

**Investment Objectives & Approach**

The Fund invests actively in listed equities of European Union new member states and accession countries (Emerging Europe, ex Russia). Benchmark agnostic, it emphasizes bottom-up, value oriented stock picking with a strong small and mid-cap bias. The Fund's investment objective is to maximise upside to internally set target prices, taking into account company quality, liquidity and FX outlook. By implementing our investment process we aim to outperform the market with lower volatility. The Fund typically invests in 30-40 regional companies, who generally demonstrate a competitive advantage or attractive risk/return features. It adheres to the UN Principles for Responsible Investment. Suitable for investors seeking a stock picking portfolio in Emerging Europe, it acts as medium to long term diversifier in a global Emerging Markets, European or Global Equity portfolio.

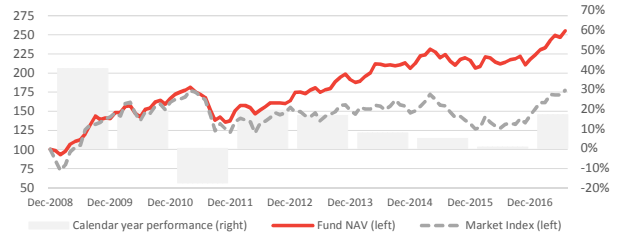
**Fund Manager's Comment, July 2017**

Global equities continued to edge higher in July with MSCI World up 2.3% in \$ while weaker dollar pushed the performance in € into red (-1.3%). YTD the dollar has lost 11.2% against the euro. Emerging Market equities rallied strongly, up 5.5% in \$ (+1.8% in €) on the back of rising risk appetite and fund flows. Emerging Europe stocks (MSCI EFM CEEC ex-RU) headed similarly north returning 3.3% in € terms. Among regional currencies Turkish lira lost 3.5% vs. the euro on the back of the dollar weakness.

Avaron Emerging Europe Fund added 3.4% in July, in line with the regional index. We remain relatively constructive on Turkey despite strong YTD market performance and somewhat uncertain currency outlook. We hold our conviction towards Romanian investments on reasonable valuations and strong macro environment but remain constrained by the lack of market depth and liquidity. In Poland we are invested predominantly in financials with additional selective picks from the non-financial space. Among Austrian-listed companies we hold Emerging Europe real estate companies, which offer attractive valuations and high liquidity. In the Czech Republic and Hungary we find only a select list of attractive names in banking, energy, pharma and manufacturing. The selection of companies in the Fund portfolio trade at 12.7x 2017f P/E. Despite the cyclical upturn in the markets we hold true to our value driven bottom-up approach favouring companies with strong balance sheets and solid sustainable free cash flow generation. The aggregate net gearing of our portfolio companies stands at 21% and dividend yield between 4-5% on average pay-out rate of 77%.

To receive portfolio managers' detailed monthly report please send a request to [info@avaron.com](mailto:info@avaron.com).

**Performance**



Past performance is not a guarantee or indicative of future results. The Fund was launched in 2007 as a small cap fund. From 2009 it operates as an all cap fund with small and mid-cap bias.

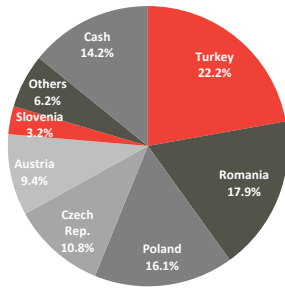
Perf overview	Fund net return	Index return*	Calendar year return			
			Year	Gross	Net	Index*
1 month	3.4%	3.3%	2016	2.1%	0.6%	8.2%
YTD	17.0%	22.4%	2015	6.7%	5.0%	-9.6%
3 months	5.1%	3.1%	2014	9.4%	7.8%	-2.1%
6 months	14.0%	15.7%	2013	18.5%	16.7%	-2.4%
1 year	19.1%	33.3%	2012	21.1%	19.2%	26.5%
3 years	21.6%	16.9%	2011	-16.3%	-17.6%	-24.3%
5 years	63.8%	29.4%	2010	20.8%	18.9%	13.4%
7 years	67.1%	18.6%	2009	42.6%	40.4%	42.6%

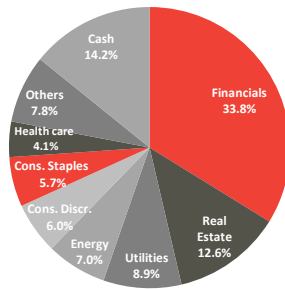
CAGR of calendar years		
Years	Fund	Index*
2015-2016	2.8%	-1.1%
2014-2016	4.4%	-1.4%
2012-2016	9.7%	3.4%

