

**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.

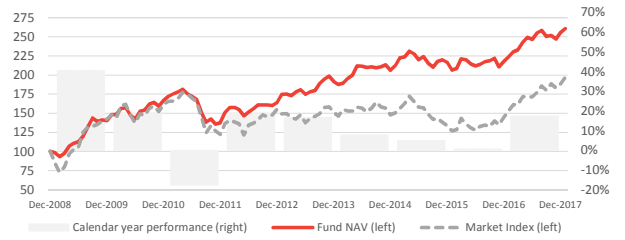
It adheres to the UN Principles for Responsible Investment. Suitable for investors seeking a stock picking portfolio in Emerging Europe, it acts as medium to long term diversifier in a global Emerging Markets, European or Global Equity portfolio.

**Fund Manager's Comment, January 2018**

Global equities had one of the best starts to a year in decades as MSCI World gained 5.3% in \$ (+1.6% in €) in December. Emerging Europe stocks (MSCI EFM CEEC ex-RU) gained 4.8% in € in January amid the prevailing risk-on mood in Emerging Markets. The upward move in the region was broad-based supported by positive fund flows. Emerging Europe currencies were largely stable, only Turkish lira saw noteworthy weakness against the euro. Avaron Emerging Europe Fund gained 1.9% in January underperforming the benchmark due to weak euro based return of off-benchmark Turkish exposure, notable UW in Poland that posted very strong performance and high average cash position. We have maintained high weight in Romania and Turkey on decent valuations and strong macro. The selection of companies in the Fund portfolio trade at 10.8x 1YR FWD P/E. Portfolio companies' free cash flow yield stands at 8% and dividend yield at 4-5%.

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.

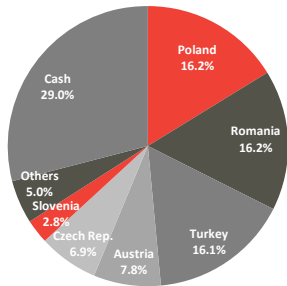
Perf overview	Fund net return	Index return*
1 month	1.9%	4.8%
YTD	1.9%	4.8%
3 months	3.5%	4.7%
6 months	2.2%	11.4%
1 year	16.5%	28.8%
3 years	22.8%	31.0%
5 years	49.2%	32.2%
7 years	51.3%	19.3%
10 years	7.0%	5.9%

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%

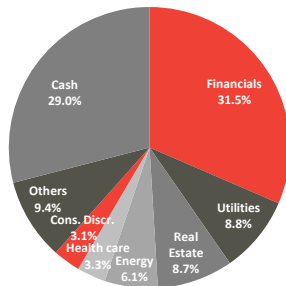
\* MSCI EFM Central and Eastern Europe & CIS ex Russia

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%

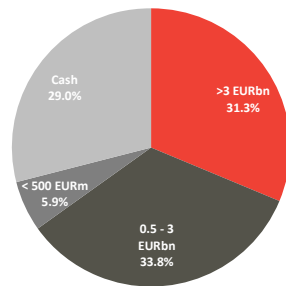
**Geographic breakdown**



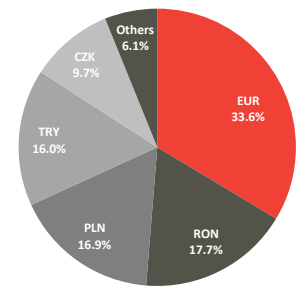
**Sector breakdown**



**Market Cap breakdown**



**Net currency breakdown**



**Country allocation**

Country	Jan-18	Change					Contribution analysis					
		1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Poland	16.2%	1.6%	0.3%	4.8%	6.0%	12.4%	0.6%	2.1%	4.8%	0.6%	6.6%	8.4%
Romania	16.2%	0.8%	0.3%	-2.0%	1.1%	-3.7%	1.1%	1.4%	3.6%	1.1%	6.2%	15.6%
Turkey	16.1%	-0.7%	-5.9%	-5.3%	2.7%	12.9%	0.2%	0.2%	3.6%	0.2%	-1.5%	9.7%
Austria	7.8%	-0.8%	-1.4%	-8.2%	-11.1%	-0.4%	-0.2%	-0.1%	2.8%	-0.2%	11.0%	8.6%
Czech Rep.	6.9%	-0.3%	-0.9%	-3.7%	-1.3%	-7.3%	0.3%	0.2%	2.4%	0.3%	2.7%	3.7%
Slovenia	2.8%	-0.2%	-0.2%	-0.5%	-0.5%	-1.7%	0.0%	0.2%	0.5%	0.0%	0.3%	1.2%
Baltics	1.6%	-0.1%	0.0%	-0.1%	-3.3%	-4.6%	0.0%	0.3%	0.5%	0.0%	1.4%	2.6%
Croatia	1.5%	-0.1%	-0.3%	0.1%	1.5%	-4.3%	0.0%	-0.1%	0.1%	0.0%	0.3%	-0.3%
Bulgaria	1.0%	-0.1%	-0.2%	-0.3%	-0.8%	-12.6%	0.0%	0.0%	0.1%	0.0%	0.4%	3.8%
Others	0.9%	1.5%	1.5%	1.6%	4.3%	10.4%	0.0%	0.0%	0.2%	0.0%	1.9%	8.4%

