

## Investment Objectives & Approach

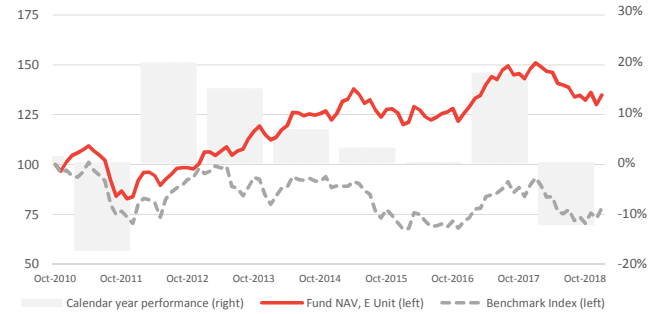
The Fund invests actively in listed equities of European Union new member states and accession countries (Emerging Europe, ex Russia). Benchmark agnostic, it emphasizes bottom-up, value oriented stock picking with a strong small and mid-cap bias. The Fund's investment objective is to maximise upside 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 2019

Global equities started the year with a strong rally across the board (MSCI World +7.7% in \$) supported by the Fed's somewhat unexpected dovish pivot on monetary policy. Emerging Europe (MSCI EFM EUROPE + CIS (E+C) ex Russia) rallied alongside with global emerging markets, up 7.2% in January in € terms. Turkey was the main outperformer in the region getting support from rapidly improving headline trade and current account deficits. Romania underperformed for the second consecutive month in a row due to the announced fiscal changes. At the end of the month the Romanian government published the 2019 draft budget that did not include the "greed tax" nor the 2% revenue tax for energy and telecom sectors indicating that further changes might be contemplated. Avaron Emerging Europe Fund gained 3.8% in January, underperforming the benchmark due to UW in Turkey, OW in Romania and 20% cash position. Positioning of the Fund is conservative as we have around 20% of cash in the portfolio and are underweight compared to the benchmark in the high beta Turkish equities. Such stance is a reflection of our modest bottom-up estimates for corporate earnings growth in the region amid maturing economic cycle and slowing growth. The selection of companies in the Fund portfolio trade at 10.5x 1YR FWD P/E. We favour companies with strong balance sheets and solid sustainable free cash flow generation. The aggregate net gearing of our portfolio companies stands at 23% and dividend yield at 5%+ on an average pay-out rate of 65%.

To receive detailed fund manager comment please send a request to [info@avaron.com](mailto:info@avaron.com).

## Performance, E Unit



Past performance is not a guarantee or indicative of future results.

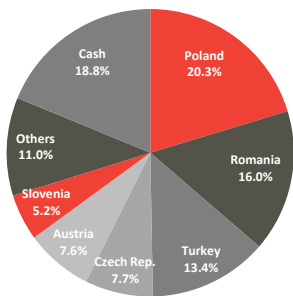
| Perf overview | Net return E Unit | Index return* |
|---------------|-------------------|---------------|
| 1 month       | 3.8%              | 7.2%          |
| YTD           | 3.8%              | 7.2%          |
| 3 months      | 1.9%              | 11.1%         |
| 6 months      | -2.7%             | 1.1%          |
| 1 year        | -10.7%            | -16.0%        |
| 3 years       | 12.3%             | 16.0%         |
| 5 years       | 20.0%             | -2.0%         |
| 7 years       | 46.6%             | -2.3%         |
| 8 years       | 29.1%             | 69.1%         |

\* MSCI EFM EUROPE + CIS (E+C) ex Russia

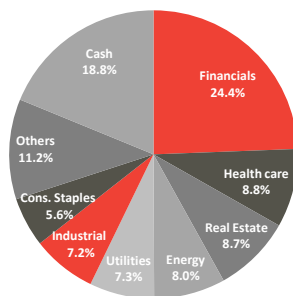
## Calendar year return, E Unit

| Year | Gross  | Net    | Index* |
|------|--------|--------|--------|
| 2018 | -10.9% | -12.2% | -18.6% |
| 2017 | 19.2%  | 17.7%  | 25.3%  |
| 2016 | 2.1%   | -0.1%  | 1.2%   |
| 2015 | 6.7%   | 2.9%   | -20.0% |
| 2014 | 9.4%   | 6.5%   | 4.7%   |
| 2013 | 18.5%  | 14.6%  | -13.9% |
| 2012 | 21.1%  | 19.7%  | 39.3%  |
| 2011 | -16.3% | -17.3% | -27.5% |

