



## Avaron Emerging Europe Fund

Open-ended public contractual investment fund registered in the Republic of Estonia. The Fund complies with the provisions laid out in the Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009.

### PROSPECTUS

6 October 2017

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**This prospectus is not for distribution, and does not constitute an offer to sell or buy, or the solicitation of any offer to sell or buy, any securities in Switzerland.** Swiss investors shall read Avaron Emerging Europe Fund prospectus and fund rules available in French at [www.avaron.com/documents](http://www.avaron.com/documents).

**This prospectus is not for distribution, and does not constitute an offer to sell or buy, or the solicitation of any offer to sell or buy, any securities in Germany.** German investors shall read Avaron Emerging Europe Fund prospectus and fund rules available at [www.avaron.com/documents](http://www.avaron.com/documents).

Subscription of the Fund should be made on the basis of the Fund's prospectus and key investor information, the relevant fund rules and the latest available annual or semi-annual reports. These documents can be obtained from Avaron. Past performance is not indicative of future performance. The value of investments and any income derived from the Fund may fall as well as rise and investors may not get back the amount invested. An investment in the Fund entails risks, some of which are described in this Prospectus. Investors should be aware of the high risks associated with investments in emerging markets such as Central and Eastern Europe.

Any dispute, controversy or claim arising out of or in connection with the information provided in this material shall be settled in accordance with Estonian law exclusively in Estonian courts. Information provided in this material has originally been prepared in the Estonian language and has been translated into English. In case of any discrepancy between the two versions, the Estonian version shall prevail.

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## GENERAL INFORMATION

This prospectus is the public offering prospectus (hereafter: “**Prospectus**”) of the units of Avaron Emerging Europe Fund (hereafter: “**Fund**”) in the meaning of [the Investment Funds Act of the Republic of Estonia](#). The fund rules of the Fund (hereafter: “**Rules**”) are an integral part of this Prospectus and have been enclosed as Appendix 1.

The Fund is an open-ended public contractual investment fund registered in the Republic of Estonia. The Fund is classified as UCITS within the meaning of the Investment Funds Act, and complies with the provisions laid out in the Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009, as amended.

## MAIN INFORMATION ABOUT THE FUND

Fund management company	AS Avaron Asset Management, registry code 11341336, registered address: Narva mnt 7D, 10117 Tallinn, Estonia (hereafter: “ <b>Management Company</b> ”)
Fund management contact for the investor	Phone: +372 664 4208, +372 511 2242 E-mail: <a href="mailto:invest@avaron.com">invest@avaron.com</a>
Members of management board of the Management Company	Kristel Kivinurm-Priisalm, Valdur Jaht
Location of the Fund	Narva mnt 7D, 10117 Tallinn, Estonia
Fund managers’ web page	Estonian <a href="http://www.avaron.ee">www.avaron.ee</a> and English <a href="http://www.avaron.com">www.avaron.com</a> (hereafter together: “ <b>Website</b> ”)
Legal status	Open-ended public contractual investment fund registered in the Republic of Estonia
Depository	Swedbank AS, register code 10060701, registered address: Liivalaia 8, 15040 Tallinn, Estonia (hereafter: “ <b>Depository</b> ”)
Fund administration and NAV calculation	Swedbank AS, register code 10060701, registered address: Liivalaia 8, 15040 Tallinn, Estonia
Transfer Agent	Swedbank AS, register code 10060701, registered address: Liivalaia 8, 15040 Tallinn, Estonia
Registrar	The register of Units is kept by Swedbank AS, register code 10060701, registered address: Liivalaia 8, 15040 Tallinn, Estonia (hereafter: “ <b>Registrar</b> ”)
Auditor	KPMG Baltics OÜ, registered address: Narva mnt 5, 10117 Tallinn, Estonia, register code 10096082
Financial supervision	Financial Supervision Authority, registered address: Sakala 4, 15030 Tallinn, Estonia (website: <a href="http://www.fi.ee">www.fi.ee</a> )
Launch of the Fund	23.04.2007
Registration of the Rules	The effective Rules were registered on 3 August 2016 and entered into force on 12 September 2016.
Fund units	The Fund unit (hereafter: “ <b>Unit</b> ”) represents the unit-holder’s share in the assets of the Fund. A Unit is an electronically registered security. The Fund has five classes of Units. Units can be subscribed and redeemed on every banking day <sup>1</sup> .
Launch dates of Unit Classes and the fixing of the base NAV for the calculation of performance fee	A Units: 23.04.2007; B Units: 23.04.2007; C Units: 08.09.2009; D Units 27.09.2010; E Units 25.10.2010. These dates also serve as the start of the NAV history for the respective Unit Class for the purpose of calculating the performance fee. Since the launch dates of the Unit Classes differ, it is possible that during a specific time period, the performance fee is payable on one Unit class but not on another.
Unit prices	The Management Company calculates the net asset value of the Fund, and the net asset value, the subscription and redemption price of a Unit at least once for each banking day on the following banking day no later than 4.30 PM Estonian time and discloses the information at the Website.
Publication of information	The important information and documents relating to the Fund are available at the Website and at the registered address of the Management Company.
Financial year	1 January – 31 December
Distribution of income	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.

<sup>1</sup> A banking day is a day when credit institutions are generally open in Estonia, excluding Saturdays, Sundays, national and public holidays.

## THE BASES AND OBJECTIVE OF THE ACTIVITIES OF THE FUND, INVESTMENT POLICY OF THE FUND

### THE BASES FOR THE ACTIVITIES OF THE FUND

The Fund is a pool of money raised through public issue of Units, and of other assets acquired from investing this money that belongs jointly to the Fund's unit-holders and that is managed by the Management Company. The bases of the Fund's activities and the relations between unit-holders and the Management Company have been laid down in the legislation of the Republic of Estonia and the Rules.

### THE OBJECTIVE OF THE FUND'S ACTIVITIES

The objective of the Fund is to invest primarily in equity instruments of Emerging Europe companies with the purpose of long term capital growth. The description of risks related to investing into the Fund is available in the section "Risks" of this Prospectus.

### INVESTMENT POLICY OF THE FUND

#### Investment Region and Authorised Instruments

The Management Company shall invest at least 60% of the Fund's assets into equity instruments of Emerging Europe companies. **The investment region encompasses the following countries:** Hungary, Poland, the Czech Republic, Estonia, Latvia, Lithuania, Slovakia, Slovenia, Croatia, Romania, Bulgaria, Macedonia, Albania, Bosnia and Herzegovina, Serbia, Montenegro, Turkey, Moldova, Ukraine, Greece and the European countries who are part of MSCI Emerging Markets and Frontier Markets index, excluding Russia. **Emerging Europe company is defined as** a company who has its registered office in an Emerging Europe country, or has substantial business interests in Emerging Europe countries, or whose securities are issued in the currencies of Emerging Europe countries, or listed in the regulated markets of Emerging Europe countries. **Substantial business interest shall be considered** 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.

**Equity instruments shall include** shares, other similar tradable rights, and tradable depositary receipts, financial instruments the return of which is linked to an equity instrument, subscription rights and other rights that entitle to acquire equity instruments. **In addition to equity instruments, up to 40% the Fund's net assets may be invested in other securities** (including units of other investment funds), derivative instruments and deposits of credit institutions.

There are no restrictions regarding the type of issuers when investing the assets of the Fund. The Management Company does not follow a sector approach when investing the Fund's assets. The precise allocation of the Fund's investments between asset classes, types of issuers, regions and sectors shall be determined by the Management Company as part of its investment management activities.

#### Transactions with Derivative Instruments

The Fund's assets may be invested in derivative instruments for the purpose of hedging risks as well as for the purpose of achieving the Fund's investment objectives. The Fund's total exposure relating to derivative instruments may not exceed the total net asset value of the Fund. According to the judgement of the Management Company, investing into derivative instruments does not significantly increase the Fund's risk level because derivative instruments are mostly used for hedging risks. **Upon investment of the Fund's assets in derivative instruments the Fund shall not take short positions, except in relation to foreign currencies.** Detailed information about the authorised underlying assets for derivatives are provided in the Rules.

#### Other Authorised Transactions

The Management Company may on behalf of the Fund guarantee issues of securities, borrow, enter into repurchase and reverse repurchase agreements and make other transactions of borrowing and lending securities and conclude derivative transactions complying with limitations set out in the applicable legislation. The Fund may borrow and assume other liabilities referred to above in the amount of up to 10% of the Fund's net assets. The maturity of the loans and other liabilities assumed on behalf of the Fund may not be longer than three months. It is not allowed to grant out loans on behalf of the Fund.

#### Diversification of Investments

**The value of securities issued by one single issuer may not exceed 10% of the market value of the Fund's net assets.** The total value of all securities of issuers in each of which the Fund invests more than 5% of the net asset value of its assets may not exceed 40% of the net asset value of the Fund's assets. The aggregate value of securities issued by issuers belonging to the same group may not exceed 20% of the market value of the Fund's net assets.

Up to 10% of the net asset value of the Fund may be invested in shares and units of other investment funds except closed-end investment funds, in the case of which restrictions applicable to investments into securities apply, subject to the restrictions provided in the applicable legislation.

The investment policy and restriction of the Fund are further regulated in the Rules.

#### 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, sector and macro analysis.** Company analysis is focused on **quantitative screening, qualitative analysis and valuation work.** During quantitative phase we conduct analysis of company liquidity and basic financial statements. Should the company fulfil our criteria, we will interview the management during qualitative analysis phase. During a management interview we study, among other things, 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, the Management Company develops a financial model on the company and determines its target price. **Companies with highest upside to target price adjusted to liquidity, transparency, business model cyclicality 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 Management Company may use derivatives to hedge or take directional exposure in currencies. The Management Company actively follows financial results of portfolio and target companies and makes relevant changes in the Fund portfolio based on companies' upside to target prices and its view on macroeconomic trends.

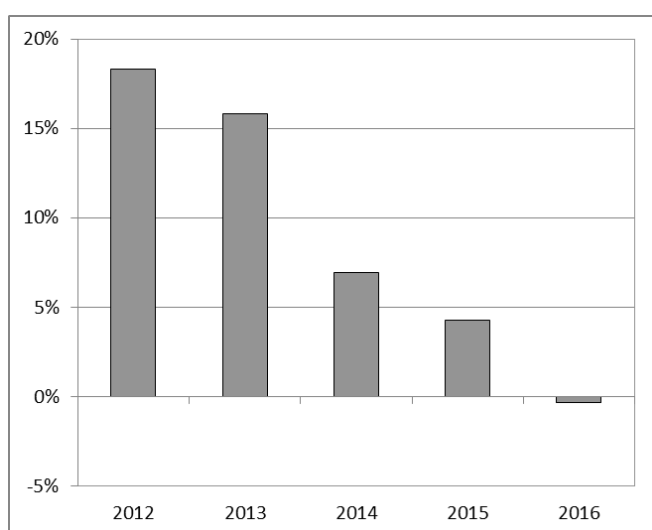
Though the Management Company aims for a long term capital growth, this does not mean that all investments in the Fund are always made for long-term. The Fund's investment universe comprises of emerging and dynamic economies with highly volatile stock markets. Should a company's share price exceed its target price, the Management Company would exit the position, irrespective of its intended investment horizon.

The 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 Management Company regularly examines that the Fund is in compliance with its investment restrictions.

Should the Fund's portfolio become in breach with its investment restrictions or diversification principles due to share price movements or other circumstances, the Management Company is entitled to immediately take remedial actions to cure such breaches.

