
Yield to maturity	5.69%
Macaulay duration	5.1
Modified duration	4.9%

**NOTE 3. CASH AND CASH EQUIVALENTS**

**Deposits in EUR**

	<b>31.12.2013</b>
Deposits	870,208
<b>TOTAL</b>	<b>870,208</b>

**Cash and cash equivalents by currency**

	<b>31.12.2013</b>
USD	5,500
<b>TOTAL</b>	<b>5,500</b>

**NOTE 4. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES TO CATEGORIES AND LEVELS**

In EUR

31.12.2013

	Designated as at fair value			Loans and receivables			Other financial liabilities		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>ASSETS</b>									
Bonds	5,346,388	-	-	-	-	-	-	-	-
Derivative instruments	-	-57,516	-	-	-	-	-	-	-
Term deposits	-	-	-	330,520	-	-	-	-	-
Unsettled trades	-	-	-	-	-	-	-	106,012	-
Cash and cash equivalents	-	-	-	543,689	-	-	-	-	-
<b>LIABILITIES</b>									
Payables to the management company	-	-	-	-	-	-	-	3,625	-
Payables to the depository	-	-	-	-	-	-	-	1,549	-
Other liabilities	-	-	-	-	-	-	-	1,715	-
Net assets attributable to holders	-	-	-	-	-	-	6,262,204	-	-
<b>TOTAL</b>	<b>5,346,388</b>	<b>-57,516</b>	<b>0</b>	<b>874,209</b>	<b>0</b>	<b>0</b>	<b>6,262,204</b>	<b>112,901</b>	<b>0</b>

According to the estimates of the Fund management company the carrying value of financial instruments “Loans and receivables” and other financial liabilities amounts approximate fair value.

There have been no transfers of the assets designated as at fair value from one level to another as of the end of the period.

**NOTE 5. NET GAIN/LOSS FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS**

In EUR

	<b>10.07.2012- 31.12.2013</b>
<b>Net gain/loss from financial assets at fair value through profit or loss</b>	
<b>From shares and units</b>	
Sales profit/(-loss)	15,682
<b>From bonds</b>	
Sales profit/(-loss)	118,807
Unrealised profit /(-loss)	290,445
<b>From derivative instruments</b>	
Sales profit/(-loss)	3,805
Unrealised profit /(-loss)	-57,516
<b>Total net gain/loss</b>	<b>371,223</b>

Sales profit/loss and unrealised profit/loss include commissions paid to brokers on acquisition and disposal of securities. According to the principles of IAS 39 the commissions should be reflected in the statement of income and expenses under transaction costs. According to the estimates of the Fund management company the effect of commissions to net gain/loss from financial assets is not significant.

**NOTE 6. TRANSACTIONS WITH RELATED PARTIES**

In addition to the Fund management company related parties to the Fund are considered to be companies belonging to the same group, other investment funds managed by the management company and shareholders of the management company.

The transactions with related parties were as follows:

	<b>10.07.2012- 31.12.2013</b>
<b>Fund management company</b>	
Paid management and performance fees	52,980
<b>Other investment funds managed by Fund management company</b>	
Sale of securities	2,210,234
<b>TOTAL</b>	<b>2,263,214</b>

The balances outstanding with related parties were as follows:

	<b>31.12.2013</b>
<b>Fund management company</b>	
Management and performance fee payable	3,625

Shareholders of the Fund management company owned the units of Avaron Eastern Europe Fixed Income Fund 32,373 EUR in market value as of 31.12.2013, other investment funds managed by the Management Company 4,063,211 EUR and Management Company 220,691 EUR in market value.

**NOTE 7. COMPARATIVE ANALYSIS OF THE NET ASSET VALUE**

In EUR

	<b><u>31.12.2013</u></b>
Net asset value of the Fund	6,262,204
Net asset value of A unit	10.9775
Net asset value of B unit	11.0346



