



Avaron Flexible Strategies Fund

ANNUAL REPORT FOR THE FINANCIAL YEAR 2017

Audited by KPMG

TABLE OF CONTENTS

FUND FACTS	3
MANAGEMENT REPORT.....	4
CONFIRMATION OF ANNUAL FINANCIAL STATEMENTS OF 2017	5
FINANCIAL STATEMENTS	6
BALANCE SHEET	6
STATEMENT OF INCOME AND EXPENSES	7
STATEMENT OF CHANGES IN NET ASSETS.....	8
STATEMENT OF CASH FLOWS.....	9
NOTES TO THE FINANCIAL STATEMENTS.....	10
NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED	10
NOTE 2. RISK MANAGEMENT.....	16
NOTE 3. CASH AND CASH EQUIVALENTS.....	21
NOTE 4. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES TO CATEGORIES AND LEVELS ..	22
NOTE 5. NET GAIN/LOSS FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS..	24
NOTE 6. TRANSACTIONS WITH RELATED PARTIES	25
NOTE 7. DERIVATIVE INSTRUMENTS.....	26
STATEMENT OF INVESTMENTS	27
STATEMENT OF COMMISSIONS	33
REPORT ON REMUNERATION OF THE FUND MANAGEMENT COMPANY.....	35
INDEPENDENT CERTIFIED AUDITOR’S REPORT	36

FUND FACTS

Avaron Flexible Strategies Fund is a public common alternative investment fund registered in the Republic of Estonia.

Name of the Fund	Avaron Flexible Strategies Fund
Fund Management Company	AS Avaron Asset Management (reg. no. 11341336)
Registered address and contact details of the Fund Management Company	Address: Narva road 7D, 10117 Tallinn, Estonia Phone: +372 664 4200 Facsimile: +372 664 4201 E-mail: avaron@avaron.com www.avaron.com
Depository & custody bank	Swedbank AS (reg. no. 10060701)
Fund administration (NAV calculation) & Transfer Agent services	Swedbank AS (reg. no. 10060701)
Auditor	KPMG Baltics OÜ (reg. no. 10096082)
Supervisor	Estonian Financial Supervision Authority
Investment managers	Kristel Kivinurm-Priisalm, Valdur Jaht, Peter Priisalm
Fund established	25 November 2008
Start of the Fund's activities	17 December 2008
Report period	1 January 2017–31 December 2017

MANAGEMENT REPORT

Avaron Flexible Strategies Fund (hereinafter: “the Fund”) is an actively managed fund set up for investors that wish to assign asset allocation decision making to Avaron. The Fund can invest in all liquid asset classes, including cash, bonds and fixed income, equities, funds and derivatives. As allocation to different asset classes varies based on Avaron investment managers' views on valuation levels and available investment opportunities, the risk level and risk profile of the Fund are changing over time. However, while making investments, we keep in mind the absolute return target in 3-5 year horizon. The Fund does not guarantee any of the capital invested. The Fund has a global mandate with bias to Central and Eastern Europe, a region of Avaron’s competence.

In 2017 the Fund’s net return (final return after the deduction of all fees) reached +3.3%. In 5 years the Fund has delivered net return of +30.9%. The total net assets of the Fund increased from to €10.8 million to €13.1 million over the year.

Table 1. Net return of the Fund units, in EUR

	2 years	3 years	5 years	7 years	Since inception
B unit	8.0%	12.7%	30.9%	40.7%	71.0%



Graph 1. Performance of Fund’s NAV

16 February 2018
 Kristel Kivinurm-Priisalm
 Investment manager and Member of the Management Board

CONFIRMATION OF ANNUAL FINANCIAL STATEMENTS OF 2017

The Management Board of the Fund Management Company has prepared the annual Financial Statements of Avaron Flexible Strategies Fund on 28 April 2018.

The Financial Statements have been prepared in compliance with the requirements stipulated in the regulation no 1606/2002/EC of the European Parliament and of the Council on the application of International Financial Reporting Standards (hereinafter "IFRS") as adopted by the European Commission, the Investment Funds Act, Minister of Finance Regulation no 8 of 18/01/2017 "Requirements for the reports of investment funds to be published" and no 11 of 31/01/2017 "Procedure for Determination of Net Asset Value of Investment Funds" as established on the basis of the Investment Funds Act.

It gives a true and fair view of the assets, liabilities, net asset value and performance results of Avaron Flexible Strategies Fund. The Management Board considers Avaron Flexible Strategies Fund to carry its activities as a going concern.

The annual Financial Statements of Avaron Flexible Strategies Fund have been approved by the Fund Management Company and the investment managers.

Name	Date	Signature
Kristel Kivinurm-Priisalm <i>Member of the Management Board of the Fund Management Company / Investment manager</i>	06/04/2018	/signed digitally/
Valdur Jaht <i>Member of the Management Board of the Fund Management Company / Investment manager</i>	06/04/2018	/signed digitally/
Peter Priisalm <i>Investment manager</i>	06/04/2018	/signed digitally/

FINANCIAL STATEMENTS

BALANCE SHEET

In EUR

ASSETS	Note	31/12/2017	31/12/2016
Cash and cash equivalents	3	6,370,560	1,210,168
Term deposits	3	153,577	153,499
Financial assets at fair value through profit or loss:			
Shares and units	4	1,586,513	8,199,206
Bonds	4	5,025,950	1,189,170
Derivatives	4; 7	65,325	-
Reverse repurchase agreements		-	100,184
Receivables and prepayments	4	16,670	6,917
TOTAL ASSETS		13,218,595	10,859,144
LIABILITIES			
Financial liabilities at fair value through profit or loss:			
Derivatives	4; 7	-	7,770
Other financial liabilities			
Payables to the management company	4; 6	61,117	63,513
Payables to the depository	4	5,987	4,883
Other liabilities	4	1,921	1,399
TOTAL LIABILITIES (except net assets attributable to holders)		69,025	77,565
NET ASSETS ATTRIBUTABLE TO HOLDERS		13,149,570	10,781,579

STATEMENT OF INCOME AND EXPENSES

In EUR

INCOME	Note	01/01/2017- 31/12/2017	01/01/2016- 31/12/2016
Interest income		106,876	88,157
From bonds		105,007	85,537
From deposits		282	2,294
Repurchase agreements		1,587	326
Dividend income			
From shares and units		90,627	62,196
Net gain/loss from financial assets at fair value through profit or loss		497,435	516,965
From shares and units	5	418,406	527,132
From bonds	5	14,845	1,922
From derivative instruments	5	64,184	-12,089
Net gain/loss from foreign exchange		-156,785	-20,964
Other financial income			
Rebates from investments		42,309	43,230
TOTAL INCOME		580,462	689,584
OPERATING EXPENSES			
Management fees	6	150,515	133,902
Performance fees	6	49,802	53,892
Custodian fees		31,417	28,311
Transaction fees		408	456
Other operating expenses		3,240	2,417
TOTAL OPERATING EXPENSES		235,382	218,978
NET INCOME		345,080	470,606

STATEMENT OF CHANGES IN NET ASSETS

In EUR

	01/01/2017- 31/12/2017	01/01/2016- 31/12/2016	01/01/2015- 31/12/2015
NET ASSET VALUE AT THE BEGINNING OF THE PERIOD	10,781,579	10,423,674	9,563,365
Cash received for fund units issued	2,866,180	585,407	2,212,916
Cash paid for fund units redeemed	-843,269	-698,108	-1,774,292
Net result of the Fund	345,080	470,606	421,685
NET ASSET VALUE AT THE END OF THE PERIOD	<u>13,149,570</u>	<u>10,781,579</u>	<u>10,423,674</u>
	31/12/2017	31/12/2016	31/12/2015
Number of B units in circulation at the end of the period:	<u>769,197.239</u>	<u>651,615.304</u>	<u>658,533.224</u>
Net asset value of a B unit:	<u>17.0952</u>	<u>16.5459</u>	<u>15.8286</u>
Total net asset value of the B units in circulation:	13,149,570	10,781,579	10,423,674

