



Avaron Flexible Strategies Fund

PROSPECTUS

12 January 2018

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Subscription to Avaron Flexible Strategies Fund should be made on the basis of this Prospectus, the fund rules and the latest available annual or semi-annual report. 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 fund may fall as well as rise and investors may not get back the amount invested. An investment in the fund entails risks, some of which are described in this Prospectus. Investors should be aware of the high risks associated with investments in emerging markets such as Central and Eastern Europe.

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. Information provided in this material has originally been prepared in the Estonian language and has been translated into English. In case of any discrepancy between the two versions, the Estonian version shall prevail.

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GENERAL INFORMATION

This prospectus is the issue prospectus of the units of Avaron Flexible Strategies Fund (hereafter: “**Fund**”) in the meaning of the Investment Funds Act of the Republic of Estonia (hereafter: “**Prospectus**”). The rules of the Fund (hereafter: “**Fund Rules**”) are an integral part of this Prospectus.

The Fund is a public closed-end fund as defined in the Estonian Investment Funds Act.

MAIN INFORMATION ABOUT THE FUND

Fund management company	AS Avaron Asset Management, registered address: Narva mnt 7D, 10117 Tallinn, Estonia, register code 11341336, hereafter: “ Management Company ”
Members of management board of the Management Company	Kristel Kivinurm-Priisalm, Valdur Jaht
Location of the Fund	Narva mnt 7D, 10117 Tallinn, Estonia
Legal status	Public closed-end contractual investment fund, registered in the Republic of Estonia
Depository	Swedbank AS, registered address: Liivalaia 8, 15040 Tallinn, Estonia, register code 10060701, hereafter: “ Depository ”
NAV calculation and Fund accounting	Swedbank AS, registered address: Liivalaia 8, 15040 Tallinn, Estonia, register code 10060701
Transfer agent	Swedbank AS, registered address: Liivalaia 8, 15040 Tallinn, Estonia, register code 10060701
Registrar of fund units	The register of Units is kept by Swedbank AS, registered address: Liivalaia 8, 15040 Tallinn, Estonia, register code 10060701 (hereafter: “ Registrar ”)
Auditor	KPMG Baltics OÜ, registered address: Narva mnt 5, 10117 Tallinn, Estonia, register code 10096082
Financial supervision	Financial Supervision Authority, registered address: Sakala 4, 15030 Tallinn, Estonia
Launch of the Fund	17 December 2008
Registration of Fund Rules	The effective Fund Rules were registered on 11 August 2010 and entered into force on 20 September 2010.
Units of the Fund	A fund unit (hereafter: “ Unit ”) represents the unit-holder’s share in the assets of the Fund. A Unit is an electronically registered security.
Issue of Units	Units are issued on every banking day.
Redemption of Units	Units are redeemed once a month, with prior notice of one to three months, as chosen by the unit-holder redeeming the Units.
Unit prices	The Management Company calculates the net asset value of the Fund, and the net asset value, the subscription price and redemption price of a Unit at least once for each banking day on the following banking day by 16.30 EET (GMT+2) and publishes the information at its web site www.avaron.com .
Publication of information	The important information and documents relating to the Fund are available at the web site of the Management Company at www.avaron.com and at the registered address of the Management Company.
Financial year	The financial year of the Fund begins on 1 January and ends on 31 December
Distribution of income	The income of the Fund shall not be distributed to unit-holders but shall be reinvested. A unit-holder’s profit or loss shall be reflected in changes in Unit’s net asset value

THE BASES AND OBJECTIVES OF THE ACTIVITIES OF THE FUND, INVESTMENT POLICY OF THE FUND

THE BASES FOR THE ACTIVITIES OF THE FUND

The Fund is a pool of money raised through public issue of Units, and of other assets acquired from investing this money that belongs jointly to the Fund's unit-holders and that is managed by the Management Company. The bases of the Fund's activities and the relations between unit-holders and the Management Company have been laid down in the legislation of the Republic of Estonia and the Fund Rules.

THE OBJECTIVES OF THE FUND'S ACTIVITIES

The Fund offers to unit-holders the opportunity to invest in a portfolio encompassing the most favoured investment ideas of Avaron's fund managers. Numerous asset classes are combined in the Fund's investment portfolio – the Fund's assets can be invested into equities, various debt instruments, deposits, derivative instruments and other financial instruments. The allocation between different asset classes, industrial sectors and geographic areas vary over time depending on the fund manager's view and the prevailing market circumstances. The objective of the Fund's activities is long term capital growth through economic and market cycles. There is no guarantee to unit-holders that they will get back the amount invested in the Funds or that it will grow.

The description of risks related to investing into the Funds is available in the section „Risks” within this Prospectus.

INVESTMENT POLICY OF THE FUND

Investment Policy

In order to achieve the Fund's investment objectives, a flexible strategy combining various asset classes, industries and geographic regions shall be implemented when investing the Fund's assets. The allocations shall be based on the fund manager's views and the prevailing market circumstances. For example, at a point in time the Fund can invest a large part of its assets into equities, whereas in other market conditions bonds and deposits can form the majority. The Fund's assets may also be invested in other assets as set out in the Fund Rules. The proportions of the different assets will vary over time. In order to have the necessary flexibility when managing the Fund, the investment limits as set out in the Fund Rules are not overly restrictive and only provide for a basic framework for the authorised investments. The degree of diversification of the Fund's investments is low and changing over time. Due to the Fund's investment policy, the Fund's risk profile and risk level vary over time but as a whole, the Fund has a high risk level.

The assets of the Fund may be invested in any type of issuer's securities, any asset class, country or industry. The exact allocations shall be determined as part of the ongoing management of the Fund. The Fund can use leverage by borrowing or using derivative instruments. The Fund may give out loans. The proportions of various financial instruments in the Fund's assets vary over time and the exact combination shall be

determined based on the fund manager's views and on the issuer specific and macroeconomic research as carried out by the Management Company.

The assets of the Fund shall be invested globally. However, the focus shall be on Emerging Europe countries. In case this view changes, investors shall be notified by updating the Prospectus.

Investment Restrictions

The Fund's assets may be invested in any financial instrument. In particular, up to 100% of the assets of the Fund may be invested in any of the following types of financial instruments: deposits of credit institutions; shares and other similar tradable rights, bonds, convertibles bonds and other tradable debt securities, subscription rights and other tradable rights that entitle acquiring securities, money market instruments and tradable depository receipts; derivative instruments; units and funds of investment funds.

The Fund's assets may be invested in financial instruments that are traded on a regulated securities market as well as into financial instruments that are not traded on a regulated securities market. No more than 20% of the market value of the Fund's assets may be invested in shares that are not traded on a regulated market. Other securities not traded on a regulated market may constitute up to 100% of the market value of the Fund's assets.

The financial instruments that the Fund's assets are invested in may be issued by or otherwise related to any country. There is no maximum limit to one country's allocation.

Diversification of Investments

The value of securities issued by one entity (excluding units and shares of investment funds) may not exceed 20% of the market value of the Fund's assets. If the value of securities issued by one entity exceeds 10% of the market value of the Fund's assets, the aggregate value of such securities may not exceed 60% of the market value of the Fund's assets. As an exception, the value of the shares or units of one UCITS fund may constitute up to 50% of the market value of the Fund.

Investing in Other Funds Managed by the Management Company

Up to 100% of the Fund's assets may be invested in other funds managed by the Management Company. In such case, no subscription or redemption fees are charged from the Fund. Additionally, the Management Company shall reimburse to the Fund 100% of the performance fees and 90% of the management fees that have been paid to the Management Company on the Fund's investment in other funds managed by the Management Company.

Transactions with Derivative Instruments

It is allowed to make transactions with derivative instruments on behalf of the Fund provided that the

limitations set out in the Investment Funds Act, other legislation issued in accordance with it, the internal rules and the Fund Rules are complied with. The assets of the Fund may be invested in such derivative instruments the underlying of which is a securities index, an interest rate, a currency exchange rate or financial instrument in which the Fund's assets may be invested in.

The Fund may invest in derivative instruments for the purpose of hedging risks as well as for the purpose of achieving the Fund's investment objectives. The Fund can sell uncovered call and put options. The aggregate open position of uncovered call and put options sold by the Fund (based on execution price) shall not exceed 20% of the market value of the assets of the Fund. The Fund's total open exposure relating to derivative instruments may not exceed the total net asset value of the Fund.