**NOTE 8. DERIVATIVE INSTRUMENTS**

In EUR

31.12.2013

Type of Instrument	Issuer of Instrument	Quantity of underlying	The underlying currency	Exercise date	Price of Instrument /premium	Exercise price		Market value		Equity of the issuer of the instrument
						Per unit	Total	Date	Total	
Forward	Swedbank AS	1,334,000	USD	19.02.2014	0.7275	0.7496	1,000,000	31.12.2013	-29,580	1,366,213,000 EUR
		1,000,000	EUR	19.02.2014	1	1	1,000,000	31.12.2013	0	1,366,213,000 EUR
Forward	Swedbank AS	138,604	EUR	11.07.2014	1	1	138,604	31.12.2013	0	1,366,213,000 EUR
		385,000	TRY	11.07.2014	0.3243	0.3600	138,604	31.12.2013	13,736	1,366,213,000 EUR
Forward	Swedbank AS	385,000	TRY	11.07.2014	0.3243	0.3439	132,416	31.12.2013	-7,548	1,366,213,000 EUR
		132,416	EUR	11.07.2014	1	1	132,416	31.12.2013	0	1,366,213,000 EUR
Forward	AS SEB Pank	385,000	TRY	11.07.2014	0.3243	0.3655	140,716	31.12.2013	-15,848	594,027,000 EUR
		140,716	EUR	11.07.2014	1	1	140,716	31.12.2013	0	594,027,000 EUR
Forward	AS SEB Pank	867,600	TRY	11.07.2014	0.3243	0.3458	300,000	31.12.2013	-18,609	594,027,000 EUR
		300,000	EUR	11.07.2014	1	1	300,000	31.12.2013	0	594,027,000 EUR
Forward	AS SEB Pank	605,934	TRY	15.12.2014	0.3125	0.3119	189,000	31.12.2013	334	594,027,000 EUR
		189,000	EUR	15.12.2014	1	1	189,000	31.12.2013	0	594,027,000 EUR
<b>TOTAL</b>									<b>-57,515</b>	

## STATEMENT OF INVESTMENTS

## In EUR as of 31.12.2013

Name	ISIN	Country	Nominal value	Maturity	Interest	Rating	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
<b>BONDS*</b>													
ARCELIK AS 5%USD 03.04.2023	XS0910932788	TR	1000.00	3.04.2023	5.000%	NR	USD	600,000	64.90	389,414	63.332	385,326	6.15%
BK STPETRB USD 10.75% 22.04.19	XS0954673934	RU	1000.00	20.04.2019	10.750%	B1	USD	200,000	73.49	146,971	73.1069	149,211	2.38%
CIECH GROUP FIN 9.5% 30.11.19	XS0856025431	PL	1000.00	30.11.2019	9.500%	B2	EUR	128,000	103.60	132,608	114.625	148,265	2.37%
CYFROWY POLSAT 7.125% 20.05.18	XS0626064017	PL	1000.00	20.05.2018	7.125%	Ba2	EUR	170,000	107.50	182,750	107.0525	183,369	2.93%
ERSTE GROUP BR 7.125% 10.10.22	XS0840062979	AT	1000.00	10.10.2022	7.125%	NR	EUR	225,000	107.68	242,275	115.5755	263,646	4.21%
IMMOFIN CV EUR 4.25% 08.03.18	XS0592528870	AT	4.12	8.03.2018	4.250%	NR	EUR	189,520	108.86	206,310	116.432	223,199	3.56%
MHP SA 10.25% USD 29.04.2015	USL6366MAB92	UA	1000.00	29.04.2015	10.250%	B3	USD	420,000	77.18	324,146	75.2892	321,608	5.14%
MOL 3.876% 05.10.15	XS0231264275	HU	1000.00	5.10.2015	3.876%	NR	EUR	203,000	96.31	195,514	102.4	209,747	3.35%
MOL MAGYAR EUR 5.875% 20.04.17	XS0503453275	HU	1000.00	20.04.2017	5.875%	NR	EUR	100,000	99.60	99,600	106.1065	110,211	1.76%
MOL MAGYAR EUR 6.25 26.09.19	XS0834435702	HU	1000.00	26.09.2019	6.250%	NR	USD	250,000	75.77	189,425	74.709	189,772	3.03%
MRIYA USD 9.45% DUE 19.04.2018	XS0916902256	CY	1000.00	19.04.2018	9.450%	NR	USD	200,000	69.35	138,698	63.1047	128,959	2.06%
MRYIA AGRO 10.95% USD 30.03.16	XS0559140875	CY	1000.00	30.03.2016	10.950%	NR	USD	210,000	83.19	174,702	72.7431	156,942	2.51%
OTP BANK PERP 5.875% 07.11.16	XS0274147296	HU	1000.00	7.11.2016	5.875%	B1	EUR	180,000	63.19	113,738	82.127	149,393	2.39%
OTP CONV 3.95% EUR 31.10.49-16	XS0272723551	LU	1000.00	31.10.2016	3.950%	NR	EUR	355,000	44.41	157,655	77.5	277,468	4.43%
OTP FRN EUR 04.03.15	XS0214084252	HU	50000.00	4.03.2015	-	Ba3	EUR	150,000	77.13	115,691	96.417	144,714	2.31%
ROMANIA 4.375% USD 22.08.2023	US77586TAC09	RO	2000.00	22.08.2023	4.375%	Baa3	USD	160,000	70.23	112,364	70.5099	114,641	1.83%
SERBIA T-BILL EUR 05.03.2014	RSMFRSD58845	RS	50000.00	5.03.2014	-	NR	EUR	160,000	96.20	153,915	99.6552	159,448	2.55%
SERBIA T-BILL EUR 13.06.2014	RSMFRSD64470	RS	1000.00	13.06.2014	-	NR	EUR	110,000	92.98	102,281	99.1569	109,073	1.74%
SLOVENIA 5.85% USD 10.05.2023	XS0927637818	SI	1000.00	10.05.2023	5.850%	Ba1	USD	400,000	76.16	304,654	74.3799	299,931	4.79%
SLOVENIA EUR 4.375% 18.01.2021	SI0002103149	SI	1000.00	18.01.2021	4.375%	Ba1	EUR	520,000	95.13	494,665	99.224	537,593	8.58%
TEL.SLOVENJE 4.875% 21.12.16	XS0473928371	SI	1000.00	21.12.2016	4.875%	Ba1	EUR	125,000	99.95	124,938	102.5155	128,311	2.05%
TUPRAS-TURKI 4.125% 02.05.18	XS0849020556	TR	1000.00	2.05.2018	4.125%	Ba1	USD	200,000	71.74	143,472	69.8334	140,634	2.25%
TURK SISE FAB 4.25% 09.05.20	XS0927634807	TR	1000.00	9.05.2020	4.250%	Ba1	USD	200,000	67.36	134,711	64.014	128,921	2.06%
TURKIYE HALK 3.875% 05.02.20	XS0882347072	TR	1000.00	5.02.2020	3.875%	Baa2	USD	200,000	66.87	133,731	63.2411	128,769	2.06%
TURKIYE HALK 4.875% 19.07.17	XS0806482948	TR	1000.00	19.07.2017	4.875%	Baa2	USD	200,000	76.21	152,425	71.544	146,280	2.34%
TURKIYE VAKIFLAR BANK 01.11.22	XS0849728190	TR	1000.00	1.11.2022	6.000%	Ba2	USD	200,000	65.70	131,402	63.6939	128,843	2.06%
VIENNA INSURANCE GROUP 8% PERP	AT0000A09SA8	AT	1000.00	12.06.2049	8.000%	NR	EUR	134,000	106.27	142,398	113.25	154,986	2.47%
YAPI VE KRD BK 5.5% 06.12.22	XS0861979440	TR	1000.00	6.12.2022	5.500%	Ba1	USD	200,000	68.59	137,171	63.2865	127,129	2.03%
<b>BONDS TOTAL</b>										<b>5,077,624</b>		<b>5,346,389</b>	<b>85.39%</b>

