









## CONFIRMATION OF ANNUAL FINANCIAL STATEMENTS OF 2016

The Management Board of the Fund Management Company has prepared the annual Financial Statements of Avaron Emerging Europe Fund on 28 April 2017.

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 Emerging Europe Fund. The Management Board considers Avaron Emerging Europe Fund to carry its activities as a going concern.

The annual Financial Statements of Avaron Emerging Europe 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	28/04/2017	/Signed digitally/
Valdur Jaht Member of the Management Board of the Fund Management Company / Fund manager	28/04/2017	/Signed digitally/
Peter Priisalm Fund manager	28/04/2017	/Signed digitally/

## FINANCIAL STATEMENTS

### BALANCE SHEET

In EUR

<b>ASSETS</b>	<b>Note</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
Cash and cash equivalents	3	12,019,662	7,687,081
Financial assets at fair value through profit or loss:	4		
Shares and units		48,539,737	34,696,222
Bonds		2,608,603	2,492,591
Receivables and prepayments	4; 6	26,223	26,969
<b>TOTAL ASSETS</b>		<b>63,194,225</b>	<b>44,902,863</b>
<b>LIABILITIES</b>			
<b>Other financial liabilities</b>			
Payables to the management company	4; 7	53,471	693,615
Payables to the depository	4	26,879	12,775
Other liabilities	4	1,416	6,042
<b>TOTAL LIABILITIES (except net assets attributable to holders)</b>		<b>81,766</b>	<b>712,432</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS</b>		<b>63,112,459</b>	<b>44,190,431</b>









## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED

The annual financial statements of Avaron Emerging Europe Fund for 2016 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 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 IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- 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 - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).







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 sale amount of securities includes commissions related to the transaction.

### **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**

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 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 five 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 group companies. 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 stock-picking investment style with focus on company-specific analysis. Company analysis comprises 3 phases: quantitative screening, qualitative analysis and valuation work. During the quantitative phase we conduct analysis of company liquidity and basic financial statements. Should a company fulfil our criteria, we will interview the management during qualitative analysis phase. During a management interview, among other things, we study the company's business model, strategy, growth prospects, transparency, dividend policy and compliance to UN Principles for Responsible Investing. If a company has successfully passed the qualitative phase, we develop a financial model on the company and determine its target price. Companies with highest upside to target price adjusted to liquidity, transparency, business model cyclicalities and other risk parameters are invested in.

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. The Fund Management Company actively follows financial results of companies and makes relevant changes in the Fund portfolio based on companies' upside to target prices.

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>31/12/2016</b>	<b>% of NAV</b>	<b>31/12/2015</b>	<b>% of NAV</b>
Cash and cash equivalents	12,019,662	19.04%	7,687,081	17.40%
Corporate bonds	2,608,603	4.13%	2,492,591	5.64%
Receivables and prepayments	26,223	0.04%	26,969	0.06%
<b>TOTAL</b>	<b>14,654,488</b>	<b>23.21%</b>	<b>10,206,641</b>	<b>23.10%</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 in Standard & Poor's rating scale in EUR:

	<b>31/12/2016</b>	<b>% of NAV</b>	<b>31/12/2015</b>	<b>% of NAV</b>
BB	2,608,603	4.13%	2,357,903	5.34%
No rating	-	-	134,688	0.30%
<b>TOTAL</b>	<b>2,608,603</b>	<b>4.13%</b>	<b>2,492,591</b>	<b>5.64%</b>

The Fund's cash and cash equivalents are held with Fund's depository Swedbank, which is rated AA- as of 17/06/2016.

### 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 there is no market (buyer) 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 1,000,000 EUR that it can access to meet short-term liquidity needs. These resources have not been used as of 31/12/2016.

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

	<b>Up to 3 days</b>		<b>Up to 1 month</b>		<b>Over 1 month</b>	
	<b>31/12/2016</b>	<b>31/12/2015</b>	<b>31/12/2016</b>	<b>31/12/2015</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
Payables to the management company	-	-	53,471	693,615	-	-
Payables to the depository	-	-	26,879	12,775	-	-
Payables for redeemed units	-	3,437	-	-	-	-
Other liabilities	-	-	-	-	1,416	2,605
Assets attributable to holders	-	-	-	-	63,112,459	44,190,431
<b>TOTAL</b>	<b>-</b>	<b>3,437</b>	<b>80,350</b>	<b>706,390</b>	<b>63,113,875</b>	<b>44,193,036</b>

Positions that may take more than 10 business days to liquidate based on six months average trading volume (30% of trading volume).