Other Permitted Transactions

The Management Company may on behalf of the Fund guarantee issues of securities, issue bonds, borrow and give out loans, enter into repurchase and reverse repurchase agreements and make other transactions of borrowing and lending securities. It is allowed to borrow and assume other liabilities referred to on behalf of the Fund in the amount of up to 100% of the market value of the Fund's assets. The maturity of loans and other liabilities assumed on behalf of the Fund may be no more than 12 months.

The nominal value of loans given out by the Fund and the value of reverse repurchase agreement made on behalf of the Fund may not exceed 100% of the market value of the assets of the Fund. The nominal value of loans given to one person may not exceed 10% of the market value of the assets of the Fund on the day of providing the loan. The nominal value of unsecured loans provided by the Fund may not exceed 30% of the market value of the assets of the Fund on the day the loan was granted. The Fund may accept Units as security to loans and make reverse repurchase agreements with the Units.

Further information on the principles of the Fund's investment policy and the rules for diversification of risks has been provided in the Fund Rules.

Short Overview of Investment and Risk Management Techniques

The Fund Management Company deploys value investing and stock-picking investment style with focus on company-specific, sector and macro analysis. The Fund Management Company is searching for and investing in securities with the best upside potential among equally risky alternatives or in securities with lowest risk among alternatives with equal upside.

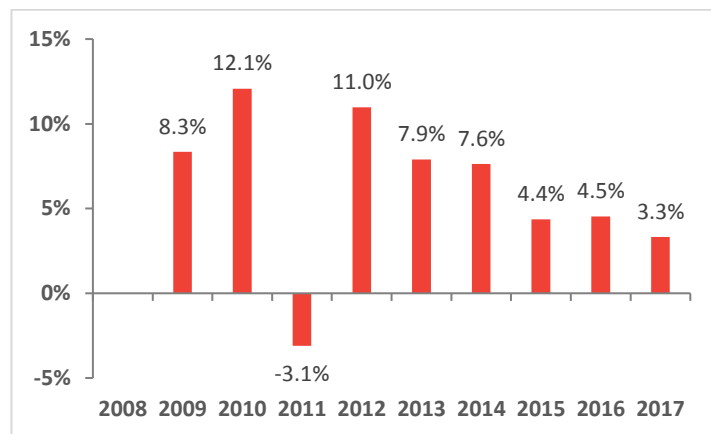
Portfolio liquidity analysis and diversification among sectors, countries, currencies and instruments are the main risk management tools used. In addition, the Fund Management Company may use derivatives to hedge or take directional exposure in currencies. The Fund Management Company actively follows financial results of companies and makes relevant changes in the Fund portfolio based on companies' upside to target prices and its view on macroeconomic trends.

The Fund Management Company aims for a long term capital growth of Fund Unit value. However, not always all investments in the Fund are made for long-term. The Fund's investment universe comprises of emerging and dynamic economies with highly volatile stock markets. Should a company's share price exceed its target price, the Fund Management Company would exit the position, irrespective of its intended investment horizon.

The Fund Management Company has established procedures for internal risk management in order to identify, monitor, measure and hedge the risks associated to the Fund's investments. The Fund Management Company regularly examines that the Fund is in compliance with its investment restrictions.

Should the Fund's portfolio become in breach with its investment restrictions or diversification principles due to share price movements or other circumstances, the Fund Management Company is entitled to immediately take measures to correct such breaches.

PAST PERFORMANCE OF THE FUND



Past return is not a guarantee or indicative of future performance

RISKS

GENERAL RISK WARNING

Various risks that may affect the return from the investment are related to investing into the Funds. The activities of the Funds may or may not be profitable. There is no guarantee to unit-holders that they will get back the amount invested in the Funds or that it will grow. In case the risk factors materialise, it is possible that the investor will lose a substantial part of the investment in the Funds. Past performance of a Fund is not a guarantee or indicative of future results. Due to the Funds' investment policy, the net asset value of a Unit may be highly volatile.

RISK WARNING RELATED TO EMERGING MARKETS

The assets of the Fund shall be invested globally; however, the focus shall be on the financial instruments of Emerging

Europe countries. The legal, political and economic infrastructure of emerging countries is still at an early stage of development. In such countries it is more likely that social, economic or political instability will occur. As a result, investing in the Emerging Europe region is accompanied by higher risks compared to investing in developed markets. Investors of the Fund should accept that the positive developments and successful reforms that have taken place in some countries may not necessarily happen also in other countries. The market capitalisation of Emerging Europe markets is relatively small. These markets are often volatile and have low liquidity. The currency exchange rates of the investment region may substantially fluctuate against the Fund's reference currency and this may have a significant impact on the Unit's net asset value. The Management Company does not generally hedge foreign currency exchange rate risks. Countries may impose restrictions on capital flows and currency export restrictions. This may result in difficulties for the Fund in drawing sales proceeds and may harm the ability of the Fund to redeem Units regularly. Financial supervision may be ineffective in the countries of the investment region. The accounting, auditing and reporting standards accepted in the Emerging Europe countries may not be equivalent to the standards accepted in developed markets. The systems for settlement and registering of securities and the regulations applicable to and supervision of settlement bodies, registrars and custodians may not be up to the standards assumed in developed markets.

RISK LEVEL OF THE FUND

A substantial part of the assets of the Fund shall be invested in financial instruments of emerging countries. Based on the investment policy of the Fund, the risk profile and risk level shall be changing over time. However, overall the Fund should be considered as an investment product with higher than average risk.

PROFILE OF TYPICAL INVESTOR

The Fund is suitable to an investor with higher than average risk tolerance who seeks long-term capital growth. The investor should acknowledge that there is no guarantee that the capital invested into the Fund will be preserved or that it will grow. The recommended investment horizon is at least 3 years and the investor should be able to tolerate volatility in the net asset value of the Unit during this period. The investor should also take into account the relatively low liquidity of the Units (Units are redeemed once a month). The investor should have prior experience with investing into investment products or knowledge of the functioning of the financial markets. The investor's financial position should be sufficiently strong to endure substantial volatility in the value of the investment and the notice period for redeeming the Units. Each investor is required to independently evaluate the risks related to investing in the Fund and the effects and possible consequences of such risks in the light of the investor's investment experience and knowledge, as well as the investor's financial and economic circumstances, and the time period and the objectives of the investment. The Management Company recommends that potential investors consult with a professional investment advisor, before making the decision to invest.

OVERVIEW OF MAJOR RISK FACTORS RELATED TO THE INVESTMENT

Various risks relate to investing into the Fund. Such risks may have a negative effect on the outcome of the investment. Investment risks shall be borne by the investor.

A flexible strategy combining various asset classes, industries and geographic regions shall be implemented when investing the Fund's assets. This results in the Fund's risk profile and risk level changing over time. The relative importance of the various risk factors and the probability that any one of them could materialise varies, as it depends on the positioning of the Fund's investment portfolio at a specific point in time. For example, if the Fund's assets have been mainly invested in debt securities, the importance of credit risk and interest risk increases relative to a period when the Fund's assets are mainly invested in shares. Similarly, investing in loans and derivative instruments increases the counterparty credit risk. Overall, the risk of unsuccessful asset allocation decisions, market risk, issuer's price risk, foreign currency risk, political risk and the risk arising from the concentration of asset classes or markets can be outlined as the most critical risks for the Fund.

The risk of unsuccessful asset allocation decisions - The Fund's investment policy envisages combining various asset classes, geographic regions, industry sectors and types of financial instruments. When selecting the Fund's investments, the fund manager is not required to set up a diversified portfolio of the permitted asset classes, geographic regions, sectors or types of financial instruments. In contrast, the fund manager is authorised to invest the Fund's assets in a concentrated manner based on the fund manager's views and the prevailing market circumstances. However, there is no certainty whatsoever that the investment decisions adopted by the fund manager shall be profitable. It is possible that the return of the chosen asset class or particular investment shall be lower than that of other permitted asset classes or individual investments that were not included in the Fund's portfolio based on the discretion of the fund manager.

Market risk – the risk of suffering losses due to adverse price movements at a specific securities market or at a market for other assets. Adverse price movements may be caused by a country's weak macroeconomic data, poor financial results of an industry sector, unstable securities market, investor behaviour and psychology and other factors.

Issuer-specific price risk – price risk is closely related to market risk, but mainly affects a specific security or investment. Price risk is the risk of suffering losses due to adverse price movements of a specific stock or another investment. The price of an issuer's securities is affected by developments in the issuer's financial results, changes in competitive environment, analyst estimates and commentaries, etc.

Foreign currency risk – the risk that the value of an investment denominated in a foreign currency shall change in an adverse direction due to fluctuations in exchange rates.

