

## Investment Objectives & Approach

The Fund invests actively in listed equities of European Union new member states and accession countries (Emerging Europe, ex Russia). Benchmark agnostic, it emphasizes bottom-up, value oriented stock picking with a strong small and mid-cap bias. The Fund's investment objective is to maximise upside to internally set target prices, taking into account company quality, liquidity and FX outlook. By implementing our investment process we aim to outperform the market with lower volatility.

The Fund typically invests in 30-40 regional companies, who generally demonstrate a competitive advantage or attractive risk/return features.

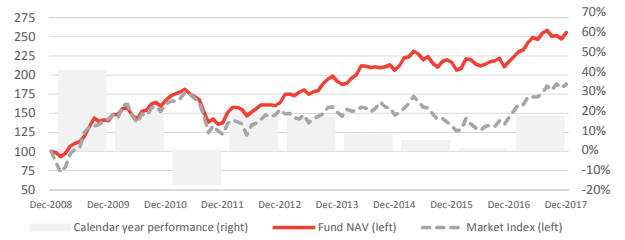
It adheres to the UN Principles for Responsible Investment. Suitable for investors seeking a stock picking portfolio in Emerging Europe, it acts as medium to long term diversifier in a global Emerging Markets, European or Global Equity portfolio.

## Fund Manager's Comment, December 2017

Global equities ended the year on a positive note as MSCI World gained 1.3% in \$ (+0.4% in €) in December. US and Emerging Markets continued to rally while European equities lagged. Emerging Europe stocks (MSCI EFM CEEC ex-RU) gained 2.9% in € in December amid the prevailing risk-on mood in Emerging Markets. Turkish equities (+10.9%) and currency (+2.6% to euro) strongly outperformed on increased flows. Avaron Emerging Europe Fund gained 3.5% in December slightly outperforming the benchmark thanks to the stellar performance of the off-benchmark exposure in Turkey. Macro environment in Emerging Europe remains strong as business sentiment is robust and regional consumer continues to be supported by tightening labour markets. We have maintained high weight in Romania and Turkey on attractive valuations and strong macro environment. The selection of companies in the Fund portfolio trade at 10.5x 2018F earnings, have free cash flow yield at 8% and dividend yield at 4%+.

To receive portfolio managers' detailed monthly report please send a request to info@avaron.com.

## Performance



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

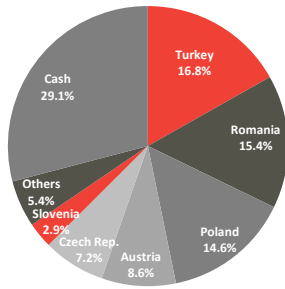
Perf overview	Fund net return	Index return*
1 month	3.5%	2.9%
YTD	17.3%	30.1%
3 months	2.1%	4.5%
6 months	3.7%	9.8%
1 year	17.3%	30.1%
3 years	24.0%	27.3%
5 years	56.0%	21.6%
7 years	53.2%	16.4%
10 years	-8.0%	-12.5%

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

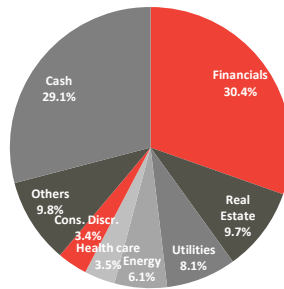
Year	Calendar year return		
	Gross	Net	Index*
2017	19.2%	17.3%	30.1%
2016	2.1%	0.6%	8.2%
2015	6.7%	5.0%	-9.6%
2014	9.4%	7.8%	-2.1%
2013	18.5%	16.7%	-2.4%
2012	21.1%	19.2%	26.5%
2011	-16.3%	-17.6%	-24.3%
2010	20.8%	18.9%	13.4%

Years	CAGR of calendar years	
	Fund	Index*
2016-2017	8.6%	18.6%
2015-2017	7.4%	8.4%
2013-2017	9.3%	4.0%