Instrument	Country	Sector	% of NAV	
			31/12/2016	31/12/2015
KRKA	Slovenia	Health Care	3.46%	3.41%
ATRIUM EUROPEAN REAL ESTATE	Austria	Real Estate	3.31%	1.90%
BRD GR SOCIETE GENERALE SA RON	Romania	Financials	3.19%	4.66%
ANADOLU HAYAT EMEKLILIK SHARE	Turkey	Insurance	2.40%	-
PEGAS NONWOVENS CZK	Luxembourg	Consumer Discretionary	1.70%	-
TALLINK GRUPP	Estonia	Consumer Discretionary	1.67%	2.24%
WIRTUALNA POLSKA HOLDING SA	Poland	IT	1.38%	-
TRANSELECTRICA SA	Romania	Utilities	1.33%	2.28%
NUCLEARELECTRICA SA	Romania	Utilities	0.94%	1.80%
ADVANCE TERRAFUND SHARE	Bulgaria	Real Estate	0.68%	0.77%
BULGARIA REAL ESTATE FUND	Bulgaria	Real Estate	0.67%	0.65%
PRIME CAR MANAGEMENT SA	Poland	Industrial	0.51%	0.85%
KOMERCIJALNA BANKA AD SKOPJE S	Macedonia	Financials	0.24%	0.28%
TELEKOM SPRSKE AD BANJA LUKA	Bosnia & Herzegovina	Telecom	0.19%	0.44%
SNT GAZE NATURALE TRANSGAZ SA	Romania	Energy	-	1.82%
LHV GROUP SUBORDIN 29.10.25	Estonia	Financials	-	0.30%
<b>TOTAL</b>			<b>21.66%</b>	<b>21.40%</b>

### 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 breakdown of Fund's assets in EUR:

	<b>% of Fund's</b>		<b>% of Fund's</b>	
	<b>31/12/2016</b>	<b>assets</b>	<b>31/12/2015</b>	<b>assets</b>
EUR	24,208,367	38.31%	18,139,033	40.40%
TRY	11,938,418	18.89%	4,971,270	11.07%
RON	10,463,420	16.56%	7,970,390	17.75%
PLN	7,581,768	12.00%	6,274,343	13.97%
CZK	6,302,729	9.97%	4,589,515	10.22%
HUF	975,785	1.54%	1,800,541	4.01%
BGN	883,663	1.40%	676,394	1.51%
HRK	537,597	0.85%	-	-
MKD	152,472	0.24%	123,313	0.27%
BAM	122,428	0.19%	192,301	0.43%
RSD	27,578	0.04%	165,763	0.37%
<b>TOTAL</b>	<b>63,194,225</b>	<b>100.00%</b>	<b>44,902,863</b>	<b>100.00%</b>

*Currency risk sensitivity analysis*

Fund's net asset value would have been affected by the weakening of foreign currencies against EUR on 31 December 2016. 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. Analysis for 31 December 2015 has been made with using the same assumptions.

The impact on net assets attributable to holders and net income:

	<b>31/12/2016</b>			<b>31/12/2015</b>		
	<b>Currency</b>	<b>Possible impact</b>	<b>Currency's</b>	<b>Currency</b>	<b>Possible impact</b>	<b>Currency's %</b>
	<b>wakening</b>		<b>% of NAV</b>	<b>wakening</b>	<b>impact</b>	<b>of NAV</b>
TRY	-50%	-6,012,434	18.92%	-46%	-2,086,796	11.25%
RON	-13%	-1,352,992	16.58%	-13%	-1,170,321	18.04%
PLN	-17%	-1,282,846	12.01%	-23%	-910,442	14.20%
CZK	-16%	-1,010,246	9.99%	-19%	-1,016,322	10.39%
HUF	-20%	-196,887	1.55%	-20%	-269,154	4.07%
HRK	-11%	-61,143	0.85%	-	-	-
BGN	-5%	-43,255	1.40%	-5%	-33,765	1.53%
MKD	-11%	-16,169	0.24%	-11%	-10,804	0.28%
RSD	-23%	-6,421	0.04%	-28%	-43,253	0.38%
BAM	-5%	-5,925	0.19%	-4%	-9,417	0.44%
<b>TOTAL</b>		<b>-9,988,316</b>	<b>61.77%</b>		<b>-5,550,275</b>	<b>60.56%</b>

*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>31/12/2016</b>	<b>% of NAV</b>	<b>31/12/2015</b>	<b>% of NAV</b>
Financials	21,354,276	33.83%	16,909,418	38.26%
Utilities	6,762,706	10.71%	5,890,733	13.33%
Real estate	6,467,320	10.25%	5,186,572	11.74%
Consumer Discretionary	3,595,997	5.70%	1,938,415	4.39%
Health Care	3,063,179	4.85%	2,091,643	4.73%
Energy	3,041,049	4.82%	4,152,634	9.40%
Industrial	1,660,651	2.63%	827,096	1.87%
IT	1,544,068	2.45%	-	-
Insurance	1,513,047	2.40%	-	-
Consumer Staples	1,508,778	2.39%	-	-
Telecom	637,269	1.01%	192,302	0.44%
<b>TOTAL</b>	<b>51,148,340</b>	<b>81.04%</b>	<b>37,188,813</b>	<b>84.16%</b>