\* MSCI EFM Central and Eastern Europe & CIS ex Russia

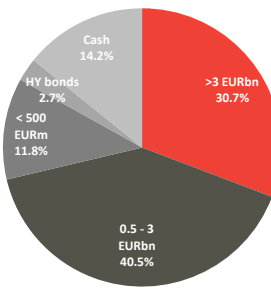
**Geographic breakdown**



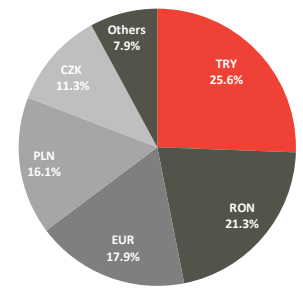
**Sector breakdown**



**Market Cap breakdown**



**Net currency breakdown**



**Country allocation**

	Jul-17	Change					Contribution analysis					
		1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Turkey	22.2%	-0.3%	-1.2%	5.0%	2.1%	19.2%	0.5%	1.1%	3.0%	4.6%	2.2%	11.9%
Romania	17.9%	-0.5%	-2.6%	5.5%	-0.1%	2.5%	1.2%	1.4%	6.1%	4.9%	6.9%	21.6%
Poland	16.1%	1.0%	1.4%	6.1%	10.9%	7.7%	0.8%	0.7%	4.6%	3.4%	4.7%	3.7%
Czech Rep.	10.8%	0.2%	0.0%	0.0%	4.3%	-10.4%	0.6%	0.8%	1.3%	1.9%	2.8%	4.7%
Austria	9.4%	-0.1%	0.1%	-10.3%	-2.7%	3.6%	0.3%	1.0%	4.9%	2.2%	7.2%	10.2%
Slovenia	3.2%	-0.1%	0.0%	-1.0%	-0.5%	-0.3%	0.1%	0.3%	-0.3%	0.3%	-0.5%	2.7%
Croatia	2.0%	0.0%	1.2%	1.2%	2.0%	-0.4%	0.0%	0.2%	0.4%	0.2%	0.4%	0.2%
Baltics	1.8%	0.2%	0.1%	-0.4%	-3.2%	0.1%	0.3%	0.3%	0.2%	0.3%	1.6%	2.9%
Bulgaria	1.2%	0.0%	0.0%	-0.2%	-0.5%	-9.1%	0.0%	0.1%	0.3%	0.1%	0.4%	7.2%
Others	1.2%	1.8%	1.7%	2.3%	6.1%	13.1%	-0.1%	-0.2%	0.3%	0.2%	2.2%	12.4%

**Risk metrics**

Alpha	5%
Volatility & stand. deviation	9.7%
Beta	0.43
Sharpe ratio	0.71
Information ratio	0.12
Tracking error	11.5%

\* MSCI EFM Central and Eastern Europe & CIS ex Russia

**Sector allocation**

	Change	Contribution analysis										
		1 mo	3 mo	12 mo	YTD	3 years	5 years					
Financials	33.8%	0.0%	-0.4%	4.9%	11.5%	10.0%	1.2%	1.1%	10.0%	7.8%	10.1%	31.2%
Real Estate	12.6%	-0.2%	-0.1%	-4.9%	0.0%	3.4%	0.3%	1.1%	1.0%	1.1%	2.4%	8.5%
Utilities	8.9%	0.3%	-1.8%	-1.8%	-6.9%	-2.3%	0.6%	0.4%	2.0%	2.4%	2.4%	11.1%
Energy	7.0%	0.0%	-0.2%	1.1%	-1.5%	3.3%	0.6%	0.2%	3.3%	1.5%	2.4%	4.2%
Cons. Discr.	6.0%	-1.2%	-0.9%	-1.2%	-0.8%	-5.3%	0.6%	1.1%	1.7%	2.1%	4.8%	10.4%
Consumer Staples	5.7%	1.1%	1.6%	5.1%	4.2%	4.1%	0.3%	0.9%	0.9%	1.4%	3.2%	3.6%
Health care	4.1%	-0.9%	-1.0%	-1.1%	-1.6%	0.5%	0.1%	0.5%	0.3%	0.7%	0.6%	4.7%
Industrial	3.0%	0.1%	0.5%	-0.2%	3.0%	1.5%	0.2%	0.7%	1.3%	0.9%	1.0%	2.9%
Others	4.8%	6.1%	6.0%	3.8%	0.2%	-6.4%	-0.2%	-0.2%	0.5%	0.3%	0.9%	1.0%

**Fund statistics**

Number of positions	39
Top10	44.9%
Top20	69.4%
Gross exposure	85.8%
Net exposure	85.7%
Concentration coefficient	34
Median market cap MEUR	1803
Average market cap MEUR	2419

**Style allocation**

	Change	Contribution analysis										
		1 mo	3 mo	12 mo	YTD	3 years	5 years					
Cyclical	47.0%	-0.7%	-0.5%	2.3%	13.0%	23.7%	2.3%	2.4%	14.1%	10.0%	13.6%	30.5%
Non-cyclical	18.4%	1.3%	0.3%	2.7%	-5.9%	-9.2%	1.0%	2.5%	3.6%	5.2%	7.3%	13.7%
Asset play	17.6%	-0.1%	-0.5%	2.7%	5.6%	-2.1%	0.5%	1.2%	2.5%	2.5%	4.8%	21.7%
Convertible bonds	0.0%	0.0%	0.0%	0.0%	-7.4%	-5.1%	0.0%	0.0%	0.0%	0.0%	-0.4%	7.5%
High yield bonds	2.7%	-0.2%	-0.4%	-2.2%	2.7%	-7.3%	-0.1%	-0.2%	0.7%	0.4%	2.5%	3.3%
FX Derivatives	0.1%	-0.1%	-0.2%	0.1%	0.1%	0.1%	-0.1%	-0.2%	0.1%	0.1%	0.2%	0.9%
Cash	14.2%	-0.2%	1.3%	-5.6%	-8.0%	-0.2%	-0.1%	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%