## PAST PERFORMANCE OF THE FUND

**Avaron Emerging Europe Fund, D Unit\***



*\*Past performance is not a guarantee or indicative of future results.*

## RISKS

### GENERAL RISK WARNING

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. There is no guarantee to unit-holders that they will get back the amount initially invested in the Fund or that it will increase. In case the risk factors materialise, it is possible that the investor will lose a substantial part of the investment in the Fund.** Due to the Fund's investment policy, the net asset value of a Unit may be highly volatile. **Past performance of the Fund is not a guarantee or indicative of future results.**

### RISK WARNING RELATED TO EMERGING MARKETS

The assets of the Fund shall be fully invested in financial instruments of Emerging Europe countries. The legal, political and economic infrastructure of emerging countries is still at an early stage of development. In such countries it is more likely that social, economic or political instability will occur. As a result, investing in the Emerging Europe region is accompanied by higher risks compared to investing in developed markets. Investors of the Fund should accept that the positive developments and successful reforms that have taken place in some countries may not necessarily happen also in other countries. The market capitalisation of Emerging Europe markets is relatively small. These markets are often volatile and have low liquidity. The currency exchange rates of the investment region may substantially fluctuate against the Fund's reference currency and this may have a significant impact on the Unit's net asset value. The Management Company does not generally hedge foreign currency exchange rate risks. Countries may impose restrictions on capital flows as well as currency export restrictions. This may result in difficulties for the Fund in drawing sales proceeds and may harm the ability of the Fund to redeem Units regularly. Financial supervision may be ineffective in the countries of the investment region. The accounting, auditing and reporting standards accepted in the Emerging Europe countries may not be equivalent to the standards accepted in developed markets. The systems for settlement and registering of securities and the regulations applicable to and supervision of settlement bodies, registrars and custodians may not be up to the standards assumed in developed markets.

### RISK LEVEL OF THE FUND

The assets of the Fund shall be invested in financial instruments of emerging countries. The largest part of the Fund's assets is made up of equity securities. Therefore, the Fund is considered a high risk investment product.

## PROFILE OF TYPICAL INVESTOR

The Fund is suitable to an investor with high risk tolerance who seeks long-term capital growth through investing into the equity markets of the Emerging Europe region. The investor should acknowledge that there is no guarantee that the capital invested into the Fund will be preserved or that it will grow.

**The recommended investment horizon is 5-10 years and the investor and investor's financial position should be able to tolerate substantial volatility in the net asset value of the Unit during this period.** The investor should have prior experience in investing into investment products or knowledge of the functioning of the financial markets.

Being regional equity fund investing into emerging markets, the Fund is suitable as one constituent of a diversified investment portfolio. Each investor is required to independently evaluate the risks related to investing in the Fund and the effects and possible consequences of such risks in the light of the investor's investment experience and knowledge as well as the investor's financial and economic circumstances, and the time period and the objectives of the investment. The Management Company recommends that potential investors consult with a professional investment advisor before making the decision to invest.

## OVERVIEW OF MAJOR RISK FACTORS RELATED TO THE INVESTMENT

Various risks relate to investing into the Fund. Such risks may have a negative effect on the outcome of the investment. A list of risks that could influence the return on the investment into the Fund and what we think is important has been presented below. Additional risks entail with the investment and have been discussed in other parts of the Prospectus or not explicitly addressed in the Prospectus, therefore the list of risks is not comprehensive. **Investment risks shall be borne by the unit-holder.** When investing into Emerging Europe markets, the investor should take into account that any risk factor listed below is more likely to materialise as compared to investing into developed markets.

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, political risk and the risk arising from the concentration of asset classes or markets. In addition to the abovementioned risks, other risks as described below are related to investing in the Fund.

**Benchmark risk** – Management Company is not seeking to meet Emerging Europe region benchmark. Instead the Management Company deploys value investing and stock-picking investment style by investing the Fund's assets into companies with the highest upside to target price. Therefore, Fund's return may differ substantially from the return of Emerging Europe region indices.

**Political risk** – the risk that unfavourable trends or (political) events (e.g. changes in economic policy or legal environment, nationalisations, riots, war) take place in a country where the Fund's assets have been invested that affect the country's political or economic stability or future development thereby causing the loss of the Fund's investments in the country or diminishing the value of such investments.

**Market risk** – 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 a specific sector, unstable securities market, investor behaviour as well as psychology and other factors. Market risk is managed by diversifying the Fund's investments between various regions, markets and sectors.

**Issuer-specific 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. Issuer-specific price risk is managed mainly thorough research and continuous monitoring of the issuer.

**Foreign currency risk** – the risk that the value of an investment denominated in a foreign currency changes in an adverse direction in relation to the Fund's reference currency due to fluctuations in exchange rates. To secure the Fund's assets against adverse change in the exchange rates of the currency, the Fund, from time-to time, may hedge currency risk through foreign exchange spot transactions or currency exchange (forex) derivative contracts. On the other hand, the mentioned contracts may reduce the potential gain that the favourable change of the exchange rates may provide.

**Credit risk** – the risk that the issuer of securities where the Fund has invested in or the counterparty to a securities transaction of the Fund fails to perform its obligations either fully or partially, a counterparty to a trade does not deliver securities or cash during the settlement and causes damage to the Fund. In order to diminish the credit risk, the Fund's investments are diversified between various issuers which shall be researched prior to the investment and monitored thoroughly during the investment.

**Interest rate risk** – the risk that interest rates, yield curves or volatility of interest rates change in an adverse direction for the Fund.

**Liquidity risk** – the risk that a financial instrument cannot be sold due to low liquidity or lack of 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. In order to diminish the liquidity risk, the Fund's investments are diversified between various issuers or regions. The Fund's liquidity risk is influenced by the actions of investors as large redemption and

conversion orders might create a situation where the Fund is forced to sell some positions that it would otherwise maintain or has to suspend redemption of the Units for a certain period.

*The risk arising from the concentration of asset classes or markets* – the risk that a particular event or circumstance shall have a pervasive effect on the Fund's return because the Fund's investments are concentrated on one or a small number of markets, a specific asset class or a small number of issuers.

*Risk of investing in small cap companies* – the Fund may invest in small and mid cap companies with highly volatile stock prices. These stocks may have lower liquidity and be more impacted by the changes of economics compared to large cap companies. Small cap companies have greater risk level due to light management teams, company resources and weak public information. Bid-ask spread of small cap companies is significantly higher compared to the large cap companies.

*Risk of investing in funds* – risk that investing the Fund's assets in investment funds, which in turn invest their assets in other funds (fund of funds), the corresponding management fees and other charges may exceed the expenses if the Fund would have invested directly in the corresponding instruments. In addition, the Management Company is not always able to completely monitor the activity of investment funds where the funds have invested, since such investment funds may use investment strategies, which are not comprehensively disclosed to the Management Company, or contain risks in certain market situations, which are not envisioned by the Management Company. Furthermore, the risk associated with valuation of the assets arises when investing in other investment funds as the Management Company may not be able to monitor the price of every single component affecting the net asset value of the investment fund.

*Legal risk* – the risk that the Fund suffers losses or that penalties are imposed on the Fund due to the possibility that the Management Company does not have a sufficient knowledge of the legislation and its statutory obligations that are applied in the target countries of the Fund's investments. Additionally, amendments in legislation after the investment has been made could result in restrictions for the Fund's activities or create obligations for the Fund.

*Settlement system risk* – the risk that the non-performance of securities depositaries, stock exchanges, market places, clearing houses or other counterparties could cause losses for the Fund due to failed trades, delayed settlement, mistakes in recorded transactions etc. To manage the settlement system risk, the Fund trades only on regulated markets via brokers who are approved by the Management Board.

*Tax risk* – a tax could be imposed on the Fund's profit and withholding taxes could be applied on income received by the Fund in the Republic of Estonia or in other countries where the Fund's assets have been invested.

*Depositary/custody risk* – the risk that the Fund suffers losses due to actions or omissions or bankruptcy of the Depositary,

sub-custodians or local depositaries. Such losses may include losses due to the bankruptcy of a person holding securities, the person losing securities or its inability to fulfil orders. To manage such risk, a depositary/custodian shall be selected thoroughly and its activities in provision of services monitored on a regular basis.

*The risk related to valuing the assets of the Fund* – the assets of the Fund may be invested in securities with low liquidity and in securities that are not traded on regulated markets. For such securities, a valid market price may not be available. Determining the fair value of such assets may be complex and depends on assessments made by the Management Company. The price of such financial instruments used in NAV calculation may be substantially different from a later market transaction price that may lead to significant downward adjustment of the price of the financial instrument and a sizeable change in the net asset value of the Fund.

*Registrar risk* – the risk of suffering losses due to actions or omissions of the registrar of Units (e.g. due to failed trades arising from technical faults, delayed settlement, erroneous transaction, unauthorised disclosure of confidential information etc.).

*Risk associated with conflict of interests* – in addition to the Fund, the Management Company manages other funds and client portfolios with potentially conflicting interests during certain period of time. Management Company has established internal rules and policies to effectively avoid and/or adequately manage potential conflict of interests, and shall adhere to such policies and procedures.

*Fund fees* – Fund management fees and expenses are paid on behalf of the Fund, of whether the Fund performs or underperforms. This influences the Fund's performance. The Management Company has set the limits for the fees and expenses paid by the Fund to protect the unit-holders interests. Management fee is based on fixed rate and performance fee, which aims to align the Management Company's and unit-holders' interests by linking the management fee partially with the performance of Fund's investments.

*Key personnel related risk* – the Fund's performance depends on investment managers and other key personnel actions and experiences. The Management Company might experience negative impact when key employees leave. The Management Company aims to guarantee competitive and motivating working conditions to its managers and employees. Investment Managers are indirect owners of the Management Company and thus incentivised directly by the performance and pay-out capability of the Management Company. Compensation package of other key employees is also related to the performance of the Management Company in compliance with the limitations set out in applicable legislation.

Materialisation of the above mentioned risks may significantly influence the Fund's profitability and Unit price. In addition to customary investment risks, investors have to take into

account the possibility of changes taking place in the governance of the Fund. Such changes could have a significant impact on an investment in the Fund. For example, redemption of Units may be suspended based on the terms and conditions set out in the Rules and in legislation; the Fund could be reorganised, merged with another investment fund or liquidated. Additionally, the fees and expenses payable on account of the Fund or the unit-holder may be changed; the Rules may be substantially amended, etc. Some of the abovementioned events may take place without giving prior notice to the unit-holder. Fund performance is not guaranteed by the Management Company and the value of the Unit may increase as well decrease, in time.

## RISKS RELATED TO DERIVATIVE INSTRUMENTS

The Management Company may invest the Fund's assets in derivative instruments for the purpose of hedging risks as well as for the purpose of achieving the Fund's investment objectives. The market value of a derivative instrument depends on the price or value of another underlying asset (e.g. share, stock index, foreign exchange rate). Using derivative instruments entails leverage, i.e. a small change in the price of the underlying asset may lead to a large change in the price of the derivative instrument. Therefore, an investment in derivative instruments leads to relatively larger profit or larger loss (higher risk) compared to a similar investment in the underlying asset. In case of certain derivative instruments, the potential loss is larger than the initial investment made. Since the value of the derivative instrument depends on the price of the underlying asset, the derivative instrument is subject to the same risks as the underlying. In addition, counterparty risk, interest rate risk and changes in the volatility of the underlying asset affect the value of the derivative. In order to determine the value of the derivative, complex valuation models are often used. Thus, investing in derivatives is also accompanied by valuation risk.

## RISKS RELATED TO SECURITIES NOT TRADED ON REGULATED MARKETS

Part of the assets of the Fund may be invested in securities not traded on regulated securities markets. In addition to ordinary investment risks, such investments entail higher liquidity risk and higher risk related to valuation of such assets.

## UNIT OF THE FUND

### UNIT

Fund assets belong jointly to the unit holders. A Unit represents the unit-holder's share in the assets of the Fund. A Unit is electronically registered security, which represents a unit holder's share in the assets of the Fund. The Fund has five classes of Units:

- Avaron Emerging Europe Fund A, nominal value 6.39 EUR, launched April 23, 2007 (hereafter "A Unit"),

- Avaron Emerging Europe Fund B, nominal value 6.39 EUR, launched April 23, 2007 (hereafter "B Unit"),
- Avaron Emerging Europe Fund C, nominal value 10 EUR, launched September 8, 2009 (hereafter "C Unit"),
- Avaron Emerging Europe Fund D, nominal value 10 EUR, launched September 27, 2010 (hereafter "D Unit"),
- Avaron Emerging Europe Fund E, nominal value 10 EUR, launched October 25, 2010 (hereafter "E Unit").

## RIGHTS ATTACHED TO UNITS

The right of ownership of a Unit and the rights and obligations of a unit-holder and of the Management Company attached to the Unit shall enter into force and end when a relevant entry is made in the register of Units.

