

## APPENDIX 2.

### FUND RULES OF AVARON FLEXIBLE STRATEGIES FUND

These Fund Rules have been registered with the Financial Supervision Authority on 26 February 2018 and enter into force on 2 April 2018.

#### 1. Definitions and interpretation

1.1 In these Rules, unless the context otherwise requires, the defined terms shall have the following meaning:

<b>Applicable Law</b>	all laws and regulations applicable to the Management Company in relation to the management of the Fund, in particular the Estonian investment funds act and derivative acts issued thereunder, as well as legal acts of the European Union and acts or resolutions of competent supervisory or other authorities to the extent these are legally binding to the Management Company
<b>Banking Day</b>	a day when credit institutions are generally open for business in Estonia, excluding Saturdays, Sundays, national and public holidays
<b>Depository Fee</b>	a fee payable to a designated depository for safekeeping assets of the Fund, and performing certain other functions in relation to the Fund, subject to and in accordance with an agreement concluded with the depository
<b>EFSA</b>	the Estonian Financial Supervision Authority (in Estonian: <i>Finantsinspektsioon</i> )
<b>Fund</b>	Avaron Flexible Strategies Fund, constituted pursuant to these Rules
<b>Investment Policy</b>	the investment policy of the Fund, as stipulated in the Prospectus
<b>Investment Restrictions</b>	the investment restrictions applicable to the management of the Fund, as stipulated in the Prospectus
<b>KIID</b>	a short form information document for the public offering of the Fund, containing only key information about the essential characteristics of the Fund as prescribed in the Applicable Law
<b>Management Company</b>	AS Avaron Asset Management, registry code of 11341336, with registered address at Narva mnt 7D, 10117 Tallinn, Estonia
<b>Management Fee</b>	fee payable by the Fund to the Management Company for the management of the Fund pursuant to and in accordance with the Rules and the Prospectus
<b>Performance Fee</b>	fee payable by the Fund to the Management Company pursuant and in accordance with the Rules and the Prospectus dependent on the result of the investment management services rendered by the Management Company
<b>Prospectus</b>	a document for the public offering of the Fund, presenting information to the extent required by the Applicable Law, and any other information deemed necessary or advisable by the Management Company for deciding an investment into the Fund
<b>Registrar</b>	the registrar of the Unit Registry, as identified in the Prospectus
<b>Rules</b>	these rules, constituting the Fund and regulating the legal relationship between the Management Company and the Unitholders, including the investment management mandate provided hereunder
<b>Trade Date</b>	the Banking Day of receiving a duly compiled order to transact with Units
<b>UCITS</b>	a fund established pursuant to and in accordance with the UCITS Directive
<b>UCITS Directive</b>	Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)
<b>Unit</b>	a unit representing a holding in the Fund
<b>Unit Registry</b>	registry of Units, maintained electronically by the Registrar
<b>Unitholder</b>	person who has subscribed for and/or is holding a Unit

- 1.2 The terms not defined above shall have the meaning as provided in the Prospectus or, if not defined, as used by professional financial market participants in similar transactions, and if no such specific meaning, in their ordinary meaning.
- 1.3 The Rules shall be interpreted together with the Prospectus and the Applicable Law. In the case of any conflict between the Rules and imperative provisions of Applicable Law, such imperative provisions of Applicable Law shall prevail. In the case of any ambiguity, the Rules shall be interpreted in the best interests of the Unitholders.