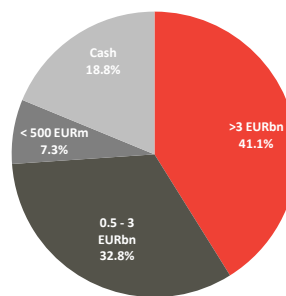
## Geographic breakdown



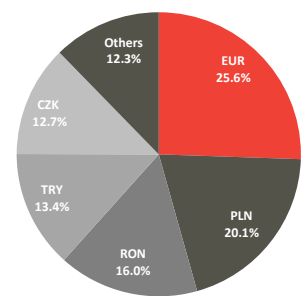
## Sector breakdown



## Market Cap breakdown



## Net currency breakdown



## Country allocation

|            | Jan-19 | 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     | 20.3%  | 0.3%   | 0.5%  | 4.1%  | 3.8%    | 16.3%   | 1.1%                  | 2.0%  | -2.2% | 1.1%  | 5.5%    | 5.2%    |
| Romania    | 16.0%  | -1.3%  | -5.9% | -0.2% | -0.9%   | 1.0%    | -0.7%                 | -3.6% | -1.2% | -0.7% | 6.6%    | 7.4%    |
| Turkey     | 13.4%  | 1.4%   | 1.9%  | -2.7% | -4.8%   | -7.7%   | 1.8%                  | 1.8%  | -7.0% | 1.8%  | -6.0%   | 7.5%    |
| Czech Rep. | 7.7%   | 0.2%   | 0.1%  | 0.7%  | -3.5%   | 0.7%    | 0.5%                  | 0.4%  | 0.2%  | 0.5%  | 2.3%    | 3.6%    |
| Austria    | 7.6%   | 0.3%   | -0.1% | -0.2% | -10.2%  | -1.5%   | 0.6%                  | 0.2%  | 0.5%  | 0.6%  | 7.8%    | 6.2%    |
| Slovenia   | 5.2%   | -0.2%  | 1.6%  | 2.5%  | 1.8%    | 1.2%    | 0.0%                  | 0.5%  | 0.3%  | 0.0%  | 0.3%    | 0.6%    |
| Hungary    | 5.0%   | -0.2%  | 0.0%  | 4.5%  | 2.8%    | 3.5%    | 0.5%                  | 0.7%  | 0.6%  | 0.5%  | 0.7%    | 1.4%    |
| Baltics    | 3.1%   | 0.1%   | 0.1%  | 1.4%  | 0.8%    | -3.1%   | 0.2%                  | 0.3%  | 0.1%  | 0.2%  | 1.1%    | 1.2%    |
| Croatia    | 1.8%   | -0.1%  | -0.1% | 0.2%  | 1.8%    | 1.8%    | 0.0%                  | -0.1% | -0.3% | 0.0%  | -0.1%   | -0.1%   |
| Others     | 1.2%   | 2.4%   | 3.1%  | 2.1%  | 3.5%    | 7.1%    | 0.0%                  | 0.0%  | 0.0%  | 0.0%  | 0.4%    | 2.0%    |

## Risk metrics

|                               |       |
|-------------------------------|-------|
| Alpha                         | 4%    |
| Volatility & stand. deviation | 9.5%  |
| Beta                          | 0.46  |
| Sharpe ratio                  | 0.42  |
| Information ratio             | 0.39  |
| Tracking error                | 10.5% |