STATEMENT OF CASH FLOWS

In EUR

	01/01/2017- 31/12/2017	01/01/2016- 31/12/2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	95,990	101,807
Dividends received	90,553	62,150
Net result from foreign exchange	-6,499	16,360
Sale of investments	8,136,912	1,510,640
Purchase of investments	-4,945,142	-1,683,264
Operating expenses paid	-193,597	-170,031
	3,178,217	-162,338
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of units	2,859,908	586,855
Payments on redemption of units	-846,997	-699,557
	2,012,911	-112,702
TOTAL CASH FLOWS	5,191,128	-275,040
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at the beginning of the period	1,210,168	1,468,314
Effect of exchange rate fluctuations on cash and cash equivalents	-30,736	16,894
Cash and cash equivalents at the end of the period	6,370,560	1,210,168

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED

The annual financial statements of Avaron Flexible Strategies Fund for 2017 have been prepared in compliance with the valid Investment Funds Act as supplemented by the regulations of the Minister of Finance. The financial statements have been prepared, as stipulated in the Minister of Finance Regulation 8 of 18/01/2017 "Requirements for the reports of investment funds to be published" in accordance with the accounting policies and information presentation principles of the International Financial Reporting Standards (hereafter: "IFRS") as approved by the European Commission while taking into account the specifications of the regulation and Rules for Calculating Net Asset Value of Funds.

The financial statements have been prepared in EUR, which is also Fund's functional and presentation currency.

The main accounting principles used when preparing the financial statements have been set out below.

The following standards and interpretations have been used for the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- IAS 12 "Income Taxes" - Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- IAS 7 "Statement of Cash Flows" (effective for annual periods beginning on or after 1 January 2017).

The adoption of these amendments to the existing standards has not led to any changes in the Fund's accounting policies.

Standards and Interpretations issued by IASB that are adopted by the EU but have not yet been implemented

At present EU has approved the following standards, amendments to the existing standards and interpretations, which were not yet applicable:

- IFRS 9 "Financial Instruments" (2014) (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 "Insurance Contracts", applying IFRS 9 "Financial Instruments" with IFRS 4 (effective for annual periods beginning on or after 1 January 2018),
- IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019).

The Fund has not applied the new standards or amendments before deadline. Even though the new standards and amendments listed above may have an impact on Fund's effective accounting principles, the Fund has not yet measured the potential impact on its financial reports, except for IFRS 9, which implementation will not have significant impact on the Fund, since the Fund's assets are recognized in the balance sheet at fair value, and the use of this principle will continue in the future.

Standards and Interpretations issued by IASB that are adopted by the EU but have not yet been implemented

At present, the IFRS' as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except the following standards, amendments to the

existing standards and interpretations, which were not endorsed for use as at date of publication of the financial statements:

- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016). The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date deferred indefinitely and EU endorsement halted),
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions” (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IAS 40 “Transfers of Investment Property” (effective for annual periods beginning on or after 1 January 2018),
- IFRS 17 “Insurance Contracts” was issued on May 2017 and will replace IFRS 4 “Insurance Contracts” and is effective for annual periods beginning on or after 1 January 2021,
- Amendments to IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019),
- Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments in IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and for IFRS 1 and IAS 28 on or after 1 January 2018).
- Amendments to IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2019),
- Amendments to various standards “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 12 and IFRS 23) primarily with a view to removing inconsistencies and clarifying wording.

The Fund has not estimated the impact on the new standards and amendments on its accounting principles and annual report.

At the same time the hedge accounting principles for the portfolio of financial assets and liabilities that have not been adopted by the EU, are still unregulated. According to the Fund’s estimates, the application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: “Financial Instruments: Recognition and Measurement”, would not significantly impact the financial statements, if applied as at the balance sheet date.

Use of estimates and judgements

The preparation of the financial statements calls for the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgements have been used according to the best knowledge based on prior experience and other factors that the management considers reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

Financial instruments are recognized in the balance sheet at fair value taking into account the principles stipulated in the Rules for Calculating Net Asset Value of Funds approved by the Management Board. The fair value of financial instruments quoted on actively traded markets is determined by the quoted prices. If the prices in active markets are not available other valuation models are being used according to the Rules for Calculating Net Asset Value of Funds. Main risks involved with the estimates and

judgements that may affect the value of the Fund's assets and liabilities are related to measuring the fair value of financial instruments based on valuation models that use unobservable inputs.

Foreign currency transactions

Foreign currency transactions are recorded using the last bid rate established by the depository for the funds managed by AS Avaron Asset Management on the transaction date (hereinafter referred to as the depository bid rate). This rate is based on market inputs. The assets and liabilities quoted in foreign currency are translated into EUR based on the depository bid rate applicable on the balance sheet date.

Gains and losses from foreign currency transactions are recorded in the statement of income and expenses under "Gain/ (loss) from transactions in foreign currencies" on a net basis.

Financial instruments

Financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets include cash, contractual right to receive cash or another financial assets (for example receivables) from another entity, equity instruments of another entity and contractual rights to exchange financial assets with another entity under potentially favourable conditions. Financial liabilities include contractual obligation to deliver cash or other financial assets to another entity or to exchange financial assets with another entity under potentially unfavourable conditions.

Financial assets and liabilities are initially recorded at cost, which is the fair value of the consideration paid or received to acquire the financial asset or liability. Financial instruments are later divided into four categories in accordance to the principles of IAS 39 taking into account the purpose of their acquisition:

1. financial assets at fair value through profit or loss;
2. financial assets held to maturity;
3. loans and receivables;
4. financial assets available for sale.

The Fund does not hold financial assets held to maturity or available for sale.

Financial instruments at fair value through profit and loss

Classification

The Fund classifies its investments into debt, equity and derivative instruments as financial assets or liabilities at fair value through profit or loss. This category has two sub-categories: held for trading and financial assets and liabilities through profit and loss – designation upon initial recognition. The Fund reports all the investments under the second category, that is, recorded at fair value through profit and loss upon initial recognition. The performance of these investments is evaluated based on the fair value according to the Fund's investment strategy.

Recognition

In the course of normal business activities investments into shares or units of funds, bonds and derivative instruments are recognised using the trade date accounting principles. Trade date is defined as the date when the Fund takes the obligation to buy or sell the financial instrument. Financial assets and liabilities are initially recognised at acquisition cost, which is the fair value of the consideration paid for the financial asset. Initial acquisition cost of financial assets at fair value through profit or loss includes direct expenses related to financial asset or liability (commission). According to IFRS 13 these commissions should be recognized directly in the statement of income and expenses. Commissions recognized as acquisition cost are insignificant and have no impact on Fund's assets or net income.

Commissions are shown in the annual report under “Net gain/loss from financial assets at fair value through profit and loss” through revaluation. If the commissions were directly expensed, they would have been reported under operating expenses.

After initial recognition all the financial assets and liabilities are measured at fair value in the category “At fair value through profit or loss”. Gains/ (losses) from the revaluation of securities are recorded in the statement of income and expenses under “Net gain/loss from financial assets at fair value through profit or loss”.

Dividend income from the financial assets at fair value through profit or loss are recorded in the statement of income and expenses under “Dividends” at the moment when the Fund’s right to the dividend is fixed..