Political risk – the risk that unfavourable trends or (political) events (e.g. changes in economic policy or legal environment, nationalisations, riots, war) take place in a country where the Fund's assets have been invested that affect the country's political or economic stability or future development, thereby causing the loss of the Fund's investments in the country or diminishing the value of such investments.

Credit risk – the risk that the issuer of securities where the Fund has invested or the counterparty to a transaction on account of the Fund, fails to perform its obligations either fully or partially (e.g. an issuer fails to redeem issued debt obligations, a counterparty to a trade does not deliver securities or cash during the settlement, a counterparty defaults on a loan granted by the Fund) causing damage to the Fund.

Custody risk – the risk that the Fund suffers losses due to actions or inactions or bankruptcy of the Depositary, sub-custodians or local depositaries. Such losses may include losses due to the bankruptcy of a person holding securities, the person losing securities or its inability to fulfil orders.

Liquidity risk – the risk that a financial instrument cannot be sold due to low liquidity at the time desired or at a reasonable price, or that it is not possible to sell the asset at all. Liquidity risk is particularly relevant in cases when investing into small cap companies and in instruments not traded on a regulated securities market.

Interest rate risk – the risk that the level, yield curves or volatility of interest rates, change in an adverse direction for the Fund.

The risk arising from the concentration of asset classes or markets – the risk that a particular event or circumstance shall have a pervasive effect on a Fund's return because the Fund's investments are concentrated on one or a small number of markets, a specific asset class or a small number of issuers.

Legal risk – the risk that the Fund suffers losses or that penalties are imposed on the Fund, due to the possibility that the Management Company does not have a sufficient knowledge of the legislation and its statutory obligations that are applied in the target countries of the Fund's investments. Additionally, amendments in legislation after the investment has been made could result in restrictions for the Fund's activities or create obligations for the Fund.

Systemic risk – the risk that technical faults in the systems of securities depositaries, stock exchanges, market places, clearing houses etc could cause losses for the Fund due to failed trades, delayed settlement, mistakes in recorded transactions etc.

Tax risk – unfavourable changes in the tax laws could take place in the countries where the Fund's assets have been invested. E.g. tax could be imposed on the Fund's profit or income.

The risk related to valuing the assets of the Fund – the assets of the Fund may be invested in securities with low liquidity and in securities that are not traded on regulated markets. For such securities, a valid market price may not be available. Determining the fair value of such assets may be complex and depends on assessments made by the Management Company. The price of such financial instruments used in NAV calculation may be substantially different from a later market transaction price, which may lead to significant downward adjustment of the price of the financial instrument and a sizeable change in the net asset value of the Unit.

Registrar risk – the risk of suffering losses due to actions or inaction of the registrar of Units (e.g. Due to failed trades arising from technical faults, delayed settlement, erroneous transaction, unauthorised disclosure of confidential information etc.).

In addition to customary investment risks, investors have to take into account the possibility of changes taking place in the governance of the Fund. Such changes could have a significant impact on an investment in the Fund. For example, redemption of Units may be suspended based on the terms and conditions set out in the Fund Rules and in legislation; the Fund could be reorganised, merged with another investment fund or liquidated. Additionally, the fees and expenses payable on account of the Fund or the Unit-holder may be changed; the Fund Rules may be substantially amended, etc. Some of the abovementioned events may take place without giving prior notice to the Unit-holder.

RISKS RELATED TO DERIVATIVE INSTRUMENTS

The Management Company may invest the Fund's assets in derivative instruments for the purpose of hedging risks as well as for the purpose of achieving the Fund's investment objectives. The market value of a derivative instrument depends on the price or value of another underlying asset (e.g. share, stock index, foreign exchange rate). Using derivative instruments entails leverage, i.e. a small change in the price of the underlying asset may lead to a large change in the price of the derivative instrument. Therefore, an investment in derivative instruments leads to relatively larger profit or larger loss (higher risk) compared to a similar investment in the underlying asset. In case of certain derivative instruments, the potential loss is larger than the initial investment made. Since the value of the derivative instrument depends on the price of the underlying asset, the derivative instrument is subject to the same risks as the underlying. In addition, counterparty risk, interest rate risk and changes in the volatility of the underlying asset affect the value of the derivative. In order to determine the value of the derivative, complex valuation models are often used. Thus, investing in derivatives is also accompanied by valuation risk.

RISKS RELATED TO SECURITIES NOT TRADED ON REGULATED MARKETS

The assets of the Fund may be invested in securities not traded on regulated securities markets. In addition to

ordinary investment risks, such investments entail higher liquidity risk and higher risk related to valuing such assets.

UNIT, RIGHTS AND OBLIGATIONS ATTACHED TO UNITS

UNIT

A unit of the Fund (hereafter: “Unit”) represents the unit-holder’s share in the assets of the Fund. The Unit is an electronically registered security. The Fund has one class of Units: Avaron Flexible Strategies B, nominal value 10 EUR.

RIGHTS ATTACHED TO UNITS

The right of ownership of Units and the rights and obligations of a unit-holder and of the Management Company attached to a Unit shall enter into force when a relevant entry is made in the register of Units.

A Unit does not grant to the unit-holder the right to make decisions regarding the transactions made on behalf of the assets of the Fund. The unit-holders of the Fund do not hold general meetings. No unit-holder is entitled to demand termination of the community of unit-holders. A unit-holder has the following rights: to demand that the Management Company redeem the Units pursuant to the provisions of the Fund Rules and legislation; to transfer Units held by the unit-holder to third parties; to receive, pursuant to the Fund Rules, 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 by the unit-holder; to access at the location of the Management Company the Fund Rules, the Fund’s most recent annual or semi-annual report, Prospectus and other documents and information regarding the activities of the Fund as provided for in the legislation; to demand a document certifying the unit-holder’s ownership of Units; to perform other acts prescribed by legislation or the Fund Rules.

OBLIGATIONS ATTACHED TO UNITS

A unit-holder must exercise the rights attached to Units in good faith and in accordance with legislation and the Fund Rules. The objective of exercising the rights by a unit-holder must not cause damage to other unit-holders, the Management Company, the Depositary or third party. A unit-holder 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 pursuant to the Fund Rules. A unit-holder’s liability for performance of such obligations is limited to the unit-holder’s share of the Fund’s assets. The Management Company shall not assume obligations on behalf of unit-holders. In order to satisfy a claim against a unit-holder, a claim for payment may be made against the Units of the unit-holder but not against the assets of the Fund. All unit-holders are recommended to consult with a professional tax advisor with regards to potential tax liabilities.

TAXATION

According to the legislation of Estonia, the Fund is not a taxable person and does not therefore pay taxes in Estonia. Depending

on the tax systems of the countries where the assets of the Fund are invested, the Fund could be liable to pay taxes in these countries. If a unit-holder is a taxable person, gains from Units may be taxable. The Management Company does not withhold any taxes on gains earned from Units. Declaring such gains in the tax declaration of accounting period is an obligation of a unit-holder. The tax system applicable to an investor may depend on the investor’s residence for tax purposes, legal set-up and other circumstances. Investors are advised to consult a professional tax advisor.

NET ASSET VALUE OF THE UNIT AND TRANSACTIONS WITH UNITS

NET ASSET VALUE OF THE FUND AND UNIT

The net asset value of the Fund and of the Unit depends on the income or loss from the Fund’s activities. The Fund’s income shall not be distributed to unit-holders but shall be reinvested. Unit-holders profit or loss shall be reflected in the changes of a Unit’s net asset value.

The Management Company shall calculate the net asset value of the Fund and of a Unit based on the provisions of the internal rules and legislation. In order to determine the net asset value of the Fund, the value of the assets of the Fund shall be calculated, from which the liabilities of the Fund shall be deducted. The value of the assets of the Fund shall be determined primarily based on their market value. If market value cannot be established, the value of the assets of the Fund shall be determined based on another method for establishing fair value as set out in internal rules. The net asset value of a Unit is determined by dividing the total net asset value of the Fund by the number of Units that have been issued and not redeemed (adjusted by the number of Units from unsettled subscription and redemption orders that have been received by the Management Company). The net asset value, subscription and redemption price of a Unit shall be published in the denomination currency of the relevant Unit.

The Management Company shall calculate and publish the net asset value of the Fund, and the net asset value, the subscription and the redemption price of a Unit at least once for each banking day on the following banking day by 16.30 EET (GMT+2) and shall publish this information at its web site www.avaron.com. A Unit’s net asset value, issue and redemption price shall be rounded up to four decimal points.

In case an event or a fact occurs or becomes evident after the net asset value of the Fund or the Unit has been calculated and if such event or fact substantially affects the net asset value of the Fund and the Unit based on the professional judgement of the Management Company, the Management Company has the right to re-calculate the market value of the Fund’s assets and the net asset value of the Fund and the Unit if not doing so would harm the interests of unit-holders.

