



**Avaron Eastern Europe
Fixed Income Fund**

ANNUAL REPORT FOR THE FINANCIAL YEAR 2016

Audited by Deloitte

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FUND FACTS

Avaron Eastern Europe Fixed Income Fund is registered in the Republic of Estonia as a contractual open-ended investment fund the units of which are publicly offered. The Fund complies with the requirements set out in the Directive 2009/65/EC of the European Parliament and of the Council.

Name of the Fund	Avaron Eastern Europe Fixed Income 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	AS Deloitte Audit Eesti (reg. no. 10687819)
Supervisor	Estonian Financial Supervision Authority
Fund managers	Kristel Kivinurm-Priisalm, Valdur Jaht, Peter Priisalm
Fund established	4 July 2012
Start of the Fund's activities	10 July 2012
Reporting period	1 January 2016–31 December 2016

MANAGEMENT REPORT

Avaron Eastern Europe Fixed Income Fund (hereinafter: “the Fund”) invests in high yield corporate bonds, government bonds and convertibles in Emerging Europe, Russia and CIS countries. The Fund may also invest in regional currencies, if deems them undervalued or may hedge its currency exposure to its base currency euro. The Fund’s investment objective is to maximise yield from investment, taking into account company quality, instrument maturity and FX outlook. The Fund adheres to the UN Principles for Responsible Investment. The Fund is suitable for investors who are prepared to bear higher risk compared to a similar investment in an investment grade corporate or sovereign fixed income instruments with the potential to earn a higher yield.

In 2016 Avaron Eastern Europe Fixed Income Fund delivered a strong 6.5%-6.9% net return to investors. The Fund’s total net assets increased from €7.9 million to €8.0 million.

	2012*	2013	2014	2015	2016
A unit	4.5%	5.1%	11.3%	6.6%	6.5%
B unit	4.6%	5.5%	11.7%	7.0%	6.9%

* The Fund was launched on 10/07/2012

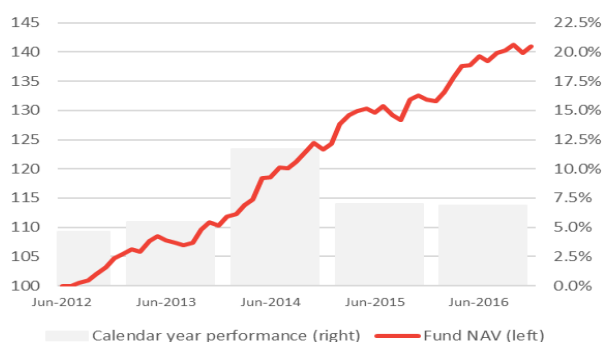


Table 1. Net return of the Fund units, in EUR

Graph 1. Performance of Fund’s NAV (10/07/2012-31/12/2016)

As of end of 2016, the Fund had invested in 21 securities by 21 issuers. The Fund’s bond portfolio had 4.3 years weighted average maturity without perpetuals. As of end of 2016, the current yield of the portfolio was 5.8% (6.0% in 2015) and yield to maturity was 5.4% (5.8% in 2015). Perpetuals comprised 4.8% of Fund’s total assets (3.9% in 2015) and their yield was 7.1% (7.1% in 2015). The Fund held only corporate issues as at the end of 2016 (same as of-end 2015). 85% of the portfolio risk was in euros and 15% in other currencies (in 2015 100% in euros). Proportion of investment grade bonds was 34.4% (38.0% in 2015), non-investment grade bonds comprised 44.5% (43.6% in 2015) and bonds without credit ratings comprised 21.1% (12.8% in 2015) of the Fund’s portfolio.

17 February 2017

Kristel Kivinurm-Priisalm

Fund Manager and Member of the Management Board

CONFIRMATION OF THE MANAGEMENT BOARD OF THE FUND MANAGEMENT COMPANY TO THE ANNUAL FINANCIAL STATEMENTS OF 2016

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

The Financial Statements have been prepared in compliance with the requirements stipulated in the Estonian Accounting Act, the Investment Funds Act and Minister of Finance Regulation no 21 of 13/04/2011 "Requirements for the reports of investment funds to be published". It gives a true and fair view of the assets, liabilities, net asset value and performance results of Avaron Eastern Europe Fixed Income Fund. The Management Board considers Avaron Eastern Europe Fixed Income Fund to carry its activities as a going concern.

The annual Financial Statements of Avaron Eastern Europe Fixed Income Fund have been approved by the Fund Management Company and the fund managers.