Fair value of financial instruments

Fair value is the price that would be received upon selling an asset or paid upon transferring a liability in an orderly transaction in the principal market (or the most advantageous market) between market participants at the measurement date, irrespective if the price is easily traceable or shall be determined using other valuation techniques. According to the fair value hierarchy stipulated in IFRS 13 the financial instruments at fair value shall be divided into three levels depending on the rate of observable inputs used:

- level 1 – unadjusted quoted prices in active market for identical assets or liabilities;
- level 2 – inputs other than quoted prices in level 1 that are observable directly or indirectly;
- level 3 – unobservable inputs for an asset or liability.

Observable inputs are inputs that are determined based on the market data (such as publicly available information about actual events or transactions) and that reflect assumptions which market participants would use when pricing an asset or a liability. When a fair value measurement is developed using inputs from multiple levels of the fair value hierarchy, the fair value measurement of that instrument shall fall entirely into the lowest level from which the inputs have been used.

If an instrument is traded on multiple regulated markets, based on professional judgement, the one that is most liquid and most representative is considered as the principal market.

Measuring the fair value of financial instruments is based on the Rules for Calculating Net Asset Value of Funds approved by the Management Board. General principles are the following:

- The market value of shares traded on a regulated market is determined on the basis of the official closing price on the balance sheet date. If the closing price is unavailable, the official mid price is used. If the mid price is also unavailable, the last official bid price is used.
- In Avaron’s opinion the market price of bonds may not reflect the fair value of the securities even when the market price is available. The value of bonds not traded on a regulated market is determined based on the average of the bid and ask quotes as provided by the price feed service provider being used. If the quotes are not available or if the quotes do not reflect the fair value of the bond in the opinion of the Fund Management Company, the price is determined based on the yield curve.
- The value of options not traded on a regulated market is determined based on the Black & Scholes valuation model. The inputs that are necessary for the calculation are determined by the Fund Management Company after consulting with the counterparty of the option.

Derecognition

Securities are removed from the balance sheet when the Fund has lost control over the corresponding financial assets either as a result of selling them or expiry of their term. FIFO method is used in accounting for the realised gains/ (losses) from securities transactions. The line “Sales profit/ (loss)” in

the statement of income and expenses indicates the difference between the sales amount of an instrument and the corresponding acquisition cost. The sales amount of securities includes the commissions related to the transaction.

Offsetting

Financial assets and liabilities at fair value through profit and loss are offset only when the Fund has a legal right to offset the amounts and it intends to use the right.

Cash and cash equivalents and cash flows

Cash and cash equivalents comprise of the Fund's current accounts and over-night deposits that are subject to an insignificant risk of changes in their fair value.

Cash flows from operating activities are reported using the direct method.

Deposits

Deposits comprise term deposits of credit institutions given that their maturity is less than 12 months. Deposits are initially recognised at acquisition cost and subsequently measured at amortized cost using the effective interest rate method.

Receivables

Receivables include revenues calculated on the accrual basis but not yet collected, including dividend receivables and other accrued income. Miscellaneous receivables include receivables from unsettled sales transactions.

Receivables are initially recognised at fair value and subsequently recorded at amortized cost using the effective interest rate method from which any possible impairment loss has been deducted.

Other financial liabilities

Other financial liabilities include management fee and performance fee payables to the Fund Management Company, depository fee and transaction fee payables to the depository. Liabilities also include payables to Fund unit holders for redeemed units. Miscellaneous liabilities include payables for securities purchase transactions.

Other financial liabilities are initially recognised at fair value and subsequently recorded at amortized cost using the effective interest rate method.

Fund units

The Fund has five classes of units which are redeemable at demand of the unit-holder. Different rights are attached to different unit classes. All the unit classes are reported as financial liabilities. Units shall be issued, redeemed and switched on every banking day according to the Fund rules. The redemption price of a unit is equal to the net asset value of the unit as of the trade date from which the redemption fee and penalty charge may be deducted.

The net asset value of a Unit is determined by dividing the total net asset value of a class of Units by the number of Units of that class that have been issued and not redeemed (adjusted by the number of Units from unsettled subscription and redemption orders that have been received by the management company). The income of the Fund shall not be distributed to unit holders but shall be reinvested. A unit holder's profit or loss is reflected in the Unit's net asset value change.

Interest and dividend income

Interest income is recognised on accrual basis using the effective interest rate method. It comprises reported interest from cash and cash equivalents, deposits and debt instruments at fair value through profit or loss.

Received dividends are recorded under “Dividends” at the moment when the shareholder’s right to the dividend is fixed.

Operating expenses

The operating expenses of the Fund include the management fee and performance fee payable to the management company, the depository fee payable to the Fund’s depository, fund administration fees, fees to the registrar of fund units, transaction fees and other operating expenses stated in the Fund rules. Transaction fees related to security purchase and sales transactions are recorded under “Transaction fees” in the statement of income and expenses. Commissions which arose and were paid in acquisition of securities, but are not clearly identifiable are included within the acquisition cost of securities.

Related parties

Parties that are considered as related parties to the Fund are the management company AS Avaron Asset Management, other investment funds managed by the management company, all the group companies, the Management Board of the Fund Management Company and their related parties. According to the Fund rules the Fund pays management fees to the management company on a monthly basis. Transactions with group companies have been made based on market conditions.

NOTE 2. RISK MANAGEMENT

Short Overview of the Investment and Risk Management Techniques

The Fund Management Company deploys value investing and stock-picking investment approach with focus on bottom up analysis. Company analysis comprises 3 phases: quantitative screening, qualitative analysis and valuation work. During the quantitative phase we analyze the liquidity of the stock and conduct a basic financial analyses. Should a company comply with our criteria, we will interview the management during the qualitative analysis phase. In this interview, among other things, we study the company's business model, strategy, growth prospects, transparency, dividend policy and compliance to UN Principles for Responsible Investing. If a company has successfully passed the qualitative phase, we develop a financial model on the company and determine its target price. Companies with the highest upside to target price adjusted for 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 Fund Management Company may use derivatives to hedge or take directional exposure in currencies. The Fund Management Company actively follows financial results of companies and makes relevant changes in the Fund's portfolio based on the fundmanagers' views of the economy and attractiveness of each financial instrument.

The Fund Management Company has established procedures for internal risk management in order to identify, monitor, measure and hedge the risks associated with the Fund's investments. The Fund Management Company regularly examines that the Fund is in compliance with its investment restrictions.

Credit risk

Credit risk refers to the risk that the issuer of a security where the Fund has invested or the counterparty to a transaction on account of the Fund fails to perform its obligations either fully or partially (e.g. an issuer fails to redeem the issued debt obligations, a counterparty to a trade does not deliver the securities or cash during the settlement, a counterparty defaults on a loan granted by the Fund), causing damage to the Fund.

Maximum exposure to credit risk as of the end of the period in EUR:

	31/12/2017	% of NAV	31/12/2016	% of NAV
Cash and cash equivalents	6,370,560	48.45%	1,210,168	11.22%
Term deposits	153,577	1.17%	153,499	1.42%
Corporate bonds	5,025,950	38.22%	1,189,170	11.03%
Receivables and prepayments	16,670	0.12%	6,917	0.07%
TOTAL	11,566,757	87.96%	2,559,754	23.74%

The Fund's assets are invested in bonds that are liquid and transferable. In case of debt securities with investment grade rating by S&P (or Moody's equivalent) of BBB- or higher a basic financial analysis and a study of terms of the issue (prospectus) is conducted. In case of debt securities with no rating / non-investment grade rating, higher due diligence requirements apply.