\* MSCI EFM EUROPE + CIS (E+C) ex Russia

## Sector allocation

|                  | Change | Contribution analysis |       |       |        |         |         |       |       |       |       |       |
|------------------|--------|-----------------------|-------|-------|--------|---------|---------|-------|-------|-------|-------|-------|
|                  |        | 1 mo                  | 3 mo  | 12 mo | YTD    | 3 years | 5 years |       |       |       |       |       |
| Financials       | 24.4%  | -0.8%                 | 0.9%  | -7.1% | -19.3% | 1.4%    | 0.1%    | 0.5%  | -8.1% | 0.1%  | 4.0%  | 10.7% |
| Health care      | 8.8%   | -0.4%                 | 0.1%  | 5.5%  | 3.9%   | 5.9%    | 0.5%    | 0.9%  | 0.7%  | 0.5%  | 1.1%  | 1.9%  |
| Real Estate      | 8.7%   | 0.3%                  | -0.8% | 0.0%  | -2.7%  | -0.8%   | 0.6%    | 0.2%  | 0.4%  | 0.6%  | 3.1%  | 3.5%  |
| Energy           | 8.0%   | 0.0%                  | -2.2% | 1.9%  | -0.9%  | 2.9%    | 0.3%    | -1.7% | 0.2%  | 0.3%  | 4.3%  | 3.1%  |
| Utilities        | 7.3%   | -0.7%                 | -3.3% | -1.6% | -5.8%  | -6.6%   | -0.4%   | -0.6% | -0.3% | -0.4% | 3.4%  | 5.0%  |
| Industrial       | 7.2%   | 0.9%                  | 1.3%  | 4.9%  | 4.0%   | 7.2%    | 1.2%    | 1.0%  | 0.8%  | 1.2%  | 1.7%  | 1.6%  |
| Consumer Staples | 5.6%   | 0.4%                  | 0.8%  | 3.1%  | 5.6%   | 3.4%    | 0.6%    | 1.0%  | -0.2% | 0.6%  | 0.8%  | 2.6%  |
| Cons. Discr.     | 5.4%   | 0.4%                  | 0.0%  | 2.2%  | -0.3%  | -6.3%   | 0.5%    | 0.2%  | -1.4% | 0.5%  | 1.5%  | 7.0%  |
| Others           | 5.9%   | 0.9%                  | 1.2%  | 4.5%  | 5.4%   | 1.3%    | 0.5%    | 0.7%  | -1.1% | 0.5%  | -1.1% | -0.4% |

## Fund statistics

|                           |       |
|---------------------------|-------|
| Number of positions       | 35    |
| Top10                     | 45.6% |
| Top20                     | 67.9% |
| Gross exposure            | 81.2% |
| Net exposure              | 81.2% |
| Concentration coefficient | 35    |
| Median market cap MEUR    | 1672  |
| Average market cap MEUR   | 2923  |

## Style allocation

|                   | Change | Contribution analysis |       |        |       |         |         |       |       |       |       |       |
|-------------------|--------|-----------------------|-------|--------|-------|---------|---------|-------|-------|-------|-------|-------|
|                   |        | 1 mo                  | 3 mo  | 12 mo  | YTD   | 3 years | 5 years |       |       |       |       |       |
| Cyclical          | 47.0%  | 0.7%                  | 0.3%  | 1.3%   | -6.3% | 13.1%   | 2.4%    | 0.2%  | -9.2% | 2.4%  | 6.9%  | 16.2% |
| Non-cyclical      | 20.9%  | 0.2%                  | -1.1% | 9.5%   | 4.1%  | -0.4%   | 1.5%    | 2.6%  | 0.2%  | 1.5%  | 5.5%  | 10.3% |
| Asset play        | 13.3%  | -0.5%                 | -1.8% | -0.6%  | -2.7% | 0.0%    | 0.0%    | -0.7% | 0.0%  | 0.0%  | 4.8%  | 6.9%  |
| Convertible bonds | 0.0%   | 0.0%                  | 0.0%  | 0.0%   | 0.0%  | -5.0%   | 0.0%    | 0.0%  | 0.0%  | 0.0%  | 0.0%  | -0.9% |
| High yield bonds  | 0.0%   | 0.0%                  | 0.0%  | 0.0%   | -5.4% | -1.2%   | 0.0%    | 0.0%  | 0.0%  | 0.0%  | 1.5%  | 2.3%  |
| FX Derivatives    | 0.0%   | 0.0%                  | 0.0%  | 0.0%   | 0.0%  | -0.3%   | 0.0%    | 0.0%  | 0.0%  | 0.0%  | 0.0%  | 0.1%  |
| Cash              | 18.8%  | -0.4%                 | 2.7%  | -10.2% | 10.3% | -6.1%   | -0.1%   | -0.1% | -0.3% | -0.1% | -0.6% | -0.6% |