\*Accrued interest in the amount of 81,283.31 EUR has been added to the value of bonds.

Statement of investments as of 31.12.2013 (continued)

Name	ISIN	Country	Nominal value	Maturity	Interest	Rating	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
<b>DERIVATIVES</b>													
Exchange-Forward USD/EUR SWEDBANK		EE		19.02.2014								-29,580	-0.47%
Exchange -Forward EUR/TRY SWEDBANK		EE		11.07.2014								13,736	0.22%
Exchange -Forward TRY/EUR SWEDBANK		EE		11.07.2014								-7,548	-0.12%
Exchange -Forward TRY/EUR SEB Pank		EE		11.07.2014								-34,458	-0.55%
Exchange -Forward TRY/EUR SEB Pank		EE		15.12.2014								334	0.01%
<b>DERIVATIVES TOTAL</b>												<b>-57,516</b>	<b>-0.91%</b>
Name	ISIN	Country	Starting date	Maturity	Interest	Rating	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
<b>DEPOSITS*</b>													
OVER-NIGHT DEPOSIT-SWEDBANK(EUR)		EE	31.12.2.013	1.01.2014	0.06%	A1	EUR			539,687		539,688	8.62%
DEPOSIT- LHV PANK(EUR)		EE	12.11.2013	12.02.2014	1.10%	Baa3	EUR			220,000		220,336	3.52%
DEPOSIT- LHV PANK(EUR)		EE	12.11.2013	12.05.2014	1.20%	Baa3	EUR			110,000		110,183	1.76%
<b>DEPOSITS TOTAL</b>										<b>869,687</b>		<b>870,207</b>	<b>13.90%</b>
*Accrued interest in the amount of 520.35 EUR has been added to the value of deposits.													
<b>CASH</b>													
CURRENT ACCOUNT		EE								4,001		4,001	0.06%
<b>INVESTMENT TOTAL</b>										<b>5,951,311</b>		<b>6,163,080</b>	<b>98.42%</b>
<b>OTHER ASSETS</b>													
UNSETTLED TRADES												106,012	1.69%
<b>OTHER ASSETS TOTAL</b>												<b>106,012</b>	<b>1.69%</b>
<b>TOTAL ASSETS OF THE FUND</b>										<b>5,951,311</b>		<b>6,269,093</b>	<b>100.11%</b>
<b>LIABILITIES</b>												<b>-6,889</b>	<b>-0.11%</b>
<b>NET ASSETS OF THE FUND</b>												<b>6,262,204</b>	<b>100.00%</b>