A Unit does not grant to the unit-holder the right to make decisions regarding the transactions made on behalf of the Fund. No unit-holder is entitled to demand termination of the Fund. **A unit-holder has the following rights:** to demand that the Management Company to redeem the Units held by the unit-holder pursuant to the provisions of the Rules and applicable legislation; **to transfer Units held by the unit-holder to third parties without prior notification to the Management Company;** to receive, pursuant to the Rules, a share of the assets remaining upon liquidation of the Fund and of any distributions made from the Fund in proportion to the number of Units and the class of Units held by the unit-holder; to access at the location of the Management Company the Rules, the Fund's most recent annual or semi-annual report, the Prospectus, the key investor information document and other documents and information regarding the activities of the Fund, Management Company and Depositary as provided for in the legislation; to demand a statement from the Registrar about the Units held in the registry by the unit-holder; to perform other acts prescribed by legislation or the Rules.

## OBLIGATIONS ATTACHED TO UNITS AND LIABILITY RESTRICTION

A unit-holder must exercise the rights attached to a Unit in good faith and in accordance with legislation and the Rules. A unit-holder shall not exercise his rights with the purpose of causing damage to other unit-holders, the Management Company, the Depositary or to any third party. **A unit-holder is not personally liable for the obligations of the Fund assumed by the Management Company, or for the performance of obligations which the Management Company has the right to demand from the Fund pursuant to the Rules.** A unit-holder's liability for performance of such obligations is limited to his share of the Fund's assets. The Management Company shall not assume obligations on behalf of unit-holders. A claim against a unit-holder may be satisfied out of the Units belonging to such unit-holder, but not out of the assets of the Fund.

The Fund's governance structure does not include a general meeting of unit-holders, and therefore a Unit does not grant



any voting rights to unit-holders and unit-holders are not entitled to participate in the management of the Fund through general meeting of unit-holders.

## TAXATION

**According to the legislation of Estonia, the Fund is not a taxable person and does not therefore pay taxes in Estonia.** Depending on the tax systems of the countries where the assets of the Fund are invested, the Fund could be liable to pay taxes in these countries.

If a unit-holder is a taxable person, gains from Units may be taxable. **The Management Company does not withhold any taxes on gains earned from Units. Declaring such gains in the tax declaration of accounting period is an obligation of a unit-holder.** The tax system applicable to an investor may depend on the investor's residence for tax purposes, legal set-up and other circumstances. Investors are advised to consult a professional tax advisor for potential tax liabilities.

## NET ASSET VALUE OF THE UNIT AND TRANSACTIONS WITH UNITS

### NET ASSET VALUE OF THE FUND AND UNIT

The net asset value of the Fund and of a Unit depends on the income or loss from the Fund's activities. **The income of the Fund shall not be distributed to unit-holders but shall be reinvested. Unit-holders' profit or loss shall be reflected in the changes of a Unit's net asset value.**

In order to determine the net asset value of the Fund, the value of the liabilities of the Fund is deducted from the value of the assets of the Fund. The value of the assets of the Fund is determined primarily based on their market value. If market value cannot be established, the value of the assets of the Fund is determined based on another method for establishing fair value as set out in the applicable internal rules. The total net asset value of a class of Units shall be determined by deducting the value of the liabilities of the Fund attributable to that class of the Unit from the value of the Fund's assets attributable based on *pro rata* principle to that class of Units.

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 has 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). A Unit's net asset value, issue and redemption price shall be rounded up to four decimal points.

**The Management Company has *inter alia* outsourced the fund administration function in relation to the Funds' assets and determining the Funds' and Unit's net asset value and Unit's redemption and subscription price and Funds' accounting to Swedbank AS (Fund Administrator).** The Fund Administrator shall calculate and the Management Company shall check and publish the net asset value of the Fund, and the net asset value, the subscription and the redemption price of

a Unit at least once for each banking day on the following banking day no later than 4.30 PM.

### Performance Fee of E Unit

The Management Company is entitled to the performance fee if the net asset value of E Unit exceeds the most recent Fixed NAV to which the return of the benchmark index has been added. The rate of the performance fee is 15% of the increase in the net asset value of E Unit over the most recent Fixed NAV to which the return of the benchmark index has been added. The Fixed NAV is the net asset value of the E Unit calculated as of the most recently passed June 30. Until June 30, 2011 the Fixed NAV shall be equal to the nominal value of the E Unit (10 EUR).

The benchmark index is MSCI EFM Central and Eastern Europe & CIS (CEEC) ex Russia Index. The Management Company is entitled to change the chosen benchmark index. The Management Company shall notify the unit-holders of change in the benchmark index at least one month in advance in a format that can be reproduced in writing. The notice shall be sent to a unit-holder's address included in the register or to other contact details that the unit-holder has provided to the Management Company. If the new benchmark index becomes effective on any other day except July 1, the Management Company shall not be entitled to a performance fee for the period that begins on July 1 preceding the day of changing the benchmark index and ends on June 30 following the day of changing the benchmark index. The provision for performance fee of E Unit is revalued on each day when the net asset value of the Fund is calculated and is fixed on June 30 each calendar year, and is paid out thereafter within one month period. Should units be redeemed prior to the date when performance fee is fixed, any accrued but unpaid performance fee for the redeemed units shall be payable during the month following the fixing of the performance fee.

	A Unit	B Unit	C Unit	D Unit	E Unit
<b>Expenses paid by the unit-holder:</b>					
Subscription fee	None	None	None	2.0%	None
Redemption fee	None	None	None	None	None
<b>Fees and expenses paid by the Fund:</b>					
Management fee	1.75%	1.25%	1.25%	2.0%	0.85%
Performance fee	15% of return exceeding 5% p.a.	15% of return exceeding 8% p.a.	10% of return exceeding 12 month Euribor rate. Euribor rate being negative, a rate of 0% shall be applied.	None	15% of return over benchmark index
Depository fee	0,15%-0,276%				
Other expenses	According to the price list of the service provider				

**Table 1 Fees for the Fund and unit-holder**

### Other Fees and Expenses

The Management Company is entitled to reduce or waive subscription fees at its sole discretion. The rates of management and depository fees as provided in the Table 1 Fees for the Fund and unit-holder are calculated as a percentage of the market value of the assets of the Fund. The Management and depository fee are accrued daily and paid out monthly for the previous month. Other expenses include the following: expenses related to holding the Fund's assets and making transactions therewith such as brokerage fees, interest expenses, settlement charges, transaction fees and costs relating to borrowings; expenses related to auditing the Fund; fund administration fees to the service provider (the service includes keeping the Fund's accounts and calculating net asset value); expenses related to keeping the register of the Units, based on the price list of the Registrar (including the Registrar's charges related to receiving and processing the subscription and redemption orders of the Units); expenses related to preparing, printing, translating and distributing the Rules, Prospectus and other Fund documents; state fees, costs and expenses related to registering Rules or Prospectus, distribution of the Fund or other operations in relation to the Fund; supervisory fees in relation to registering and distributing the Fund abroad. Total fees and expenses payable on behalf of the Fund shall not exceed 5% of the weighted average net asset value of the Fund's assets per annum.

### **TRANSACTIONS WITH FUND UNITS**

**The issue, redemption and conversion of Units is organised by Swedbank AS ("Transfer Agent"). In order to make transactions with Units, the investor shall have a securities account and a corresponding cash account in Swedbank AS or with the consent of the Management Company a registry account for institutional investor in Swedbank AS.**

An investor can open a segregated account on its own name or agree with a third party (e.g. distributor of Units) on keeping

the Units on a nominee account opened in the name of such third party. If units are kept on a nominee account, the owner of the nominee account shall submit orders for transactions on the nominee account. Transfers of securities and payments of cash shall be made to the nominee account and to the cash account of the owner of the nominee account. The transfers and payments to the investor's account shall be executed by the owner of the nominee account according to agreements with the investor.

**A unit shall be issued only upon a monetary payment and upon redemption of units only monetary payments in euros shall be made.** Units are issued, redeemed and can be converted on every banking day. The day of receiving the order for making a transaction with Units shall be hereafter referred to as the "Trade Date".

**If a single unit-holder submits a redemption and/or conversion order or orders that result in redemption of Units on the same Trade Date in the amount exceeding 5% of the net asset value of the Fund, the Management Company has the right (but not an obligation) to split the redemption and/or conversion orders and apply special principles for determining the Trade Date of such orders.** The unit-holder's aggregate orders resulting in redemption in the amount (i) up to 5% of the net asset value of the Fund, the general provisions shall be applied; (ii) between 5%-10% of the net asset value of the Fund, the Trade Date shall be the next banking day following the date determined; (iii) exceeding 10% of the net asset value of the Fund, the Trade Date will be the next banking day following the date in point (ii).

**If unit-holders together submit redemption and/or conversion orders that result in redemptions on the same Trade Date in the amount exceeding 5% of the net asset value of the Fund and according to the estimate of the Management Company it is not necessary to suspend the redemption of the Units, the Management Company is entitled to postpone the payment date for such orders up to**

**10 banking days (T+10), taking into account the order of the receipt of such redemption and conversion requests.** The payment of the postponed orders shall take place in the sequence of the receipt of orders. Postponing the payment date of the orders does not affect the settlement of the redemption and/or conversion orders received on the following days, unless the conditions for postponement of the payment date provided in this section are met for such orders. The Management Company shall notify the unit-holders affected by the postponement of the payment date and publish a notice on its Website.

A unit-holder is not entitled to demand fine for delay, penalty, indemnification or use any other legal remedies and the Management Company is not liable for any potential damages that might occur due to splitting of orders into parts, postponing the Trade Date or payment date of the orders as described above.

By submitting a subscription order, an investor confirms that he or she has sufficiently acquainted himself or herself with the Rules, accepts the Rules and shall act in accordance with the Rules. An investor is not permitted to revoke or make changes to a subscription, redemption or conversion order after submitting it. The investor who has submitted a subscription, redemption or conversion order shall ensure that the conditions necessary for the settlement of the trade are fulfilled in time. Upon subscription of Units, the investor shall pay the subscription amount within the prescribed time limit to the Fund's cash account. In case of default, the Management Company is entitled to use any legal remedy available to it (including the right of withdrawal from the transaction and to claim damages caused by the unit-holder to the Fund and to other unit-holders).

Subscription fees and all other expenses related to subscribing and redeeming Units shall be paid by the unit-holder.

## DEADLINES FOR SUBMITTING ORDERS

**A transaction order is considered to have been submitted on a given Trade Date if it is received by the Transfer Agent on the Trade Date by 11 AM<sup>2</sup>.** Transaction orders that are received by the Transfer Agent later than the deadline are considered to have been received on the following Trade Date.

## ISSUE AND REDEMPTION PRICE

The issue price of a Unit is equal to the net asset value of the Unit, calculated on the next banking day following the Trade Date to which the subscription fee may be added.

The redemption price of a Unit is equal to the net asset value of the Unit, calculated on the next banking day following the Trade Date.

## SUBSCRIBING UNITS

Class A and B Units shall be only issued to investors who owned Units of the respective class as of May 30, 2009 at 00:00 (existing investors). New investors cannot subscribe A and B Units. The minimum initial subscription amounts of Units are as follows:

- C Unit 125,000 EUR,
- E Unit 1 million EUR.

The Management Company is entitled to reduce the minimum initial subscription amounts of C and E Units at its discretion. There is no minimum subscription requirement for A, B and D Units.

**In order to subscribe for Units, an investor shall submit a subscription order to the Transfer Agent, being Swedbank AS.** A Unit (including a fraction of a Unit) shall be issued upon a monetary payment to the Fund's cash account on settlement date corresponding to the number of Units to be issued and the Unit's net asset value. **The settlement date shall be no later than the third banking day from the Trade Date (T+3), unless the Management Company and the investor agree on a different settlement cycle.**

By submitting a subscription order, the investor gives his consent to the Management Company and the Registrar for processing the investor's personal data in the scope that is necessary for carrying out the Management Company's statutory obligations and for developing the client relationship.

The Management Company is entitled to decline from executing a subscription order if the Management Company deems that this is necessary to protect the interests of existing investors of the Fund.

## REDEEMING UNITS

In order to redeem Units, an investor shall submit a redemption order to the Transfer Agent. Upon redemption of Units a monetary payment corresponding to the number of Units redeemed and the redemption price shall be made out of the assets of the Fund to the unit-holder's cash account. **The settlement date shall be no later than the third banking day from the Trade Date (T+3) unless the Management Company and the investor agree on a different settlement cycle.** On the day of making the redemption payment (on settlement date) the Unit shall be deleted from the register and the rights and obligations attached to the Unit shall terminate. The term for making the redemption payment does not include the time for executing the transfer by the investor's beneficiary bank.