Allocation of bonds according to Standard & Poor's credit rating scale in EUR:

	31/12/2017	% of NAV	31/12/2016	% of NAV
BBB-	341,644	2.60%	-	-
BB+	168,292	1.28%	105,690	0.98%
BB	1,337,687	10.17%	-	-
B	189,959	1.44%	-	-
No rating	2,988,368	22.73%	1,083,480	10.05%
TOTAL	5,025,950	38.22%	1,189,170	11.03%

The Fund's cash and cash equivalents are held with the Fund's depository Swedbank, which parent company Swedbank AB is rated AA- as of 24/11/2017 by Standard & Poor's and with Luminor Bank AS, which parent company DNB Bank ASA is rated A+ as of 27/04/2017 by Standard & Poor's and with AS SEB Pank, which parent company Skandinaviska Enskilda Banken AB is rated AA- as of 06/09/2017 by Moody's. Term deposits are held with Luminor Bank AS.

Liquidity risk

Liquidity risk refers to the risk that due to low liquidity a financial instrument cannot be sold at the desired time, at the desired price or there is no market (buyer) at all. Liquidity risk is particularly relevant in case of investing into small cap companies and instruments not traded on a regulated securities market.

Liquidity risk is managed through regular liquidity analysis and limitations on estimated exit times from positions and share capital/ free float ownership.

The Fund maintains a credit line of 500,000 EUR that can be accessed to meet short-term liquidity needs. These resources have not been used as of 31/12/2017.

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

	Up to 1 month		Over 1 month	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
Payables to the management company	61,117	63,513	-	-
Payables to the depository	5,987	4,883	-	-
Other liabilities	-	-	1,921	1,399
Net Assets attributable to Holders	-	-	13,149,570	10,781,579
TOTAL	67,104	68,396	13,151,491	10,782,978

Positions that may take more than 20 days to liquidate based on the six months average trading volume (30% of trading volume).

Instrument	Country	Sector	% of NAV	
			31/12/2017	31/12/2016
MAINOR EUR 7% 26.11.2018	Estonia	Real Estate	6.12%	4.20%
TURKIYE VAKIFLAR BANK 01.11.27	Turkey	Financials	4.99%	-
TALLINK GRUPP AS FRN 18.10.18	Estonia	Consumer Discretionary	3.99%	3.23%
LHV GROUP SUBORDIN 29.10.25	Estonia	Financials	3.07%	1.47%
YAPI VE KRD BK 5.5% 06.12.22	Turkey	Financials	2.51%	-
VIENNA INSURANCE GROUP 8% PERP	Austria	Financials	2.22%	-
ADVANCE TERRAFUND SHARE	Bulgaria	Real Estate	1.70%	1.98%
B2 HOLDING AS FRN EUR 08.12.20	Norway	Financials	1.67%	-
INBANK SUBORDINATED 28.09.2026	Estonia	Financials	1.60%	1.14%
NELJA ENERGIA FRN 02.06.21 EUR	Estonia	Energy	1.60%	-
KERNEL HOLDING 8.75% 31.01.22	Luxembourg	Consumer Staples	1.44%	-
TURKIYE BANKASI 7.85% 10.12.23	Turkey	Financials	1.36%	-
FINANSBANK 6.25% 30.04.19 USD	Turkey	Financials	1.32%	-
TURKIYE BANKASI VAR% 29.06.28	Turkey	Financials	1.31%	-
GL LIMAN ISLETM 8.125%14.11.21	Turkey	Industrial	1.31%	-
TUPRAS-TURKI 4.125% 02.05.18	Turkey	Energy	1.28%	-
AK FIN KIRALAMA 4.125%17.04.18	Turkey	Financials	1.28%	-
MAINOR ULEMISTE 5.5% 05.04.23	Estonia	Real Estate	1.15%	-
MOL MAGYAR EUR 5.875% 20.04.17	Hungary	Energy	-	0.98%
TOTAL			39.92%	13.01%

As the bonds are not traded on the stock exchange, we are not able to calculate the average daily turnover of bonds. Due to the conservative approach, we have listed all the bonds in the list above. Liquidation of remaining positions based on six months average trading volume may probably take less than 20 days.

Market risk

Market risk refers to the risk of suffering losses due to adverse price movements at a specific securities market or a market for other assets. Adverse price movements may be caused by a country's weak economic indicators, poor financial results of a business sector, volatile securities market, investors' behaviour and psychology and other factors.

Diversification among sectors, countries, currencies and instruments are the main risk management tools used by the Fund to address market risk.

Currency risk

Fund is open to foreign currency risk. Currency breakdown of the Fund's assets in EUR:

	31/12/2017 % of Assets		31/12/2016 % of Assets	
EUR	9,155,806	69.26%	9,251,017	85.19%
USD	2,501,626	18.93%	195,361	1.80%
NOK	561,010	4.24%	411,283	3.79%
RON	356,555	2.70%	306,699	2.82%
BGN	333,177	2.52%	303,635	2.80%
TRY	308,057	2.33%	286,562	2.64%
RSD	2,364	0.02%	2,269	0.02%
PLN	-	-	102,318	0.94%
TOTAL	13,218,595	100.00%	10,859,144	100.00%

Taking into account the derivatives contracts, the closed positions as per currency were following:

	31/12/2017 % of Assets		31/12/2016 % of Assets	
RON	356,555	2.70%	306,699	2.82%
BGN	333,177	2.52%	303,635	2.80%
TRY	308,057	2.33%	286,562	2.64%
NOK	256,510	1.94%	521,251	4.80%
USD	215,551	1.63%	195,361	1.80%
RSD	2,364	0.02%	2,270	0.02%
PLN	-	-	102,318	0.94%
TOTAL	1,472,214	11.14%	1,718,096	15.82%

Currency risk sensitivity analysis

Fund's net asset value would have been affected by the weakening of foreign currencies against EUR on 31 December 2017. The sensitivity analysis assumes the weakening of foreign currency rates against EUR in the magnitude of the change from the higher to lower value during the last seven years. The analysis assumes that all the other variables remain constant. Analysis for 31 December 2016 has been made using the same assumptions.

The impact on net assets attributable to Fund's unit holders and net income:

	31/12/2017			31/12/2016		
	Currency weakening	Possible impact	Currency's % of Assets	Currency weakening	Possible impact	Currency's % of Assets
TRY	-65%	-199,593	2.33%	-56%	-161,426	2.64%
USD	-36%	-59,267	1.63%	-35%	-69,233	1.80%
RON	-26%	-93,948	2.70%	-33%	-101,660	2.82%
BGN	-7%	-23,763	2.52%	-8%	-25,167	2.80%
NOK	-29%	-67,102	1.94%	-29%	-147,091	4.80%
RSD	-40%	-956	0.02%	-40%	-901	0.02%
PLN	-	-	-	-35%	-35,996	0.94%
TOTAL		-444,628	11.14%		-541,474	15.82%

Instrument's price risk

Price risk is closely related to market risk but mainly affects a specific security or investment. Price risk is the risk of suffering losses due to adverse price movements of a specific stock or another investment. The price of a specific security is affected by developments in the issuer's financial results, changes in the competitive environment, analyst estimates and commentaries, etc.