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

	<b>31/12/2016</b>	<b>% of NAV</b>	<b>31/12/2015</b>	<b>% of NAV</b>
Turkey	11,935,925	18.91%	4,971,270	11.25%
Romania	10,463,420	16.58%	7,970,391	18.04%
Austria	10,390,145	16.47%	8,269,928	18.71%
Poland	6,651,296	10.54%	6,274,343	14.20%
Czech Rep.	5,226,977	8.28%	4,108,035	9.30%
Slovenia	2,181,279	3.46%	1,508,337	3.41%
Luxembourg	1,075,752	1.70%	481,480	1.09%
Estonia	1,055,632	1.67%	1,125,571	2.55%
Bulgaria	848,390	1.34%	627,317	1.42%
Hungary	529,782	0.84%	1,370,764	3.10%
Croatia	514,842	0.82%	-	-
Macedonia	152,472	0.24%	123,313	0.28%
Bosnia & Herzegovina	122,428	0.19%	192,301	0.43%
Serbia	-	-	165,763	0.38%
<b>TOTAL</b>	<b>51,148,340</b>	<b>81.04%</b>	<b>37,188,813</b>	<b>84.16%</b>

### *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. Analysis as per 31 December 2015 has been made with using the same assumptions.

	<b>probability</b>	<b>+/- possible change of Fund's NAV during year</b>	
		<b>2016</b>	<b>2015</b>
$\sigma$	68.27%	13.95%	14.23%
$2\sigma$	95.45%	27.90%	28.46%
$3\sigma$	99.73%	41.85%	42.69%

**NOTE 3. CASH AND CASH EQUIVALENTS****Cash and cash equivalents by currency**

	<b>31/12/2016</b>	<b>% of NAV, converted into EUR</b>	<b>31/12/2015</b>	<b>% of NAV, converted into EUR</b>
EUR	10,555,089	16.72%	7,208,227	16.31%
PLN	4,099,563	1.47%	-	-
HUF	138,091,096	0.71%	135,964,330	0.98%
BGN	68,990	0.06%	95,989	0.11%
RSD	3,407,310	0.04%	-	-
HRK	172,033	0.04%	-	-
TRY	9,260	0.00%	-	-
<b>TOTAL</b>		<b>19.04%</b>		<b>17.40%</b>

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

In EUR

31/12/2016

	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>									
Cash and cash equivalents	-	-	-	12,019,662	-	-	-	-	-
Shares and units	48,539,737	-	-	-	-	-	-	-	-
Bonds	2,608,603	-	-	-	-	-	-	-	-
Dividend receivable	-	-	-	-	7,209	-	-	-	-
Dividend tax reclaims	-	-	-	-	14,112	-	-	-	-
Receivables for units subscribed	-	-	-	-	4,902	-	-	-	-
<b>LIABILITIES</b>									
Payables to the management company	-	-	-	-	-	-	-	53,471	-
Payables to the depository	-	-	-	-	-	-	-	26,879	-
Other liabilities	-	-	-	-	-	-	-	1,416	-
Net assets attributable to holders	-	-	-	-	-	-	63,112,459	-	-
<b>TOTAL</b>	<b>51,148,340</b>	<b>-</b>	<b>-</b>	<b>12,019,662</b>	<b>26,223</b>	<b>-</b>	<b>63,112,459</b>	<b>81,766</b>	<b>-</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.

In EUR

31/12/2015

	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>									
Cash and cash equivalents	-	-	-	7,687,081	-	-	-	-	-
Shares and units	34,696,222	-	-	-	-	-	-	-	-
Bonds	2,492,591	-	-	-	-	-	-	-	-
Receivables for units subscribed	-	-	-	-	10,725	-	-	-	-
Dividend receivable	-	-	-	-	10,461	-	-	-	-
Dividend tax reclaims	-	-	-	-	5,783	-	-	-	-
<b>LIABILITIES</b>									
Payables to the management company	-	-	-	-	-	-	-	693,615	-
Payables to the depository	-	-	-	-	-	-	-	12,775	-
Payments on redemption of units*	-	-	-	-	-	-	-	3,437	-
Other liabilities*	-	-	-	-	-	-	-	2,605	-
Net assets attributable to holders	-	-	-	-	-	-	44,190,431	-	-
<b>TOTAL</b>	<b>37,188,813</b>	-	-	<b>7,687,081</b>	<b>26,969</b>	-	<b>44,190,431</b>	<b>712,432</b>	-

\* Liabilities are carried in the balance sheet under "Other liabilities"

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

	01/01/2016- 31/12/2016	01/01/2015- 31/12/2015
<b>Net gain/loss from financial assets at fair value through profit or loss</b>		
<b>From shares and units</b>		
Sales profit/(-loss)	1,226,391	1,361,188
Unrealised profit /(-loss)	-722,680	-329,301
<b>From bonds</b>		
Sales profit/(-loss)	4,042	120,898
Unrealised profit /(-loss)	241,602	282,834
<b>From derivative instruments</b>		
Sales profit/(-loss)	-	27,257
Unrealised profit /(-loss)	-	-
<b>Total net gain/loss</b>	<b>749,355</b>	<b>1,462,876</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 and IFRS 13 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. RECEIVABLES AND PREPAYMENTS