If a unit-holder submits a redemption order that results in redemption of Units on the same Trade Date in the amount exceeding 5% of the net asset value of the Fund or if unit-holders together submit redemption orders that result in

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<sup>2</sup> 11 AM Estonian time (CET+1 or CEST+1)

redemptions on the same Trade Date in the amount exceeding 5% of the net asset value of the Fund, the Management Company has the right (but not an obligation) to split the redemption order and apply special principles for such orders, details of which are available in Prospectus under “Transactions with fund units”.

### **NB! SUSPENDING THE TRANSACTIONS**

The Management Company may suspend the redemption of Units under the conditions and according to the procedures provided for in legislation. The redemption of Units may be suspended for up to three months if: the money in the accounts of the Fund is insufficient for payment of the redemption price of the units; the securities and other assets of the Fund cannot be promptly sold; the calculation of the net asset value of the Fund is hindered; the regular management of the Fund would be harmed thereby or such payment of the money would materially harm the interests of other unit-holders. The Management Company shall promptly notify the Financial Supervisory Authority and the Depositary of suspension of the redemption of Units and the reasons for it. The Management Company shall promptly publish a notice concerning suspension of the redemption of Units on the Website and in at least one daily national newspaper.

### **CONVERTING UNITS**

A unit-holder is entitled to convert Units of the Fund for the Units of another class of the Fund or units of another fund managed by the Management Company as follows:

- A Units may be converted into all other Units of the Fund,
- B Units may be converted into C, D and E Units,
- C Units may be converted into D and E Units,
- D Units may be converted into C and E Units,
- provided that acquiring the units of the other investment fund through conversion transaction is permitted and the conditions for the minimum initial subscription specified in the Fund rules are met, unless the Management Company has not reduced or waived the requirements for some investors at its discretion.

C Units may be acquired through conversion transactions provided that the value of the C Units owned by the unit-holder (including the C Units to be acquired through the conversion transaction) shall be equal to or exceed 125,000 EUR, unless the Management Company has reduced or waived the requirements for some investors at its discretion. E Units may be acquired through conversion transactions provided that the value of the E Units owned by the unit-holder (including the E Units to be acquired through the conversion transaction) shall be equal to or exceed 1 million EUR, unless the Management Company has reduced or waived the requirements for some investors at its discretion.

#### Procedure for Converting the Units

In order to convert Units, the unit-holder shall submit a conversion order to the Transfer Agent, being Swedbank AS.

By submitting the conversion order, an investor confirms that he or she has sufficiently acquainted himself or herself with the Rules, accepts the Rules and shall act in accordance with the Rules. The Management Company is entitled to decline from executing a conversion order, if the Management Company deems that it is necessary to protect the interests of existing investors of the Fund or for any other appropriate consideration.

Upon conversion of Units, no payments shall be made to the unit-holder. Based on the number of Units to be converted and their net asset value, Units shall be redeemed. Based on the net asset value of the Units to be acquired new Units shall be issued to the unit-holder. No subscription or redemption fees shall be charged for conversion of Units.

The Trade Date for the conversion transactions (for the Units to be redeemed and Units to be issued) is the day of receipt of the conversion order and transactions will be executed according to general provisions. The settlement date shall be no later than the third banking day from the Trade Date (T+3), unless the Management Company and the investor agree on a different settlement cycle.

## **INFORMATION ON THE FUND**

### **PUBLISHING INFORMATION CONCERNING THE FUND**

Any person has the right to access the following information and documents at the Management Company’s registered address and on the Website: the Rules, the annual reports of the Fund for the most recent three financial years, the semi-annual report of the Fund if it has been approved later than the most recent annual report, the Prospectus and key investor information documents, the name and contact details of the Management Company, fund managers and the Depositary, the rules for calculating the net asset value of the Fund and the internal rules for making derivative transactions on the account of the Fund, information about the size of the Management Company’s holding in the Fund and annual reports of the Management Company for three most recent financial years.

On request, unit-holders shall receive a copy of the Rules, the Fund’s three most recent annual or the last semi-annual report, the Prospectus and the key investor information documents free of charge. On request, the Rules will be sent to an investor via mail, e-mail or fax.

The annual report of the Fund shall be made public at the Management Company’s registered address and Website four months after the end of the Fund’s financial year, and semi-annual report two months after the end of the half-year. Other information and reports to be disclosed concerning the Fund shall be made public within three days of the document entering into force or such changes taking effect.

The Management Company shall on each banking day publish the net asset value, subscription and redemption price of the Unit on its Website. In case of circumstances should become

evident that substantially affect the activities or the financials of the funds managed by the Management Company (including the Fund) or the net asset value of the Unit, the respective information shall be published without delay on the Website.

The Management Company is entitled to send notices and reports relating to the Fund to a unit-holder's known mailing or e-mail address.

### AMENDING THE FUND RULES

The Rules, including essential terms and conditions related to the investment restrictions or fees of the Fund may be amended at the discretion of the Management Company. Upon amendment of the Rules, the Management Company shall promptly after the registration of the amendments, or submission of the amended Rules to the Financial Supervision Authority, publish a notice in at least one daily national newspaper and on the Website concerning the amendment of the Rules. No notice concerning amendment of the Rules shall be published in a daily national newspaper if the Rules are amended only due to amendments made due to the amendments in legislation. The amendments to the Rules shall take effect in one month after publishing the corresponding notice, unless a later date is provided in such notice. If the Rules are amended only due to amendments made to the legislation, such amendments shall enter into force on the date provided in the notice disclosed on the Website.

### LIQUIDATION OF THE FUND

Liquidation of the Fund shall be effected in the cases and according to the procedures provided for in the Investment Funds Act. Liquidation of the Fund shall be decided by the supervisory board of the Management Company. As provided for in the Investment Funds Act, the Depositary can act as the liquidator.

Subsequent to obtaining approval for liquidation of the Fund from the Financial Supervisory Authority, the Management Company shall without delay publish a notice regarding the liquidation of the Fund in at least one daily national newspaper and on the Website. Upon liquidation of the Fund, the Management Company shall sell the assets of the Fund as soon as possible and in accordance with the interests of the unit-holders, shall collect the debts of the Fund and satisfy the claims of the creditors of the Fund. The Management Company shall distribute the assets remaining upon liquidation between unit-holders on the basis of the class, number and net asset value of Units owned by each unit-holder. The Management Company shall publish a notice concerning distribution of the assets subject to distribution in at least one daily national newspaper and on the Website.

## MANAGEMENT COMPANY, DEPOSITARY, AUDITOR

### MANAGEMENT COMPANY

The Fund is managed by AS Avaron Asset Management, registered address at Narva mnt 7D, 10117 Tallinn, Estonia. The Management Company is a public limited liability company registered in Estonia (date of foundation resolution 14 September 2006, registry code 11341336). The share capital of the Management Company totals 271,383.30 EUR. The shares of AS Avaron Asset Management are 82.41% owned by OÜ Avaron Partners (register code 12135426).

The Management Company has been granted an activity license for managing investment funds by resolution No. 119 of the Financial Supervision authority, dated 28 December 2006. The Management Company is being supervised by the Financial Supervision Authority.

AS Avaron Asset Management manages the following Funds: Avaron Emerging Europe Fund, Avaron Eastern Europe Fixed Income and Avaron Flexible Strategies Fund. The members of the supervisory board of the Management Company are Priit Sander (independent member), Peter Priisalm and Maris Viire. The members of the management board of the Management Company are Kristel Kivinurm-Priisalm and Valdur Jaht. Valdur Jaht, Peter Priisalm and Kristel Kivinurm-Priisalm have been appointed as fund managers in AS Avaron Asset Management. They have all been appointed as the fund managers for all funds managed by the Management Company.

The Management Company may acquire and hold Units under provisions set out in the Investment Funds Act.

#### The Activities of the Management Company

The Management Company is entitled, in accordance to the Investment Funds Act and the Rules, to dispose of and possess the assets of the Fund and exercise other rights arising therefrom. The Management Company is required in its activities to show sufficient competence, honesty, accuracy and diligence in order to ensure the protection of the best interests of the Fund, the unit-holders and the reliable and regular operation of financial markets. The Management Company invests the assets of the Fund in its own name and on behalf of the unit-holders collectively, i.e. on behalf of the Fund, ensuring sufficient risk diversification in accordance with the investment policy and investment restrictions of the Fund. Upon investing the assets of the Fund, the Management Company shall obtain sufficient information on the assets which the Management Company intends to acquire or has acquired on behalf of the Fund; monitor the financial situation of the issuer whose securities the Management Company intends to acquire or has acquired on behalf of the Fund; obtain sufficient information with regard to the solvency of the persons with whom they transact on behalf of the Fund.

**The Management Company shall manage the assets of the Fund segregated from its own assets, from the assets of other funds and pools of assets managed by the Management**

**Company. The assets of the Fund do not form a part of the bankruptcy estate of the Management Company and the claims of creditors of the Management Company shall not be satisfied out of such assets.**

The Management Company has the right and obligation to submit a claim in its own name on behalf of unit-holders or the Fund against the Depositary or other persons if failure to submit such a claim will result or may result in significant damage to the Fund or its unit-holders. The Management Company is not required to submit such a claim if the Fund or unit-holders have already submitted the claim.

The Management Company has established a remuneration policy for employees of the Management Company regulating practices regarding fixed (monthly) and variable remuneration. The remuneration principles are adopted by the Management Company's Supervisory Board. No remuneration committee is established at the Management Company. The total remuneration of the Management Company's employees consists of a fixed and variable remuneration. The total remuneration is based on the conditions prevalent on the labour market and devised so as to achieve a reasonable balance between its fixed and variable components. Details of the Management Company's up to date remuneration policy are disclosed at the Website and shall be made available to an investor upon request in form of a paper copy at the registered office of the Management Company.

#### Inducements

The Management Company may receive from or provide to third parties benefits (including non-monetary benefits) in relation to the provision of fund management services. Paying or providing such inducements are acceptable only in case it enhances the quality of the service to the Fund and does not harm the best interests of the Fund. The Management Company discloses to the unit-holders the existence, nature and amount or methodology of calculation of the inducement prior to the provision of the relevant service. As of the date of this Prospectus, the Management Company receives research reports from brokerage firms the price of which is included in the commission charges for securities transactions.

#### Delegation of Functions of the Management Company

In order to better perform its functions, the Management Company has the right to delegate to third parties the activities related to the management of the Fund, including the following functions: investment management; organising the issue and redemption of Units; issuing evidence of title to the unit-holders of the Fund; providing necessary information to the Fund's unit-holders and other customer services; organising the distribution of Units; keeping account of the Fund's assets and organising accounting of the Fund; determining the Fund's net asset value; keeping the register of Units; accounting for the Fund's income; monitoring the compliance of the activities of the Management Company and the Fund with the Investment Fund Act and other legislation, including organising a relevant internal audit system; other

functions related to the functions referred to above. Delegation of some of its functions to a third party does not relieve the Management Company from its liability in relation to the management of the Fund.

**The Management Company has *inter alia* outsourced:**

- **keeping the register of Units, organising the issue and redemption of Units and carrying out due diligence of investors as prescribed in the Prevention of Money Laundering and Financing of Terrorism Act** to Swedbank AS, registry code 10060701, registered address Liivalaia 8, 15040 Tallinn, Estonia.
- **keeping account of the Fund's assets and organising the accounting of the Fund and determining the Fund's net asset value** to Swedbank AS, registry code 10060701, registered address Liivalaia 8, 15040 Tallinn, Estonia.

The provisions of the agreements entered into between Swedbank AS and the Management Company, the rules for calculating the net asset value of the Fund and the legislation shall be applied to outsourcing the function. Swedbank AS has a credit institution license and provides various financial services. Swedbank AS is supervised by the Financial Supervision Authority.

#### **DEPOSITARY**

**The Depositary of the Fund is Swedbank AS**, register code 10060701, registered address at Liivalaia 8, 15040 Tallinn, Estonia. Swedbank AS has a credit institution license and provides various financial services. Swedbank AS is supervised by the Financial Supervision Authority.