Name	Date	Signature
Kristel Kivinurm-Priisalm Member of the Management Board of the Fund Management Company / Fund manager	28/04/2017	/Signed digitally/
Valdur Jaht Member of the Management Board of the Fund Management Company/ Fund manager	28/04/2017	/Signed digitally/
Peter Priisalm Fund manager	28/04/2017	/Signed digitally/

FINANCIAL STATEMENTS**BALANCE SHEET**

In EUR

ASSETS	Note	31/12/2016	31/12/2015
Cash and cash equivalents	3	1,722,433	594,399
Financial assets at fair value through profit or loss:			
Bonds	4	6,362,702	7,488,960
Derivative instruments	4; 7	164,563	-
TOTAL ASSETS		8,249,698	8,083,359
LIABILITIES			
Financial liabilities at fair value through profit or loss:			
Derivative instruments	4; 7	234,489	137,553
Other financial liabilities			
Payables to the management company	4; 6	3,977	4,100
Payables to the depository	4	3,294	2,138
Other liabilities	4	1,399	1,391
TOTAL LIABILITIES (excluding net assets attributable to holders)		243,159	145,182
NET ASSETS ATTRIBUTABLE TO HOLDERS		8,006,539	7,938,177

STATEMENT OF INCOME AND EXPENSES

In EUR

INCOME	Note	01/01/2016- 31/12/2016	01/01/2015- 31/12/2015
Interest income		367,190	482,998
From bonds		367,153	482,929
From deposits		37	69
 Net gain/loss from financial assets at fair value through profit or loss		 40,232	 -321,557
From bonds	5	111,303	122,307
From derivative instruments	5	-71,071	-443,864
 Net gain/loss from foreign exchange		 164,033	 546,532
 Other financial income		 5,836	 -
 TOTAL INCOME		<hr/> 577,291	<hr/> 707,973
 OPERATING EXPENSES			
Management fees	6	47,538	56,619
Custodian fees		17,877	19,713
Transaction fees		126	370
Other operating expenses		2,189	2,086
 TOTAL OPERATING EXPENSES		<hr/> 67,730	<hr/> 78,788
 NET INCOME		<hr/> 509,561	<hr/> 629,185

STATEMENT OF CHANGES IN NET ASSETS

In EUR

	31/12/2016	31/12/2015
NET ASSET VALUE AT THE BEGINNING OF THE PERIOD	7,938,177	9,768,992
Cash received for fund units issued	1,018,432	1,599,751
Cash paid for fund units redeemed	-1,459,631	-4,059,751
Net result of the Fund	509,561	629,185
NET ASSET VALUE AT THE END OF THE PERIOD	<u>8,006,539</u>	<u>7,938,177</u>
Number of A units in circulation at the end of the period:	12,192.162	14,538.322
Number of B units in circulation at the end of the period:	555,775.240	587,342.037
Net asset value of an A unit:	13.8775	13.0288
Net asset value of an B unit:	14.1016	13.1929
Total net asset value of the A units:	169,197	189,417
Total net asset value of the B units:	<u>7,837,342</u>	<u>7,748,760</u>
TOTAL NET ASSET VALUE	<u>8,006,539</u>	<u>7,938,177</u>

STATEMENT OF CASH FLOWS

In EUR

	01/01/2016- 31/12/2016	01/01/2015- 31/12/2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	367,603	486,584
Net result from foreign exchange	-89,159	-376,031
Sale of investments	1,655,614	3,126,028
Purchase of investments	-300,001	-1,401,396
Operating expenses paid	-60,853	-80,606
	1,573,203	1,754,579
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of unit	1,018,432	1,599,751
Payments on redemption of units	-1,459,632	-4,059,751
	-441,200	-2,460,000
TOTAL CASH FLOWS	1,132,003	-705,421
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at the beginning of the period	594,399	1,300,588
Effect of exchange rate fluctuations on cash and cash equiv	-3,969	-768
Cash and cash equivalents at the end of the period	1,722,433	594,399

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED

The annual financial statements of Avaron Eastern Europe Fixed Income Fund for 2016 have been prepared in compliance with the Estonian Accounting Act, effective Investment Funds Act as supplemented by the regulations of the Minister of Finance. As stipulated in Minister of Finance Regulation no 21 of 13/04/2011 "Requirements for the reports of investment funds to be published" the financial statements have been prepared using the accounting policies and information presentation principles of International Financial Reporting Standards (hereinafter: "IFRS") approved by European Commission taking into account the specifications of the regulation and Rules for Calculating Net Asset Value of Funds.

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

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

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

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

- Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015),
- Amendments to various standards "Improvements to IFRSs (cycle 2010-2012)" resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures" - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 "Presentation of Financial Statements" - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards "Improvements to IFRSs (cycle 2012-2014)" resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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).

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.

Standards and interpretations issued by IASB but not yet adopted by the EU

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),
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019),
- 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),
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 15 “Revenue from Contracts with Customers” – explanations (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),
- 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),
- 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).

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.

Changes in the presentation of information

After assessing the liquidity risks, the calculation of positions that may take more than 10 business days to liquidate has been amended. Up to this point, 7 days were used to calculate the liquidity risk. According to the Fund prospectus the minimum payment date of redemption orders is T+10. This enables to extend the liquidity factors calculation period. Recalculations for the previous period have been made in note 2.

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 circumstances. 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. Prices quoted in active markets are mostly used for measuring the fair value of financial instruments. 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 that are based on valuation models that use unobservable inputs.