In EUR

	31/12/2016	31/12/2015
Dividend tax reclaims	14,112	5,783
Dividend receivable	7,209	10,461
Receivables for units subscribed	4,902	10,725
<b>TOTAL</b>	<b>26,223</b>	<b>26,969</b>

## NOTE 7. 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 in EUR as follows:

	31/12/2016	31/12/2015
<b>Fund Management Company</b>		
Paid management and performance fees	957,685	1,205,373
Units bought	28,100	15,167
Units sold	28,100	15,167
<b>TOTAL</b>	<b>1,013,885</b>	<b>1,235,707</b>

The balances outstanding with related parties were as follows:

	31/12/2016	31/12/2015
<b>Fund Management Company</b>		
Management and performance fee payable	53,471	693,615

Shareholders of the Fund Management Company owned the units of Avaron Emerging Europe Fund 43,704 EUR in market value as of 31/12/2016 (31/12/2015: 43,447 EUR).

## NOTE 8. OTHER INFORMATION

### *Total expense ratio (TER)*

The total expense ratios (including management, performance fees, depository fees and other fees) of different unit classes are set out below. Total expense ratios are on annual basis.

	TER without performance fees	TER with performance fees
A units	2.03%	2.03%
B units	1.53%	1.53%
C units	1.53%	1.53%
D units	2.28%	2.28%
E units	1.13%	3.70%

### *Portfolio turnover rate*

The Fund's portfolio turnover ratio calculated by taking the lesser of purchases or sales and dividing by average monthly net assets amounted to 17.7% in 2016 (22.2% in 2015).

Adjusted to the Fund inflows and outflows the Fund's portfolio turnover rate amounted to -10.2% in 2016 (-10.5% in 2015).

$$\text{Portfolio Turnover Rate}\% = \frac{(\text{Total 1 EUR} - \text{Total 2 EUR})}{\text{Average net assets in EUR}} * 100$$

Where

$$\begin{aligned} \text{Total 1} &= \sum \text{securities purchases} + \sum \text{securities sales} \\ \text{Total 2} &= \sum \text{units issued} + \sum \text{units redeemed} \end{aligned}$$