**Sector allocation**

Sector	Jan-18	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	31.5%	1.1%	-2.4%	-4.8%	2.4%	9.6%	1.3%	2.5%	8.4%	1.3%	12.1%	24.3%
Utilities	8.8%	0.8%	0.3%	-2.8%	-5.4%	-6.7%	0.5%	0.6%	1.8%	0.5%	1.7%	9.9%
Real Estate	8.7%	-0.9%	-1.7%	-3.9%	-7.1%	-7.2%	-0.2%	-0.2%	1.9%	-0.2%	1.8%	5.1%
Energy	6.1%	0.0%	-0.6%	0.9%	-1.1%	1.7%	0.5%	0.5%	1.3%	0.5%	4.0%	3.2%
Health care	3.3%	-0.2%	-0.4%	-1.8%	-1.3%	-3.4%	0.0%	0.2%	1.0%	0.0%	1.4%	3.3%
Cons. Discr.	3.1%	-0.3%	0.4%	-3.4%	-1.2%	-6.0%	0.0%	0.4%	2.1%	0.0%	4.4%	9.4%
Consumer Staples	2.5%	-0.2%	-3.7%	0.1%	-1.8%	-0.3%	0.0%	-0.3%	1.7%	0.0%	2.8%	3.7%
Industrial	2.3%	-0.3%	-0.1%	-0.4%	2.3%	-2.1%	-0.1%	0.3%	0.6%	-0.1%	0.8%	2.0%
Others	4.7%	5.1%	4.9%	6.1%	4.2%	-5.6%	0.1%	0.0%	-0.2%	0.1%	0.2%	0.7%

**Style allocation**

Style	Jan-18	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	45.7%	0.8%	0.0%	-1.1%	12.6%	23.3%	1.8%	3.9%	10.4%	1.8%	16.3%	25.8%
Non-cyclical	11.4%	-0.7%	-4.8%	-4.9%	-10.6%	-19.1%	0.2%	0.0%	5.3%	0.2%	5.9%	12.8%
Asset play	13.9%	0.0%	-1.1%	-1.9%	-5.0%	-10.2%	0.1%	0.2%	2.6%	0.1%	3.3%	14.8%
Convertible bonds	0.0%	0.0%	0.0%	0.0%	-2.6%	-10.2%	0.0%	0.0%	0.0%	0.0%	0.4%	4.6%
High yield bonds	0.0%	0.0%	-2.6%	-7.0%	-3.4%	-3.7%	0.0%	-0.1%	0.3%	0.0%	3.3%	2.8%
FX Derivatives	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.8%
Cash	29.0%	-0.1%	8.5%	15.0%	9.0%	19.9%	0.0%	-0.1%	-0.2%	0.0%	-0.2%	-0.2%

**Risk metrics**

Alpha	3%
Volatility & stand. deviation	9.6%
Beta	0.43
Sharpe ratio	0.76
Information ratio	-0.21
Tracking error	11.3%

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

**Fund statistics**

Number of positions	37
Top10	40.5%
Top20	59.0%
Gross exposure	71.0%
Net exposure	71.0%
Concentration coefficient	46
Median market cap MEUR	1922
Average market cap MEUR	3196

**Turnover**

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

\* Adjusted for fund flows

**Liquidity analysis\***

20%	68.4%	80.4%
50%	83.9%	94.6%
	92.6%	97.9%

\* 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>	87.1
<b>Total AUM, MEUR</b>	450+

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

	<b>ISIN Code</b>	<b>NAV 31-Jan 2018</b>
<b>A unit</b>	EE3600090049	5.0206 EUR
<b>B unit</b>	EE3600090056	5.3242 EUR
<b>C unit</b>	EE3600102901	18.0133 EUR
<b>D unit</b>	EE3600108866	15.1479 EUR
<b>E unit</b>	EE3600108874	15.0943 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>

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

**Bloomberg tickers**

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

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

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**About Avaron Asset Management**

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

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

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



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



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



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

**Important Legal Information**

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