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

	31/12/2017	% of NAV	31/12/2016	% of NAV
Financials	3,048,177	23.18%	373,007	3.46%
Real estate	1,608,716	12.23%	874,115	8.11%
Consumer Discretionary	733,570	5.58%	501,127	4.65%
Consumer Staples	400,328	3.04%	-	-
Energy	378,531	2.88%	105,690	0.98%
Utilities	271,240	2.06%	287,228	2.66%
Industrial	171,901	1.31%	-	-
Fixed income fund	-	-	6,951,196	64.47%
Equity funds	-	-	296,013	2.75%
TOTAL	6,612,463	50.28%	9,388,376	87.08%

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

	31/12/2017	% of NAV	31/12/2016	% of NAV
Estonia	2,513,901	19.12%	1,235,871	11.46%
Turkey	2,224,646	16.92%	284,933	2.64%
Austria	535,975	4.08%	130,437	1.21%
Bulgaria	300,369	2.28%	290,703	2.70%
Romania	271,240	2.06%	287,228	2.67%
Russia	249,097	1.89%	-	-
Norway	219,375	1.67%	-	-
Luxembourg	189,960	1.44%	-	-
Finland	107,900	0.82%	-	-
Avaron Eastern Europe	-	-	6,951,196	64.47%
Fixed Income Fund	-	-	105,690	0.98%
Hungary	-	-	102,318	0.95%
France	-	-	-	-
TOTAL	6,612,463	50.28%	9,388,376	87.08%

Instrument's price risk sensitivity analysis

Sensitivity analysis is based on standard deviation of the Fund since launch, whereas the Fund's risk profile has been calculated based on normal distribution. The analysis assumes that all the other variables remain constant. Analysis as per 31 December 2016 has been made with using the same assumptions.

	Probability	+/- possible change of Fund's NAV during year	
		2017	2016
σ	68.27%	2.70%	2.81%
2σ	95.45%	5.40%	5.62%
3σ	99.73%	8.10%	8.43%

NOTE 3. CASH AND CASH EQUIVALENTS**Deposits in EUR**

	31/12/2017	% of NAV	31/12/2016	% of NAV
Deposits, Luminor Bank AS	153,556	1.17%	153,478	1.42%
TOTAL	153,556	1.17%	153,478	1.42%

* "Term deposits" in balance sheet include also accrued interest in the amount of 21.24 EUR as at 31/12/2017 and 21.61 EUR as at 31/12/2016.

Cash and cash equivalents by currency

	31/12/2017	% of NAV, converted into EUR	31/12/2016	% of NAV, converted into EUR
Luminor Bank AS		31.45%		0.00%
EUR	4,135,114	31.45%	2	0.00%
Swedbank AS		9.40%		11.22%
EUR	998,224	7.59%	915,948	8.50%
TRY	468,451	0.79%	6,050	0.01%
RON	399,461	0.65%	88,449	0.18%
BGN	64,168	0.25%	25,292	0.12%
NOK	135,873	0.10%	568,599	0.58%
RSD	280,382	0.02%	280,382	0.02%
USD	16	0.00%	205,500	1.81%
AS SEB Pank		7.60%		0.00%
EUR	1,000,000	7.60%	12	0.00%
TOTAL		48.45%		11.22%

The Fund's cash and cash equivalents are held with the Fund's depository Swedbank, which parent company Swedbank AB is rated AA- as of 24/11/2017 by Standard & Poor's and with Luminor Bank AS, which parent company DNB Bank ASA is rated A+ as of 27/04/2017 by Standard & Poor's and with AS SEB Pank, which parent company Skandinaviska Enskilda Banken AB is rated AA- as of 06/09/2017 by Moody's. Term deposits are held with Luminor Bank AS.

NOTE 4. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES TO CATEGORIES AND LEVELSIn EUR
31/12/2017

	Designated as at fair value			Loans and receivables			Other financial liabilities		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS									
Cash and cash equivalents	-	-	-	6,370,560	-	-	-	-	-
Term deposits	-	-	-	153,577	-	-	-	-	-
Shares and units	1,586,513	-	-	-	-	-	-	-	-
Bonds	3,455,562	614,086	956,302	-	-	-	-	-	-
Derivative instruments	-	65,325	-	-	-	-	-	-	-
Receivables for units subscribed	-	-	-	10,000	-	-	-	-	-
Receivables for securities transactions	-	-	-	6,670	-	-	-	-	-
LIABILITIES									
Payables to the management company	-	-	-	-	-	-	-	61,117	-
Payables to the depository	-	-	-	-	-	-	-	5,987	-
Other liabilities	-	-	-	-	-	-	-	1,921	-
Net assets attributable to holders	-	-	-	-	-	-	-	13,149,570	-
TOTAL	5,042,075	679,411	956,302	6,540,807	-	-	-	13,218,595	-

* Additional information for instruments categorised under Level 3

	Shares and units	Bonds
Starting balance of Level 3 instruments	6,951,196	452,975
Purchases	-	506,650
Sales	-7,176,921	-
Total gains/losses	225,724	-6,650
Interest received	-	31,500
Interest accrued	-	6,302
Total level 3 investments fair value	-	956,302

According to the estimates of the Fund Management Company the carrying value of financial instruments “Loans and receivables” and other financial liabilities amounts approximate fair value. There have been no transfers of the assets designated as at fair value from one level to another as of the end of the period.

In EUR

31/12/2016

	Designated as at fair value			Loans and receivables			Other financial liabilities		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS									
Cash and cash equivalents	-	-	-	1,210,168	-	-	-	-	-
Term deposits	-	-	-	153,499	-	-	-	-	-
Shares and units	1,248,010	-	6,951,196	-	-	-	-	-	-
Bonds	105,690	630,505	452,975	-	-	-	-	-	-
Repurchase agreements	-	-	-	100,184	-	-	-	-	-
Receivables for securities transactions	-	-	-	6,917	-	-	-	-	-
LIABILITIES									
Derivative instruments	-	7,770	-	-	-	-	-	-	-
Payables to the management company	-	-	-	-	-	-	-	63,513	-
Payables to the depository	-	-	-	-	-	-	-	4,883	-
Other liabilities	-	-	-	-	-	-	-	1,399	-
Net assets attributable to holders	-	-	-	-	-	-	-	10,781,579	-
TOTAL	1,353,700	622,735	7,404,171	1,470,768	-	-	-	10,851,374	-

* Additional information for instruments categorised under Level 3

	Shares and units	Bonds
Starting balance of Level 3 instruments	5,992,196	453,063
Purchases	500,000	-
Total gains	459,000	-
Interest received	-	31,500
Interest accrued	-	2,975
Total level 3 investments fair value	6,951,196	452,975

According to the estimates of the Fund Management Company the carrying value of financial instruments “Loans and receivables” and other financial liabilities amounts approximate fair value. There have been no transfers of the assets designated as at fair value from one level to another as of the end of the period.

NOTE 5. NET GAIN/LOSS FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In EUR

	01/01/2017- 31/12/2017	01/01/2016- 31/12/2016
Net gain/loss from financial assets at fair value through profit or loss		
From shares and units		
Sales profit/(-loss)	1,984,395	-3,220
Unrealised profit /(-loss)	-1,565,989	530,352
From bonds		
Sales profit/(-loss)	-9,430	-28,303
Unrealised profit /(-loss)	24,275	30,225
From derivative instruments		
Sales profit/(-loss)	-8,911	19,196
Unrealised profit /(-loss)	73,095	-31,285
Total net gain/loss	497,435	516,965

Sales profit/loss and unrealised profit/loss include commissions paid to brokers on the acquisition and disposal of the securities. According to the principles of IAS 39 and IFRS 13 the commissions should be reflected in the statement of income and expenses under transaction costs. According to the estimates of the Fund Management Company the effect of commissions to the net gain/loss from financial assets is not significant.

NOTE 6. TRANSACTIONS WITH RELATED PARTIES

In addition to the Fund Management Company, companies belonging to the same group, other investment funds managed by the Management Company and shareholders of the management company are considered to be related parties to the Fund.