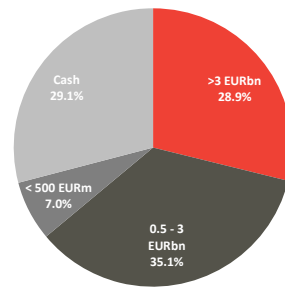
## Geographic breakdown



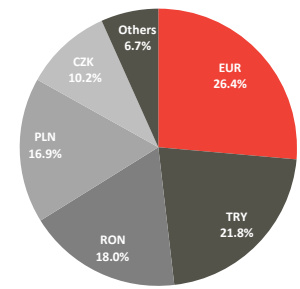
## Sector breakdown



## Market Cap breakdown



## Net currency breakdown



## Country allocation

	Dec-17	Change					Contribution analysis					
		1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Turkey	16.8%	-1.0%	-5.1%	-2.1%	5.6%	12.4%	1.8%	-0.1%	3.3%	3.3%	1.3%	10.6%
Romania	15.4%	-0.5%	-1.2%	-1.2%	0.3%	-4.3%	0.0%	0.3%	4.3%	4.3%	5.2%	17.6%
Poland	14.6%	0.3%	-1.6%	4.1%	4.6%	12.2%	0.8%	2.0%	5.4%	5.4%	6.2%	7.8%
Austria	8.6%	0.1%	-1.0%	-7.9%	-7.1%	-1.9%	0.5%	0.1%	2.8%	2.8%	10.0%	9.2%
Czech Rep.	7.2%	-0.1%	-0.8%	-2.8%	1.0%	-8.7%	0.1%	0.1%	2.3%	2.3%	2.7%	2.5%
Slovenia	2.9%	0.1%	-0.2%	-0.5%	-0.4%	-1.6%	0.2%	0.1%	0.4%	0.4%	0.1%	1.7%
Baltics	1.8%	0.1%	0.1%	0.1%	-2.7%	-3.2%	0.2%	0.3%	0.6%	0.6%	2.0%	3.0%
Croatia	1.6%	-0.1%	-0.3%	0.8%	1.6%	-4.1%	0.0%	-0.1%	0.1%	0.1%	0.3%	0.6%
Bulgaria	1.1%	0.0%	-0.2%	-0.3%	-0.7%	-12.2%	0.0%	0.0%	0.1%	0.1%	0.4%	5.9%
Others	0.9%	1.6%	1.4%	1.7%	4.3%	10.2%	0.1%	-0.1%	0.1%	0.1%	1.9%	10.2%

Risk metrics	3Y risk*
Alpha	4%
Volatility & stand. deviation	9.7%
Beta	0.42
Sharpe ratio	0.80
Information ratio	-0.08
Tracking error	11.5%

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

## Sector allocation

	Dec-17	Change					Contribution analysis					
		1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Financials	30.4%	-1.4%	-1.3%	-4.2%	7.9%	7.7%	2.0%	1.8%	8.5%	8.5%	11.8%	27.6%
Real Estate	9.7%	0.1%	-2.9%	-2.2%	-5.0%	-7.0%	0.5%	0.0%	1.4%	1.4%	3.5%	6.2%
Utilities	8.1%	-0.2%	-0.7%	-2.7%	-6.5%	-9.6%	0.1%	0.3%	2.8%	2.8%	0.9%	9.9%
Energy	6.1%	-0.3%	-0.8%	1.2%	-1.1%	1.8%	-0.1%	0.0%	1.3%	1.3%	3.5%	3.5%
Health care	3.5%	0.1%	-0.3%	-1.3%	-1.1%	-3.3%	0.2%	0.1%	0.9%	0.9%	1.4%	3.8%
Cons. Discr.	3.4%	0.1%	0.6%	-2.3%	-0.5%	-4.7%	0.2%	0.4%	2.5%	2.5%	4.8%	9.6%
Consumer Staples	2.7%	0.0%	-4.5%	0.3%	-1.1%	-0.2%	0.1%	-0.2%	1.7%	1.7%	3.4%	3.7%
Industrial	2.5%	0.3%	0.1%	-0.1%	2.5%	-0.6%	0.4%	0.3%	0.7%	0.7%	0.9%	2.9%
Others	4.6%	4.8%	5.0%	6.0%	4.1%	-5.9%	0.2%	-0.3%	-0.3%	-0.3%	0.1%	1.7%

## Fund statistics

Number of positions	36
Top10	39.9%
Top20	59.5%
Gross exposure	70.9%
Net exposure	70.9%
Concentration coefficient	46
Median market cap MEUR	1854
Average market cap MEUR	2901

## Style allocation

	Dec-17	Change					Contribution analysis					
		1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Cyclical	44.9%	1.2%	0.9%	-1.1%	15.2%	24.3%	2.7%	2.6%	10.4%	10.4%	16.5%	28.6%
Non-cyclical	12.1%	-0.2%	-5.1%	-2.8%	-9.2%	-21.1%	0.2%	0.1%	5.9%	5.9%	6.6%	13.7%
Asset play	13.9%	0.0%	-3.1%	-2.1%	-4.2%	-10.7%	0.5%	0.0%	2.6%	2.6%	4.2%	17.3%
Convertible bonds	0.0%	0.0%	0.0%	0.0%	-2.6%	-10.1%	0.0%	0.0%	0.0%	0.0%	0.4%	6.0%
High yield bonds	0.0%	-2.3%	-2.7%	-4.1%	0.0%	-4.0%	0.0%	0.0%	0.4%	0.4%	2.5%	2.8%
FX Derivatives	0.0%	0.1%	-0.2%	0.0%	0.0%	0.0%	0.1%	-0.2%	0.0%	0.0%	0.1%	0.8%
Cash	29.1%	1.2%	10.4%	10.1%	0.8%	21.7%	0.0%	0.0%	-0.2%	-0.2%	-0.2%	-0.2%