#### The Activities of the Depositary

**The Depositary shall safekeep the cash, securities and other liquid assets of the Fund.** The Depositary does not safekeep other assets of the Fund, unless it is agreed otherwise between the Management Company and the Depositary. The Depositary shall also carry out other duties entrusted to it by legislation. The Depositary shall act independently of the Management Company and in the best interests of the Fund and the unit-holders of the Fund.

The Depositary has the right, in accordance to the policies provided for in the depositary agreement, to enter into agreements for delegating to third parties the safekeeping of the Fund's assets, performing settlements therewith and fulfilling other functions. The Depositary shall keep the assets of the Fund segregated from its own assets and shall keep separate accounting of the assets of Fund. The Depositary shall choose third parties safekeeping the Fund's assets or securities with due care to ensure the reliability of such third parties. The Depositary shall assess before delegating its functions and perform ongoing monitoring to ensure that the organisational and technical arrangement of the delegate as well as its financial condition is sufficient for performing its contractual obligations. The Depositary shall be liable for the direct proprietary damage caused to the Fund and unit-holders as a result of breach of its duties.

The Depositary may offer its services to the Fund or to the Management Company which do not entail conflicts of interest between the Fund, the Management Company, Fund investors and the Depositary. In case of existing conflicts of interest situation the Depositary is only allowed to offer services if the organisational set up and the level of technical systems of the Depositary enable the Depositary to separate the depositary functions from the services that create conflicting interests.

Conflicts of interest may occur in a situation where Swedbank AS offers different services in addition to the depositary service to the Management Company or to the Fund. Detailed information regarding the conflict of interest's situations and the Management of the conflict situations can be found at the Webpage.

The organisational set up and the arrangement of the technical systems enable the Depositary to keep separately the depositary function from the services causing conflicts of interest. Efficient internal control systems, division of responsibilities and reporting lines enable the Depositary to identify, manage and avoid conflicts of interests.

The Depositary has the right, in accordance to the policies provided for in the depositary agreement and in the applicable regulations, to delegate to third parties the safekeeping of the Funds' assets. Where the law of a third country requires that certain financial instruments be held in custody by a local entity and no local entities satisfy the delegation requirements laid down in that point, the Depositary may delegate its functions to such a local entity only to the extent required by the law of that third country, only for as long as there are no local entities that satisfy the delegation requirements, and only where the unit-holders of the Fund are duly informed, prior to their investment, of the fact that such a delegation is required due to legal constraints in the law of the third country, of the circumstances justifying the delegation and of the risks involved in such a delegation

By delegating the safekeeping of the Fund's assets the Depositary ensures that it has sufficient internal procedures for identifying, managing and avoiding conflicts of interests. For example, the conflicts of interest situation could arise in an event where safekeeping of assets has been delegated by the Depositary to an entity belonging to the same group within the Depositary.

Detailed information regarding the Sub-custodians used to delegate the safekeeping of the Fund's asset can be found at the Webpage.

Upon request of the unit-holder, an updated information of the conflict of interests and delegating the safekeeping of the Fund's assets shall be provided by the Management Company.

## AUDITOR

The auditor of the Management Company and of the Fund is KPMG Baltics OÜ, registered address Narva mnt 5, 10117 Tallinn, Estonia, register code 10096082.

Signed by the members of management board of the Management Company:

Kristel Kivinurm-Priisalm

Valdur Jaht

## APPENDIX 1

### FUND RULES OF AVARON EMERGING EUROPE FUND

(Hereafter: “Rules”)

#### 1. GENERAL PROVISIONS

- 1.1. Avaron Emerging Europe Fund (hereafter: “Fund”) is a public open-ended contractual investment fund established by AS Avaron Asset Management. In Estonian, the name of the Fund is: *Avaron Areneva Euroopa Fond*. The Fund is classified as UCITS under [the Investment Funds Act of Estonia](#) hence the Fund complies with the provisions laid out in the Council Directive 2009/65/EC of 13 July 2009 (hereafter: “UCITS”). Fund units may be offered to the public in all of the European Economic Area member states under conditions and provisions set out in the UCITS directive.
- 1.2. The Fund is managed by AS Avaron Asset Management (hereafter: “Management Company”), registry code 11341336, with registered address at Narva mnt 7D, 10117 Tallinn, Estonia. The Fund is situated at the registered address of the Management Company. The Management Company’s web page in Estonian is [www.avaron.ee](http://www.avaron.ee) and in English [www.avaron.com](http://www.avaron.com) (hereafter together: “Website”).
- 1.3. The depositary of the Fund is Swedbank AS (hereafter: “Depositary”), registry code 10060701, with registered address at Liivalaia 8, 15040 Tallinn, Estonia.

#### 2. THE BASES AND OBJECTIVE OF THE FUND’S ACTIVITIES

- 2.1. The Fund is a pool of money raised through public issue of units, and of other assets acquired from investing this money that belongs jointly to the Fund’s unit-holders and that is managed by the Management Company.
- 2.2. The bases of the Fund’s activities and the relations between unit-holders and the Management Company have been laid down in the legislation of the Republic of Estonia and the Rules. In case the Rules conflict with the provisions of legislation, the provisions of legislation will be applied. In case the different provisions of the Rules conflict with each other or in case the Rules include misleading provisions, such provisions will be interpreted in accordance with the best interests of the unit-holders of the Fund.
- 2.3. **The objective of the Fund is to invest primarily in equity instruments of Emerging Europe companies with the purpose of long term capital growth.**
- 2.4. The value of the Fund’s units may increase or decrease in time. **The unit-holders are not guaranteed a return, and may not get back the amount initially invested.** Past performance is not a guarantee or indicative of future performance.
- 2.5. An investment in the Fund is subject to risks which could significantly influence the financial return or activities of the Fund. A short overview of the risks related to the Fund’s investments is available in the Fund’s public offering prospectus (hereafter: “Prospectus”).

#### 3. THE FUND’S INVESTMENT POLICY

- 3.1. The Management Company shall manage the Fund’s assets in accordance with the investment restrictions as provided in the Investment Funds Act, any derivative acts issued thereunder, and the Rules. The investment decisions are based on the Management Company’s professional knowledge and experience, Fund’s objectives and interests.



- 3.2. **Subject to applicable investment restrictions, at least 60% of the Fund's net assets shall be invested into equity instruments of Emerging Europe<sup>1</sup> companies.** Emerging Europe company is defined as a company that has its registered office in an Emerging Europe country, or that has substantial business interests in Emerging Europe countries or whose securities are issued in the currencies of Emerging Europe countries or listed in the regulated markets of Emerging Europe countries. Substantial business interest shall be considered 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.
- 3.3. Equity instruments shall include shares, other similar tradable rights, tradable depositary receipts, financial instruments the return of which is linked to an equity instrument, subscription rights and other rights that entitle to acquire equity instruments.
- 3.4. In addition to equity instruments, up to 40% the Fund's net assets may be invested in other securities (including other investment funds), derivative instruments and deposits of credit institutions.
- 3.5. There are no restrictions as to the type of issuer when investing the Fund's assets.
- 3.6. The Management Company does not follow a sector approach when investing the Fund's assets.
- 3.7. The precise allocation of the Fund's investment between asset classes, type of issuers, regions and sectors shall be determined by the Management Company as part of its ongoing investment management activities.

#### **4. INVESTMENT RESTRICTIONS FOR FUND'S ASSETS**

- 4.1. **The Fund's assets may be invested in:**
  - 4.1.1. shares and similar tradable rights, bonds, convertible bonds and other tradable debt securities, subscription rights and other tradable rights that entitle to acquire securities, money market instruments and tradable depositary receipts (hereafter in Articles 4 jointly as "**Securities**");
  - 4.1.2. shares and units of other investment funds;
  - 4.1.3. derivative instruments;
  - 4.1.4. deposits of credit institutions.
- 4.2. The assets of the Fund shall not be invested in real estate, precious metals, securities which grant rights with regard to precious metals, or derivative instruments related to commodities. The assets of the Fund may be invested in securities which grant rights with regard to real estate.
- 4.3. **Securities:**
  - 4.3.1. Up to 100% of the Fund's net assets may be invested in securities that are freely transferable and meet at least one of the following requirements:
    - 4.3.1.1. the securities are dealt in on any regulated market which operates regularly and is recognised and open to the public;
    - 4.3.1.2. the securities are not dealt in on any regulated market specified in 4.3.1.1 but, pursuant to their conditions of issue, the securities shall be admitted to the regulated market specified in 4.3.1.1 within 12 months from the issue of such securities;
    - 4.3.1.3. the money market instrument is not dealt in on regulated market but it is generally dealt in on money market, it is liquid, its value can be accurately determined at any

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<sup>1</sup> Estonia, Latvia, Lithuania, Poland, Hungary, the Czech Republic, Slovakia, Slovenia, Romania, Bulgaria, Croatia, Macedonia, Albania, Bosnia and Herzegovina, Serbia, Montenegro, Turkey, Moldova, Ukraine and Greece and all European countries of *MSCI Emerging Markets* and *Frontier Markets* indices excluding Russia

time and the instrument complies with other requirements set out in the Investment Funds Act.

4.3.2. Up to 10% of the net asset value of the Fund's assets may be invested in securities not specified in Article 4.3.1.

4.3.3. **The value of securities issued by one single issuer may not exceed 10% of the net asset value of the Fund's assets. The total value of all securities of issuers in each of which the Fund invests more than 5% of the net asset value of its assets may not exceed 40% of the net asset value of the Fund's assets. The aggregate value of securities issued by issuers belonging to the same group may not exceed 20% of the net asset value of the Fund's assets.**

#### 4.4. Investment funds:

4.4.1. Fund's assets may be invested in following investment funds:

4.4.1.1. UCITS of Estonia or any other European Economic Area member state;

4.4.1.2. Investment funds that are classified as public open-ended investment funds by Estonian or other countries legislation and comply with provisions set out in the Investment Funds Act;

4.4.1.3. Estonian or other countries closed-end funds that comply with provisions set out in the Investment Funds Act.

4.4.2. **The Fund may invest up to 10% of its net assets in shares and units of other investment funds**, taking into account the restrictions provided for in the applicable legislation. The restriction shall not be applied to such shares and units of closed-end investment funds that are dealt in on a regulated market, and instead restrictions specified in Article 4.3 are applied.

#### 4.5. Derivative instruments:

4.5.1. Fund's assets may be invested in derivative instruments that are dealt in on a regulated market or over-the-counter for the purpose of hedging risks as well as for the purpose of achieving the Fund's investment objectives, provided that the limitations set out in the Investment Funds Act, derivative acts issued thereunder, the Management Company's internal rules and the Rules are complied with.

4.5.2. Fund's assets may be invested only in such derivative instruments the underlying of which is or which price depends on the following factors:

4.5.2.1. deposits of credit institutions;

4.5.2.2. Securities;

4.5.2.3. units or shares of other investment funds;

4.5.2.4. MSCI, FTSE and other securities indices that reflect price movements of Emerging Europe stock markets or single Emerging Europe country's stock market or segment, including Appendix 1 of Rules;

4.5.2.5. currencies of Emerging Europe countries or currencies in which Securities are listed, including list 2 of Appendix of the Rules.

4.5.3. Upon investment of the Fund's assets in derivative instruments dealt in on regulated markets, the provisions of [the Investment Funds Act](#) §258 apply to risk-spreading, including all persons belonging to one and the same consolidation group are deemed to be one person.

4.5.4. The exposure to a counterparty in an over-the-counter derivative transaction may not exceed 10% of the Fund's net asset value when the counterparty is a credit institution which meets the requirements provided for in Article 4.6.1. In the case of another counterparty, the exposure to a counterparty in an over-the-counter derivative transaction may not exceed 5% of the Fund's net assets value.