Foreign currency transactions

Upon recording foreign currency transactions, the last bid rate established by the depositary for the funds managed by AS Avaron Asset Management on the transaction date has been used (hereinafter referred to as the depositary bid rate). The rate is based on market inputs. The assets and liabilities fixed in foreign currency are translated into EUR based on the depositary 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 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 other 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 and 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 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 as designated at fair value through profit and loss using the fair value option on initial recognition according to the Fund's investment strategy.

Recognition

During normal economic activities recognising investments into shares and units, bonds and derivative instruments trade date accounting principles are used. Trade date is defined as when the Fund takes the obligation to buy or sell the investment. 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 statement of income and expenses. Commissions recognized at acquisition cost are insignificant and have no impact on Fund's assets or net income. Commissions are shown in annual report under "Net gain/loss from financial assets at fair value through profit or loss" through revaluation. If the commissions were directly expensed, they would have been included under operating expenses.

After initial recognition all 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 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

The fair value of Fund's financial assets and financial liabilities is measured in accordance with IFRS 13. IFRS 13 is applied also to previous periods.

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

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

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

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

Derecognition

Securities are removed from the balance sheet when the Fund has lost control over the corresponding financial assets either as a result of selling or expiry of their term. FIFO method is used in accounting for the realised gains/ (losses) from securities transactions. The line "Sales profit/ (loss)" in the statement of income and expenses indicates the difference between the sales amount of an instrument and the corresponding acquisition cost. The sale amount of securities includes commissions related to the transaction.

Offsetting

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

Cash and cash equivalents and cash flows

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

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

Deposits

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

Receivables

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

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

Other financial liabilities

Other financial liabilities include management fee and performance fee payables to the Fund Management Company, depository fee and transaction fee payables to the depository. Liabilities also

include payables to Fund unit holders for redeemed units. Miscellaneous liabilities include payables for securities purchase transactions.

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

Fund units

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

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

Interest and dividend income

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

Received dividends are recorded under "Dividends" at the moment when the shareholder's right to the dividend is fixed.

Operating expenses

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

Related parties

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

NOTE 2. RISK MANAGEMENT

Short Overview of Investment and Risk Management Techniques

The Fund Management Company deploys value investing and bond-picking investment style with focus on credit, sector and macro analyses. Company-specific credit analysis is the core of the investment process, focusing on the issuer's business model, financial situation and outlook with an aim to assess the company's credit risk.

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. 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, credit risk, interest rate risk and the risk arising from the concentration of asset classes or markets.

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. Maturity of single securities and the full portfolio and makes relevant changes to the portfolio based on its view on the macroeconomic and interest rate developments.

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

Credit risk

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

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

	31/12/2016	% of Fund's assets	31/12/2015	% of Fund's assets
Cash and cash equivalents	1,722,433	21.49%	594,399	7.48%
Corporate bonds	6,362,702	79.38%	7,488,960	94.25%
TOTAL	8,085,135	100.87%	8,083,359	101.73%

Fund's assets are invested in bonds that are liquid and transferable. Basic financial data of the issuer and terms of the issue (prospectus) will be analysed in case of debt securities with investment grade rating by S&P (or Moody's equivalent) of BBB- or higher. In case of debt securities with no rating / non-investment grade rating, higher due diligence requirements apply.

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

	31/12/2016	% of NAV	31/12/2015	% of NAV
A-	306,271	3.83%	308,279	3.88%
BBB	-	-	706,316	8.90%
BBB-	1,670,079	20.86%	1,261,151	15.89%
BB+	1,927,379	24.07%	1,258,979	15.86%
BB	930,666	11.62%	2,186,030	27.54%
BB-	188,541	2.35%	588,980	7.42%
B+	-	-	166,993	2.10%
No rating	1,339,766	16.73%	1,012,232	12.75%
TOTAL	6,362,702	79.47%	7,488,960	94.34%

The Fund's cash and cash equivalents are held with Fund's depository Swedbank, which is rated AA-.

Liquidity risk

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

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

The Fund maintains the credit lines of 200,000 EUR that it can access to meet short-term liquidity needs. These resources have not been used as of 31/12/2016.

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

	Up to 1 month		Over 1 month	
	31/12/2016	31/12/2015	31/12/2016	31/12/2015
Payables to the management company	3,977	4,100	-	-
Payables to the depository	3,294	2,138	-	-
Other liabilities	-	-	1,399	1,391
Assets attributable to holders	-	-	8,006,539	7,938,177
TOTAL	7,271	6,238	8,007,938	7,939,568

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

Instrument	Country	Sector	% of NAV	
			31/12/2016	31/12/2015
MAINOR EUR 26.11.2018	Estonia	Real Estate	4.40%	4.44%
LHV GROUP SUBORDIN 29.10.25	Estonia	Financials	3.17%	3.22%
INBANK SUBORDINATED 28.09.2026	Estonia	Financials	1.13%	-
TOTAL			8.70%	7.66%

Market risk

Market risk is the risk of suffering losses due to adverse price movements at a specific securities market or at a market for other assets. Adverse price movements may be caused by a country's weak macroeconomic data, poor financial results of an industry sector, unstable securities market, investor behaviour and psychology and other factors.

