

**Investment Objectives & Approach**

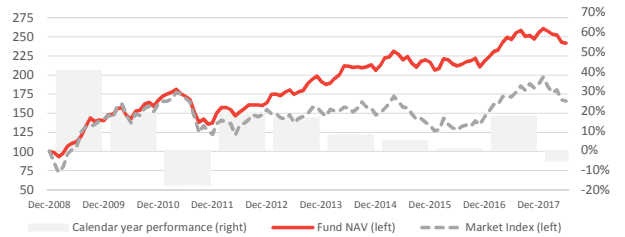
The Fund invests actively in listed equities of European Union new member states and accession countries (Emerging Europe, ex Russia). Benchmark agnostic, it emphasizes bottom-up, value oriented stock picking with a strong small and mid-cap bias. The Fund's investment objective is to maximise upside 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, June 2018**

MSCI World lost 0.2% in \$ (-0.1 in €) in June rounding up the worst first half to a year since 2010 as trade war related tensions continue to build. Emerging Markets (MSCI EM) had a terrible run in June losing 4.6% in \$ due to continuing weakness in China. Emerging Europe stocks (MSCI EFM CEEC ex-RU) were down 1.1% in € in June on the back of prevailing negative sentiment towards Emerging Markets. Regional sell-off was led by Poland on negative fund flows and Turkey on pre-election anxiety. YTD Turkey has remained a strong underperformer, down 29.1% in € of which more than half is attributable to the depreciation of lira (YTD down 15.2% to €). Avaron Emerging Europe Fund lost 0.5% in June, outperforming the benchmark due to high cash position and UW in Poland. YTD the Fund is down 5.4% compared to -11.9% of the benchmark. Turkish companies remain a core part of the portfolio on valuation grounds (20% of NAV). The local market index BIST100 trades at 6.8x 2018f P/E, close to the post 2009 crisis lows, with expected corporate earnings growth at around 20%. Banks are trading at 4.2x 2018f P/E and 0.7x P/B implying 2009-like crisis. Out of the total exposure in Turkey we have ca. 1/3rd invested in the banks, 1/3rd in export-oriented manufacturing companies and the rest in domestically driven firms. Romanian exposure stands at 18.3%, supported by corporate profit growth from cyclically strong macro environment. Fund portfolio companies trade at 9.2x 1YR FWD P/E with net gearing of portfolio companies standing at 18%, free cash flow yield at 11%, and dividend yield at 5% on an average pay-out rate of 50%.

To receive full monthly report please send a request to [info@avaron.com](mailto: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.

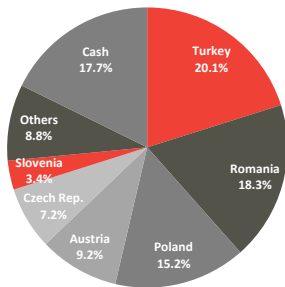
Perf overview	Fund net return	Index return*
1 month	-0.5%	-1.1%
YTD	-5.4%	-11.9%
3 months	-4.5%	-6.1%
6 months	-5.4%	-11.9%
1 year	-1.9%	-3.2%
3 years	9.8%	5.0%
5 years	38.5%	20.6%
7 years	40.5%	-2.2%
10 years	9.9%	-9.7%

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%

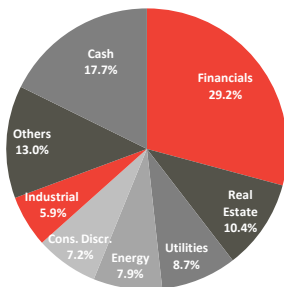
\* MSCI EFM Central and Eastern Europe & CIS ex Russia

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%

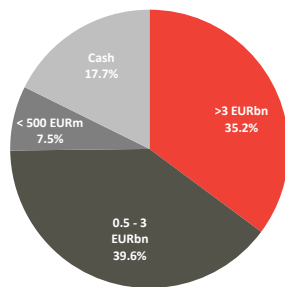
**Geographic breakdown**



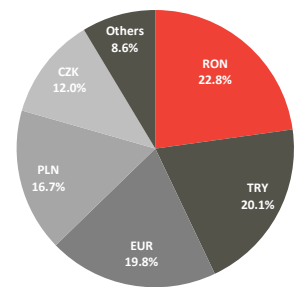
**Sector breakdown**



**Market Cap breakdown**



**Net currency breakdown**



**Country allocation**

Country	Jun-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
Turkey	20.1%	6.7%	5.6%	-2.4%	9.8%	12.1%	-0.5%	-2.5%	-4.2%	-3.4%	-2.6%	5.1%
Romania	18.3%	1.2%	2.2%	-0.1%	-0.6%	-3.8%	0.5%	0.3%	2.4%	1.9%	6.1%	15.3%
Poland	15.2%	0.4%	0.6%	0.2%	4.8%	11.5%	-0.4%	-1.9%	-0.1%	-2.8%	2.3%	4.7%
Austria	9.2%	0.4%	1.2%	-0.2%	-15.8%	-4.0%	-0.1%	-0.1%	0.6%	-0.1%	6.0%	8.5%
Czech Rep.	7.2%	0.0%	0.1%	-3.4%	-4.4%	-2.9%	0.2%	0.2%	1.3%	0.4%	1.2%	5.0%
Slovenia	3.4%	0.2%	0.6%	0.0%	-0.1%	-3.0%	0.0%	0.0%	0.3%	0.0%	-0.2%	1.4%
Baltics	3.2%	1.6%	1.7%	1.7%	1.3%	-5.0%	0.2%	0.2%	0.5%	0.0%	1.3%	1.9%
Hungary	2.1%	0.0%	0.2%	1.4%	1.1%	-11.0%	-0.1%	-0.2%	-0.4%	-0.3%	0.6%	4.3%
Croatia	1.8%	0.1%	0.2%	-0.3%	1.8%	-0.4%	0.0%	0.0%	-0.2%	-0.1%	0.2%	0.1%
Others	1.7%	2.6%	2.5%	2.7%	4.3%	8.8%	0.1%	0.1%	-0.1%	0.1%	0.9%	4.3%