## 2. The Fund

- 2.1 **Avaron Flexible Strategies Fund** (in Estonian: **Avaroni Privaatportfelli Fond**) has been established with the resolution of the Management Company dated 25 November 2008, and originally registered with the EFSA on 3 December 2008. The Fund shall be deemed to be located at the registered address of the Management Company, as provided in Clause 3.1.
- 2.2 The Fund is a public common alternative investment fund constituted by the Rules, and does not have a separate legal personality. The pool of money raised through issue of Units, and other assets acquired through investment activities belong jointly to the Unitholders. The assets of the Fund are managed by the Management Company pursuant to and in accordance with the Rules, the Prospectus and the Applicable Law. The assets of the Fund are segregated from the assets of the Management Company or any other fund or pool of assets managed by the Management Company, and are excluded from the estate of the Management Company in the case of bankruptcy. The claims of the Management Company's creditors cannot be satisfied out of the Fund's assets.
- 2.3 The Unitholders shall not be personally liable for the obligations of the Fund, and their liability for the performance of such obligations is limited to their respective investment into the Fund. The Rules do not authorise the Management Company to assume obligation in the name of the Unitholder.
- 2.4 The Fund may be offered to the public in Estonia, and in any other jurisdictions where it is specifically authorised do so by the competent authorities. The list of jurisdictions where the Fund may be offered to the public is provided in the Prospectus.

## 3. The Management Company

- 3.1 The designated Management Company of the Fund is AS Avaron Asset Management, an Estonian limited liability company registered with the Estonian Commercial Register under the registry code of 11341336, with registered address at Narva mnt 7D, 10117 Tallinn, Estonia. The Management Company is authorised and supervised by the EFSA. The Management Company is authorised to manage investment funds established pursuant to and in accordance with the UCITS Directive, other funds pursuant to and in accordance with the Estonian investment funds act, and to provide portfolio management and investment advisory services.
- 3.2 The Management Company has the full power and authority, on behalf of the Fund, to do all such things as are, in the reasonable opinion of the Management Company, necessary or desirable in connection with the management of the Fund, its investments, or otherwise in the furtherance of the business or operations of the Fund, subject to and in accordance with the Rules, the Prospectus and the imperative provisions of Applicable Law. The Management Company shall conduct transactions with the assets of the Fund in its own name and for the account of all the Unitholders collectively (hereinafter for account of common fund).
- 3.3 The Management Company shall, pursuant to the Applicable Law, act with all due care, skill and diligence in discharging its role as the Management Company of the Fund, considering the best interests of the Fund, and thereby the collective best interests of the Unitholders.
- 3.4 The Management Company shall appoint a depositary for safe-keeping of the Fund's assets, and for performance certain other functions, subject to and in accordance with the Applicable Law. Information about the depositary designated for the Fund, and description of its functions and liability is provided in the Prospectus.
- 3.5 The Management Company may, subject to the requirements and restrictions of the Applicable Law, delegate certain functions relating to management of the Fund to third parties, whether related to the Management Company or not. The Management Company shall apply due care in selecting, retaining and monitoring such third party. Delegation of its functions does not relieve the Management Company from its responsibility or liability towards the Unitholders in relation to management of the Fund, unless otherwise provided by the Applicable Law. The information regarding functions delegated to third parties is provided in the Prospectus.
- 3.6 The Management Company shall submit and process on behalf of the Fund, and thereby collectively on behalf of the Unitholders, any claims against the depositary or any third party, if the failure to submit or process such claim would result or may result in significant damage to the Fund and thereby collectively to its Unitholders. The Management company is not obliged to submit such claims, if these have already been submitted by or on behalf

of the Fund and/or the Unitholders, or if the potential damage or amount of claim is small and insignificant in total amount (being less than EUR 1,000), or if costs relating to enforcing such claims would be disproportionate in relation to the amount of the claim.

#### **4. General description of the Investment Policy**

- 4.1 The objective of the Fund's activities is long term capital growth through economic and market cycles. In order to achieve these investment objectives, a flexible strategy combining various asset classes, industries and geographic regions shall be implemented when investing the Fund's assets. The Investment Policy is not restricted by specific asset class, region or industry.
- 4.2 Subject to the Investment Policy and Investment Restrictions, the Fund's assets can be invested into equities, various debt instruments, deposits, derivative instruments and other financial instruments, the Fund can use leverage by borrowing or using derivative instruments, and issue loans. The assets of the Fund shall be invested globally. However, the focus shall be on Emerging Europe countries. The allocation of the Fund's assets between different asset classes, industrial sectors and regions shall be determined by the Management Company in exercising active portfolio management strategy, subject to its professional assessment and the prevailing market circumstances. Therefore, the proportions of various financial instruments in the Fund's assets vary over time and the exact combination shall be determined based on the Management Company's views and on the issuer specific and macroeconomic research as carried out by the Management Company.
- 4.3 In order to have the necessary flexibility when managing the Fund, the Investment Restrictions are not overly restrictive and only provide for a basic framework for the permitted investments. A detailed overview of the Investment Policy and the Investment Restrictions is provided in the Prospectus.
- 4.4 The return on investment into the Funds, or achievement of its investment objective is not guaranteed. The past performance of the Fund is neither a guarantee or indication of future performance. With the investment into the Fund the Unitholder acknowledges and accepts that such investment involves risk and it may result in both profit or loss to the Unitholder, including loss of the entire amount invested. The overview of risks pertaining to investment into the Fund is provided in the Prospectus. Each client is advised to consult with a professional investment advisor prior to making an investment.