FEES AND EXPENSES

Fees and expenses paid by the unit-holder

- Subscription fee: none
- The rate of redemption fee shall depend on the length of the notice period chosen by the investor for fulfilling the redemption order and on the length of the period during which the investor has owned the Units:
 - notice period 1 month: 1.5%
 - notice period 3 months: 0%.

Redemption fee shall be paid to the Fund and shall be kept by the Fund.

Fees and expenses paid by the Fund

- Annual management fee 1.25%
- Performance fee: 10% of the return that exceeds 12-month Euribor rate
- Depositary fee: 0.108%-0.288% per year, but at least EUR 150 per month
- Other expenses based on the price list of the service provider.

The Management Company is entitled to reduce or waive subscription and redemption fees at its discretion. Management and depositary fees are accrued daily and paid monthly for the previous month. The rates of depositary fee as shown above include value added tax.

The Management Company is entitled to a performance fee if the net asset value of a Unit exceeds the most recent Fixed NAV to which the required minimum return (12 month Euribor rate) has been added. The rate of the performance fee is 10% of the increase in the net asset value of a Unit that exceeds the most recent Fixed NAV to which the required minimum return 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 accrual for the performance fee shall be revalued on each day the net asset value is calculated. The performance fee shall be crystallised as of December 31st of each year and shall be paid out during January of the following year. Additional information on the performance fee is available in the Fund Rules.

Other expenses include the following: expenses related to holding the Fund's assets and making transactions therewith such as brokerage fees, interest expenses, settlement charges and transaction fees; expenses related to auditing the Fund; fund administration fees to the service provider (the service includes keeping the Fund's accounts and calculating net asset value); expenses related to keeping the register of the Units, based on the price list of the registrar (including the registrar's charges related to receiving and processing the subscription and redemption orders of the Units); state charges related to registering amendments to the Fund Rules and the expenses related to publishing relevant notices to investors. The total fees and expenses paid on behalf of the Fund may not exceed 15% of the weighted average market value of the Fund's assets per year.

TRANSACTIONS WITH FUND UNITS

The issue and redemption of Units is organised by Swedbank AS ("Transfer agent"). In order to do transactions with Units, the investor must have a securities account and a corresponding cash account in Swedbank AS or a registry account open in Swedbank AS and a cash account in another credit institution.

An investor can open a segregated account in its own name or agree with a third party (e.g. distributor of Units) on keeping the Units on a nominee account opened in the name of such third party. If the Units are kept on a nominee account, the orders for making transactions with Fund Units on the nominee account shall be submitted to the Management Company by the owner of the nominee account. Transfers of securities and cash shall be made in such case to the nominee account and to the current account of the owner of the nominee account.

Transactions with Units shall be settled in euro.

By submitting a subscription or switch order, the investor confirms that he or she has sufficiently acquainted himself or herself with the Fund Rules, accepts the Fund Rules and shall act in accordance with the Fund Rules. An investor is not permitted to revoke or make changes to a subscription, redemption or switch order after submitting it. Upon subscription of Units, the investor shall pay the subscription amount within the prescribed time limit to the Fund's cash account. In case of non-performance of the investor's duties, the Management Company is entitled to use any legal remedy prescribed in the law (including the right of withdrawal from the transaction and claiming damages from the unit-holder that it has caused to the Fund and other unit-holders).

Issue and redemption fees and all other direct expenses related to making transactions with Units shall be borne by a unit-holder.

ISSUE OF UNITS

Units are issued on every banking day.

The subscription price of a Unit is the net asset value of the Unit that has been calculated as of the day of receiving the subscription order ("Trade Date") to which the subscription fee may be added.

In order to subscribe Units, an investor shall submit a subscription order to the Transfer Agent. A Unit shall be issued upon receiving the subscription amount by the Fund to its cash account on settlement date. The settlement date shall be no later than the third banking day from the Trade Date (T+3) unless the Management Company and the investor agree on a different settlement cycle.

By submitting a subscription order, the investor gives consent to the Management Company for processing the investor's personal data in the scope that is necessary for

carrying out the Management Company's statutory obligations and for developing the client relationship.

The Management Company is entitled to decline from executing a subscription order if the Management Company deems that it is necessary to protect the interests of existing unit-holders of the Fund.

REDEEMING UNITS

Upon redemption of Units a monetary payment corresponding to the number of Units to be redeemed and the redemption price shall be made out of the assets of the Fund to the unit-holder's cash account. On the day of making the redemption payment (on settlement date) the Unit shall be deleted from the register and the rights and obligations attached to the Unit shall terminate. Units are redeemed once a month, with prior notice of one to three months, as chosen by the unit-holder redeeming the units.

The redemption price of a Unit shall depend on the notice period for fulfilling the redemption order, as chosen by the unit-holder. If the unit-holder has chosen notice period of one month, the redemption price shall be the net asset value of the Unit that shall be calculated as of the last banking day of the month that follows to the month of receiving the redemption order from which the redemption fee may be deducted. If the unit-holder has chosen notice period of three months, the redemption price shall be the net asset value of the Unit that shall be calculated as of the last banking day of the third month that follows to the month of receiving the redemption order from which the redemption fee may be deducted.

In order to redeem Units an investor shall submit a redemption order to the Transfer Agent. Among other information, the investor shall indicate in the redemption order whether it wishes to redeem units with one or three months' notice. Settlement date shall be no later than the third banking day from the day as of which the net asset value that forms the basis for the redemption price is determined unless the Management Company and the investor agree on a different settlement cycle. The term for making the redemption payment does not include the time for executing the transfer by the beneficiary bank.

SWITCHING UNITS

Switching Units is not allowed.

DEADLINES FOR SUBMITTING ORDERS

A transaction order is considered to have been submitted on a given day if it is received by the Transfer Agent by 11.00 EET (GMT+2). Transaction orders that are received by the Transfer Agent later than the deadline are considered to have been received on the following day.

A transaction order is considered to have been submitted in a given month if it is received by the Transfer Agent before 11.00 EET (GMT+2) on the last banking day of the quarter. Transaction orders that are received by the Transfer Agent later than the deadline are considered to have been received in the following month.

SUSPENDING TRANSACTIONS

The Management Company may suspend the redemption of Units based on the conditions and procedure set out in the Investment Funds Act.

INFORMATION ON THE FUND

PUBLISHING INFORMATION CONCERNING THE FUND

Any person has the right to access the following information and documents at the Management Company's registered address and at its web page www.avaron.com: the Fund Rules, the annual reports of the Fund for the most recent three years, the semi-annual report of the Fund if it has been approved later than the most recent annual report, the Prospectus, the name and contact details of the Management Company, the name of the fund manager(s), the name and contact details of the Depositary, the rules for calculating the net asset value of the Fund and the internal rules for making derivative transactions on the account of the Fund, information on the size of the Management Company's holding in the Fund and annual reports of the Management Company for the most recent three years.

On request, unit-holders shall receive a copy of the Fund Rules, the Fund's most recent annual or semi-annual report, the Prospectus and the simplified prospectuses free of charge. On request, the Fund Rules will be sent to an investor via mail, e-mail or fax.

The annual report of the Fund shall be made available at the Management Company's registered address 4 months after the end of the Fund's financial year, and semi-annual report 2 months after the end of the half-year.

The Management Company shall daily publish the Unit's net asset value and subscription and redemption price at its web page www.avaron.com.

In case of circumstances that substantially affect the activities or the financials of the funds managed by the Management Company (including the Fund) or the net asset value of the Unit should become evident, respective information shall be published without delay at the web page of the Management Company at www.avaron.com.

AMENDING FUND RULES

The supervisory board of the Management Company may adopt a decision to amend the Fund Rules. Following the registration of the amendments by the Financial Supervisory Authority, the Management Company shall without delay publish a notice regarding amending the Fund Rules in at least one daily national newspaper and at the web page of the Management Company. The amendments to the Fund Rules shall take effect in one month after publishing the corresponding notice unless the notice prescribes a later date.