- 4.5.5. Fund's total exposure relating to derivative instruments may not exceed the total net asset value of the Fund.
- 4.5.6. **Upon investment of the Fund's assets in derivative instruments the Fund shall not take short positions, except in relation to foreign currencies.**
- 4.6. **Deposits:**
- 4.6.1. Fund's assets may be held in credit institutions authorized in Estonia or in another European Economic Area member state, or in a third country where the prudential requirements applicable to a credit institution are equivalent to those established by the legislation of the European Community.
- 4.6.2. Fund's assets may be invested only in deposits in credit institutions maturing in no more than twelve months.
- 4.6.3. The Fund may invest up to 40% of its assets in deposits of credit institutions. Up to 20% of the Fund's net assets may be invested in deposits of a single credit institution or credit institutions belonging to the same consolidation group.
- 4.6.4. Money held in bank account opened in the Fund's name by the Depositary and placed on overnight deposit are not classified as deposits in terms of these investment restrictions.
- 4.7. **Other restrictions:**
- 4.7.1. The Management Company may on behalf of the Fund guarantee issues of securities, borrow, enter into repurchase and reverse repurchase agreements and make other transactions of borrowing and lending securities and derivative transactions complying with limitations set out in applicable legislation. It is allowed to borrow and assume other liabilities referred to on behalf of the Fund in the amount of up to 10% of the net asset value of the Fund's assets. The maturity of loans and other liabilities assumed on behalf of the Fund may be no more than three months.
- 4.7.2. It is not allowed to grant loans on behalf of the Fund.
- 4.7.3. Qualifying holding shall not, directly or indirectly, be acquired or held through any shares carrying voting rights for the Fund unless otherwise stated in the Investment Funds Act.
- 4.7.4. **The Fund shall not acquire participation in the Management Company or companies belonging to the same consolidation group as the Management Company and any securities issued by such persons. The Fund shall not acquire participation in other funds managed by the Management Company or companies belonging to the same consolidation group as the Management Company.**
- 4.7.5. The Fund shall not be a partner of a general partner or a general partner of a limited partnership, a member of a non-profit association or association, or a founder of a foundation.
- 4.8. In addition to the investment restrictions set out above, the Management Company shall comply with all other restrictions and risk diversification requirements as provided in the applicable legislation when undertaking investment activities on behalf of the Fund. A short overview of risks relating to the Fund's investments has been provided in the Prospectus.

## 5. FUND UNITS, THE RIGHTS AND OBLIGATIONS ATTACHED TO UNITS

- 5.1. Fund's assets belong jointly to the unit-holders. A unit of the Fund (hereafter: **"Unit"**) represents the unit-holder's share in the assets of the Fund. A Unit is a registered immaterial security issued in an electronic form. A Unit does not grant to unit-holder the right to decide on the Fund's investments and transactions. No unit-holder is entitled to demand the termination of the Fund.
- 5.2. A Unit can be divided into fraction. Upon division of the Units, fractions are rounded up to three decimal points. The following rules are applied for rounding: numbers NNN.NNN0 to NNN.NNN4 are rounded to NNN.NNN and numbers NNN.NNN5 to NNN.NNN9 are rounded to NNN.NN(N+1).
- 5.3. The Fund has five Unit classes:

- 5.3.1. Avaron Emerging Europe Fund A, nominal value 6.39 EUR (hereafter: “**A Unit**”);
- 5.3.2. Avaron Emerging Europe Fund B, nominal value 6.39 EUR (hereafter: “**B Unit**”);
- 5.3.3. Avaron Emerging Europe Fund C, nominal value 10 EUR (hereafter: “**C Unit**”);
- 5.3.4. Avaron Emerging Europe Fund D, nominal value 10 EUR (hereafter: “**D Unit**”);
- 5.3.5. Avaron Emerging Europe Fund E, nominal value 10 EUR (hereafter: “**E Unit**”);
- 5.4. **The registrar of the Units is Swedbank AS** (hereafter: “**Registrar**”), registry code 10060701, registered address at Liivalaia 8, 15040 Tallinn, Estonia.
- 5.5. The agreement concluded between the Management Company and the Registrar regulates the operations of the Unit register, making entries into the register, maintaining register data and the liability of the Registrar.
- 5.6. The processing of the register data shall be done electronically. The Registrar shall make an entry into the register based on an order issued by an authorised person (e.g. unit-holder, unit-holder’s representative, the Management Company). Court order or another basis accepted by the Registrar and the Management Company may also form the basis for an entry. The Registrar shall retain the data and documents received for making a register entry for at least ten years from making the entry.
- 5.7. The right of ownership of Units and the rights and obligations of a unit-holder and of the Management Company attached to a Unit shall enter into force when a relevant entry is made in the Units register. By submitting an order for acquiring Units, the unit-holder grants permission for processing his data (including personal data) in the scope necessary for operating and maintaining the Units register.
- 5.8. **A unit-holder is entitled to do the following:**
  - 5.8.1. to demand that the Management Company to redeem the Units pursuant to the provisions of Rules and applicable legislation;
  - 5.8.2. **to transfer Units held by the unit-holder to third parties without notifying the Management Company in advance;**
  - 5.8.3. to receive, pursuant to the Rules, a share of the assets remaining upon liquidation of the Fund and of any distributions made from the Fund in proportion to the number of Units and the class of Units held by the unit-holder;
  - 5.8.4. to access at the location of the Management Company the Rules, the Fund’s most recent annual or semi-annual report, the Prospectus, the key investor information document and other documents and information regarding the activities of the Fund and the Management Company and Depositary as provided for in the applicable legislation;
  - 5.8.5. to demand a document certifying the unit-holder’s ownership of Units from the Registrar;
  - 5.8.6. to perform other acts prescribed by applicable legislation or the Rules.
- 5.9. **Obligations and limitation of liability of a unit-holder:**
  - 5.9.1. A unit-holder must exercise the rights attached to Units in good faith and in accordance with applicable legislation and the Rules;
  - 5.9.2. A unit-holder shall not exercise his rights with the purpose of causing damage to other unit-holders, the Management Company, the Depositary or to any third party;
  - 5.9.3. A unit-holder shall not be personally liable for the obligations of the Fund assumed by the Management Company, or for the performance of obligations which the Management Company has the right to demand from the Fund pursuant to the Rules. A unit-holder’s liability for performance of such obligations is limited to his share of the Fund’s assets;
  - 5.9.4. The Management Company shall not assume obligations on behalf of unit-holders;
  - 5.9.5. A claim against a unit-holder may be satisfied out of the Units belonging to such unit-holder, but not out of the assets of the Fund;

- 5.9.6. All unit-holders are recommended to consult with a professional tax advisor with regards to potential tax liabilities.
- 5.10. The Fund's governance structure does not include a general meeting of unit-holders, and therefore a Unit does not grant any voting rights to unit-holders and unit-holders are not entitled to participate in the management of the Fund through general meeting of unit-holders.

## 6. CALCULATING FUND'S ASSETS AND UNIT'S NET ASSET VALUE

- 6.1. The Management Company shall calculate the net asset value of the Fund and of a Unit based on the provisions of the internal rules and legislation. Management Company's internal rules "Procedure for Determination of Net Asset Value of Investment Funds" are available on [Website](#) and at the location of the Management Company.
- 6.2. In order to determine the net asset value of the Fund, the value of the liabilities of the Fund is deducted from the value of the assets of the Fund. The value of the assets of the Fund is determined primarily based on their market value. If market value cannot be established, the value of the assets of the Fund is determined based on another method for establishing fair value as set out in the applicable internal rules. The total net asset value of a class of Units shall be determined by deducting the value of the liabilities of the Fund attributable to that class of the Unit from the value of the Fund's assets attributable based on *pro rata* principle to that class of Units.
- 6.3. 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 has 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).
- 6.4. **The Management Company has *inter alia* outsourced the fund administration function in relation to the Fund's assets, including determining the Fund's and Unit's net asset value, determining Unit's redemption and subscription price, and organising Fund's accounting to a service provider the details of which are provided in the Prospectus (hereafter: "Fund Administrator").**
- 6.5. The Fund Administrator shall calculate and the Management Company shall check and publish the net asset value of the Fund, and the net asset value, the subscription and the redemption price of a Unit at least once for each banking day on the following banking day no later than 4.30 PM<sup>2</sup>. A Unit's net asset value, issue and redemption price shall be rounded up to four decimal points.
- 6.6. If an event or circumstance which, according to the best professional estimate of the Management Company, affects the net asset value of the Fund and Unit, occurs after determining the net asset value of the Fund, the Management Company has the right to instruct the Fund Administrator without delay to recalculate the net asset value accounting for such circumstances and publish it, provided that it is in the best interest of the unit-holders.
- 6.7. **The Fund's reference currency to be used for financial statements and for the calculation of the net asset value shall be euro.**
- 6.8. **The income of the Fund shall not be distributed to unit-holders but shall be reinvested.** Unit-holders' profit or loss shall be reflected in the changes of a Unit's net asset value.

## 7. ISSUE AND REDEMPTION OF UNITS

- 7.1. General info:
- 7.1.1. The issuer of Units is the Management Company.

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<sup>2</sup> On each banking day in Estonia, except Saturdays, Sundays, national and state holidays at 4:30 PM Estonian time (CET+1 or CEST+1)

- 7.1.2. The time period for issuing Units is not restricted and size of the issue or the number of Units to be issued shall not be fixed. A Unit shall be issued only upon a monetary payment and upon redemption of Units only monetary payments shall be made. Units are issued, redeemed and can be converted on every banking day.
- 7.1.3. Units are issued or redeemed based on their net asset value as of the day of receiving the order (hereafter: **“Trade Date”**), calculated on the next banking day following the Trade Date. Subscription fee may be added to the issue price of the Unit.
- 7.1.4. **If a single unit-holder submits a redemption and/or conversion order or orders that result in redemption of Units on the same Trade Date in the amount exceeding 5% of the net asset value of the Fund, the Management Company has the right (but not an obligation) to split the redemption and/or conversion order or orders and apply the following principles for determining the Trade Date of such orders:**
- 7.1.4.1. The unit-holder’s aggregate orders resulting in redemption in the amount up to 5% of the net asset value of the Fund, the general provisions as described in Article 7.1.3 shall be applied for determining the Trade Date;
- 7.1.4.2. The unit-holder’s aggregate orders resulting in redemption in the amount between 5%-10% of the net asset value of the Fund, the Trade Date shall be the next banking day following the date determined according to Article 7.1.3;
- 7.1.4.3. The unit-holder’s aggregate orders resulting in redemption in the amount exceeding 10% of the net asset value of the Fund, the Trade Date will be the next banking day following the date set according to Article 7.1.4.2.
- 7.1.5. **If unit-holders together submit redemption and/or conversion order or orders that result in redemptions on the same Trade Date in the amount exceeding 5% of the net asset value of the Fund and according to the estimate of the Management Company it is not necessary to suspend the redemption of the Units as specified in Article 7.5, the Management Company is entitled to postpone the payment date for such orders up to 10 banking days (T+10), taking into account the order of the receipt of such redemption and conversion requests.** The Management Company shall notify the unit-holders affected by the postponement of the payment date and publish a notice at its Website. The payment of the postponed orders shall take place in the order of the receipt of the orders. Postponing the payment date of the orders does not affect the settlement of the redemption and/or conversion orders received on the following days, unless the conditions for postponement the payment date provided in this Article are met for such orders.
- 7.1.6. **A unit-holder is not entitled to demand fine for delay, penalty indemnification or use any other legal remedies and the Management Company is not liable for any potential damages that might occur due to splitting of orders into parts, postponing the Trade Date or payment date of the orders as specified in Articles 7.1.4 and 7.1.5.**
- 7.1.7. **The subscription fee of D Unit is up to 2% of the Unit’s net asset value. There is no subscription fee for A, B, C and E Unit.** The exact rate of the subscription fee for D Unit is determined by the Management Company and published in the Prospectus and on the Website. The Management Company is entitled to reduce or waive subscription fees at its sole discretion. On request, the Management Company shall issue a statement indicating the amount of subscription fees paid by a person acquiring or redeeming Units in a format which can be reproduced in writing.
- 7.1.8. **There is no redemption fee for any Units.**
- 7.1.9. **Subscription fees and all other expenses related to subscribing and redeeming Units shall be paid by the unit-holder (including unit-holder’s custodian fees).**
- 7.1.10. If Units are kept on a nominee account, the owner of the nominee account shall submit orders for transactions on the nominee account. Transfers of securities and payments of cash shall be made to the nominee account and to the cash account of the owner of the

nominee account. The transfers and payments to the investor's account shall be executed by the owner of the nominee account according to agreements with the investor.