#### **5. Fund Units, the Rights and Obligations Attached to Units**

- 5.1 A Unit represents the Unitholder's share in the assets of the Fund. A Unit is a dematerialised book-entry security, maintained in an electronic Unit Registry. No certificate in relation to the Units is issued to the Unitholder. Issue and redemption of Units, and creation and termination of rights and obligation relating thereto, shall take effect with relevant entry into the Unit Registry. Information about the Unit Registry and the Registrar is provided in the Prospectus.
- 5.2 The reference currency for the Fund and for the Units is euro (EUR).
- 5.3 The Fund has one class of Units: Avaron Flexible Strategies Fund (Avaroni Privaatportfelli Fond in Estonian), with nominal value of EUR 10 (ten euros).
- 5.4 A Unit is divisible. The fractions of Units that are created by dividing Units are rounded up to three decimal points. The following rules are applied for rounding: numbers NNN.NNN0 until NNN.NNN4 are rounded to NNN.NNN and numbers NNN.NNN5 to NNN.NNN9 are rounded to NNN.NN(N+1).
- 5.5 The issue of the Units is not limited by time or amount. The issue of Units is performed on every Banking Day and redemption with either 7 calendar days' or 30 calendar days' prior notice as chosen by the Unitholder, unless the issue or redemption is suspended pursuant to and in accordance with the Prospectus and/or the Applicable Law.
- 5.6 The subscription price of a Unit shall be based on the net asset value of the Unit calculated as of the Trade Date. The redemption price of a Unit shall depend on the notice period for executing the redemption order, as chosen by the Unitholder. If the Unitholder has chosen a notice period of 7 calendar days, the redemption price shall be the net asset value of the Unit that is calculated as of the seventh calendar day immediately following the day of receiving the redemption order. If the Unitholder has chosen a notice period of 30 calendar days, the redemption price shall be the net asset value of the Unit that is calculated as of the 30th calendar day immediately following to the day of receiving the redemption order. Detailed terms and procedure for Unit transactions, including applicable cut-off times and redemption fees, are provided in the Prospectus.
- 5.7 By submitting a subscription order, the Unitholder confirms that he or she has thoroughly acquainted, consents and undertakes to adhere to the Rules and the Prospectus. The Management Company has the right in its sole discretion to refuse to execute a subscription order if this is deemed necessary for protecting the interests of existing Unitholders, or for the orderly management of the Fund.