LIQUIDATION OF THE FUND

Liquidation of the Fund shall be effected in the instances and according to the procedures provided for in the Investment Funds Act. Liquidation of the Fund shall be decided by the supervisory board of the Management Company. In the cases provided for in the Investment Funds Act, the Depositary can act as the liquidator. Subsequent to obtaining approval for liquidation of the Fund from the Financial Supervisory Authority, the Management Company shall without delay publish a notice regarding the liquidation of the Fund in at least one daily national newspaper and at the web page of the Management Company. Upon liquidation of the Fund the Management Company shall transfer the assets of the Fund as soon as possible and in accordance with the interests of the unit-holders, shall collect the debts of the Fund and satisfy the claims of the creditors of the Fund. The liquidation proceedings must be finished within six months starting from publishing the liquidation notice. The time period may be extended based on an authorisation by the Financial Supervisory Authority if requested by the Management Company; however, as a result of the extension, the period of liquidation must not exceed 18 months. Up to 2% of the net asset value of the Fund may be used to cover the expenses of liquidation of the Fund. If the actual liquidation expenses exceed the specified amount, the Management Company or the person acting as the Management Company shall assume responsibility for the expenses exceeding the amount. The Management Company shall distribute the assets remaining after the liquidation between the unit-holders according to the class, the number and the net asset value of the Units held by a unit-holder. The Management Company shall publish a notice regarding the distribution of assets to be distributed in at least one daily national newspaper.

MANAGEMENT COMPANY, DEPOSITARY, AUDITOR

MANAGEMENT COMPANY

The Fund is managed by AS Avaron Asset Management, registered address Narva mnt 7D, 10117 Tallinn, Estonia. The Management Company is a public limited liability company registered in Estonia (date of foundation resolution 14 September 2006, register code 11341336). The Management Company has been granted an activity license for managing investment funds by resolution No. 119 dated 28 December 2006 of the Financial Supervision authority. The Management Company is being supervised by the Financial Supervision Authority. The shares of Management Company AS Avaron Asset Management are 82.41% owned by OÜ Avaron Partners. The share capital of the company totals 271,383.30 EUR. AS Avaron Asset Management manages the following funds: Avaron Emerging Europe Fund, Avaron Flexible Strategies Fund and Avaron Eastern Europe Fixed Income Fund. The members of the supervisory board of the Management Company are Priit Sander (independent member), Peter Priisalm and Maris Viire. The members of the management board of the Management Company are Kristel Kivinurm-Priisalm and Valdur Jaht. Valdur Jaht, Peter Priisalm and Kristel Kivinurm-Priisalm have been appointed as fund managers in AS Avaron Asset Management.

They have all been appointed as the fund managers for all funds managed by the Management Company.

The Activities of the Management Company

The Management Company is entitled, in accordance to the Fund Rules, to dispose of and possess the assets of the Fund and has other rights arising therefrom. The Management Company invests the assets of the Fund in its own name and on behalf of the unit-holders collectively, i.e. on behalf of the Fund. Upon investing the assets of the Fund the Management Company shall obtain sufficient information on the assets which the Management Company intends to acquire or has acquired on behalf of the Fund; monitor the financial situation of the issuer whose securities the Management Company intends to acquire or has acquired on behalf of the Fund; obtain sufficient information with regard to the solvency of the persons with whom they transact on behalf of the Fund.

The Management Company shall manage the assets of the Fund separately from its own assets, from the assets of other funds and pools of assets managed by the Management Company. The assets of the Fund do not form a part of the bankruptcy estate of the Management Company and the claims of creditors of the Management Company shall not be satisfied out of such assets.

The Management Company has the right and obligation to submit a claim in its own name on behalf of unit-holders or the Fund against the Depositary or other persons if failure to submit such claim will result or may result in significant damage to the Fund or its unit-holders. The Management Company is not required to submit such claim if the Fund or unit-holders have already submitted a claim. The Management Company shall be liable for damage caused to the Fund or unit-holders by violation of its obligations.

Outsourcing the Activities of the Management Company

The Management Company has the right to outsource to third parties for the purpose of better conduct of the Management Company's activities, including carrying out on behalf of the Management Company the following functions related to managing the Fund pursuant to the Investment Funds Act: investing the Fund's assets; organising the issue and redemption of Units; if necessary issuing evidence of title to the unit-holders of the Fund; providing necessary information to the Fund's unit-holders and other customer services; organising the distribution of Units; keeping account of the Fund's assets and organising accounting; determining the Fund's net asset value; keeping the register of Units; accounting the Fund's income; monitoring the compliance of the activities of the Management Company and the Fund with the Investment Funds Act and other legislation, including organising a relevant internal audit system; other functions related to the functions referred to. The Management Company's liability related to managing the Fund shall not be affected by the fact that the

Management Company outsourced any functions to third parties.

The Management Company has outsourced keeping the register of Units, organising the issue and redemption of Units and carrying out due diligence of investors as prescribed in the Prevention of Money Laundering and Financing of Terrorism Act to Swedbank AS, registered address Liivalaia 8, 15040 Tallinn, Estonia, register code 10060701. In addition, the Management Company has outsourced to Swedbank AS the keeping account of the Fund's assets and organising the accounting of the Fund and determining the Fund's net asset value. The provisions of the agreements entered into between Swedbank AS and the Management Company, the rules for calculating the net asset value of the Fund and the legislation shall be applied to outsourcing the function. Swedbank AS is supervised by the Financial Supervision Authority. Swedbank AS is a licensed credit institution and it provides various financial services.

DEPOSITARY

The Depositary of the Fund is Swedbank AS, with registered address Liivalaia 8, 15040 Tallinn, Estonia. The Depositary was established on 6 January 1992 and it has been registered in the register department of the Harju County Court with register code 10060701. Swedbank AS is a licensed credit institution and it provides various financial services. The activities of the Depositary are supervised by the Financial Supervision Authority.

The Activities of the Depositary

The Depositary shall safekeep the cash, securities and other liquid assets of the Fund. The Depositary does not safekeep other assets of the Fund, unless it is agreed otherwise between the Management Company and the Depositary. The Depositary shall

also carry out other duties entrusted to it by legislation. The Depositary has the right, in accordance to the policies provided for in the depositary agreement, to enter into agreements for delegating to third parties the safekeeping of the Fund's assets, performing settlements therewith and fulfilling other functions. The Depositary shall choose the third parties safekeeping the Fund's assets or securities with due care to secure the reliability of such third parties. The Depositary shall assess before and following the delegation of its functions if the standards of administration and technological solutions and the financial situation of a third party are sufficient for performing the contractual obligations.

The Depositary is liable upon non-performance of its obligations for direct damage caused thereby to the Funds, to unit-holders or the Management Company.

AUDITOR

The auditor of the Management Company and of the Fund is KPMG Baltics OÜ, registered address Narva mnt 5, 10117 Tallinn, Estonia, register code 10096082.

Members of the Management Board of the Management Company

Kristel Kivnurm-Priisalm

Valdur Jaht

APPENDIX 1.

FUND RULES OF AVARON FLEXIBLE STRATEGIES FUND

These Fund Rules have been registered with the Financial Supervision Authority on 11 August 2010 and enter into force on 20 September 2010.

Fund Rules of Avaron Flexible Strategies Fund

(Hereafter: “**Fund Rules**”)

1. General Provisions

- 1.1 These Fund Rules set out the bases for the activities of the contractual investment fund **Avaron Flexible Strategies Fund** and the relations of the unit-holders with the fund management company. The Fund Rules have been set out in accordance with the effective legislation. In case the Fund Rules conflict with the provisions of legislation, the provisions of legislation will be applied. In case the different provisions of the Fund Rules conflict with each other or in case the Fund Rules include misleading provisions such provisions will be interpreted in accordance with the best interests of the unit-holders of the investment fund.
- 1.2 Avaron Flexible Strategies Fund (hereafter: “**Fund**”) is a contractual investment fund established by AS Avaron Asset Management. In Estonian, the name of the Fund is: *Investeerimisfond Avaroni Privaatportfell*.
- 1.3 The Fund is managed by AS Avaron Asset Management (hereafter: “**Management Company**”), with registered address Narva mnt 7D, 10117 Tallinn, Estonia.
- 1.4 The Fund is situated at the registered address of the Management Company.
- 1.5 The depository of the Fund is Swedbank AS (hereafter: “**Depository**”), with registered address Liivalaia 8, 15040 Tallinn, Estonia.
- 1.6 The Fund is a public closed-end fund as defined in the Estonian Investment Funds Act.
- 1.7 A banking day is a day when credit institutions are generally open in Estonia, excluding Saturdays, Sundays, national and public holidays.