Diversification among sectors, countries, currencies and instruments are the main risk management tools used.

Currency risk

Fund is open to foreign currency risk. Currency risk is the risk that the value of an investment denominated in a foreign currency shall change in an adverse direction due to fluctuations in exchange rates.

Currency breakdown of Fund's assets in EUR:

	31/12/2016	% of Fund's assets	31/12/2015	% of Fund's assets
USD	4,024,430	48.78%	5,379,504	66.55%
EUR	3,815,867	46.25%	2,703,856	33.45%
NOK	244,838	2.97%	-	-
RUB	164,563	1.99%	-	-
TOTAL	8,249,698	100.00%	8,083,360	100.00%

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

	31/12/2016	% of NAV	31/12/2015	% of NAV
RUB	524,563	6.36%	-	-
USD	520,416	6.50%	37,048	0.46%
NOK	244,838	2.97%	-	-
TOTAL	1,289,817	15.83%	37,048	0.46%

Taking active views on regional currencies is part of the Fund's investment strategy. It is based on in-house regional macroeconomic analysis. Derivatives may be used for taking currency positions or for hedging.

Currency risk sensitivity analysis

Fund's net asset value would have been affected by the weakening of foreign currencies against EUR on 31 December 2016. The sensitivity analysis uses the weakening of foreign currency rates against EUR during the last seven years from the highest value to the lowest. The analysis assumes that all the other variables remain constant. Analysis for 31 December 2015 has been made using the same assumptions.

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

	31/12/2016			31/12/2015		
	Currency weakening	Possible impact in EUR	Currency's % of NAV	Currency weakening	Possible impact in EUR	Currency's % of NAV
USD	-31%	-1,172,813	50.26%	-31%	19,054	62.81%
NOK	-27%	-65,160	3.06%	-	-	-
RUB	-63%	-433,827	2.06%	-	-	-

Instrument's price risk

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

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

	31/12/2016	% of NAV	31/12/2015	% of NAV
Financials	2,904,099	36.27%	4,366,637	55.01%
Energy	1,265,217	15.80%	1,194,819	15.05%
Consumer Discretionary	782,863	9.78%	663,773	8.36%
Industrial	563,489	7.04%	523,733	6.60%
Real estate	352,314	4.40%	352,382	4.44%
Insurance	306,271	3.83%	-	-
Telecom	188,449	2.35%	387,616	4.88%
TOTAL	6,362,702	79.47%	7,488,960	94.34%

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

	31/12/2016	% of NAV	31/12/2015	% of NAV
Turky	3,154,165	39.39%	3,973,419	50.06%
Estonia	1,131,692	14.13%	809,685	10.20%
Austria	998,506	12.47%	1,338,716	16.86%
Hungary	471,445	5.89%	450,424	5.67%
Russia	398,820	4.98%	356,979	4.50%
Norway	208,074	2.60%	202,547	2.55%
Sweden	-	-	357,190	4.50%
TOTAL	6,362,702	79.47%	7,488,960	94.34%

Main technique to manage issuer's price risk is diversification of instruments.

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.

	probability	+/- possible change of Fund's NAV during year	
		2016	2015
σ	68.27%	3.57%	3.79%
2σ	95.45%	7.13%	7.58%
3σ	99.73%	10.70%	11.37%

Interest risk

Interest rate risk is the risk that investment's value will change due to a change in the absolute level of interest rates. Interest rate risk depends on portfolio's maturity profile, the level of yield to maturity, and the size and frequency of the coupon payments of the underlying instruments. Interest risk exposure is managed based on in-house security and macroeconomic analysis. Macaulay and modified duration are used for monitoring the level of interest rate risk.

Macaulay duration measures the sensitivity of the bond portfolio to a change in interest rates. It indicates the number of weighted average years required to recover the true cost of the bond portfolio, taking into account the present value of all coupon and principal payments received in the future. Modified duration measures the responsiveness of the portfolio's value to interest rate changes. It is reflected as the percentage change in value for a 100bps point change in interest rates.

Portfolio structure of the Fund across the maturity of underlying instruments and Fund's risk metrics as of the end of the period:

Period	% of Fund NAV	
	31/12/2016	31/12/2015
Up to 1 year	-	2.37%
1-3 years	22.80%	9.09%
3-5 years	25.35%	31.08%
5-10 years	27.49%	47.92%
Over 10 years	3.83%	3.88%
TOTAL	79.47%	94.34%

Risk metrics	31/12/2016	31/12/2015
Yield to maturity	3.90%	5.41%
Macaulay duration	4.11	4.84
Modified duration	4.0%	4.7%

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

	% of NAV, converted		% of NAV, converted	
	31/12/2016	into EUR	31/12/2015	into EUR
EUR	1,710,086	21.36%	200,751	2.53%
NOK	112,243	0.15%	-	-
USD	-	-	427,541	4.96%
TOTAL		21.51%		7.49%