- 5.8 Unitholders shall be treated equally in equal circumstances. A Unit grants to the Unitholder the following rights, subject to and in accordance with the terms and procedures provided in the Prospectus and the Applicable Laws:
- a) right to demand redemption of Units;
  - b) right to transfer the Units to third parties;
  - c) right to receive a share of the assets remaining upon liquidation of the Fund and of any distributions made from the Fund in proportion to the number of Units and the class of Units held;
  - d) right to access and receive information regarding the Fund;
  - e) upon request, to receive a confirmation from the Registrar relating to Units registered to his or her name in the Registry;
  - f) to exercise other rights provided by the imperative provisions of the Applicable Law.
- 5.9 The Unitholder is not entitled to demand exchange of the Units with shares or units of other funds managed by the Management Company.
- 5.10 The Fund does not have a general meeting nor any other Unitholders' representative body, and therefore Unitholders do not have the right or the opportunity to participate in the management of the Fund through any Unitholders' representative body. Without limiting the above, the Unit does not grant any right to participate or demand participation in the investment management of the Fund. No Unitholder is entitled to demand termination of the Fund.
- 5.11 Unitholders shall exercise their rights attached to Units in good faith and in accordance with the Rules, the Prospectus, and the Applicable Law. The exercise of such rights shall not be with the intent or objective to damage the interests of other Unitholders, the Management Company, the depositary of the Fund, or any third party.
- 5.12 By the declaration of intention to acquire Units (whether by submitting a subscription order or otherwise), each person consents to the processing of his/her data (including personal data) pursuant to the Management Company's principles of processing client data (available at the website [www.avaron.com](http://www.avaron.com)). The persons authorised by the Management Company to process personal data (authorised processors) and their contact details are also available at the above website. The Management Company has the right to send notices and reports about the Fund at any known postal or e-mail address of the Unitholder.
- 5.13 All proceeds from the investments of the Fund shall be reinvested, and no distributions shall be made to the Unitholders from the Fund. The Unitholder's return on his or her investment into the Fund is reflected in the increase or decrease of the net asset value of the Unit. The Unitholder may realize its return by exercising redemption or sale right.
- 5.14 Subscription and redemption fees, as well as all other direct expenses related to subscribing and redeeming Units shall be paid for by the Unitholder. The subscription and redemption fees relating to issue or redemption of same class of Units may differ depending on the number or value of Units issued or redeemed, or circumstances relating to the structure or arrangement of the issue or redemption. The applicable rates and procedure for determining the subscription and redemption fees are provided in the Prospectus. The Management Company is entitled to reduce or waive subscription and/or redemption fees at its sole discretion. At the request of the Unitholder subscribing for or redeeming Units, the Management Company shall report the amount of subscription or redemption fees charged to him or her in relation to such transaction.

## **6. Fees and Expenses of the Fund**

- 6.1 The Management Company shall be paid a Management Fee on the account of the Fund, on terms and conditions as provided in the Rules and the Prospectus. The maximum annual rate of the Management Fee is 1.25% of the market value of the assets of the Fund. In addition to the Management Fee, the Management Company is entitled to the Performance Fee, if the net asset value of the Units exceeds the Fixed NAV to which the minimum return (12 month's Euribor rate) has been added. The Fixed NAV is the net asset value of a Unit calculated as of December 31 of the year preceding the net asset value calculation date. The applicable Euribor rate is fixed on the final Banking Day of each quarter for the following quarter, and shall in no case be less than 0% (even when negative). The rate of the Performance Fee is provided in the Prospectus.
- 6.2 The Depositary shall be paid a Depositary Fee for its services on the account of the Fund. The rate of the Depositary Fee and payment conditions are provided in the Prospectus.
- 6.3 The Management Fee and Depositary Fee shall be accrued on each day the net asset value of the Fund is calculated, and shall be paid out monthly for the previous calendar month. The accrual for the Performance Fee shall be

revalued on each day the net asset value of the Fund is calculated. Performance Fee shall be crystallised as of 31 December of each year and shall be paid out during January of the following year.

6.4 The following costs and expenses shall be paid on the account of the Fund:

- a) expenses related to holding the Fund's assets and making transactions therewith (transaction fees, brokerage fees, transfer fees, subscription fees, exchange fees, registry fees, state fees), and bank charges for banking services (money transfers, international money transfers, account debiting and crediting, currency conversion);
- b) expenses related to auditing the Fund and its reports;
- c) fees related to borrowing on behalf of the Fund;
- d) expenses in relation to exercising any rights arising from the assets of the Fund;
- e) fund administration fees to the service providers (the service includes keeping the Fund's accounts and calculating net asset value);
- f) expenses related to maintaining the Units Registry, based on the price list of the Registrar (including the Registrar's charges related to receiving and processing the subscription and redemption orders);
- g) state charges related to registering amendments to the Rules and/or Prospectus and the expenses related to publishing relevant notices;
- h) expenses related to preparing, printing, translating and distributing the Rules, Prospectus and other Fund documents
- i) other fees and costs related to the management of the Fund that are related to taxes on the Fund's investments, fees and interest costs (including costs related to negative interest on deposits and other fixed income investments);
- j) legal (incl. court costs) expenses incurred by the Fund; and
- k) liquidation costs.

