

## 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.

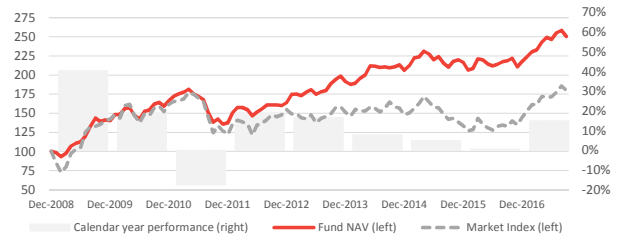
## Fund Manager's Comment, September 2017

Global equities rallied in September rounding up a strong Q3 performance on supportive macro and Q2 earnings season. MSCI World gained 2.1% in \$. US dollar staged a turnaround in September gaining 0.8% on the euro driven by increased rate expectations after Fed Chairwoman Yellen reiterated the case for continuing hikes. Emerging markets took a breather after a very strong 8 months of the year, down 0.5% in \$ (+0.3% in €) in September. Emerging Europe stocks underperformed in September after the strong rally the month before, losing 3.0% in € (+5.1% in Q3). Strong profit taking emerged in Turkey and Turkish lira amid the Kurdish independence referendum in Northern Iraq and increased geopolitical tension. Polish zloty and Hungarian forint weakened in September as the regional asset class saw outflows.

The Fund lost 3.1% in September. In 5 years the Fund has delivered +55.6% return vs. +21.9% for the index with lower volatility, resulting in 7.7% alpha. We continue to hold our conviction towards Romanian and Turkish investments on reasonable valuations and strong macro environment. The Fund portfolio companies trade at 11.7x 2017 earnings, offering 4-5% dividend yield.

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*
1 month	-3.1%	-3.0%
YTD	14.9%	24.4%
3 months	1.6%	5.1%
6 months	7.5%	11.7%
1 year	14.5%	35.7%
3 years	19.6%	9.3%
5 years	55.6%	21.9%
7 years	54.4%	14.9%

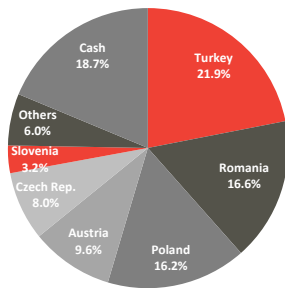
\* MSCI EFM Central and Eastern Europe & CIS ex Russia

Year	Calendar year return		
	Gross	Net	Index*
2016	2.1%	0.6%	8.2%
2015	6.7%	5.0%	-9.6%
2014	9.4%	7.8%	-2.1%
2013	18.5%	16.7%	-2.4%
2012	21.1%	19.2%	26.5%
2011	-16.3%	-17.6%	-24.3%
2010	20.8%	18.9%	13.4%
2009	42.6%	40.4%	42.6%

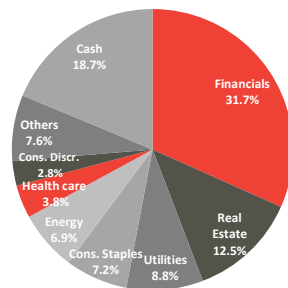
  

Years	CAGR of calendar years		
	Fund	Index*	
2015-2016	2.8%	-1.1%	
2014-2016	4.4%	-1.4%	
2012-2016	9.7%	3.4%	

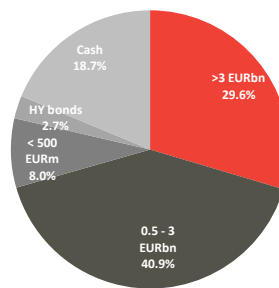
## Geographic breakdown



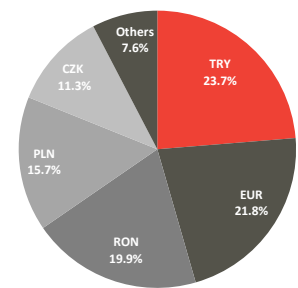
## Sector breakdown



## Market Cap breakdown



## Net currency breakdown



## Country allocation

	Change					Contribution analysis						
	Sep-17	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Turkey	21.9%	-1.5%	-0.6%	2.3%	10.0%	19.5%	-1.9%	-0.7%	1.3%	3.3%	3.1%	11.1%
Romania	16.6%	-0.3%	-1.8%	2.9%	-2.4%	0.9%	-0.4%	0.3%	4.4%	3.9%	4.3%	19.1%
Poland	16.2%	0.1%	1.1%	7.6%	7.6%	10.7%	-0.2%	0.8%	3.6%	3.3%	3.2%	3.5%
Austria	9.6%	-0.3%	0.1%	-10.0%	-5.3%	1.8%	-0.1%	0.7%	3.7%	2.7%	8.6%	10.5%
Czech Rep.	8.0%	-2.9%	-2.7%	-1.8%	3.5%	-13.0%	0.1%	0.8%	2.7%	2.2%	2.3%	2.5%
Slovenia	3.2%	-0.1%	-0.2%	-1.0%	-0.6%	-1.2%	-0.1%	0.2%	-0.4%	0.3%	-0.4%	1.6%
Croatia	1.9%	-0.1%	-0.2%	1.1%	1.9%	-1.3%	-0.1%	-0.1%	0.2%	0.1%	0.3%	0.2%
Baltics	1.7%	-0.2%	0.2%	0.0%	-2.6%	0.1%	-0.1%	0.3%	0.3%	0.3%	1.9%	2.7%
Bulgaria	1.2%	0.0%	0.0%	0.0%	-0.6%	-8.5%	0.0%	0.0%	0.3%	0.1%	0.4%	6.5%
Others	1.2%	1.8%	1.8%	2.1%	6.5%	8.9%	-0.1%	-0.1%	0.4%	0.3%	2.0%	10.9%