**Risk metrics**

Metric	3Y Risk*
Alpha	3%
Volatility & stand. deviation	9.4%
Beta	0.40
Sharpe ratio	0.37
Information ratio	0.13
Tracking error	11.7%

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

**Sector allocation**

Sector	Jun-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	29.2%	1.8%	0.8%	-4.6%	-5.3%	-6.1%	0.1%	-2.6%	-1.5%	-3.3%	5.6%	19.0%
Real Estate	10.4%	0.5%	1.4%	-2.4%	-3.8%	-2.6%	-0.1%	-0.1%	0.4%	-0.2%	1.3%	4.0%
Utilities	8.7%	-0.2%	1.1%	0.0%	-5.1%	-5.6%	-0.1%	0.1%	1.3%	0.4%	1.3%	9.1%
Energy	7.9%	0.8%	1.3%	1.0%	-2.3%	4.2%	0.4%	0.3%	1.5%	1.1%	3.4%	3.1%
Cons. Discr.	7.2%	1.3%	2.6%	0.1%	2.7%	-2.6%	-0.2%	-0.4%	0.1%	-0.8%	2.9%	8.3%
Industrial	5.9%	5.7%	4.3%	2.9%	4.9%	4.8%	0.0%	-0.1%	0.0%	-0.1%	0.8%	1.1%
Health care	5.5%	0.2%	0.8%	0.5%	1.0%	-3.1%	-0.1%	-0.1%	-0.1%	-0.3%	0.4%	3.3%
Consumer Staples	2.9%	0.5%	0.6%	-1.7%	0.3%	0.7%	-0.1%	-0.3%	0.0%	-0.5%	1.0%	2.8%
Others	4.5%	5.3%	5.2%	5.8%	4.1%	0.8%	-0.1%	-0.7%	-1.5%	-0.8%	-0.9%	-0.2%

**Fund statistics**

Number of positions	40
Top10	42.3%
Top20	64.8%
Gross exposure	82.3%
Net exposure	82.3%
Concentration coefficient	38
Median market cap MEUR	1832
Average market cap MEUR	2663

**Style allocation**

Style	Jun-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	51.2%	9.6%	9.0%	3.5%	12.5%	21.8%	0.4%	-3.0%	-1.0%	-3.4%	9.6%	20.7%
Non-cyclical	16.1%	0.8%	1.9%	-0.9%	-4.7%	-10.9%	-0.4%	-0.8%	0.5%	-1.2%	1.6%	12.0%
Asset play	14.9%	0.3%	2.0%	-2.8%	-2.5%	-5.0%	-0.2%	0.0%	0.8%	0.2%	3.1%	11.7%
Convertible bonds	0.0%	0.0%	0.0%	0.0%	-1.6%	-17.2%	0.0%	0.0%	0.0%	0.0%	0.0%	2.9%
High yield bonds	0.0%	0.0%	0.0%	-2.9%	-7.2%	-2.0%	0.0%	0.0%	-0.1%	0.0%	1.5%	2.6%
FX Derivatives	0.0%	0.0%	0.0%	-0.2%	0.0%	-0.2%	0.0%	0.0%	-0.2%	0.0%	0.0%	0.5%
Cash	17.7%	-10.7%	-12.8%	3.3%	3.6%	13.5%	-0.2%	-0.3%	-0.5%	-0.3%	-0.5%	-0.5%

**Turnover**

FY	Turnover	Adj*
FY 2017	28.5%	29.1%
FY 2016	17.7%	-13.0%
FY 2015	22.2%	-10.5%

\* Adjusted for fund flows

**Liquidity analysis\***

Period	20%	50%
3 days	66.8%	77.6%
2 weeks	81.5%	94.2%
4 weeks	91.5%	98.2%

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

**Fund Facts - Avaron Emerging Europe Fund**

<b>Investment Manager</b>	AS Avaron Asset Management
<b>Fund type</b>	UCITS, public common investment fund
<b>Launch date</b>	April 23, 2007
<b>Domicile</b>	Estonia
<b>Currency</b>	EUR
<b>Dividends</b>	reinvested
<b>Fund size, MEUR</b>	70.8
<b>Total AUM, MEUR</b>	450+

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

	ISIN Code	NAV 30-Jun 2018
<b>A unit</b>	EE3600090049	4.6474 EUR
<b>B unit</b>	EE3600090056	4.9387 EUR
<b>C unit</b>	EE3600102901	16.7075 EUR
<b>D unit</b>	EE3600108866	14.0063 EUR
<b>E unit</b>	EE3600108874	13.9878 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, Switzerland
<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.

Signatory of:



RESPONSIBLE BUSINESS INDEX  
 GOLD LEVEL 2018



**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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