**Turnover**

	Adj*
FY 2016	17.7%
FY 2015	22.2%
FY 2014	47.9%

\* Adjusted for fund flows

**Liquidity analysis\***

20%	64.3%	77.9%
50%	82.2%	94.2%
	92.1%	98.8%

\* Proportion of portfolio that can be turned into cash based on past 6 month average trading volume if Fund accounted for 20% & 50% of trading volume

**Fund Facts - Avaron Emerging Europe Fund**

<b>Investment Manager</b>	AS Avaron Asset Management
<b>Fund type</b>	Open-ended, UCITS-IV
<b>Launch date</b>	April 23, 2007
<b>Domicile</b>	Estonia
<b>Currency</b>	EUR
<b>Dividends</b>	reinvested
<b>Fund size, MEUR</b>	70.5
<b>Total AUM, MEUR</b>	500+

**TER 2016** 0.28% (excluding management and performance fees)

	ISIN Code	NAV 31-Jul 2017
<b>A unit</b>	EE3600090049	4.9251 EUR
<b>B unit</b>	EE3600090056	5.2098 EUR
<b>C unit</b>	EE3600102901	17.6694 EUR
<b>D unit</b>	EE3600108866	14.8801 EUR
<b>E unit</b>	EE3600108874	14.7402 EUR

**A & B units** only for investors who owned units as of May 30, 2009  
**C, D & E units** for all investors

<b>Cut-off</b>	10am CET
<b>NAV frequency</b>	Daily dealing, T+3
<b>Public offering</b>	France, Switzerland, Germany, Finland, Sweden, Estonia, Latvia
<b>Morningstar rating</b>	Yes, five stars (3 years & 5 years)
<b>Tax transparency</b>	Germany
<b>Supervised by</b>	Estonian FSA
<b>Custodian</b>	Swedbank AS
<b>Transfer agent</b>	Swedbank AS
<b>NAV calculation</b>	Swedbank AS
<b>External auditor</b>	Deloitte
<b>Internal auditor</b>	PWC
<b>Fund documents &amp; prospectus</b>	<a href="http://www.avaron.com/documents">www.avaron.com/documents</a>

Unit class	D (Retail)	C (Institutional)	E (Institutional)
<b>Min. initial investment</b>	-	125,000 EUR	1M EUR
<b>Front-end load</b>	2%	-	-
<b>Management fee</b>	2%	1.25%	0.85%
<b>Performance fee (unit based)</b>	-	10% over 12-month EURIBOR, HWM	15% over MSCI EFM CEEC ex-Russia Index, annual reset (June 30)
<b>Back-end load</b>	-	-	-

**Bloomberg tickers**

A unit: AVAEESA  
 B unit: AVAEESB  
 C unit: AVAEESC  
 D unit: AVEMEUD  
 E unit: AVEMEUE

See Lipper, TK Valoren tickers:  
[www.avaron.com/fundfacts\\_aef](http://www.avaron.com/fundfacts_aef)

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**About Avaron Asset Management**

Avaron Asset Management is an independent management-owned asset manager with a clear focus on Emerging Europe listed equities and fixed income. Our 8 investment professionals, in Estonia and Poland, focus on active investment management. In total 14 professionals are employed by Avaron.

We combine top down macroeconomic and sector analysis with bottom-up research. We source investment ideas through in-house proprietary research on approximately 300 companies, backed by regular visits and meetings. We seek inefficiencies in the valuation of companies' equity and debt with the aim to invest in well managed companies with leading market positions, highly motivated and dynamic management teams and competitive edge. Our preference goes to investments with attractive risk/return.

We adhere to the *UN Principles for Responsible Investment* (PRI) and are supervised by the Estonian Financial Supervision Authority.



**Kristel Kivnurm-Priisalm**  
 Managing Partner,  
 CEO & COO



**Peter Priisalm**  
 Partner, co-CIO,  
 Investment Manager



**Valdur Jaht**  
 Partner, co-CIO,  
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**Important Legal Information**

*This material has been drawn up by AS Avaron Asset Management (hereafter: Avaron), a fund management company registered in Estonia which is authorised and supervised by the Estonian Financial Supervision Authority. The contact details of Avaron are as follows: address Narva mnt 7D, 10117 Tallinn, Estonia; phone +372 6644 205; fax +372 6644 201; e-mail [info@avaron.com](mailto:info@avaron.com). This material is the copyright property of Avaron, unless noted otherwise, and all rights are reserved.*

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