**STATEMENT OF COMMISSIONS**

In EUR

10.07.2012 - 31.12.2013

	<b>Number of transactions</b>	<b>Volume of transactions</b>	<b>Total commissions paid</b>	<b>Weighted average fee</b>
AS SEB Pank	37	5,346,614	-	0.00%
Citigroup Global Markets Ltd	2	405,041	-	0.00%
DNB Nord	1	24,762	-	0.00%
Erste Group Bank AG	13	2,017,092	-	0.00%
First Financial Brokerage House	1	50,581	252	0.50%
Avaron funds	20	2,210,234	-	0.00%
Nomura International Plc	1	149,002	-	0.00%
Raiffeisen banka a.d.	2	256,196	-	0.00%
Unicredit Bank AG London	3	344,746	-	0.00%
OTHER	2	701,496	-	0.00%
<b>TOTAL</b>	<b>82</b>	<b>11,505,764</b>	<b>252</b>	<b>0.00%</b>

*Fund executes all securities transactions at net price. In acquisition the commission fee is included in the acquisition cost and in disposal the commission is deducted from the sale amount.*

*Under "OTHER" transactions for takeover bids, liquidation, and for the rights of subscriptions are shown.*

[Translation from Estonian original]

## INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholders of Avaron Eastern Europe Fixed Income Fund and the Fund Manager:

We have audited the accompanying annual report (pages 4 to 28) of Avaron Eastern Europe Fixed Income Fund, which comprises the financial statements, the investments report and the statement of transaction fees and commissions. The financial statements comprise the balance sheet as at 31 December 2013, the income statement for the year then ended, the statement of changes in the fund's net assets, statement of cash flows, a summary of significant accounting policies and other explanatory notes.

### *Fund Manager Management Board's Responsibility for the Fund's Annual Report*

Management Board of the Fund Manager AS Avaron Asset Management is responsible for the preparation and fair presentation of these annual report in accordance with Estonian Accounting Act, Investment Funds Act and its fair presentation in accordance with decree no 21 by the Minister of Finance „The requirements for annual reports of investment funds” and for such internal control as the Management Board of the Fund Manager determines is necessary to enable the preparation of the annual report of the fund that is free from material misstatement, whether due to fraud or error.

### *Certified Auditor's Responsibility*

Our responsibility is to express an opinion on this annual report of the fund based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual report of the fund is free from material misstatement.

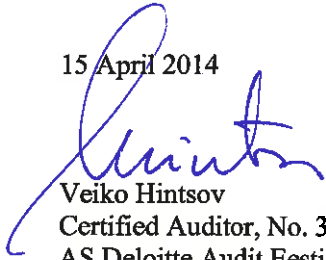
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report of the fund. The procedures selected depend on the certified auditor's judgment, including the assessment of the risks of material misstatement of the annual report of the fund, whether due to fraud or error. In making those risk assessments, the certified auditor considers internal control relevant to the entity's preparation and fair presentation of the annual report of the fund in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board of the Fund Manager, as well as evaluating the overall presentation of the annual report of the fund.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the annual report of the fund presents fairly, in all material respects, the financial position of Avaron Eastern Europe Fixed Income Fund as at 31 December 2013, and of the financial performance for the financial year then ended, investments and commission fees in accordance with Estonian Accounting Act, Investment Funds Act and decree no 21 by the Minister of Finance „The requirements for annual reports of investment funds”.

15 April 2014



Veiko Hintsov  
Certified Auditor, No. 328  
AS Deloitte Audit Eesti  
License No. 27