

To the Investors of Avaron Emerging Europe Fund

September 1<sup>st</sup>, 2016

**Avaron Emerging Europe Fund New Rules and Prospectus, valid from September 12<sup>th</sup>, 2016**

Hereby we, AS Avaron Asset Management (hereinafter **the Management Company** or **Avaron**) would like to inform you that Estonian FSA approved Avaron Emerging Europe Fund (hereinafter **the Fund**) new fund rules and prospectus. The new rules and prospectus will become valid from September 12<sup>th</sup>, 2016.

The following changes to the fund rules are significant from an investor perspective:

1. Adding Greece to our investment universe. We have added Greece, which became part of the MSCI Emerging Europe indices, to our list of countries the fund can invest in. We aim to take on Greek exposure during September. The fund rules were changed so that in the future, should any country in Europe be added to the index, it will automatically be included into our investment universe.
2. Better definition of instruments that fall under investment fund limit, investment funds capped at 10%. The Fund may not invest into any other Avaron managed funds.
3. Widening the list of instruments that can be used as underlying securities for derivative transactions to include all indices of our investment universe. Stating that the Fund may not take short positions, except in FX.
4. Removing redemption penalty of 1.5% in case of single investor redemptions above 10% of the Fund assets.
5. To protect the assets of existing Fund investors we have added a possibility (not an obligation) for Avaron to postpone the trade date for one day for redeeming investors in case a single investor redeems over 5% and for two days in case over 10% of the Fund assets within one day, i.e. first 5% receives trade date of T, second 5% T+1 and anything over 10% T+3.
6. To ensure the Fund liquidity we have added a possibility (again not an obligation for Avaron) to postpone a value date of up to 10 days (T+10) in case all investor redemptions total over 5% per day.
7. We have amended the list of costs that can be paid on behalf of the Fund, adding costs for translation and printing of fund rules and prospectus, state fees and distribution costs. However, the aim is to continue to keep the TER (excluding management fees) at around 30bps.
8. Most of the other changes made in the rules and prospectus were aimed to improve the readability of the text.

As we consider the above changes significant to investors, we enable any investor to exit the Fund up to September 11<sup>th</sup> at NAV, i.e. without paying any redemption fee (concerns only unit A). Below we have described the changes made to Fund rules point by point:

- 3.2. Greece, which has been listed as an emerging country since end 2013, has been added to the Fund's investment universe. To be more flexible in the future, we have added all the European countries of MSCI Emerging Markets and Frontier Markets to our investment region. The following countries were part of the index at the time of amending the Fund rules: Czech Republic, Greece, Hungary, Poland, Russia, Turkey, Bulgaria, Croatia, Estonia, Lithuania, Romania, Serbia, Slovenia, Bosnia and Herzegovina and Ukraine. On top, the Fund can invest in

Latvia, Slovakia, Macedonia, Albania, Montenegro and Moldova. However, we have stated in the Fund rules that the Fund cannot invest into Russia.

We defined the term of “Substantial business interest” - if more than 40% of the company’s turnover, cost base, number of employees, operating profit or net profit is derived from Emerging Europe countries.

- 4.3.1.3. Added the conditions the money market instrument shall comply with.
- 4.4. Specified the conditions investment funds must meet to invest in.
- 4.5.2.4. Specified the financial indices, incl. all MSCI, FTSE and other securities indices that reflect price movements of Emerging Europe, that are allowed as underlying for derivative instruments.
- 4.5.2.5. Specified the currencies (currencies of Emerging Europe countries or currencies in which securities are listed) in which the derivative instruments underlying may be. This enables to hedge all the currencies as well as currencies of the securities the Fund can invest in, but are listed outside the Emerging Europe region.
- 4.7.4. and 4.7.5. The Fund may not own nor acquire qualifying holdings and shall not be a partner of a general partner or a general partner of a limited partnership and invest into related group companies.
- 4.7.4. It is prohibited to own units of other funds managed by the Management Company (Avaron). Although the right exists today, no Avaron managed fund units have ever been owned by the Fund.
- 3. and 4. The risk limits set shall be calculated on the basis of the net asset value of the Fund instead of total assets of the Fund. This change is more stringent than the legislation enables, but takes into account the Fund’s liabilities and facilitates the calculations.
- 5.3. Deleted the I and R Units of Quorum Emerging Europe. Cooperation with Quorum to whitelable the Fund was terminated at the end of 2013.
- 5.10 Specified that the Fund’s governance structure does not include a general meeting of unit-holders resulting in no voting rights nor right to participate in the management for the unit-holders. This article is just for information and has been in force since the start of the Fund.
- 6.6 Inform investors of the certain conditions for the net asset value to be recalculated. The detailed condition are set in the NAV procedure, already valid.
- 7.1.4. An exception is added where the Management Company has the right to split single investor large redemption orders and postpone the trade date. Avaron has the right but not an obligation to split redemption and conversion orders should a single investor redeem over 5% of the Fund NAV per day as follows: the first 5% receives T as a trade date, the next 5% receives T+1 and anything above 10% may receive T+2 as a trade date. The purpose of Avaron right to case by case implement this point is to avoid fast in – fast out investors and potential manipulations to the Fund, which might harm the interests of other unit-holders. Detailed Trade date definition should help the investor to better decide how to redeem his/her units.
- 7.1.5 Specified the current clauses 7.10 and 7.13 and detailed the rules for postponing the payment date in case total redemption or conversion orders exceed 5% of the Fund NAV. The postponing of payment date was reduced from T+20 to T+10 and the redemption penalty of 1.5% for single investor orders exceeding 10% of the Fund NAV was annulled.
- 7.1.7. The maximum subscription fee is reduced from 5% to 2%. It is specified that in addition to E Units there will be no subscription fee also for A, B and C Units.
- 7.1.8. The redemption fee will be abolished. Current fee maximum is 1.5% and is set only to the A Units. The redemption fees were bared by the investor.
- 7.2.2. The initial subscription amount for E Units shall be declined from 3M to 1M euros. Furthermore, the Fund Manager shall have the right to decrease the initial subscription amount for both C and E Units.

- 7.6.2.3. C Units can now be switched to D Units.
- 8.2. Inform the unit-holder of the requirements set for the Management Company of the Fund.
- 8.9. Earlier Fund rules specified that Avaron may own up to 5% of the Fund NAV. Now we have abolished that limit.
- 10.1.4. The possibility to pay performance fees on D Units is abolished.
- 10.5.1., 10.5.5., 10.6. and 10.7. The list of possible expenses covered from the Fund has been amended according to the [Estonian Investment Funds' Act](#) section 150-1 sub-section 2 point 3. The expenses include supervision fees and state fees as well as legal fees etc. The Fund Manager shall prevent incurring non-Fund related expenses to the Fund. To prevent a disproportionately large increase in costs, the maximum level of total fees and expenses paid on behalf of the Fund has been decreased from 15% to 5% of the weighted average market value of the Fund's assets per year (TER max 5%).
- 12.5.-12.6. Due dates have been added to the information to be made public for the investors. Also the notification of the general public is determined.
- 13. More details on the process of changing the Fund rules and the legislative requirements are described.
- Appendix 1. The list of indices allowed as underlying for derivative instruments for the Fund's investment regions, valid at the time of amending the Fund rules, are described in clause 1 and currencies in clause 2.

Sincerely,

Kristel Kivinurm-Priisalm  
Member of the Management Board  
AS Avaron Asset Management