2. The Bases and Objective of the Fund’s Activities

- 2.1 The Fund is a pool of money raised through public issue of units, and of other assets acquired from investing this money that belongs jointly to the Fund’s unit-holders and that is managed by the Management Company.
- 2.2 The bases of the Fund’s activities and the relations between unit-holders and the Management Company have been laid down in the legislation of the Republic of Estonia and the Fund Rules.
- 2.3 The Fund offers to unit-holders the opportunity to invest in a portfolio encompassing the most favoured investment ideas of Avaron’s fund managers. Numerous asset classes are combined in the Fund’s investment portfolio – the Fund’s assets can be invested into equities, various debt instruments, deposits, derivative instruments and other financial instruments. The allocation between different asset classes, industrial sectors and geographic areas vary over time depending on the fund manager’s view and the prevailing market circumstances. The objective of the Fund’s activities is long term capital growth through economic and market cycles.
- 2.4 There is no guarantee to unit-holders that they will get back the amount invested in the Funds or that it will grow.

3. The Fund’s Investment Policy

- 3.1 The Management Company shall manage the Fund’s assets according to the investment restrictions as provided for in the Investment Funds Act, other legislation issued in accordance with it and the Fund Rules.
- 3.2 In order to achieve the Fund’s investment objectives, a flexible strategy combining various asset classes, industries and geographic regions shall be implemented when investing the Fund’s assets. The allocations shall be based on the fund manager’s views and the prevailing market circumstances. For example, at a point in time the Fund can invest a large part of its assets into equities, whereas in other market conditions bonds and deposits can form the majority. The Fund’s assets may be invested also in other assets as set out in the Fund Rules. The proportions of the different assets will vary over time. In order to have the necessary flexibility when managing the Fund, the investment limits as

set out in the Fund Rules are not overly restrictive and only provide for a basic framework for the authorised investments. The degree of diversification of the Fund's investments is low and changes over time. Due to the Fund's investment policy, the Fund's risk profile and risk level vary over time but as a whole, the Fund has a high risk level.

- 3.3 The assets of the Fund may be invested in any asset class, country or industry. The exact allocations shall be determined as part of the ongoing management of the Fund. The Fund can use leverage by borrowing or using derivative instruments. The Fund may give out loans. The proportions of various financial instruments in the Fund's assets vary over time and the exact combination shall be determined based on the fund manager's views and on the issuer specific and macroeconomic research as carried out by the Management Company.

4. Investment Restrictions

- 4.1 The Fund's assets may be invested in any financial instrument. In particular, up to 100% of the assets of the Fund may be invested in any of the following types of financial instruments:

- a) Deposits of credit institutions;
- b) Shares and other similar tradable rights, bonds, convertibles bonds and other tradable debt securities, subscription rights and other tradable rights that entitle acquiring securities, money market instruments and tradable depository receipts;
- c) Derivative instruments
- d) Units and funds of investment funds.

- 4.2 The Fund's assets may be invested in financial instruments that are traded on a regulated securities market as well as into financial instruments that are not traded on a regulated securities market. No more than 20% of the market value of the Fund's assets may be invested in shares that are not traded on a regulated market. Other securities not traded on a regulated market may constitute up to 100% of the market value of the Fund's assets.

- 4.3 The financial instruments that the Fund's assets are invested in may be issued by or otherwise related to any country. There is no maximum limit to one country's allocation.

- 4.4 The value of securities issued by one entity (excluding units and shares of investment funds) may not exceed 20% of the market value of the Fund's assets. If the value of securities issued by one entity exceeds 10% of the market value of the Fund's assets, the aggregate value of such securities may not exceed 60% of the market value of the Fund's assets.

- 4.5 The value of securities issued by one entity, the value of loans provided to the entity, the value of deposits held with the entity and the open derivative exposure to the entity may not exceed 33% of the market value of the assets of the Fund. The abovementioned restriction is not applied to the Fund's current account and overnight deposits held with the Depository.

- 4.6 As an exception to Articles 4.4 and 4.5, the value of the shares or units of one UCITS fund may constitute up to 50% of the market value of the Fund.

- 4.7 Up to 100% of the Fund's assets may be invested in other funds managed by the Management Company. In such case, no subscription or redemption fees are charged from the Fund. Additionally, the Management Company shall reimburse to the Fund 100% of the performance fees and 90% of the management fees that have been paid to the Management Company on the Fund's investment in other funds managed by the Management Company.

- 4.8 The Fund may own up to 10% of the shares of one company.

- 4.9 It is allowed to make transactions with derivative instruments on behalf of the Fund provided that the limitations set out in the Investment Funds Act, other legislation issued in accordance with it, the internal rules and the Fund Rules are complied with. The assets of the Fund may be invested in such derivative instruments the underlying of which is a financial instrument in which the Fund's assets may be invested, securities index, interest rate or currency exchange rate.

The Fund may invest in derivative instruments for the purpose of hedging risks as well as for the purpose of achieving the Fund's investment objectives. The Fund can sell uncovered call and put options. The aggregate open position of uncovered call and put options sold by the Fund (based on execution price) shall not exceed 20% of the market value of the assets of the Fund. The Fund's total open exposure relating to derivative instruments may not exceed the total net asset value of the Fund.

- 4.10 The Management Company may on behalf of the Fund guarantee issues of securities, issue bonds, borrow and give out loans, enter into repurchase and reverse repurchase agreements and make other transactions of borrowing and lending securities. It is allowed to borrow and assume other liabilities referred to on behalf of the Fund in the amount

of up to 100% of the market value of the Fund's assets. The maturity of loans and other liabilities assumed on behalf of the Fund may be no more than 12 months.

The nominal value of loans given out by the Fund and the value of reverse repurchase agreement made on behalf of the Fund may not exceed 100% of the market value of the assets of the Fund. The nominal value of loans given to one person may not exceed 10% of the market value of the assets of the Fund on the day of providing the loan. The nominal value of unsecured loans provided by the Fund may not exceed 30% of the market value of the assets of the Fund on the day the loan was granted. The Fund may accept Units as security to loans and make reverse repurchase agreements with the Units.

4.11 In addition to investment restrictions set out above, the Management Company shall comply with all other limitations and requirements for diversifying risks provided for in legislation when investing the assets of the Fund. A short overview of the risks related to investing the Fund's assets has been provided in the Fund's prospectus.

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

5.1 A unit of the Fund (hereafter: "Unit") represents the unit-holder's share in the assets of the Fund. A Unit is an electronically registered security.

5.2 A Unit is divisible. The fractions of Units that emerge from 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).

5.3 The Fund has one class of Units: Avaron Flexible Strategies Fund B, nominal value 10 euro.

5.4 The register of Units is kept by Swedbank AS (hereafter: "Registrar"), register code 10060701, registered address Liivalaia 8, 15040 Tallinn, Estonia.

5.5 The agreement and data processing rules agreed between the Management Company and the Registrar shall be applied to keeping the register of Units, making entries into the register, maintaining register data and the liability of the Registrar. The Registrar shall issue an excerpt relating to the Units held by the unit-holder at the request of the unit-holder. The processing of the register data shall be done electronically. The Registrar shall make an entry into the register based on an order issued by an entitled person (unit-holder, unit-holders representative, Management Company). Judicial decision or another basis accepted by the Registrar and the Management Company may also form the basis for an entry. The Registrar shall retain the data and documents received for making a register entry for at least ten years from making the entry.

5.6 A Unit does not grant to unit-holder the right to make decisions regarding the transactions made on behalf of the assets of the Fund. The unit-holders of the Fund do not hold general meetings. No unit-holder is entitled to demand termination of the community of unit-holders.

5.7 A unit-holder is entitled to do the following:

- a) to demand that the Management Company redeem the Units pursuant to the provisions of Fund Rules and legislation;
- b) to transfer Units held by the unit-holder to third parties;
- c) to receive, pursuant to the Fund Rules, 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 by the unit-holder;
- d) to access at the location of the Management Company the Fund Rules, the Fund's most recent annual or semi-annual report, the prospectus of the Units and other documents and information regarding the activities of the Fund as provided for in the legislation;
- e) to demand a document certifying the unit-holder's ownership of Units;
- f) to perform other acts prescribed by legislation or the Fund Rules.

5.8 A unit-holder must exercise the rights attached to Units in good faith and in accordance with legislation and the Fund Rules. The objective of exercising the rights by a unit-holder must not cause damage to other unit-holders, the Management Company, the Depositary or third party.

5.9 Obligations of a unit-holder:

- a) A unit-holder 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 pursuant to the Fund Rules. A unit-holder's liability for performance of such obligations is limited to the unit-holder's share of the Fund's assets.

- b) The Management Company shall not assume obligations on behalf of unit-holders.
 - c) In order to satisfy a claim against a unit-holder, a claim for payment may be made against the Units of the unit-holder but not against the assets of the Fund.
 - d) All unit-holders are recommended to consult with a professional tax advisor with regards to potential tax liabilities.
- 5.10 The right of ownership of Units and the rights and obligations of a unit-holder and of the Management Company attached to a Unit shall enter into force when a relevant entry is made in the register of Units. By submitting the declaration of intention for acquiring Units, the unit-holder grants permission for processing the data (including personal data) related to him in the scope necessary for keeping the register of Units.