Consolidation exception applies for the Fund as it corresponds to Investment Entity's definition introduced in IFRS 10. The Fund carries its investment in Avaron Flexible Strategies Fund at fair value through profit or loss. Avaron Flexible Strategies Fund, which operates in the location of the Management Company, Narva road 7D, 10117 Tallinn, Estonia, owns no units of of Avaron Eastern Europe Fixed Income Fund units as at 31 December 2017 (86.72% in 31/12/2016).

Transactions with related parties in EUR were as follows:

	01/01/2017- 31/12/2017	01/01/2016- 31/12/2016
Fund Management Company		
Paid management and performance fees	200,317	187,794
Received management fees from investments to Management Company's other Funds	42,309	43,230
Other investment funds managed by Fund Management		
Purchase of securities	3,528,762	186,351
Units bought	-	500,000
Units sold	7,176,921	-
Other entities belonging to the consolidation group of the Fund Management Company		
Units bought	24,000	154,656
Units sold	12,000	128,074
TOTAL	10,984,309	1,200,105

The balances outstanding with related parties were as follows:

	31/12/2017	31/12/2016
Fund Management Company		
Management and performance fee payable	61,117	63,513
Other receivables - management fees from investments to Management Company's other Funds	6,670	10,432
TOTAL	67,787	73,945

Related parties of the Fund Management Company owned the units of Avaron Flexible Strategies Fund in market value as follows:

	31/12/2017	31/12/2016
Fund Management Company	1,585,923	1,523,384
Main shareholder of the Fund Management Company	299,530	289,905
TOTAL	1,885,453	1,813,289

NOTE 7. DERIVATIVE INSTRUMENTS

In EUR
31/12/2017

Type of Instrument	Issuer of Instrument	Quantity of underlying	The underlying currency	Exercise date	Price of Instrument /premium	Exercise price		Market value		Equity of the issuer of the instrument
						Per unit	Total	Date	Total	
Swap	AS SEB Pank	109,123	EUR	05/01/2018	1.0000	1.0000	109,123	29/12/2017	-	797 650 000 EUR
		1,000,000	NOK	05/01/2018	0.1015	0.1091	109,123	29/12/2017	7,660	797 650 000 EUR
Forward	AS SEB Pank	217,557	EUR	05/01/2018	1.0000	1.0000	217,557	29/12/2017	-	797 650 000 EUR
		2,000,000	NOK	05/01/2018	0.1015	0.1088	217,557	29/12/2017	14,631	797 650 000 EUR
Forward	Swedbank AS	2,329,127	EUR	08/02/2018	1.0000	1.0000	2,329,127	29/12/2017	-	1 658 718 000 EUR
		2,750,000	USD	08/02/2018	0.8313	0.8470	2,329,127	29/12/2017	43,034	1 658 718 000 EUR
TOTAL									65,325	

In EUR
31/12/2016

Type of Instrument	Issuer of Instrument	Quantity of underlying	The underlying currency	Exercise date	Price of Instrument /premium	Exercise price		Market value		Equity of the issuer of the instrument
						Per unit	Total	Date	Total	
Swap	AS SEB Pank	102,197	EUR	06/01/2017	1.0000	1.0000	102,197	30/12/2016	-	EUR 764,692,000
		1,000,000	NOK	06/01/2017	0.1100	0.1022	102,197	30/12/2016	-7,770	EUR 764,692,000
TOTAL									-7,770	

STATEMENT OF INVESTMENTS

In EUR 31/12/2017

Name	ISIN	Emitent country	Rating agency	Rating	FX	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
------	------	-----------------	---------------	--------	----	-----------------------------------	--------------------------	-----------------------	--------------------	---

SHARES**SHARES LISTED ON STOCK EXCHANGE:**

SC FONDUL PROPRIETATEA SA	ROFPTAACNOR5	RO			RON	0.14	209,630	0.18	271,240	2.06%
ATRIUM EUROPEAN REAL ESTATE	JE00B3DCF752	AT	S&P	BBB-	EUR	3.39	199,146	4.15	244,144	1.85%
TALLINK GRUPP	EE3100004466	EE			EUR	0.94	157,508	1.25	208,640	1.59%
SBERBANK COMMON SHARE	RU0009029540	RU	Fitch	BBB-	USD	3.22	128,933	3.25	130,079	0.99%
MAGNIT COMMON STOCK	RU000A0JKQU8	RU	S&P	BB	USD	96.81	125,853	91.55	119,017	0.91%
TURKIYE GARANTI BANKASI	TRAGARAN91N1	TR	S&P	BB	TRY	2.31	111,642	2.36	113,772	0.87%
CITYCON OYJ	FI0009002471	FI	S&P	BBB	EUR	2.2	110,220	2.16	107,900	0.82%
COCA-COLA ICECEK AS	TRECOLA00011	TR	Fitch	BBB	TRY	10.29	125,024	7.52	91,351	0.69%

SHARES TOTAL**1,167,957****1,286,143****9.78%**

Name	ISIN	Fund country	Fund Management Company	FX	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
------	------	--------------	-------------------------	----	-----------------------------------	--------------------------	-----------------------	--------------------	---

FUNDS**CLOSED-END FUNDS LISTED ON STOCK EXCHANGE:**

ADVANCE TERRAFUND SHARE	BG1100025052	BG	KAROLL FINANCE	BGN	0.92	182,916	1.12	224,566	1.70%
BULGARIA REAL ESTATE FUND	BG1100001053	BG	REAL ESTATE MANAGEMENT LTD	BGN	0.55	36,443	1.14	75,804	0.58%

CLOSED-END FUNDS TOTAL**219,359****300,370****2.28%****FUNDS TOTAL****219,359****300,370****2.28%****SHARES AND FUNDS TOTAL****1,387,317****1,586,513****12.06%**

Statement of investments as of 31/12/2017 (continued)

Name	ISIN	Emitent country	Rating agency	Rating	FX	Interest rate	Maturity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
BONDS*												
MAINOR EUR 7% 26.11.2018	EE3300110691	EE			EUR	7.00%	26/11/2018	100.83	806,650	100.00	805,133	6.12%
TURKIYE VAKIFLAR BANK 01.11.27	XS1551747733	TR	S&P	BB	USD	8.00%	01/11/2027	86.86	660,106	85.26	656,139	4.99%
TALLINK GRUPP AS FRN 18.10.18	NO0010682255	EE			NOK	5.84%	18/10/2018	11.65	582,695	10.38	524,930	3.99%
LHV GROUP SUBORDIN 29.10.25	EE3300110741	EE			EUR	6.50%	29/10/2025	105.07	389,810	107.75	403,772	3.07%
YAPI VE KRD BK 5.5% 06.12.22	XS0861979440	TR	S&P	BB	USD	5.50%	06/12/2022	82.06	328,241	82.29	330,331	2.51%
VIENNA INSURANCE GROUP 8% PERP	AT0000A09SA8	AT			EUR	8.00%	12/06/2049	106.06	284 227	106.53	291 831	2.22%
B2 HOLDING AS FRN EUR 08.12.20	NO0010753072	NO			EUR	7.50%	08/12/2020	109.50	219 000	109.25	219 375	1.67%
INBANK SUBORDINATED 28.09.2026	EE3300110964	EE			EUR	7.00%	28/09/2026	102.76	203 460	106.20	210 315	1.60%
NELJA ENERGIA FRN 02.06.21 EUR	NO0010737174	EE			EUR	6.50%	02/06/2021	104.75	209 500	104.52	209 943	1.60%
KERNEL HOLDING 8.75% 31.01.22	XS1533923238	LU	S&P	B	USD	8.75%	31/01/2022	93.16	186 316	91.96	189 959	1.44%
TURKIYE BANKASI 7.85% 10.12.23	XS1003016018	TR	S&P	BB	USD	7.85%	10/12/2023	88.85	177 705	88.85	178 399	1.36%
FINANSBANK 6.25% 30.04.19 USD	XS1063442484	TR	Fitch	BBB-	USD	6.25%	30/04/2019	86.49	172 976	85.67	173 056	1.32%
TURKIYE BANKASI VAR% 29.06.28	XS1623796072	TR	S&P	BB	USD	7.00%	29/06/2028	83.35	166 709	83.49	172 817	1.31%
GL LIMAN ISLETM 8.125%14.11.21	XS1132825099	TR			USD	8.125%	14/11/2021	86.16	172 312	85.10	171 901	1.31%
TUPRAS-TURKI 4.125% 02.05.18	XS0849020556	TR	Fitch	BBB-	USD	4.125%	02/05/2018	84.68	169 363	83.75	168 588	1.28%
AK FIN KIRALAMA 4.125%17.04.18	XS0914394688	TR	Fitch	BB+	USD	4.125%	17/04/2018	84.27	168 537	83.46	168 292	1.28%
MAINOR ULEMISTE 5.5% 05.04.23	EE3300111343	EE			EUR	5.50%	05/04/2023	100	150 000	100.00	151 169	1.15%
BONDS TOTAL									5,047,607		5,025,950	38.22%