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

In EUR

31/12/2016

	Designated as at fair value			Loans and receivables			Other financial liabilities		
	Level 1	Level 2	Level 3*	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS									
Cash and cash equivalents	-	-	-	1,722,433	-	-	-	-	-
Bonds	5,433,971	576,417	352,314	-	-	-	-	-	-
Derivative instruments	-	164,563	-	-	-	-	-	-	-
LIABILITIES									
Derivative instruments	-	- 234 489	-	-	-	-	-	-	-
Payables to the management company	-	-	-	-	-	-	-	3,977	-
Payables to the depository	-	-	-	-	-	-	-	3,294	-
Other liabilities	-	-	-	-	-	-	-	1,399	-
Net assets attributable to holders	-	-	-	-	-	-	8,006,539	-	-
TOTAL	5,433,971	506,491	352,314	1,722,433	-	-	8,006,539	8,670	-

* Additional information for instruments categorised under Level 3

	2016
Starting balance of Level 3 instruments	352,382
Purchases	-
Interest received	24,500
Interest accrued	2,314
Total level 3 investments fair value	352,314

In EUR
31/12/2015

	Designated as at fair value			Loans and receivables			Other financial liabilities		
	Level 1	Level 2	Level 3*	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS									
Bonds	6,881,323	255,256	352,382	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	594,399	-	-	-	-	-
LIABILITIES									
Derivative instruments	-	-137,553	-	-	-	-	-	-	-
Payables to the management company	-	-	-	-	-	-	-	4,100	-
Payables to the depository	-	-	-	-	-	-	-	2,138	-
Other liabilities	-	-	-	-	-	-	-	1,391	-
Net assets attributable to holders	-	-	-	-	-	-	7,938,177	-	-
TOTAL	6,881,323	117,703	352,382	594,399	-	-	7,938,177	7,629	-

* Additional information for instruments categorised under Level 3

	2015
Starting balance of Level 3 instruments	-
Purchases	350,000
Interest received	9,421
Interest accrued	2,382
Total Level 3 investments fair value	352,382

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

In EUR

	01/01/2016- 31/12/2016	01/01/2015- 31/12/2015
Net gain/loss from financial assets at fair value through profit or loss		
From bonds		
Sales profit/(-loss)	-14,136	152,190
Unrealised profit /(-loss)	125,439	-29,883
From derivative instruments		
Sales profit/(-loss)	-138,698	-350,322
Unrealised profit /(-loss)	67,627	-93,542
Total net gain/loss	40,232	-321,557

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

NOTE 6. TRANSACTIONS WITH RELATED PARTIES

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

The transactions with related parties were as follows:

	01/01/2016- 31/12/2016	01/01/2015- 31/12/2015
Fund Management Company		
Paid management fees	47,538	56,619
Units purchased	250,000	6,610
Units sold	-	6,610
Other investment funds managed by Fund Management Company		
Units purchased	500,000	6,610
Sale of securities	186,351	925,302
Other entities belonging to the consolidation group of the Fund Management Company		
Units sold	-	2,275
TOTAL	983,888	1,004,024

Avaron Eastern Europe Fixed Income Fund

The balances outstanding with related parties were as follows:

	31/12/2016	31/12/2015
Fund Management Company		
Management fee payable	3,977	4,100

Related parties of the Fund Management Company owned the units of Avaron Eastern Europe Fixed Income Fund in market value as follows:

	31/12/2016	31/12/2015
Avaron Flexible Strategies Fund	6,943,072	5,995,150
Fund Management Company	549,690	263,858
TOTAL	7,492,762	6,259,008

NOTE 7. DERIVATIVE INSTRUMENTS

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	
Forward	Swedbank AS	34,135,200	RUB	03/02/2017	0.0154	0.0105	360,000	31/12/2016	164,563	EUR 1,587,387,000
		360,000	EUR	03/02/2017	1.0000	1.0000	360,000	31/12/2016	-	EUR 1,587,387,000
Swap	AS SEB Pank	1,455,026	EUR	08/02/2017	1.0000	1.0000	1,455,026	31/12/2016	-	EUR 764,692,000
		1,650,000	USD	08/02/2017	0.9487	0.8818	1,455,026	31/12/2016	-110,338	EUR 764,692,000
Swap	AS SEB Pank	1,814,498	EUR	06/10/2017	1.0000	1.0000	1,814,498	31/12/2016	-	EUR 764,692,000
		2,070,000	USD	06/10/2017	0.9365	0.8766	1,814,498	31/12/2016	-124,151	EUR 764,692,000
TOTAL									-69,926	