## Turnover

|         | Adj*  |
|---------|-------|
| FY 2018 | 20.7% |
| FY 2017 | 28.5% |
| FY 2016 | 17.7% |

\*Adjusted for fund flows

| Liquidity analysis* | 20%   | 50%   |
|---------------------|-------|-------|
| 3 days              | 67.8% | 77.1% |
| 2 weeks             | 81.2% | 93.4% |
| 4 weeks             | 91.6% | 97.1% |

\*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>          | UCITS V, 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>    | 63.0                                   |
| <b>Total AUM, MEUR</b>    | 400+                                   |

| Unit class                          | D (Retail) | C (Institutional) | E (Institutional)  |
|-------------------------------------|------------|-------------------|--|
| <b>Min. initial investment</b>      | -          | 500,000 EUR       | 500,000 EUR  |
| <b>Front-end load</b>               | -          | -                 | -  |
| <b>Management fee</b>               | 2%         | 1.15%             | 0.85%  |
| <b>Performance fee (unit based)</b> | -          | -                 | 15% over MSCI EFM EUROPE + CIS (E+C) ex RU index, annual reset (June 30) |
| <b>Back-end load</b>                | -          | -                 | -  |

**TER 2018** 0.37% (excluding management and performance fees)

|               | NAV         | TER 2018       | TER 2018       |
|---------------|-------------|----------------|----------------|
|               | 31-Jan-19   | excl. perf fee | incl. perf fee |
| <b>B unit</b> | 4.7503 EUR  |                |                |
| <b>C unit</b> | 16.0746 EUR | 1.58%*         | 1.67%*         |
| <b>D unit</b> | 13.4102 EUR | 2.37%          | 2.37%          |
| <b>E unit</b> | 13.4839 EUR | 1.22%          | 1.46%          |

\* C unit management fee lowered to 1.15% and performance fee cancelled as of 06.09.2018

|  |  |
|--|--|
| <b>Cut-off</b>                         | 10am CET   |
| <b>NAV frequency</b>                   | Daily dealing, T+3   |
| <b>Public offering</b>                 | France, Switzerland, Germany, UK, Finland, Sweden, Estonia, Latvia     |
| <b>Morningstar rating</b>              | Yes, three stars (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> |

|               | ISIN code    | WKN code | Bloomberg ticker | Reuters RIC | Telekurs ID |
|---------------|--------------|----------|------------------|-------------|-------------|
| <b>C unit</b> | EE3600102901 | A0PEF0   | AVAEESC ET       | LP68063797  | CH10799792  |
| <b>D unit</b> | EE3600108866 | A1W7P0   | AVEMEUD ET       | LP68083763  | CH12407332  |
| <b>E unit</b> | EE3600108874 | A113GN   | AVEMEUE ET       | LP68083764  | CH12414216  |

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**About Avaron Asset Management**

Avaron Asset Management (founded in 2007) is an independent management-owned investment manager with a clear focus on stock-picking (bottom-up) and value investing in Emerging Europe region. We aim to deliver positive risk-adjusted return to our clients over the market cycle. Our portfolios are long-only and invest in listed stocks.

Investment ideas are generated through in-house proprietary research of approximately 250 Emerging Europe companies, backed by regular on the ground visits and meetings. Our stock selection is primarily driven by the upside to internally set target prices on single company level. We invest only in business models that we understand and can model ourselves focusing on companies with leading market positions and strong recurring revenue streams. In addition, we have integrated ESG analysis into our investment process and adhere to the UN Principles for Responsible Investment (UN PRI). Our team of 20 professionals (including 11 in the investment team), based in Estonia and Poland, takes care of around 400 million euros of mainly professional investor assets.

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

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