*Accrued interest in the amount of 52,165.59 EUR has been added to the value of bonds.

Name	Derivative Type	Emitent country	Rating agency	Rating	FX	Maturity	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %	
DERIVATIVES											
FX-Forward EUR/USD Swedbank	Forward	EE	S&P	AA- (Swedbank AB)	USD	08/02/2018			43,034	0.33%	
FX-Forward EUR/NOK SEB Pank	Forward	EE	Moody's	AA- (Skandinaviska Enskilda Banken AB)	NOK	05/01/2018			14,631	0.11%	
FX-Swap EUR/NOK SEB Pank	Swap	EE	Moody's	AA- (Skandinaviska Enskilda Banken AB)	NOK	05/01/2018			7,660	0.06%	
DERIVATIVES TOTAL									65,325	0.50%	
SHARES TOTAL									6,500,249	6,677,788	50.78%

Statement of investments as of 31/12/2017 (continued)

Credit Institution	Deposit Type	Credit Institution's country	Rating agency	Rating	FX	Interest rate	Start date	Maturity	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
DEPOSITS*												
Luminor Bank AS	Term deposit	EE	S&P	A+	EUR	0.05%	13/09/2017	13/03/2018	122,865		122,883	0.94%
Luminor Bank AS	Term deposit	EE	S&P	A+	EUR	0.05%	25/10/2017	25/04/2018	30,691		30,694	0.23%
DEPOSITS TOTAL									153,556		153,577	1.17%
*Accrued interest in the amount of 21.24 EUR has been added to the value of deposits.												
Name	Credit Institution's country	Credit Institution	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %			
CASH												
CURRENT ACCOUNT	EE	Luminor	EUR			4,135,114		4,135,114	31.45%			
CURRENT ACCOUNT	EE	SEB	EUR			1,000,000		1,000,000	7.60%			
CURRENT ACCOUNT	EE	Swedbank	EUR			998,224		998,224	7.59%			
CURRENT ACCOUNT	EE	Swedbank	TRY			102,934		102,934	0.78%			
CURRENT ACCOUNT	EE	Swedbank	RON			85,315		85,315	0.65%			
CURRENT ACCOUNT	EE	Swedbank	BGN			32,807		32,807	0.25%			
CURRENT ACCOUNT	EE	Swedbank	NOK			13,789		13,789	0.11%			
CURRENT ACCOUNT	EE	Swedbank	RSD			2,364		2,364	0.02%			
CURRENT ACCOUNT	EE	Swedbank	USD			13		13	0.00%			
CURRENT ACCOUNT TOTAL						6,370,560		6,370,560	48.45%			
INVESTMENTS TOTAL						12,959,039		13,201,925	100.40%			
OTHER ASSETS												
RECEIVABLES FOR UNITS SUBSCRIBED			EUR					10,000	0.07%			
RECEIVABLES FOR SECURITIES TRANSACTIONS			EUR					6,670	0.05%			
OTHER ASSETS TOTAL									16,670	0.12%		
TOTAL ASSETS OF THE FUND									12,959,039		13,218,595	100.52%
LIABILITIES											-69,025	-0.52%
TOTAL ASSETS OF THE FUND											13,149,570	100.00%

Avaron Flexible Strategies Fund

In EUR as of 31/12/2016

Name	ISIN	Country	Nominal value	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
------	------	---------	---------------	----	----------	-----------------------------------	--------------------------	-----------------------	--------------------	---

SHARES

SHARES LISTED ON STOCK EXCHANGE:

SC FONDUL PROPRIETATEA SA	ROFPTAACNOR5	RO	0.85	RON	1,641,250	0.14	226,963	0.18	287,228	2.66%
TURKISH LARGE CP BANKS ETF-A	TRYFNBK00048	TR	0.00	TRY	55,140	3.74	206,201	3.51	193,695	1.80%
TALLINK GRUPP	EE3100004466	EE	0.54	EUR	166,912	0.94	157,508	0.91	152,390	1.41%
ATRIUM EUROPEAN REAL ESTATE	JE00B3DCF752	AT	0.00	EUR	33,190	3.09	102,412	3.93	130,437	1.21%
LYXOR ETF WIG20	LU0459113907	FR	0.00	PLN	1,960	48.09	94,257	52.20	102,318	0.95%
TURKIYE HALK BANKASI	TRETHAL00019	TR	1.00	TRY	36,290	2.86	103,680	2.51	91,238	0.85%

SHARES TOTAL

891,021 **957,306** **8.88%**

Name	ISIN	Country	Nominal value	Fund Management Company	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
------	------	---------	---------------	-------------------------	----	----------	-----------------------------------	--------------------------	-----------------------	--------------------	---

FUNDS

CLOSED-END FUNDS LISTED ON STOCK EXCHANGE:

ADVANCE TERRAFUND SHARE	BG1100025052	BG	1.00	KAROLL FINANCE REAL ESTATE	BGN	199,740	0.92	182,916	1.07	213,435	1.98%
BULGARIA REAL ESTATE FUND	BG1100001053	BG	1.00	MANAGEMENT LTD	BGN	66,666	0.55	36,443	1.16	77,269	0.72%

CLOSED-END FUNDS TOTAL

219,359 **290,704** **2.70%**

BOND FUNDS

AVARON E-EUROPE FI FUND B	EE3600109385	AIEF	1.00	AS AVARON ASSET MANAGEMENT	EUR	491,858	10.81	5,315,581	14.12	6,944,096	64.41%
AVARON E-EUROPE FI FUND A	EE3600109377	AIEF	10.00	AS AVARON ASSET MANAGEMENT	EUR	511	12.93	6,610	13.89	7,100	0.07%