Avaron Eastern Europe Fixed Income Fund

In EUR
31/12/2015

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	
Forward	AS SEB Pank	1,446,607	EUR	09/02/2016	1	1	1,446,607	31/12/2015	-	714,408,000 EUR
		1,650,000	USD	09/02/2016	0.9198	0.8767	1,446,607	31/12/2015	-71,116	714,408,000 EUR
Swap	AS SEB Pank	1,928,977	EUR	07/10/2016	1	1	1,928,977	31/12/2015	-	714,408,000 EUR
		2,176,850	USD	07/10/2016	0.9122	0.8861	1,928,977	31/12/2015	-56,733	714,408,000 EUR
Swap	Swedbank AS	1,829,319	EUR	21/12/2016	1	1	1,829,319	31/12/2015	-	1,490,012,000 EUR
		2,022,313	USD	21/12/2016	0.9094	0.9046	1,829,319	31/12/2015	-9,704	1,490,012,000 EUR
TOTAL									-137,553	

STATEMENT OF INVESTMENTS

In EUR 31/12/2016

Name	ISIN	Country	Nominal value	Maturity	Interest	Rating	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
BONDS*													
RAIFFEISEN BK 6.625% 18.05.21	XS0619437147	AT	100,000.00	18/05/2021	6.625%	BBB-	EUR	600,000	101.82	610,916	111.27	692,235	8.65%
ARCELIK AS 5%USD 03.04.2023	XS0910932788	TR	1,000.00	03/04/2023	5.000%	BB+	USD	600,000	64.9	389,414	90.58	550,372	6.87%
MOL MAGYAR EUR 6.25 26.09.19	XS0834435702	HU	1,000.00	26/09/2019	6.250%	BB+	USD	450,000	76.57	344,562	103.21	471,445	5.89%
LUKOIL USD 6.656% 07.06.2022	XS0304274599	RU	1,000.00	07/06/2022	6.656%	BBB-	USD	375,000	77.11	289,160	105.95	398,820	4.98%
TURK SISE FAB 4.25% 09.05.20	XS0927634807	TR	1,000.00	09/05/2020	4.250%	BB	USD	400,000	67.61	270,438	93.16	374,948	4.68%
TURKIYE HALK 3.875% 05.02.20	XS0882347072	TR	1,000.00	05/02/2020	3.875%	BB+	USD	400,000	68.63	274,509	89.20	362,745	4.53%
TURKIYE VAKIFLAR BANK 01.11.22	XS0849728190	TR	1,000.00	01/11/2022	6.000%	BB	USD	400,000	65.82	263,274	88.69	358,482	4.48%
MAINOR EUR 26.11.2018	EE3300110691	EE	1,000.00	26/11/2018	7.000%		EUR	350,000	100	350,000	100.00	352,314	4.40%
YAPI VE KRD BK 5.5% 06.12.22	XS0861979440	TR	1,000.00	06/12/2022	5.500%	BB+	USD	400,000	66.94	267,764	87.70	352,188	4.40%
VIENNA INSURANCE GROUP 8% PERP	AT0000A09SA8	AT	1,000.00	12/06/2049	8.000%	A-	EUR	268,000	110.08	295,024	111.89	306,271	3.83%
LHV GROUP SUBORDIN 29.10.25	EE3300110741	EE	1,000.00	29/10/2025	6.500%	NR	EUR	228,000	100	228,000	110.05	253,425	3.17%
TALLINK GRUPP AS FRN 18.10.18	NO0010682255	EE	1,000,000.00	18/10/2018	0.000%	NR	NOK	2,000,000	10.84	216,825	11.49	232,491	2.90%
B2 HOLDING AS FRN EUR 08.12.20	NO0010753072	NO	100,000.00	08/12/2020	0.000%	NR	EUR	200,000	100.2	200,400	103.58	208,074	2.60%
NELJA ENERGIA FRN 02.06.21 EUR	NO0010737174	EE	1.00	02/06/2021	0.000%	NR	EUR	200,000	100	200,000	100.98	202,961	2.54%
FINANSBANK 6.25% 30.04.19 USD	XS1063442484	TR	1,000.00	30/04/2019	6.250%	BBB-	USD	200,000	71.9	143,798	98.30	198,585	2.48%
TURKIYE BANKASI 7.85% 10.12.23	XS1003016018	TR	1,000.00	10/12/2023	7.850%	BB	USD	200,000	86.24	172,488	98.20	197,236	2.46%
TUPRAS-TURKI 4.125% 02.05.18	XS0849020556	TR	1,000.00	02/05/2018	4.125%	BBB-	USD	200,000	71.74	143,472	95.36	191,990	2.40%
AK FIN KIRALAMA 4.125%17.04.18	XS0914394688	TR	1,000.00	17/04/2018	4.125%	BB+	USD	200,000	70.78	141,565	94.52	190,629	2.38%
GL LIMAN ISLETM 8.125%14.11.21	XS1132825099	TR	1,000.00	14/11/2021	8.125%	BB-	USD	200,000	69.34	138,680	93.28	188,541	2.35%
TURK TELEKOM 3.75% 19.06.19	XS1028952155	TR	1,000.00	19/06/2019	3.750%	BBB-	USD	200,000	76.85	153,710	94.12	188,449	2.35%
INBANK SUBORDINATED 28.09.2026	EE3300110964	EE	1,000.00	28/09/2026	7.000%		EUR	84,000	100	84,000	107.70	90,501	1.13%
BONDS TOTAL										5,177,999		6,362,702	79.47%