6. Calculating Unit's Net Asset Value

- 6.1 The Management Company shall calculate the net asset value of the Fund and of a Unit based on the provisions of the internal rules and legislation.
- 6.2 In order to determine the net asset value of the Fund, the value of the assets of the Fund shall be calculated from which the liabilities of the Fund shall be deducted. The value of the assets of the Fund shall be determined primarily based on their market value. If market value cannot be established, the value of the assets of the Fund shall be determined based on another method for establishing fair value as set out in internal rules.
- 6.3 The net asset value of a Unit is determined by dividing the total net asset value of the Fund by the number of Units that has been issued and not redeemed (adjusted by the number of Units from unsettled subscription and redemption orders that have been received by the Management Company).
- 6.4 The Management Company shall calculate and publish the net asset value of the Fund, and the net asset value, the subscription and the redemption price of a Unit at least once for each banking day on the following banking day by 16.30 Estonian time (GMT+2). A Unit's net asset value, issue and redemption price shall be rounded up to four decimal points.
- 6.5 In case an event or a fact occurs or becomes evident after the net asset value of the Fund or the Unit has been calculated and if such event or fact substantially affects the net asset value of the Fund and the Unit based on the professional judgement of the Management Company, the Management Company has the right to re-calculate the market value of the Fund's assets and the net asset value of the Fund and the Unit if not doing so would harm the interests of unit-holders.
- 6.6 The presentation currency of the Fund's financial statements and of the calculation of the net asset value shall be the official currency of Estonia. The net asset value of a Unit shall be published in the denomination currency of the relevant Unit.
- 6.7 The income of the Fund shall not be distributed to unit-holders but shall be reinvested. Unit-holders' profit or loss shall be reflected in the changes of a Unit's net asset value.

7. Issue and Redemption of Units

- 7.1 The issuer of Units is the Management Company.
- 7.2 The time period for issuing Units is not restricted. The size of the issue or the number of Units to be issued shall not be fixed.
- 7.3 A Unit shall be issued only upon a monetary payment into the assets of the Fund corresponding to the number of Units to be issued and a Unit's net asset value. When issuing a fraction of a Unit an amount corresponding to the fraction of a Unit's net asset value must be paid into the assets of the Fund.
- 7.4 Subscription and redemption transactions of Units shall be settled in euro.
- 7.5 Issue of Units:
 - a) Units are issued on every banking day.
 - b) The subscription fee of a Unit is up to 2% of the Unit's net asset value.
 - c) In order to subscribe Units, an investor shall submit a subscription order to the Transfer Agent. A Unit shall be issued upon receiving the subscription amount by the Fund to its cash account on settlement date. The settlement date shall be no later than the third banking day from the Trade Date (T+3) unless the Management Company and the investor agree on a different settlement cycle. By submitting the subscription order the investor confirms that he/she has examined the Fund Rules with reasonable detail and that the investor accepts and shall adhere to the Fund Rules.

- d) The subscription price of a Unit is the net asset value of the Unit that has been calculated as of the day of receiving the subscription order (“Trade Date”) to which the subscription fee may be added.
- e) The Management Company is entitled to decline from executing a subscription order if the Management Company deems that it is necessary to protect the interests of existing unit-holders of the Fund.

7.6 Redemption of Units:

- a) Upon redemption of Units a monetary payment corresponding to the number of Units to be redeemed and the redemption price shall be made out of the assets of the Fund to the unit-holder’s cash account. On the day of making the redemption payment (on settlement date) the Unit shall be deleted from the register and the rights and obligations attached to the Unit shall terminate. Units are redeemed once a month, with prior notice of one to three months, as chosen by the unit-holder redeeming the units.
- b) The Management Company may suspend the redemption of Units based on the conditions and procedure set out in the Investment Funds Act. The Management Company may suspend the redemption of Units for up to one year if the cash available on the Fund’s accounts is insufficient for paying for the redemptions or if doing so would harm the regular management of the Fund and if the securities or other assets of the Fund cannot be promptly sold or if the interests of other unit-holders would be materially harmed thereby. The Management Company shall promptly inform the Financial Supervision Authority, the Depositary and the financial supervision authorities of all the countries where the Units are offered of the suspension of the redemption of Units and the reasons thereof. The Management Company shall promptly publish a notice announcing the suspension of the redemption of Units at its web site.
- c) In order to redeem Units an investor shall submit a redemption order to the Transfer Agent. Among other information, the investor shall indicate in the redemption order whether they wish to redeem units with one or three months notice.
- d) The redemption fee of a Unit is up to 1.5% of the Unit’s net asset value. Redemption fee shall be kept by the Fund. The Management Company may impose different rates of redemption fee depending on the length of the period during which the investor has owned the Units and depending on the notice period chosen by the investor for fulfilling the redemption order.
- e) The redemption price of a Unit shall depend on the notice period for fulfilling the redemption order, as chosen by the unit-holder. If the unit-holder has chosen a notice period of one month, the redemption price shall be the net asset value of the Unit that shall be calculated as of the last banking day of the month that follows to the month of receiving the redemption order from which the redemption fee may be deducted. If the unit-holder has chosen a notice period of three months, the redemption price shall be the net asset value of the Unit that shall be calculated as of the last banking day of the third month that follows to the month of receiving the redemption order from which the redemption fee may be deducted.
- f) Settlement date shall be no later than the third banking day from the day as of which the net asset value that forms the basis for the redemption price is determined unless the Management Company and the investor agree on a different settlement cycle. The term for making the redemption payment does not include the time for executing the transfer by the beneficiary bank.
- g) In case the Fund needs to dispose of (redeem) Units in order to secure claims from a loan provided by the Fund or from reverse repurchase transactions made on behalf of the Fund, the redemption price of the Unit is equal to the net asset value of the Unit calculated as of the day when the decision to dispose of the Units securing the claims was adopted.

7.7 The Management Company is entitled to reduce or waive subscription and redemption fees at its discretion.

7.8 Subscription and redemption fees and all other direct expenses related to subscribing and redeeming Units shall be paid for by the unit-holder. The valid rates of subscription and redemption fees are available in the prospectus of the Fund. On request, the Management Company shall issue a statement indicating the amount of subscription and redemption fees paid by a person acquiring or redeeming Units in a format that can be reproduced in writing.

7.9 If Units are kept on a nominee account, the owner of the nominee account shall submit orders to the Management Company for transactions on the nominee account. Transfers of securities and payments of cash shall be made to the nominee account and to the cash account of the owner of the nominee account. The transfers and payments to the investor’s account shall be executed by the owner of the nominee account according to agreements with the unit-holder.

7.10 Switching Units is not allowed.

7.11 An investor is not permitted to revoke or make changes to a subscription or redemption order after submitting it. The investor who has submitted a subscription or redemption order shall ensure that the conditions necessary for the

settlement of the trade are fulfilled in time. Upon subscription of Units, the investor shall pay the subscription amount within the prescribed time limit to the Fund's cash account. In case of non-performance of the investor's duties, the Management Company is entitled to use any legal remedy prescribed in legislation (including the right of withdrawal from the transaction and claiming damages from the unit-holder that it has caused to the Fund and other unit-holders).

7.12 Additional details on making transactions with Units, including the cut-off times for submitting trade orders are available in the Fund's prospectus.

8. The Activities of the Management Company

8.1 The bases of the activities of the Management Company are laid down with the articles of association of the Management Company, legislation and the Fund Rules.

8.2 The Management Company is entitled, in accordance to the Fund Rules, to dispose of and possess the assets of the Fund and has other rights arising therefrom.

8.3 The Management Company invests the assets of the Fund in its own name and on behalf of the unit-holders collectively, i.e. on behalf of the Fund.

8.4 Upon investing the assets of the Fund the Management Company shall:

- a) obtain sufficient information on the assets which the Management Company intends to acquire or has acquired on behalf of the Fund;
- b) monitor the financial situation of the issuer whose securities the Management Company intends to acquire or has acquired on behalf of the Fund;
- c) obtain sufficient information with regard to the solvency of the persons with whom they transact on behalf of the Fund.

8.5 The Management Company shall manage the assets of the Fund separately from its own assets, from the assets of other funds and pools of assets managed by the Management Company. The assets of the Fund do not form a part of the bankruptcy estate of the Management Company and the claims of creditors of the Management Company shall not be satisfied out of such assets.