6.5 The total fees and expenses (excl. liquidation fees) paid on behalf of the Fund may not exceed 5% of the weighted average net asset value of the Fund's assets per year.

## **7. Amendments**

- 7.1 The Rules may be amended with the resolution of the Management Company's management board, including in material issues such as amendments to the Investment Policy or Investment Restrictions, fees, costs and expenses payable on behalf of the Fund.
- 7.2 The amendments to the Rules shall be approved by the EFSA, unless such amendments are solely due to changes to the Applicable Law, resulting in the obligation of the Management Company to amend the Rules, or when such amendments do not affect the rights of the Unitholders, or are beneficial to the Unitholders. In such case the approval of the EFSA is not required, and the amended Rules shall only be notified to the EFSA without delay.
- 7.3 Following the registration of the amendments by the EFSA, or notification of the amendments to the EFSA, as relevant, the Management Company shall without delay publish a notice regarding such amendments together with the amended Rules on its website [www.avaron.com](http://www.avaron.com). The amended Rules shall take effect in one month after publishing the corresponding notice, unless the notice prescribes a later date.
- 7.4 In the case of material amendments to the Rules, the Management Company shall ensure that the Unitholders are provided with the period of at least one month before such material amendments enter into effect during which the Management Company redeems the Units at the request of the Unitholder without a redemption fee, or ensures an option to exit by sale of the Units at the price at least equal to the net asset value of the Units. The material amendments shall take effect only after such one-month period has passed.

## **8. Liquidation of the Fund**

- 8.1 The Fund shall be terminated and liquidated only with the resolution of the Management Company's management board, or pursuant to the imperative provisions of the Applicable Law.
- 8.2 The approval of the EFSA is required for the liquidation of the Fund. Upon receipt of such approval, the Management Company shall without delay publish a notice regarding the liquidation of the Fund on its website [www.avaron.com](http://www.avaron.com).
- 8.3 The liquidation shall be performed in accordance with the Applicable Law by the Management Company, depository or a third-party liquidator appointed by the EFSA.

- 8.4 The costs and expenses of the liquidation procedure may be covered at the account of the Fund. However, such expenses shall not exceed 2% of the net asset value of the Fund at the date of the resolution to liquidate, unless such additional expenses are identified and justified with the liquidation resolution. If the actual liquidation expenses exceed the limit threshold, the Management Company or the person who was the designated Management Company prior to liquidation shall be responsible for the expenses exceeding such limit.
- 8.5 The Management Company (or other designated liquidator) shall distribute the remaining assets between the Unitholders on the basis of the class, number and net asset value of Units owned by each of them. Notice concerning the liquidation distributions shall be published on the Management Company's website [www.avaron.com](http://www.avaron.com).

## **9. Liability**

- 9.1 The Management Company shall compensate to the Fund any damages attributable to its intentional breach or gross negligence in performance of its obligations arising out of the Rules, Prospectus, documents issued thereunder, or the Applicable Law, subject to and in accordance with the imperative provisions of the Applicable Law.
- 9.2 The Management Company shall only be liable for direct monetary damage, except and to the extent the imperative provisions of the Applicable Law provide otherwise. Liability of the Management Company not specifically regulated in the Rules or the Prospectus, shall be excluded to the maximum extent permitted by the Applicable Law.
- 9.3 Unitholder is not personally liable for the obligations of the Fund assumed by the Management Company on behalf of the Fund, or for obligations the performance of which the Management Company has the right to demand from the Fund pursuant to the Rules and the Prospectus. The Unitholder's liability for such obligations is limited to his or her share of the Fund's assets.
- 9.4 The Management Company shall not assume any obligations on behalf of any individual Unitholder. In order to satisfy a claim against a Unitholder, the claim may be enforced against the Units held by the Unitholder, not the assets of the Fund.