- 7.1.11. **An investor is not permitted to revoke or make changes to a subscription, redemption or conversion order after submitting it.** The investor who has submitted a subscription, redemption or conversion order shall ensure that the conditions necessary for the settlement of the trade are fulfilled in time. Upon subscription of Units, the investor shall pay the subscription amount within the prescribed time limit to the Fund's cash account. In case of default, the Management Company is entitled to use any legal remedy available to it (including the right of withdrawal from the transaction and claim damages caused by the unit-holder to the Fund and to other unit-holders).
- 7.1.12. Additional details on making transactions with Units, including the cut-off times for submitting trade orders are available in the Prospectus.
- 7.2. The procedure and deadlines relating to the issue of Units:
  - 7.2.1. Class A and B Units shall be only issued to investors who owned Units of the respective class as of May 30, 2009 at 00:00 (existing investors). New investors cannot subscribe A and B Units.
  - 7.2.2. **The minimum initial subscription amounts of Units are as follows:** C Unit 125,000 EUR; E Unit 1 million EUR. The Management Company is entitled to reduce the minimum initial subscription amounts of Units at its discretion. **There is no minimum subscription requirement for A, B and D Units.**
  - 7.2.3. **[In order to subscribe for Units, an investor shall submit a subscription order to the transfer agent.](#)**
  - 7.2.4. A Unit (including a fraction of a Unit) shall be issued upon a monetary payment to the Fund's cash account on settlement date corresponding to the number of Units to be issued and the Unit's net asset value. The settlement date shall be no later than the third banking day from the Trade Date (T+3) unless the Management Company and the investor agree on a different settlement cycle.
  - 7.2.5. **By submitting a subscription order, an investor confirms that he or she has sufficiently acquainted himself or herself with the Rules, accepts the Rules and shall act in accordance with the Rules.**
  - 7.2.6. The Management Company is entitled to decline from executing a subscription order if the Management Company deems that it is necessary to protect the interests of existing investors of the Fund.
- 7.3. The procedure to the suspension of the issue of Units:
  - 7.3.1. The Management Company may suspend the issue of Units if the issue of Units would materially damage the interests of the unit-holders of the Fund, promptly notifying the Financial Supervision Authority and Depositary about it.
  - 7.3.2. The Financial Supervision Authority may issue a precept obliging the Management Company to suspend the issue of Units if there is doubt that the requirements of legislation concerning the issue or public offer of Units are violated or there is a danger of such violation, or suspension of the issue of Units is necessary to protect the interests of the unit-holders for any other reason.
  - 7.3.3. The Management Company shall promptly publish a notice concerning suspension of the issue of Units on its Website and also in at least one daily national newspaper. The issue of Units may be suspended for up to three months.
  - 7.3.4. The orders that were not fulfilled due to the suspension of the issue of Units shall be executed with the net asset value calculated promptly after the elimination of the circumstances which were the basis for suspension of the issue of Units and continuation of the issue of Units.

- 7.4. The procedure and deadlines relating to the redemption of Units:
- 7.4.1. **In order to redeem Units, an investor shall submit a redemption order to the transfer agent.** Upon redemption of Units a monetary payment corresponding to the number of Units redeemed and the redemption price shall be made out of the assets of the Fund to the unit-holder's cash account. **The settlement date shall be no later than the third banking day from the Trade Date (T+3) unless the Management Company and the investor agree on a different settlement cycle.**
- 7.4.2. On the day of making the redemption payment (on settlement date) the Unit shall be deleted from the register and the rights and obligations attached to the Unit shall terminate. The term for making the redemption payment does not include the time for executing the transfer by the investor's beneficiary bank.
- 7.5. Suspension of the redemption of Units:
- 7.5.1. The Management Company is entitled to suspend the redemption of Units promptly notifying the Financial Supervisory Authority and Depositary if:
- 7.5.1.1. the money in the accounts of the Fund is insufficient for payment of the redemption price of the units;
- 7.5.1.2. the securities and other assets of the Fund cannot be promptly sold;
- 7.5.1.3. the calculation of the net asset value of the Fund is hindered;
- 7.5.1.4. the regular management of the Fund would be harmed thereby;
- 7.5.1.5. such payment of the money materially harmed the interests of other unit-holders.
- 7.5.2. The Financial Supervision Authority may issue a precept obliging the Management Company to suspend the redemption of units if there is doubt that the requirements of legislation concerning the redemption of Units are violated or there is a danger of such violation, or suspension of the redemption of Units is necessary to protect the interests of the unit-holders for any other reason.
- 7.5.3. The Management Company shall promptly publish a notice concerning suspension of the redemption of Units on the Website and in at least one daily national newspaper. Redemption of Units may be suspended for up to three months.
- 7.6. Procedure for conversion of Units:
- 7.6.1. A unit-holder is entitled to convert Units of the Fund for the Units of another class of the Fund or units of another fund managed by the Management Company, provided that acquiring the units of the other investment fund through conversion transaction is permitted and the conditions for the minimum initial subscription specified in the fund rules are met, unless the Management Company has not reduced or waived the requirements for some investors at its discretion:
- 7.6.1.1. C Units may be acquired through conversion transactions provided that the value of the C Units owned by the unit-holder (including the C Units to be acquired through the conversion transaction) shall be equal to or exceed 125,000 EUR;
- 7.6.1.2. E Units may be acquired through conversion transactions provided that the value of the E Units owned by the unit-holder (including the E Units to be acquired through the conversion transaction) shall be equal to or exceed 1 million EUR.
- 7.6.2. The unit-holder is entitled to convert his or her Units of the Fund for another class of Units of the Fund as follows:
- 7.6.2.1. A Units may be converted into all other Units of the Fund.
- 7.6.2.2. B Units may be converted into C, D and E Units.
- 7.6.2.3. C Units may be converted into D and E Units.
- 7.6.2.4. D Units may be converted into C and E Units.



- 7.6.3. A unit-holder is entitled to convert the Units into the units of another funds managed by the Management Company.
- 7.6.4. In order to convert Units, the unit-holder shall submit a conversion order to the transfer agent. By submitting the conversion order, an investor confirms that he or she has sufficiently acquainted himself or herself with the Rules, accepts the Rules and shall act in accordance with the Rules. The Management Company is entitled to decline from executing a conversion order, if the Management Company deems that it is necessary to protect the interests of existing investors of the Fund or for any other appropriate consideration.
- 7.6.5. Upon conversion of Units, no payments shall be made to the unit-holder. Based on the number of Units to be converted and their net asset value, Units shall be redeemed. Based on the net asset value of the Units to be acquired new Units shall be issued to the unit-holder.
- 7.6.6. The Trade Date for the conversion transactions (for the Units to be redeemed and Units to be issued) is the day of receipt of the conversion order and transactions will be executed according to general provisions. The settlement date shall be no later than the third banking day from the Trade Date (T+3) unless the Management Company and the investor agree on a different settlement cycle.
- 7.6.7. No subscription or redemption fees shall be charged for conversion of Units.

## 8. THE ACTIVITIES OF THE MANAGEMENT COMPANY

- 8.1. The bases of the activities of the Management Company are laid down with the articles of association of the Management Company, applicable legislation and the Rules.
- 8.2. The Management Company is required in its activities to show sufficient competence, honesty, accuracy and diligence in order to ensure the protection of the best interests of the Fund, the unit-holders and the reliable and regular operation of financial markets.
- 8.3. The Management Company is entitled, in accordance to the Investment Funds Act and the Rules, to dispose of and possess the assets of the Fund and has other rights arising therefrom.
- 8.4. The Management Company invests the assets of the Fund in its own name and on behalf of the unit-holders collectively, i.e. on behalf of the Fund, ensuring sufficient risk diversification in accordance with the investment policy and investment restrictions of the Fund.
- 8.5. Upon investing the assets of the Fund, the Management Company shall:
  - 8.5.1. obtain sufficient information on the assets which the Management Company intends to acquire or has acquired on behalf of the Fund;
  - 8.5.2. monitor the financial situation of the issuer whose securities the Management Company intends to acquire or has acquired on behalf of the Fund;
  - 8.5.3. obtain sufficient information with regard to the solvency of the persons with whom they transact on behalf of the Fund.
- 8.6. The Management Company shall manage the assets of the Fund separately from its own assets, from the assets of other funds and pools of assets managed by the Management Company. **The assets of the Fund do not form a part of the bankruptcy estate of the Management Company and the claims of creditors of the Management Company shall not be satisfied out of such assets.**
- 8.7. The Management Company has the right and obligation to submit a claim in its own name on behalf of unit-holders or the Fund against the Depositary or other persons if failure to submit such claim will result or may result in significant damage to the Fund or its unit-holders. The Management Company is not required to submit such claim if the Fund or unit-holders have already submitted a claim.
- 8.8. The Management Company shall be liable for damage caused to the Fund or unit-holders by violation of its obligations.

- 8.9. The Management Company may acquire and hold Units under provisions set out in the Investment Funds Act. Information regarding the size of the Management Company's ownership in the Fund is available on the Website.
- 8.10. In order to better perform its functions, the Management Company has the right to delegate to third parties the following activities related to the management of the Fund, in accordance with and subject to the Investment Funds Act:
- 8.10.1. investment management;
  - 8.10.2. organising the issue and redemption of Units;
  - 8.10.3. if necessary issuing evidence of title to the unit-holders of the Fund;
  - 8.10.4. providing necessary information to the Fund's unit-holders and other customer services;
  - 8.10.5. organising the distribution of Units;
  - 8.10.6. keeping account of the Fund's assets and organising accounting;
  - 8.10.7. determining the Fund's net asset value;
  - 8.10.8. keeping the register of Units;
  - 8.10.9. accounting for the Fund's income;
  - 8.10.10. monitoring the compliance of the activities of the Management Company and the Fund with the Investment Funds Act and other legislation, including organising a relevant internal audit system;
  - 8.10.11. other functions related to the functions referred to in 8.10.1-8.10.10.
- 8.11. **Delegation of some of its functions to a third party does not relieve the Management Company from its liability in relation to the management of the Fund. The functions and activities in relation to the management of the Fund that have been delegated to third parties are described in more detail in paragraph "Delegation of Functions of the Management Company" of the Prospectus.**

## 9. ACTIVITIES OF THE DEPOSITARY

- 9.1. The Management Company shall conclude an agreement with a depositary institution for safekeeping the Fund's assets. **The Depositary of the Fund is Swedbank AS, registry code 10060701, registered address at Liivalaia 8, 15040 Tallinn, Estonia.**
- 9.2. The Depositary shall safekeep the cash, securities and other liquid assets of the Fund. The Depositary does not safekeep other assets of the Fund, unless it is agreed otherwise between the Management Company and the Depositary. The Depositary shall also carry out other duties entrusted to it by legislation.
- 9.3. **The Depositary shall act independently of the Management Company and in the best interests of the Fund and the unit-holders of the Fund. The Depositary shall keep the assets of the Fund segregated from its own assets and shall keep separate accounting of the assets of Fund.**
- 9.4. The Depositary has the right, in accordance to the policies provided for in the depositary agreement, to enter into agreements for delegating to third parties the safekeeping of the Fund's assets, performing settlements therewith and fulfilling other functions.
- 9.5. The Depositary shall choose the third parties safekeeping the Fund's assets or securities with due care to ensure the reliability of such third parties. The Depositary shall assess before delegating its functions and perform ongoing monitoring to ensure that the organisational and technical arrangement of the delegate as well as its financial condition is sufficient for performing its contractual obligations.
- 9.6. **The Depositary shall be liable for the direct proprietary damage caused to the Fund and unit-holders as a result of breach of its duties.** Upon delegation of its functions the Depositary shall be liable for the breach of the obligations provided in Article 9.5 of the Rules and for the failure to monitor the activities of the delegate.

## 10. FEES AND EXPENSES PAID BY THE FUND

10.1. The Management Company shall be paid a fee for managing the Fund. The rate of the management fees shall be:

10.1.1. **A Units:** up to **1.75% per year** of the market value of the Fund's assets. In addition, the Management Company shall be paid a performance fee based on the return of A Units. The Management Company is entitled to the performance fee if the net asset value of A Unit exceeds its historic high to which **the required minimum return of 5% per year** has been added. The rate of **the performance fee is 15%** of the increase in the net asset value of A Unit over its historic high to which the required minimum return of 5% per year has been added.