BOND FUNDS TOTAL

5,322,190 **6,951,196** **64.47%**

FUNDS TOTAL

5,541,550 **7,241,900** **67.17%**

SHARES AND FUNDS TOTAL

6,432,571 **8,199,206** **76.05%**

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

Name	ISIN	Country	Nominal value	Maturity	Interest rate	Rating	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
BONDS*													
MAINOR EUR 26.11.2018	EE3300110691	EE	1,000	26/11/2018	7.000%		EUR	450,000	100	450,000	100.00	452,975	4.20%
TALLINK GRUPP AS FRN 18.10.18	NO0010682255	EE	1,000,000	18/10/2018	0.000%		NOK	3,000,000	12.51	375,237	11.49	348,737	3.23%
LHV GROUP SUBORDIN 29.10.25	EE3300110741	EE	1,000	29/10/2025	6.500%		EUR	143,000	100	143,000	110.05	158,946	1.47%
INBANK SUBORDINATED 28.09.2026	EE3300110964	EE	1,000	28/09/2026	7.000%		EUR	114,000	100	114,000	107.70	122,822	1.14%
MOL MAGYAR EUR 5.875% 20.04.17	XS0503453275	HU	1,000	20/04/2017	5.875%	BB+	EUR	100,000	109.43	109,430	101.60	105,690	0.98%
BONDS TOTAL										1,191,667		1,189,170	11.03%
*Accrued interest in the amount of 12,771.34 EUR has been added to the value of bonds.													
DERIVATIVES													
FX-Swap EUR/NOK SEB Pank		EE		06/01/2017			NOK					-7,770	-0.07%
DERIVATIVES TOTAL												-7,770	-0.07%
Reverse repos													
AVARON FLEXIBLE STRATEGIES FUND, reversed repo		EE		05/04/2017			EUR					100,184	0.93%
Reverse repos TOTAL												100,184	0.93%
SHARES TOTAL										7,624,238		9,480,790	87.94%

Name	ISIN	Country	Nominal value	Maturity	Interest rate	Rating	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
DEPOSITS*													
DEPOSIT- NORDEA PANK TLN(EUR)		EE	12/09/2016	13/03/2017	0.050%	AA-	EUR			122,802		122,821	1.14%
DEPOSIT- NORDEA PANK TLN(EUR)		EE	25/10/2016	25/04/2017	0.050%	AA-	EUR			30,676		30,678	0.28%
DEPOSITS TOTAL										153,478		153,499	1.42%

*Accrued interest in the amount of 21.61 EUR has been added to the value of deposits.

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

Name	ISIN	Country	Credit institution	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
CASH										
CURRENT ACCOUNT		EE	Swedbank	EUR			915,948		915,948	8.50%
CURRENT ACCOUNT		EE	Swedbank	USD			195,361		195,361	1.81%
CURRENT ACCOUNT		EE	Swedbank	NOK			62,547		62,547	0.58%
CURRENT ACCOUNT		EE	Swedbank	RON			19,470		19,470	0.18%
CURRENT ACCOUNT		EE	Swedbank	BGN			12,931		12,931	0.12%
CURRENT ACCOUNT		EE	Swedbank	RSD			2,269		2,269	0.02%
CURRENT ACCOUNT		EE	Swedbank	TRY			1,628		1,628	0.02%
CURRENT ACCOUNT		EE	SEB	EUR			12		12	0.00%
CURRENT ACCOUNT		EE	Luminor	EUR			2		2	0.00%
CURRENT ACCOUNT TOTAL							1,210,168		1,210,168	11.22%
INVESTMENTS TOTAL							8,987,884		10,844,457	100.58%
OTHER ASSETS										
RECEIVABLES FOR SECURITIES TRANSACTIONS				EUR					6,917	0.06%
OTHER ASSETS TOTAL									6,917	0.06%
TOTAL ASSETS OF THE FUND							8,987,884		10,851,374	100.65%
LIABILITIES									-69,795	-0.65%
NET ASSETS OF THE FUND									10,781,579	100.00%

STATEMENT OF COMMISSIONS

In EUR

01/01/2017-31/12/2017

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
Regulated securities market transactions*				
Shares				
Swedbank Finland	1	110,220	220	0.20%
Wood and Company Financial Services, a.s.	1	34,082	103	0.30%
Fund units				
Erste Group Bank AG	1	96,735	97	0.10%
Exchange traded funds				
PKO Bank Polski	1	115,962	116	0.10%
Third country securities market transactions				
Shares				
BCS Prime Brokerage Limited	3	265,284	186	0.07%
BGC Partners Turkey	2	257,861	309	0.12%
TEB Yatirim Menkul Degerler A.S.	1	111,642	145	0.13%
Exchange traded funds				
BGC Partners Turkey	1	215,890	259	0.12%
OTC transactions				
Rights issue	1	9,013	-	-
Crossings between Avaron funds				
Avaron Eastern Europe Fixed Income Fund	15	3,309,512	-	-
Fund units				
Avaron Eastern Europe Fixed Income Fund	3	7,176,921	-	-
IPO	1	150,000	-	-
Final maturity	1	105,875	-	-
Derivatives				
AS SEB Pank	2	331,340	-	-
Exchange offer	2	657,265	-	-
Bonds				
Citigroup Global Markets Ltd	1	320,563	-	-
PKO Bank Polski	1	219,250	-	-
TOTAL	38	13,487,414	1,435	0.01%

* Contracting Party to the EEA Agreement (European Economic Area countries)

In EUR

01/01/2016-31/12/2016

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
Regulated securities market transactions*				
Shares				
Raiffeisen Centrobank AG	5	52,257	131	0.25%
Fund units				
Erste Group Bank AG	2	102,412	102	0.10%
Karoll AD	2	132,801	529	0.40%
Third country securities market transactions				
Exchange traded funds				
TEB Yatirim Menkul Degerler A.S.	2	206,201	268	0.13%
OTC transactions				
Stock split	1	-	-	-
Early redemption	1	264,769	-	-
Crossings between Avaron funds				
Avaron Eastern Europe Fixed Income Fund	1	186,351	-	-
Fund units				
Avaron Eastern Europe Fixed Income Fund	2	500,000	-	-
IPO	1	114,000	-	-
Final maturity	3	448,087	-	-
Tender offer	1	13,147	-	-
TOTAL	21	2,020,025	1,030	0.05%

* Contracting Party to the EEA Agreement (European Economic Area countries)

Fund executes all securities transactions at net price. In acquisition, the commission fee is included in the acquisition cost and in disposal, the commission is deducted from the sale amount.

REPORT ON REMUNERATION OF THE FUND MANAGEMENT COMPANY

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

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

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

The Fund Management Company employed 17 specialists as at the end of 2017 (end-2016: 14 specialists). Total remuneration amounted to:

In EUR

	2017	2016
Wages and salaries	372,108	316,538
Social tax and unemployment insurance contributions	122,145	110,459
Total	494,253	426,997
incl. bonus program cost with applicable taxes	26,225	40,140

The Members of the Management Board did not receive extra remuneration for participating in the work of the managing bodies. Independent member of the Supervisory Board was paid, in total with applicable social tax, EUR 4,788 in the financial year 2017 (2016: EUR 4,788).

No remuneration has been paid by the Fund.



KPMG Baltics OÜ
Narva mnt 5
Tallinn 10117
Estonia

Telephone +372 6 268 700
Fax +372 6 268 777
Internet www.kpmg.ee

Independent Auditors' Report

(Translation of the Estonian original)

To the Unitholders and the Fund Management Company of Avaron Flexible Strategies Fund

Opinion

We have audited the financial statements of Avaron Flexible Strategies Fund (the Fund), which comprise the balance sheet as at 31 December 2017, the statements of income and expenses, statement of cash flows and statement of changes in net assets for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements presented on pages 6 to 26, present fairly, in all material respects, the financial position of the Fund as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the Management report, statement of investments, statement of commissions and report on remuneration of the Fund Management Company, but does not include the financial statements and our auditors' report thereon.

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

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

Tallinn, 9 April 2018

/Signature/

Eero Kaup

Certified Public Accountant, Licence No 459

KPMG Baltics OÜ

Licence No 17