**STATEMENT OF INVESTMENTS**

In EUR as of 31/12/2016

Name	ISIN	Country	Nominal value	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>SHARES</b>										
<b>SHARES LISTED ON STOCK EXCHANGE:</b>										
KOMERCNI BANKA	CZ0008019106	CZ	100.00	CZK	120,335	33.46	4,026,534	32.73	3,938,916	6.24%
ERSTE GROUP BANK AG	AT0000652011	AT	0.00	EUR	131,437	21.15	2,780,334	27.83	3,657,235	5.79%
SC FONDUL PROPRIETATEA SA	ROFPTAACNOR5	RO	0.85	RON	20,728,396	0.17	3,495,702	0.18	3,627,595	5.75%
PKO BANK POLSKI	PLPKO0000016	PL	1.00	PLN	374,174	8.85	3,310,680	6.39	2,389,808	3.79%
KRKA	SI0031102120	SI	0.00	EUR	41,234	59.27	2,443,758	52.90	2,181,279	3.46%
ATRIUM EUROPEAN REAL ESTATE	JE00B3DCF752	AT	0.00	EUR	531,430	3.85	2,043,639	3.93	2,088,520	3.31%
YAPI VE KREDI BANKASI SHARE	TRAYKBNK91N6	TR	1.00	TRY	2,231,030	1.09	2,437,985	0.92	2,059,874	3.26%
IMMOFINANZ AG	AT0000809058	AT	0.00	EUR	1,098,644	2.17	2,384,724	1.85	2,035,787	3.23%
BRD GR SOCIETE GENERALE SA RON	ROBRDBACNOR2	RO	1.00	RON	769,654	2.16	1,662,027	2.62	2,012,787	3.19%
BANK PEKAO SA	PLPEKAO00016	PL	1.00	PLN	70,400	30.24	2,128,841	28.55	2,010,105	3.18%
TURKIYE HALK BANKASI	TRETHAL00019	TR	1.00	TRY	747,343	3.2	2,392,749	2.51	1,878,919	2.98%
OMV PETROM SA (RON)	ROSNPPACNOR9	RO	0.10	RON	28,686,098	0.05	1,393,856	0.06	1,648,155	2.61%
ANADOLU HAYAT EMEKLILIK SHARE	TRAANHYT91O3	TR	1.00	TRY	1,130,980	1.51	1,705,335	1.34	1,513,047	2.40%
BIM BIRLESIK MAGAZALAR AS	TREBIMM00018	TR	1.00	TRY	114,390	15.59	1,782,999	13.19	1,508,778	2.39%
IS GAYRIMENKUL YATIRIM ORTAK	TRAISSGYO91Q3	TR	1.00	TRY	3,559,310	0.37	1,330,867	0.42	1,494,623	2.37%
FORD OTOMOTIV SANAYI AS	TRAOTOSN91H6	TR	1.00	TRY	177,928	8.62	1,534,474	8.23	1,464,613	2.32%
SGN ROMGAZ SA	ROSNGNACNOR3	RO	1.00	RON	253,100	7.42	1,877,269	5.50	1,392,894	2.21%
TAV HAVALIMANLARI HOLDING	TRETAVH00018	TR	1.00	TRY	354,786	4.33	1,537,909	3.78	1,339,878	2.12%
CESKE ENERGETICKE ZAVODY AS	CZ0005112300	CZ	100.00	CZK	76,691	22.29	1,709,505	15.90	1,219,704	1.93%
PEGAS NONWOVENS CZK	LU0275164910	LU	1.24	CZK	37,822	24.96	944,096	28.44	1,075,752	1.70%
TALLINK GRUPP	EE3100004466	EE	0.54	EUR	1,156,223	0.95	1,100,526	0.91	1,055,632	1.67%
WIRTUALNA POLSKA HOLDING SA	PLWRTPL00027	PL	0.05	PLN	71,339	11.23	801,099	12.17	867,875	1.38%
TRANSELECTRICA SA	ROTSSELACNOR9	RO	10.00	RON	130,116	5.45	709,183	6.43	836,372	1.33%
LOGO YAZILIM SANAYI VE TICAR	TRALOGOW91U2	TR	1.00	TRY	46,220	14.25	658,464	14.63	676,193	1.07%
NUCLEARELECTRICA SA	ROSNNEACNOR8	RO	10.00	RON	561,100	2.04	1,145,179	1.06	593,499	0.94%
ALIOR BANK SA	PLALIOR00045	PL	10.00	PLN	46,929	11.75	551,278	12.30	577,199	0.91%
RICHTER GEDEON NYRT	HU0000123096	HU	100.00	HUF	26,414	12.2	322,157	20.06	529,782	0.84%
HRVATSKI TELEKOM DD	HRHT00RA0005	HR	0.00	HRK	23,027	18.79	432,588	22.36	514,842	0.82%
ENERGA SA	PLENERG00022	PL	10.92	PLN	235,080	3.09	726,709	2.07	485,537	0.77%
MED LIFE SA	ROMEDLACNOR6	RO	0.00	RON	60,820	5.76	350,090	5.79	352,118	0.56%
PRIME CAR MANAGEMENT SA	PLPRMCM00048	PL	2.00	PLN	42,827	10.44	446,972	7.49	320,772	0.51%
KOMERCIJALNA BANKA AD SKOPJE S	MKKMBS101019	MK	1,000.00	MKD	3,286	62.23	204,491	46.40	152,472	0.24%
TELEKOM SPRSKE AD BANJA LUKA	BA100TLKMRA2	BA	1.00	BAM	233,608	0.74	172,174	0.52	122,428	0.19%
MONETA MONEY BANK AS	CZ0008040318	CZ	1.00	CZK	22,321	2.78	61,991	3.06	68,357	0.11%
<b>SHARES TOTAL</b>							<b>50,606,184</b>		<b>47,691,347</b>	<b>75.57%</b>

**Statement of investments as of 31/12/2016 (continued)**

Name	ISIN	Country	Nominal value	Fund Management Company	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>FUNDS:</b>											
<b>REAL ESTATE FUNDS</b>											
ADVANCE TERRAFUND SHARE	BG1100025052	BG	1.00	KAROLL FINANCE	BGN	400,594	0.66	265,179	1.07	428,059	0.68%
BULGARIA REAL ESTATE FUND	BG1100001053	BG	1.00	BULGARIA REAL ESTATE FI	BGN	362,649	0.52	189,792	1.16	420,331	0.67%
<b>REAL ESTATE FUNDS TOTAL</b>								<b>454,971</b>		<b>848,390</b>	<b>1.35%</b>
<b>SHARES AND FUNDS TOTAL</b>								<b>51,061,155</b>		<b>48,539,737</b>	<b>76.91%</b>

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>													
RAIFFEISEN BK 6.625% 18.05.21	XS0619437147	AT	100,000.00	18/05/21	6.625%	Ba2	EUR	1,600,000	93.95	1,503,200	111.27	1,845,961	2.92%
RAIFFEISEN BK 6.000% 16.10.23	XS0981632804	AT	100,000.00	16/10/23	6.000%	Ba2	EUR	700,000	82.4	576,800	107.72	762,642	1.21%
<b>BONDS TOTAL</b>										<b>2,080,000</b>		<b>2,608,603</b>	<b>4.13%</b>

\* Accrued interest in the amount of 74,263.02 EUR has been added to the value of bonds