## Risk metrics

Alpha	5%
Volatility & stand. deviation	9.8%
Beta	0.43
Sharpe ratio	0.65
Information ratio	0.27
Tracking error	11.4%

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

## Sector allocation

	Change					Contribution analysis						
	Sep-17	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Financials	31.7%	-1.9%	-2.1%	0.2%	11.0%	9.2%	-1.4%	0.1%	6.8%	6.6%	9.7%	28.0%
Real Estate	12.5%	-0.4%	-0.2%	-2.7%	-1.4%	1.4%	-0.2%	0.5%	0.7%	1.4%	3.5%	8.1%
Utilities	8.8%	-0.2%	0.1%	-2.2%	-9.3%	-4.0%	0.0%	0.6%	2.3%	2.4%	-0.1%	10.0%
Consumer Staples	7.2%	0.5%	2.6%	4.5%	6.7%	5.6%	-0.1%	0.7%	1.5%	1.8%	3.7%	3.8%
Energy	6.9%	0.1%	0.0%	1.3%	-1.5%	3.4%	-0.1%	0.4%	2.7%	1.3%	2.4%	3.7%
Health care	3.8%	-0.2%	-1.2%	-1.1%	-2.0%	-0.6%	-0.1%	0.1%	0.1%	0.7%	0.6%	3.6%
Cons. Discr.	2.8%	-3.1%	-4.3%	-2.8%	-3.5%	-5.3%	-0.2%	0.5%	1.9%	2.0%	5.1%	9.8%
Industrial	2.5%	-0.6%	-0.5%	-0.2%	2.5%	1.5%	-0.5%	-0.3%	0.3%	0.4%	0.5%	2.7%
Others	5.1%	6.3%	6.5%	4.2%	4.8%	-10.1%	-0.2%	-0.5%	0.1%	0.0%	0.4%	-0.9%

## Fund statistics

Number of positions	37
Top10	42.6%
Top20	65.8%
Gross exposure	81.3%
Net exposure	81.1%
Concentration coefficient	37
Median market cap MEUR	1810
Average market cap MEUR	2493

## Style allocation

	Change					Contribution analysis						
	Sep-17	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Cyclical	44.0%	-2.9%	-3.8%	-0.3%	12.5%	25.2%	-2.5%	0.0%	9.1%	7.6%	13.1%	27.8%
Non-cyclical	17.3%	-2.0%	0.2%	1.9%	-4.0%	-11.9%	-0.1%	1.6%	4.7%	5.7%	6.0%	10.7%
Asset play	17.2%	-0.7%	-0.5%	0.6%	5.0%	-5.2%	-0.3%	0.6%	1.7%	2.6%	4.0%	19.6%
Convertible bonds	0.0%	0.0%	0.0%	0.0%	-9.1%	-5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.7%
High yield bonds	2.7%	0.0%	-0.2%	-1.4%	2.7%	-2.6%	0.0%	0.0%	0.7%	0.4%	2.5%	3.0%
FX Derivatives	0.1%	-0.1%	-0.1%	0.1%	0.1%	0.1%	-0.1%	-0.1%	0.2%	0.2%	0.2%	0.9%
Cash	18.7%	5.5%	4.3%	-1.0%	-7.2%	-0.6%	0.0%	-0.1%	-0.3%	-0.2%	-0.2%	-0.2%

## Turnover

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

\* Adjusted for fund flows

## Liquidity analysis\*

20%	65.6%	79.4%
50%	82.6%	93.6%
	91.6%	98.6%

\* 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>	72.2
<b>Total AUM, MEUR</b>	450+

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

	ISIN Code	NAV 30-Sep 2017
<b>A unit</b>	EE3600090049	4.8333 EUR
<b>B unit</b>	EE3600090056	5.1169 EUR
<b>C unit</b>	EE3600102901	17.3286 EUR
<b>D unit</b>	EE3600108866	14.5961 EUR
<b>E unit</b>	EE3600108874	14.4884 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, four stars (3 & 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>	KPMG
<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 11 investment professionals, in Estonia and Poland, focus on active investment management. In total 17 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**  
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 CEO & COO



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



**Valdur Jaht**  
 Partner, co-CIO,  
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