10.1.2. **B Units:** up to **1.25% per year** of the market value of the Fund's assets. In addition, the Management Company shall be paid a performance fee based on the return of B Units. The Management Company is entitled to the performance fee if the net asset value of B Unit exceeds its historic high to which **the required minimum return of 8% per year** has been added. The rate of **the performance fee is 15%** of the increase in the net asset value of B Unit over its historic high to which the required minimum return of 8% per year has been added.

10.1.3. **C Units:** up to **1.25% per year** of the market value of the Fund's assets. In addition, the Management Company shall be paid a performance fee based on the return of C Units. The Management Company is entitled to the performance fee if the net asset value of C Unit exceeds its historic high to which the required minimum return (12 month Euribor rate) has been added. The rate of **the performance fee is 10%** of the increase in the net asset value of C Unit over its historic high to which **the required minimum return (12 month Euribor rate)** has been added. The Euribor rate used when calculating the performance fee is fixed as of the last business day of each quarter for the following quarter. The Euribor rate being negative, a rate of 0% shall be applied.

10.1.4. **D Units:** up to **2% per year** of the market value of the Fund's assets.

10.1.5. **E Units:** up to **0.85% per year** of the market value of the Fund's assets. In addition, the Management Company shall be paid a performance fee based on the return of E Units. The Management Company is entitled to the performance fee if the net asset value of E Unit exceeds the most recent Fixed NAV to which the return of the benchmark index has been added. **The rate of the performance fee is 15% of the increase in the net asset value of E Unit over the most recent Fixed NAV to which the return of the benchmark index has been added.** The Fixed NAV is the net asset value of the E Unit calculated as of the most recently passed June 30. Until June 30, 2011 the Fixed NAV shall be equal to the nominal value of the E Unit (10 EUR). The benchmark index shall be a diversified index of the Fund's investment region that reflects the movements of the region's markets and is regularly made available to the public. **Detailed information about the benchmark index shall be published in the Prospectus.** The Management Company is entitled to change the chosen benchmark index. The Management Company shall send a prior notice of changing the benchmark index to all unit-holders in a format that can be reproduced in writing to a unit-holder's address included in the register or to other contact details that the unit-holder has presented to the Management Company. The notice shall be sent to the unit-holders at least one month prior to the new benchmark index becoming effective. If the new benchmark index becomes effective on any other day except July 1, the Management Company shall not be entitled to performance fee for the period that begins on July 1 preceding the day of changing the benchmark index and ends on June 30 following the day of changing the benchmark index.

10.1.6. The management board of the Management Company is entitled to apply a lower rate of management fee and performance fee in some periods. Information about the current valid rates of the management fee and performance fee is available in the Prospectus.

- 10.2. **The Depository shall be paid a fee for its services.** The maximum annual rate of **the depository fee is 0.23%** of the market value of the Fund's assets. Value added tax shall be added to the abovementioned fee.
- 10.3. The Management and depository fee are accrued daily and paid out monthly for the previous month. Performance fee for A, B and C Units is fixed daily; any accrued performance fee shall be paid out monthly. The provision for performance fee of E Unit is revalued on each day of calculating the net asset value and is paid out annually as of June 30 during the following month. Should units be redeemed prior to the date when performance fee is fixed, any accrued but unpaid performance fee for the redeemed units shall be payable during the month following the fixing of the performance fee.
- 10.4. Unless otherwise specified in the legislation, the management, performance and depository fee shall be calculated based on actual calendar days in a year (actual/actual).
- 10.5. **The Fund shall also pay the following expenses:**
  - 10.5.1. expenses related to holding the Fund's assets and making transactions therewith such as brokerage fees, interest expenses, settlement charges, transaction fees and costs relating to borrowings;
  - 10.5.2. expenses related to auditing the Fund;
  - 10.5.3. fund administration fees to the service provider (the service includes keeping the Fund's accounts and calculating net asset value);
  - 10.5.4. expenses related to keeping the register of the Units, based on the price list of the Registrar (including the Registrar's charges related to receiving and processing the subscription and redemption orders of the Units);
  - 10.5.5. expenses related to preparing, printing, translating and distributing the Rules, Prospectus and other Fund documents;
  - 10.5.6. state fees, costs and expenses related to registering Rules or Prospectus, distribution of the Fund or other operations in relation to the Fund;
  - 10.5.7. supervisory fees in relation to registering and distributing the Fund abroad;
  - 10.5.8. expenses directly related to the management of the Fund (incl. legal fees).
- 10.6. The Management Company shall not incur expenses on behalf of the Fund and the unit-holders that are not related to the management of Fund.
- 10.7. Total fees and expenses payable on behalf of the Fund shall not exceed 5% of the weighted average net asset value of the Fund's assets per annum.

## **11. ACCOUNTING AND REPORTING OF THE FUND**

- 11.1. The accounting and reporting of the Management Company and of the Fund shall be organised based on the Accounting Act, the Investment Funds Act, other legislation and the Management Company's internal accounting rules, unless provided otherwise by the Investment Funds Act.
- 11.2. The accounting of the Fund shall be organised by the Management Company. The Management Company has delegated the Fund accounting function to a third party, details of which are available in Prospectus under "Delegation of Functions of the Management Company".
- 11.3. The Fund's books shall be kept separate of the books of the Management Company and of the other funds.
- 11.4. The financial year of the Fund shall be the same as the financial year of the Management Company which matches the calendar year.
- 11.5. The Fund's annual and semi-annual report and the report of investments shall be approved by the management board of the Management Company. The reports shall be signed by all members of the management board of the Management Company.

- 11.6. The Fund's annual report shall be audited before its approval. The independent certified auditor's report shall be attached to the Fund's annual report.
- 11.7. The annual reports of the Fund shall be made available at the Management Company's registered address and [Website](#) four months after the end of the Fund's financial year, and semi-annual reports two months after the end of the half-year.

## **12. RELEASING INFORMATION CONCERNING THE FUND**

- 12.1. Any person has the right to access the following information and documents at the Management Company's registered address and at [the Website](#):
  - 12.1.1. The Rules;
  - 12.1.2. The annual reports of the Fund for three most recent financial years;
  - 12.1.3. The most recent semi-annual report of the Fund, if it has been approved later than the most recent annual report;
  - 12.1.4. Prospectus and key investor information documents;
  - 12.1.5. Name and contact details of the Management Company;
  - 12.1.6. Name of the fund manager;
  - 12.1.7. Name and contact details of the Depositary;
  - 12.1.8. Rules for calculating the net asset value of the Fund and the internal rules for making derivative transactions on the account of the Fund;
  - 12.1.9. Information about the size of the Management Company's holding in the Fund;
  - 12.1.10. The annual reports of the Management Company for three most recent financial years.
- 12.2. On request, unit-holders shall receive a copy of the Rules, the Fund's three most recent annual or the last semi-annual report, the Prospectus and the key investor information documents free of charge.
- 12.3. The Management Company shall on each banking day publish the net asset value, subscription and redemption price of the Unit on its Website.
- 12.4. In case circumstances that substantially affect the activities or the financials of the funds managed by the Management Company (including the Fund) or the net asset value of the Unit should become evident, the respective information shall be published without delay at the Website.
- 12.5. Information, excluding the last annual report of the Management Company, shall be made public within three days of the document entering into force or such changes taking effect. The documents and information shall be published in Estonian or English and additionally in other languages, if necessary. Key investor information documents shall be published in Estonian, English and official language of the country where the Units are distributed.
- 12.6. Information to be disclosed concerning the Fund may include information, facts and assessments concerning the Fund published with the aim of informing the public of the Rules, the activities, financial condition of the Fund, formation of the net asset value of the Units of the Fund and other required circumstances.
- 12.7. The Management Company is entitled to send notices and reports relating to the Fund to a unit-holder's known mailing or e-mail address.

## **13. AMENDING THE FUND RULES**

- 13.1. The Rules, including essential terms and conditions related to the investment restrictions or fees of the Fund may be amended at the discretion of the Management Company. The supervisory board of the Management Company has the power to resolve amendment of the Rules.
- 13.2. The Management Company shall promptly inform the Depositary of any amendment to the Rules.

- 13.3. All amendments to the Rules shall be registered with the Financial Supervision Authority. The registration with the Financial Supervision Authority is not required if amendments are made only due to amendments in applicable laws and regulations, and such amended Rules are immediately submitted to the Financial Supervision Authority.
- 13.4. Upon amendment of the Rules, the Management Company shall promptly after the registration of the amendments, or submission of the amended Rules to the Financial Supervision Authority, publish a notice in at least one daily national newspaper and on the Website concerning the amendment of the Rules. No notice concerning amendment of the Rules shall be published in a daily national newspaper if the Rules are amended only due to amendments made to the legislation.
- 13.5. The amended Rules shall be published on the Website.
- 13.6. The amendments to the Rules shall take effect in one month after publishing the corresponding notice, unless a later date is provided in such notice.
- 13.7. If the Rules are amended only due to amendments made to the legislation, such amendments shall enter into force on the date provided in the notice disclosed on the Website.

#### **14. LIQUIDATION OF THE FUND**

- 14.1. Liquidation of the Fund shall be effected in the cases and according to the procedures provided for in the Investment Funds Act.
- 14.2. Liquidation of the Fund shall be decided by the supervisory board of the Management Company. As provided for in the Investment Funds Act, the Depositary can act as the liquidator. In order to liquidate the Fund, the Management Company shall apply for a respective authorization from the Financial Supervision Authority.
- 14.3. Subsequent to obtaining approval for liquidation of the Fund from the Financial Supervisory Authority, the Management Company shall without delay publish a notice regarding the liquidation of the Fund in at least one daily national newspaper and on the Website.
- 14.4. Upon liquidation of the Fund the Management Company shall sell the assets of the Fund as soon as possible and in accordance with the interests of the unit-holders, shall collect the debts of the Fund and satisfy the claims of the creditors of the Fund. The liquidation proceedings must be finished within six months starting from publishing the liquidation notice. The time period may be extended based on an authorisation by the Financial Supervisory Authority if requested by the Management Company; however, as a result of the extension, the period of liquidation must not exceed 18 months.
- 14.5. Up to 2% of the net asset value of the Fund may be used to cover the expenses of liquidation of the Fund. If the actual liquidation expenses exceed the specified amount, the Management Company shall be liable for the expenses exceeding that amount.
- 14.6. The Management Company shall distribute the assets remaining upon liquidation between unit-holders on the basis of the class, number and net asset value of Units owned by each unit-holder. The Management Company shall publish a notice concerning distribution of the assets subject to distribution in at least one daily national newspaper and on the Website.

## APPENDIX to Fund Rules

1. List of financial indices in addition to the indices in article 4.5.2.4 that are allowed as underlying for derivative instruments into which the Fund's assets may be invested:

Regional indices	CECEUR, EUETMP, SETXEUR, CETOP20, NTX
Baltic countries	OMX Baltic Tradable
Austria	ATX, ATX five
Bosnia and Herzegovina	BIRS, FIRS, ERS10, BIFXX, SASX-10, BATX
Bulgaria	SOFIX, BG40, BTX
Estonia	OMX Tallinn
Croatia	CROBEX, CROEMI, CROX
Greece	FTASE, ASE
Lithuania	OMX Vilnius
Latvia	OMX Riga
Macedonia	MBI10
Montenegro	MOSTE
Poland	WIG 20, WIG, WIG 40, WIG 80, WIGBANK, PTX
Romania	BET, ROTX, BET-C, BET-FI
Serbia	BELEX15, BELEXfm, SRX
Czech Republic	PX, CTX
Turkey	XU100, XBANK, BIST30
Hungary	BUX, HTX

2. List of foreign currencies that are allowed as underlying for derivative instruments into which the Fund's assets may be invested:

EUR	Euro
USD	US dollar
GBP	British pound
JPY	Japanese yen
CHF	Swiss franc
SEK	Swedish krona
DKK	Danish krona
PLN	Polish zloty
HUF	Hungarian forint
CZK	Czech koruna
TRY	Turkish lira
NOK	Norwegian krone
RON	Romanian leu
BGN	Bulgarian lev
RSD	Serbian dinar
MKD	Macedonian denar
BAM	Bosnian convertible marka
HRK	Croatian kuna
UAH	Ukrainian hryvnia
ALL	Albanian lek
MDL	Moldavan leu