8.6 The Management Company has the right and obligation to submit a claim in its own name and on behalf of unit-holders or the Fund against the Depositary or other persons if failure to submit such claim will result or may result in significant damage to the Fund or its unit-holders. The Management Company is not required to submit such claim if the Fund or unit-holders have already submitted a claim.

8.7 The Management Company shall be liable for damage caused to the Fund or unit-holders by violation of its obligations.

8.8 The Management Company does not own or acquire Units.

8.9 The Management Company has the right to outsource to third parties for the purpose of better conduct of the Management Company's activities carrying out on behalf of the Management Company the following functions related to managing the Fund pursuant to the Investment Funds Act:

- a) investing the Fund's assets;
- b) organising the issue and redemption of Units;
- c) if necessary issuing evidence of title to the unit-holders of the Fund;
- d) providing necessary information to the Fund's unit-holders and other customer services;
- e) organising the distribution of Units;
- f) keeping account of the Fund's assets and organising accounting;
- g) determining the Fund's net asset value;
- h) keeping the register of Units;
- i) accounting for the Fund's income;
- j) monitoring the compliance of the activities of the Management Company and the Fund with the Investment Funds Act and other legislation, including organising a relevant internal audit system;
- k) other functions related to the functions referred to.

The Management Company's liability related to managing the Fund shall not be affected by the fact that the Management Company may have outsourced some of its functions to third parties.

9. Activities of the Depositary

- 9.1 The Depositary shall safe-keep the cash, securities and other liquid assets of the Fund. The Depositary does not safekeep other assets of the Fund, unless it is agreed otherwise between the Management Company and the Depositary. The Depositary shall also carry out other duties entrusted to it by legislation.
- 9.2 The Depositary has the right, in accordance to the policies provided for in the depositary agreement, to enter into agreements for delegating to third parties the safekeeping of the Fund's assets, performing settlements therewith and fulfilling other functions.
- 9.3 The Depositary shall be liable for direct damages caused to the Fund, the unit-holders or the Management Company due to its non-performance.
- 9.4 The Depositary shall choose the third parties safe-keeping the Fund's assets or securities with due care to secure the reliability of such third parties. The Depositary shall assess before and following the delegation of its functions if the standards of administration and technological solutions and the financial situation of a third party are sufficient for performing the contractual obligations.

10. Fees and Expenses Paid by the Fund

- 10.1 The Management Company shall be paid a fee for managing the Fund.
 - a) The rate of the management fee shall be up to 1.25% per year of the market value of the Fund's assets. In addition, the Management Company shall be paid a performance fee based on the return of Units. The Management Company is entitled to the performance fee if the net asset value of the Unit exceeds the most recent Fixed NAV to which the required minimum return that is equal to the 12-month Euribor rate has been added. The rate of the performance fee is 10% of the increase in the net asset value of the Unit that exceeds the most recent Fixed NAV to which the required minimum return of 12-month Euribor rate has been added.
 - b) 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.
 - c) The applicable Euribor rate is fixed on the final banking day of each quarter for the following quarter.
 - d) The management board of the Management Company is entitled to apply a lower rate of management fee and performance fee in some periods. Information about the current valid rates of the management fee and performance fee is available in the Fund's prospectus.
- 10.2 The Depositary shall be paid a fee for its services. The annual rate of the depositary fee shall be 0.09%-0.24% of the market value of the Fund's assets (depending on the share various countries make up of the Fund's portfolio) but at least EUR 125 per month. Value added tax as prescribed in law shall be added to the abovementioned rates of the depositary fee. The information about the going rate of the depositary fee has been published in the Fund's prospectus.
- 10.3 The management fee and depositary fee shall be accrued on each day the net asset value is calculated and shall be paid out monthly for the previous month. The accrual for performance fee shall be revalued on each day the net asset value is calculated. Performance fee shall be crystallised as of December 31st of each year and shall be paid out during January of the following year.
- 10.4 The Fund shall also pay the following expenses:
 - a) expenses related to holding the Fund's assets and making transactions therewith such as brokerage fees, interest expenses, settlement charges and transaction fees;
 - b) expenses related to auditing the Fund;
 - c) fund administration fees to the service provider (the service includes keeping the Fund's accounts and calculating net asset value);
 - d) expenses related to keeping the register of the Units, based on the price list of the Registrar (including the Registrar's charges related to receiving and processing the subscription and redemption orders of the Units);
 - e) state charges related to registering amendments to the Fund Rules and the expenses related to publishing relevant notices to investors.

10.5 The total fees and expenses paid on behalf of the Fund may not exceed 15% of the weighted average market value of the Fund's assets per year.

11. Accounting and Reporting of the Fund

11.1 The accounting and reporting of the Management Company and of the Fund shall be organised based on the Accounting Act, the Investment Funds Act, other legislation and the internal rules for accounting of the Management Company, unless provided otherwise by the Investment Funds Act.

11.2 The accounting of the Fund shall be organised by the Management Company.

11.3 The books of the Fund shall be kept separate of the books of the Management Company and of that of other funds.

11.4 The financial year of the Fund shall be the same as the financial year of the Management Company which matches the calendar year.

11.5 The Fund's annual and semi-annual report shall be approved by the management board of the Management Company. The reports shall be signed by all members of the management board of the Management Company.

11.6 The annual report of the Fund shall be audited before its approval. The auditor's report shall be attached to the Fund's annual report.

11.7 The annual reports of the Fund shall be made available at the Management Company's registered address four months after the end of the Fund's financial year, and semi-annual reports two months after the end of the half-year.

12. Publishing Information Concerning the Fund

12.1 Any person has the right to access the following information and documents at the Management Company's registered address and at its web page:

- a) Fund Rules;
- b) The most recent annual report of the Fund;
- c) The most recent semi-annual report of the Fund, if it has been approved later than the most recent annual report;
- d) Prospectus;
- e) Name and contact details of the Management Company;
- f) Name of the fund manager;
- g) Name and contact details of the Depositary;
- h) rules for calculating the net asset value of the Fund and the internal rules for making derivative transactions on the account of the Fund;
- i) information about the size of the Management Company's holding in the Fund.
- j) The annual reports of the Management Company for three most recent years;

On request, unit-holders shall receive a copy of the Fund Rules, the Fund's most recent annual or semi-annual report and the Prospectus free of charge.

12.2 The Management Company shall on each banking day release the net asset value, subscription and redemption price of the Unit on its web site.

12.3 In case circumstances that substantially affect the activities or the financials of the funds managed by the Management Company (including the Fund) or the net asset value of the Unit should become evident, the respective information shall be published without delay at the web site of the Management Company.

12.4 The Management Company is entitled to send notices and reports relating to the Fund to a unit-holder's known mailing address or e-mail address.

13. Amending the Fund Rules

13.1 The supervisory board of the Management Company may adopt a decision to amend the Fund Rules.

13.2 Following the registration of the amendments by the Financial Supervisory Authority, the Management Company shall without delay publish a notice regarding amending the Fund Rules in at least one daily national newspaper and at the web site of the Management Company.

13.3 The amendments to the Fund Rules shall take effect in one month after publishing the corresponding notice unless the notice prescribes a later date.

14. Liquidation of the Fund

14.1 Liquidation of the Fund shall be effected in the cases and according to the procedure provided for in the Investment Funds Act.

14.2 Liquidation of the Fund shall be decided by the supervisory board of the Management Company. In the cases provided for in the Investment Funds Act, the Depositary can act as the liquidator.

14.3 Subsequent to obtaining approval for liquidation of the Fund from the Financial Supervisory Authority, the Management Company shall without delay publish a notice regarding the liquidation of the Fund in at least one daily national newspaper and on the web page of the Management Company.

14.4 Upon liquidation of the Fund the Management Company shall transfer the assets of the Fund as soon as possible and in accordance with the interests of the unit-holders, shall collect the debts of the Fund and satisfy the claims of the creditors of the Fund. The liquidation proceedings must be finished within six months starting from publishing the liquidation notice. The time period may be extended based on an authorisation by the Financial Supervisory Authority if requested by the Management Company; however, as a result of the extension, the period of liquidation must not exceed 18 months.

14.5 Up to 2% of the net asset value of the Fund may be used to cover the expenses of liquidation of the Fund. If the actual liquidation expenses exceed the specified amount, the Management Company or the person acting as the Management Company shall assume responsibility for the expenses exceeding the amount.

14.6 The Management Company shall distribute the assets remaining upon liquidation between unit-holders on the basis of the class, number and net asset value of Units owned by each unit-holder. The Management Company shall publish a notice concerning distribution of the assets subject to distribution in at least one daily national newspaper.