* Accrued interest in the amount of 77,129.57 EUR has been added to the value of bonds

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

Name	ISIN	Country	Nominal value	Maturity	Interest	Rating	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
DERIVATIVES													
FX Forward RUB/EUR SWEDBANK		EE		03/02/2017			RUB					164,563	2.06%
FX Swap EUR/USD SEB Pank		EE		06/10/2017			USD					-124,151	-1.55%
FX Swap EUR/USD SEB Pank		EE		08/02/2017			USD					-110,338	-1.38%
DERIVATIVES TOTAL												-69,926	-0.87%

Name	ISIN	Country	Nominal value	Maturity	Interest	Rating	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
CASH													
CURRENT ACCOUNT		EE					EUR			1,710,086		1,710,086	21.36%
CURRENT ACCOUNT		EE					PLN			12,347		12,347	0.15%
CURRENT ACCOUNT TOTAL										1,722,433	1,722,433	21.51%	
INVESTMENTS TOTAL										6,900,432	8,015,209	100.11%	
TOTAL ASSETS OF THE FUND										6,900,432	8,015,209	100.11%	
LIABILITIES												-8,670	-0.11%
NET ASSETS OF THE FUND												8,006,539	100.00%

In EUR as of 31/12/2015

Name	ISIN	Country	Nominal value	Maturity	Interest	Rating	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
BONDS*													
RAIFFEISEN BK 6.625% 18.05.21	XS0619437147	AT	100000.00	18/05/2021	6.625%	BB	EUR	600,000	101.82	610,916	102.527	639,816	8.06%
ARCELIK AS 5%USD 03.04.2023	XS0910932788	TR	1000.00	03/04/2023	5.000%	BB+	USD	600,000	64.9	389,414	84.1442	511,617	6.45%
MOL MAGYAR EUR 6.25 26.09.19	XS0834435702	HU	1000.00	26/09/2019	6.250%	BB	USD	450,000	76.57	344,562	98.5756	450,424	5.67%
ERSTE GROUP BR 7.125% 10.10.22	XS0840062979	AT	1000.00	10/10/2022	7.125%	BB+	EUR	325,000	111.07	360,975	118.595	390,622	4.92%
TURKIYE GARAN 4.75% 17.10.19	XS1057541838	TR	1000.00	17/10/2019	4.750%	BBB	USD	400,000	72.51	290,057	91.6463	370,181	4.66%
LUKOIL USD 6.656% 07.06.2022	XS0304274599	RU	1000.00	07/06/2022	6.656%	BBB-	USD	375,000	77.11	289,160	94.7859	356,979	4.50%
YAPI VE KR D BK 5.5% 06.12.22	XS0861979440	TR	1000.00	06/12/2022	5.500%	BB	USD	400,000	66.94	267,764	88.85	356,807	4.49%
TURK SISE FAB 4.25% 09.05.20	XS0927634807	TR	1000.00	09/05/2020	4.250%	BB+	USD	400,000	67.61	270,438	88.6198	356,740	4.49%
TURKIYE VAKIFLAR BANK 01.11.22	XS0849728190	TR	1000.00	01/11/2022	7.375%	BB	USD	400,000	65.82	263,274	88.0835	356,017	4.48%
MAINOR EUR 26.11.2018	EE3300110691	EE	1000.00	26/11/2018	7.000%		EUR	350,000	100	350,000	100	352,382	4.44%
TURKIYE HALK 3.875% 05.02.20	XS0882347072	TR	1000.00	05/02/2020	3.875%	BBB-	USD	400,000	68.63	274,508	86.58	352,108	4.44%
VIENNA INSURANCE GROUP 8% PERP	AT0000A09SA8	AT	1000.00	12/06/2049		A-	EUR	268,000	110.08	295,024	112.625	308,279	3.88%
LHV GROUP SUBORDIN 29.10.25	EE3300110741	EE	1000.00	29/10/2025	6.500%		EUR	235,000	100	235,000	107.5	255,256	3.22%
EILEME 2 11.625% 31.01.20 USD	USW24505AA23	SE	1000.00	31/01/2020	11.625%	BB-	USD	200,000	87.21	174,410	98.0573	205,034	2.58%
B2 HOLDING AS FRN EUR 08.12.20	NO0010753072	NO	100000.00	08/12/2020			EUR	200,000	100.2	200,400	100.7945	202,547	2.55%
NELJA ENERGIA FRN 02.06.21 EUR	NO0010737174	EE	50000.00	02/06/2021			EUR	200,000	100	200,000	100.5	202,047	2.55%
TURKIYE BANKASI 7.85% 10.12.23	XS1003016018	TR	1000.00	10/12/2023	7.850%	BB-	USD	200,000	86.24	172,488	99.3141	199,471	2.51%
FINANSBANK 6.25% 30.04.19 USD	XS1063442484	TR	1000.00	30/04/2019	6.250%	BB	USD	200,000	71.9	143,798	96.6398	195,198	2.46%
FINANSBANK 5.5% 11.05.2016 USD	USM4R36CAA80	TR	1000.00	11/05/2016	5.500%	BB	USD	200,000	73.7	147,402	93.1811	187,769	2.37%
TUPRAS-TURKI 4.125% 02.05.18	XS0849020556	TR	1000.00	02/05/2018	4.125%	BBB-	USD	200,000	71.74	143,472	92.0726	185,369	2.34%
TURKIYE BANKASI 6% 24.10.22	XS0847042024	TR	1000.00	24/10/2022	6.000%	BB-	USD	200,000	66.66	133,329	91.2089	184,474	2.32%
AK FIN KIRALAMA 4.125%17.04.18	XS0914394688	TR	1000.00	17/04/2018	4.125%	BBB-	USD	200,000	70.78	141,565	91.2761	184,113	2.32%
TURKIYE GARAN 5.25% 13.09.22	USM8931TAF68	TR	1000.00	13/09/2022	5.250%	BBB	USD	200,000	78.34	156,685	90.5395	183,979	2.32%
TURK TELEKOM 3.75% 19.06.19	XS1028952155	TR	1000.00	19/06/2019	3.750%	BBB-	USD	200,000	76.85	153,709	91.1758	182,582	2.30%
GL LIMAN ISLETM 8.125%14.11.21	XS1132825099	TR	1000.00	14/11/2021	8.125%	B+	USD	200,000	69.34	138,680	82.52	166,993	2.10%
TVN FINANCE 7.375% 15.12.20EUR	XS0954674668	SE	1000.00	15/12/2020	7.375%	BBB	EUR	140,800	111.1	156,429	107.7375	152,156	1.92%
BONDS TOTAL										6,303,459		7,488,960	94.34%