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>CASH</b>													
CURRENT ACCOUNT		EE					EUR			10,555,089		10,555,089	16.72%
CURRENT ACCOUNT		EE					PLN			930,471		930,471	1.47%
CURRENT ACCOUNT		EE					HUF			446,002		446,003	0.71%
CURRENT ACCOUNT		EE					BGN			35,273		35,273	0.06%
CURRENT ACCOUNT		EE					RSD			27,578		27,578	0.04%
CURRENT ACCOUNT		EE					HRK			22,755		22,755	0.04%
CURRENT ACCOUNT		EE					TRY			2,493		2,493	0.00%
<b>CURRENT ACCOUNT TOTAL</b>										<b>12,019,662</b>		<b>12,019,662</b>	<b>19.04%</b>
<b>INVESTMENT TOTAL</b>										<b>65,160,817</b>		<b>63,168,002</b>	<b>100.09%</b>
<b>OTHER ASSETS</b>													
DIVIDEND TAX RECLAIMS							EUR					14,112	0.02%
DIVIDEND RECEIVABLES							EUR					7,209	0.01%
RECEIVABLES FOR UNITS SUBSCRIBED							EUR					4,902	0.01%
<b>OTHER ASSETS TOTAL</b>												<b>26,223</b>	<b>0.04%</b>
<b>TOTAL ASSETS OF THE FUND</b>										<b>65,160,817</b>		<b>63,194,225</b>	<b>100.13%</b>
<b>LIABILITIES</b>												- 81 766	-0.13%
<b>NET ASSETS OF THE FUND</b>												<b>63,112,459</b>	<b>100.00%</b>

**In EUR as of 31/12/2015**

Name	ISIN	Country	Nominal value	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>SHARES</b>										
<b>SHARES LISTED ON STOCK EXCHANGE:</b>										
KOMERCNI BANKA	CZ0008019106	CZ	500.00	CZK	15,572	174.54	2,717,976	182.94	2,848,747	6.45%
BANK PEKAO SA	PLPEKAO00016	PL	1.00	PLN	74,150	31.84	2,360,877	33.61	2,492,510	5.64%
PKO BANK POLSKI	PLPKO0000016	PL	1.00	PLN	374,174	8.85	3,310,680	6.40	2,395,450	5.42%
OMV AG	AT0000743059	AT	0.00	EUR	83,248	27.67	2,303,101	26.13	2,175,270	4.92%
SC FONDUL PROPRIETATEA SA	ROFPTAACNOR5	RO	1.00	RON	11,924,178	0.15	1,845,677	0.18	2,134,022	4.83%
BRD GR SOCIÉTÉ GÉNÉRALE SA RON	ROBRDBACNOR2	RO	1.00	RON	769,654	2.16	1,662,027	2.67	2,057,626	4.66%
IMMOFINANZ AG	AT0000809058	AT	0.00	EUR	945,394	2.20	2,075,950	2.10	1,986,273	4.49%
IS GAYRIMENKUL YATIRIM ORTAK	TRAISSGYO91Q3	TR	1.00	TRY	3,123,819	0.43	1,330,867	0.56	1,734,032	3.92%
TURKIYE HALK BANKASI	TRETHALO0019	TR	1.00	TRY	506,570	3.65	1,847,148	3.28	1,660,021	3.76%
KRKA	SI0031102120	SI	400.00	EUR	23,134	59.15	1,368,287	65.20	1,508,337	3.41%
CESKE ENERGETICKE ZAVODY AS	CZ0005112300	CZ	100.00	CZK	76,691	22.29	1,709,505	16.42	1,259,288	2.85%
SNGN ROMGAZ SA	ROSNGNACNOR3	RO	1.00	RON	195,100	8.04	1,568,703	6.01	1,172,497	2.65%
TRANSELECTRICA SA	ROTSSELACNOR9	RO	10.00	RON	156,116	5.36	836,691	6.44	1,005,475	2.28%
TALLINK GRUPP	EE3100004466	EE	0.60	EUR	1,156,223	0.95	1,100,526	0.86	990,883	2.24%
ERSTE GROUP BANK AG	AT0000652011	AT	0.00	EUR	31,530	18.56	585,149	28.91	911,532	2.06%
ATRIUM EUROPEAN REAL ESTATE	JE00B3DCF752	AT	0.00	EUR	235,000	3.79	891,189	3.57	838,950	1.90%
SNT GAZE NATURALE TRANSGAZ SA	ROTGNTACNOR8	RO	10.00	RON	13,151	41.27	542,749	61.20	804,867	1.82%
NUCLEARELECTRICA SA	ROSNNEACNOR8	RO	10.00	RON	561,100	2.04	1,145,179	1.42	795,904	1.80%
OTP BANK SHARE	HU0000061726	HU	100.00	HUF	41,520	16.95	703,770	18.97	787,457	1.78%
ENERGA SA	PLENERG00022	PL	10.92	PLN	235,080	3.09	726,709	2.96	696,044	1.58%
YAPI VE KREDI BANKASI SHARE	TRAYKBNK91N6	TR	1.00	TRY	636,310	1.20	766,463	1.04	660,272	1.49%
RICHTER GEDEON NYRT	HU0000123096	HU	100.00	HUF	33,564	12.35	414,683	17.38	583,307	1.32%
PEGAS NONWOVENS CZK	LU0275164910	LU	1.24	CZK	17,822	19.50	347,541	27.02	481,480	1.09%
FORD OTOMOTIV SANAYI AS	TRAOTOSN91H6	TR	1.00	TRY	48,800	8.46	412,995	9.55	466,052	1.05%
TURK TRAKTOR VE ZIRAAT MAKIN	TRETRK00010	TR	1.00	TRY	20,555	21.99	452,083	21.94	450,893	1.02%
PRIME CAR MANAGEMENT SA	PLPRMCM00048	PL	2.00	PLN	42,827	10.44	446,972	8.78	376,203	0.85%
BANK ZACHODNI WBK SA	PLBZ00000044	PL	10.00	PLN	4,722	60.17	284,131	66.53	314,136	0.71%
TELEKOM SPRSKE AD BANJA LUKA	BA100TLKMRA2	BA	1.00	BAM	233,608	0.74	172,174	0.82	192,301	0.44%
AIK BANKA AD	RS AIKBE79302	RS	1,900.00	RSD	10,973	34.94	383,438	15.11	165,763	0.38%
KOMERCIJALNA BANKA AD SKOPJE S	MKKMBS101019	MK	1,000.00	MKD	3,286	62.23	204,491	37.53	123,313	0.28%
<b>SHARES TOTAL</b>							<b>34,517,731</b>		<b>34,068,905</b>	<b>77.09%</b>