## Turnover

	Adj*
FY 2017	19.6%
FY 2016	17.7%
FY 2015	22.2%

\* Adjusted for fund flows

Liquidity analysis*	20%	50%
3 days	67.0%	80.1%
2 weeks	83.7%	93.9%
4 weeks	91.9%	97.7%

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

**Fund Facts - Avaron Emerging Europe Fund**

<b>Investment Manager</b>	AS Avaron Asset Management
<b>Fund type</b>	Open-ended, UCITS-IV
<b>Launch date</b>	April 23, 2007
<b>Domicile</b>	Estonia
<b>Currency</b>	EUR
<b>Dividends</b>	reinvested
<b>Fund size, MEUR</b>	80.6
<b>Total AUM, MEUR</b>	450+

**TER 2017** 0.22% (excluding management and performance fees)

	ISIN Code	NAV 31-Dec 2017
<b>A unit</b>	EE3600090049	4.9270 EUR
<b>B unit</b>	EE3600090056	5.2226 EUR
<b>C unit</b>	EE3600102901	17.6853 EUR
<b>D unit</b>	EE3600108866	14.8690 EUR
<b>E unit</b>	EE3600108874	14.8010 EUR

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

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

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

**Bloomberg tickers**

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

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

**Contact Information**

**Avaron Asset Management**  
 Narva mnt 7D, 10117 Tallinn  
 ESTONIA  
 Phone: +372 66 44 205  
 Fax: +372 66 44 201  
 E-mail: [info@avaron.com](mailto:info@avaron.com)  
[www.avaron.com](http://www.avaron.com)

**About Avaron Asset Management**

Avaron Asset Management is an independent management-owned asset manager with a clear focus on Emerging Europe listed equities and fixed income. Our 11 investment professionals, in Estonia and Poland, focus on active investment management. In total 17 professionals are employed by Avaron.

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

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



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



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



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

**Important Legal Information**

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

*This material contains data and facts on investments and funds managed by Avaron, which are provided for information purposes only. No investment advice is offered or given by Avaron to persons using this material. This material is complimentary to and not a substitute for independent professional advice from a person qualified to provide it in your home country. Reliance on this material for the purpose of buying the securities to which this material relates may expose a person to a significant risk of losing all of the property or other assets invested. The information herein is, to the best of the knowledge of Avaron, in accordance with the facts. However, Avaron, none of its affiliates, directors or officers accept any liability in respect of the accuracy or completeness of any information herein, or omitted to be included herein, or any information provided, or omitted to be provided, by any third party. All information and expressions of opinion contained in this material are subject to change without notice. This material does not constitute or form part of a distribution or an offer or solicitation to buy or sell any securities (in particular, shares or units in any of Avaron funds) to any person in any jurisdiction in which such distribution, offer or solicitation would be contrary to local law or regulation. In particular, the information herein is not for distribution, and does not constitute an offer to sell or buy, or the solicitation of any offer to sell or buy, any securities in the United States of America or to or for the benefit of United States persons (within the meaning of Regulation S under the Securities Act of 1933). In relation to persons in the United Kingdom, the information herein is directed only at Investment Professionals in the meaning of Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. This material should not be relied on by persons in the United Kingdom who are not Investment Professionals. Any investment or investment activity to which this material relates is available in the United Kingdom only to Investment Professionals and will be engaged in only with Investment Professionals.*

*Subscription of Avaron funds should be made on the basis on the funds' prospectus and key investor information, the relevant fund rules and the latest available annual or semi-annual reports. These documents can be obtained from Avaron. Past performance is not indicative of future results. The value of investments and any income derived from the funds may fall as well as rise and investors may not get back the amount invested. An investment in the funds entails risks, some of which are described in the prospectuses of the funds. Investors should be aware of the high risks associated with investments in emerging markets such as Central and Eastern Europe. This material may include forward looking statements which are based on Avaron's current opinions, expectations and projections. We undertake no obligation to update or revise any forward looking statements. Actual results could differ materially from those anticipated in the forward looking statements. Any dispute, controversy or claim arising out of or in connection with the information provided in this material shall be settled in accordance with Estonian law exclusively in Estonian courts.*