* Accrued interest in the amount of 98,629.82 EUR has been added to the value of bonds.

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

Name	ISIN	Country	Nominal value	Maturity	Interest	Rating	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets, %
DERIVATIVES													
Exchange-Swap EUR/USD SWEDBANK		EE		21/12/2016			USD					-9,704	-0.12%
Exchange-Swap EUR/USD SEB Bank		EE		07/10/2016			USD					-56,733	-0.71%
Exchange-Forward EUR/USD SEB Bank		EE		09/02/2016			USD					-71,116	-0.90%
DERIVATIVES TOTAL												-137,553	-1.73%
CASH													
CURRENT ACCOUNT		EE					EUR			200,751		200,751	2.53%
CURRENT ACCOUNT		EE					USD			393,648		393,648	4.96%
CURRENT ACCOUNT TOTAL										594,399	594,399	7.49%	
TOTAL ASSETS OF THE FUND										6,897,858	7,945,806	100.10%	
LIABILITIES												-7,629	-0.10%
NET ASSETS OF THE FUND												7,938,177	100.00%

STATEMENT OF COMMISSIONS

In EUR

01/01/2016-31/12/2016

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
Citigroup Global Markets Ltd	1	388,571	-	-
AS SEB Pank	3	370,983	-	-
Unicredit Bank AG London	1	367,132	-	-
Evli Bank Plc	1	217,372	-	-
Avaron Flexible Strategies Fund	1	186,351	-	-
<i>IPO</i>	1	84,000	-	-
<i>OTHER</i>	3	344,787	-	-
TOTAL	11	1,959,196	-	-

01/01/2015-31/12/2015

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
AS SEB Pank	7	1,334,133	-	-
Avaron Flexible Strategies Fund	5	925,302	-	-
<i>IPOs</i>	3	585,787	-	-
Unicredit Bank AG London	2	534,044	-	-
DNB Bank ASA	2	200,400	-	-
Swedbank AS	1	200,000	-	-
DNB Nord	1	179,699	-	-
Stifel Nicolaus Europe Ltd	1	141,790	-	-
<i>OTHER</i>	3	391,728	-	-
TOTAL	25	4,492,883	-	-

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

Under "OTHER" repurchases resulting from corporate events, liquidations and maturities are shown.

REPORT ON REMUNERATION OF THE FUND MANAGEMENT COMPANY

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

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

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

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

In EUR	2016
Wages and salaries	316,538
Social tax and unemployment insurance contributions	110,459
TOTAL	426,997

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

No remuneration has been paid by the Fund.

[Translation from Estonian original]

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Avaron Eastern Europe Fixed Income Fund and the Fund Manager

Opinion

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

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

Basis for Opinion

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

Other Information

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

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

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

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

The Management Board of the Management Company AS Avaron Asset Management is responsible for the preparation and fair presentation of the annual report in accordance with Estonian Accounting Act, Investment Funds Act and and with decree no 21 by the Minister of Finance “The requirements for annual reports of investment funds” and for such internal control as

the management of the Management Board of the Management Company determines is necessary to enable the preparation of annual report that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the annual report

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

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

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

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

28 April 2017



Mariel Akkermann
Certified Auditor, No. 574
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