**Statement of investments as of 31/12/2015 (continued)**

Name	ISIN	Country	Nominal value	Fund Management Company	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>REAL ESTATE FUNDS</b>													
ADVANCE TERRAFUND SHARE	BG1100025052	BG	1.00	KAROLL FINANCE	BGN	319,964	0.56	179,926	1.06	338,629	0.77%		
BULGARIA REAL ESTATE FUND	BG1100001053	BG	1.00	BULGARIA REAL ESTATE FUND	BGN	1,087,946	0.17	189,792	0.27	288,688	0.65%		
<b>REAL ESTATE FUNDS TOTAL</b>								<b>369,718</b>		<b>627,317</b>	<b>1.42%</b>		
<b>FUNDS TOTAL</b>								<b>369,718</b>		<b>627,317</b>	<b>1.42%</b>		
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>													
RAIFFEISEN BK 6.625% 18.05.21	XS0619437147	AT	100,000.00	18/05/2021	6.625%	Ba2	EUR	1,600,000	93.95	1,503,200	102.53	1,706,175	3.86%
RAIFFEISEN BK 6.000% 16.10.23	XS0981632804	AT	100,000.00	16/10/2023	6.000%	Ba2	EUR	700,000	82.40	576,800	91.86	651,728	1.48%
LHV GROUP SUBORDIN 29.10.25	EE3300110741	EE	1,000.00	29/10/2025	6.500%		EUR	124,000	100.00	124,000	107.50	134,688	0.30%
<b>BONDS TOTAL</b>									<b>2,204,000</b>		<b>2,492,591</b>	<b>5.64%</b>	
* Accrued interest in the amount of 75,852.58 EUR has been added to the value of bonds													
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>CASH</b>													
CURRENT ACCOUNT		EE					EUR			7,208,227		7,208,227	16.31%
CURRENT ACCOUNT		EE					HUF			429,777		429,777	0.98%
CURRENT ACCOUNT		EE					BGN			49,077		49,077	0.11%
<b>CURRENT ACCOUNT TOTAL</b>									<b>7,687,081</b>		<b>7,687,081</b>	<b>17.40%</b>	
<b>INVESTMENT TOTAL</b>									<b>44,778,530</b>		<b>44,875,894</b>	<b>101.55%</b>	

**Statement of investments as of 31/12/2015 (continued)**

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>OTHER ASSETS</b>													
RECEIVABLES FOR UNITS SUBSCRIBED												10,725	0.02%
DIVIDEND RECEIVABLES												10,461	0.02%
DIVIDEND TAX RECLAIMS												5,783	0.01%
<b>OTHER ASSETS TOTAL</b>												<b>26,969</b>	<b>0.06%</b>
<b>TOTAL ASSETS OF THE FUND</b>										<b>44,778,530</b>		<b>44,902,863</b>	<b>101.61%</b>
LIABILITIES												-712,432	-1.61%
<b>NET ASSETS OF THE FUND</b>												<b>44,190,431</b>	<b>100.00%</b>

## STATEMENT OF COMMISSIONS

In EUR

01/01/2016-31/12/2016

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
Teb Yatirim Menkul Degerler A.S.	76	10,518,898	13,663	0.13%
Erste Group Bank AG	27	7,467,492	7,499	0.10%
Raiffeisen Centrobank AG	39	4,966,498	11,000	0.22%
PKO Bank Polski	9	2,228,632	2,227	0.10%
Wood And Company Financial Services, a.s.	10	2,103,632	3,127	0.15%
Dom Maklerski Mbanku	6	1,471,677	1,734	0.12%
Kepler Cheuvreux	6	1,450,309	1,452	0.10%
BGC Partners Turkey	11	1,435,249	1,720	0.12%
Interkapital Vrijednosni Papiri D.O.O.	27	1,172,387	2,340	0.20%
ING Securities S.A.	4	792,435	792	0.10%
AS Seb Pank	4	129,907	-	-
Karoll AD	2	85,253	340	0.40%
<i>Other</i>	5	159,757	-	-
<i>Avaron Clients</i>	1	8,812	-	-
<b>TOTAL</b>	<b>227</b>	<b>33,990,938</b>	<b>45,894</b>	<b>0.14%</b>

01/01/2015 - 31/12/2015

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
Erste Group Bank AG	50	7,357,666	7,361	0.10%
PKO Bank Polski	13	4,041,215	4,275	0.11%
Wood and Company Financial Services, a.s.	9	2,437,090	2,556	0.10%
KBC SECURITIES NV	7	2,150,966	4,953	0.23%
TEB Yatirim Menkul Degerler A.S.	10	2,081,790	2,705	0.13%
AS SEB Pank	5	2,071,606	-	-
Concorde Securities	2	1,941,441	1,552	0.08%
DNB Nord	2	1,573,189	-	-
Unicredit Bank AG London	2	1,121,467	-	-
Swedbank AS	4	999,024	1,501	0.15%
Raiffeisen Centrobank AG	5	828,663	1,428	0.17%
Kepler Cheuvreux	2	718,282	718	0.10%
Crossing with Avaron Clients	1	6,223	-	-
<i>Other</i>	2	143,000	-	-
<b>TOTAL</b>	<b>114</b>	<b>27,471,620</b>	<b>27,048</b>	<b>0.10%</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" public offerings and transactions regarding corporate events are shown.*

## REPORT ON REMUNERATION OF THE FUND MANAGEMENT COMPANY

The remuneration principles of Management Board members, fund managers and risk-takers are set in the Company's Remuneration Policy. The remuneration of the identified staff consist of fixed and variable remuneration. The total remuneration is based on local labour market conditions, and are designed so as to achieve a reasonable balance between salary's fixed and variable components.

Avaron's fund managers and risk-takers receive a fixed salary. Bonuses depend on Avaron's long-term goals, the Company's sustainability and employees' personal contribution. Bonuses are not linked to managed funds' hurdle return rates. After awarding a bonus to the Management Board members or employees the Company has a three-year period during which it has the right to reduce the bonus, stop the payments of the announced bonus or even require partial or full repayment. Management Board members and risk-takers can be paid a severance which cannot exceed 6-month salary.

Significant amendments were enforced in the Remuneration Policy of the Fund Management company at the end of 2016 according to the changes in UCITS V principles. The full Remuneration Policy of AS Avaron Asset Management can be downloaded here [www.avaron.com/documents](http://www.avaron.com/documents).

The Company employed 14 people based on employment contract as at the end of 2016. Total remuneration amounted to:

In EUR

	<b>2016</b>
Wages and salaries	316,538
Social tax and unemployment insurance contributions	110,459
<b>TOTAL</b>	<b>426,997</b>

Members of the Management Board did not receive extra remuneration for participating in the work of the managing bodies. Independent member of the Supervisory Board was paid in total with applicable social tax EUR 5 027 in the financial year 2016.

No remuneration has been paid by the Fund.



[Translation from Estonian original]

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Avaron Emerging Europe Fund and the Fund Manager

### Opinion

We have audited the annual report of Avaron Emerging Europe Fund (hereinafter also „the Fund “), which comprise the financial statements, investments report, the statement of transactions fees and the statement of principles on remuneration and remuneration paid by the management company. The financial statements comprise the balance sheet as at 31 December 2016, the income statement for the year then ended, the statement of changes in the fund's net assets, statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual report present fairly, in all material respects, the financial position of the Fund as at 31 December 2016, and its financial performance, cash flows, investments, transaction fees and the remuneration paid by the management company for the year then ended in accordance with Estonian Accounting Act, Investment Funds Act and with decree no 21 by the Minister of Finance “The requirements for annual reports of investment funds”.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia) (ISAs (EE)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

The Management Board of the Management Company AS Avaron Asset Management is responsible for the other information. The other information comprises the information included in the management report, but does not include the annual report and our auditor's report thereon.

Our opinion on the annual report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the annual report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Management Board of the Management Company and Those Charged with Governance for the annual report

The Management Board of the Management Company AS Avaron Asset Management is responsible for the preparation and fair presentation of the annual report in accordance with Estonian Accounting Act, Investment Funds Act and and 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 of the Management Board of the Management Company determines is necessary to enable the preparation of annual report that are free from material misstatement, whether due to fraud or error.

In preparing the annual report, the Management Board of the Management Company is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

### **Auditor's Responsibilities for the Audit of the annual report**

Our objectives are to obtain reasonable assurance about whether the annual report as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (EE) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this annual report.

As part of an audit in accordance with ISAs (EE), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Management Board of the Management Company's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual report, including the disclosures, and whether the annual report represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

28 April 2017



Mariel Akkermann  
Certified Auditor, No. 574  
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