

# Information Sheet

*Effective starting from 3 January 2018*

This information sheet has been compiled by AS Avaron Asset Management (hereafter: "Avaron"), address Narva mnt 7d, 10117 Tallinn, Estonia, phone 6644200, web [www.avaron.com](http://www.avaron.com), e-mail [info@avaron.com](mailto:info@avaron.com). The information sheet has been compiled with a purpose of providing the necessary information on the investment services and ancillary services to Avaron clients and potential clients that would enable the client to independently evaluate the nature of such services and the related risks, and the nature and risks of the financial instruments to be offered during the course of providing such services. The information included in this information sheet is for information purposes only. Prior to provision of any services to a client it is necessary to enter into a separate agreement.

## **Avaron and the Services Provided by Avaron**

Avaron has been granted an activity license for fund management based on the resolution no 119, dated 28 December 2006 by the Estonian Financial Supervision Authority (address: Sakala 4, 15030 Tallinn, Estonia, web [www.fi.ee](http://www.fi.ee)) and it is subject to government supervision by the Financial Supervision Authority. Based on the fund management license Avaron is authorised to offer also portfolio management and investment advisory services to its clients.

## ***Avaron Focuses on Equities and Bonds in Central and Eastern Europe***

Avaron is an asset management firm focusing on Central and Eastern European equities and bonds. Consequently, Avaron provides investment advisory services only with regards to Central and Eastern European equities; a client should consult other service providers in order to get advice on other geographical regions and other asset classes. Similarly, Avaron manages only Central and Eastern European equity investments in the framework of the portfolio management services. A client should also invest in other geographical regions and in other asset classes for the purpose of diversifying risks. Therefore, a client should have the rest of his/her portfolio managed by another asset management firm.

## ***Categorisation of Clients***

Avaron classifies a client as a retail client, professional client or an eligible counterparty based on the information provided by the client and other information available to Avaron. A client may apply for re-classification by submitting a respective application and filling out again the client classification questionnaire. Avaron's fiduciary duty and reporting obligations are highest with regards to retail clients but substantially lower with regards to professional clients and eligible counter-parties.

## ***Managing Conflicts of Interest***

Avaron has implemented a conflicts of interest policy in order to identify and manage or avoid conflicts of interest between Avaron, Avaron's employees and directors and officers (D&O), and Avaron's clients. Avaron's employees and D&O are obliged to identify and manage conflicts of interest in accordance with Avaron internal policies, employment or service contracts entered into with Avaron and the legislation.

The possible sources of conflict of interest are personal securities transactions of Avaron employees and D&O, their professional activities outside Avaron, mis-selling of Avaron funds to portfolio management clients, unequal treatment of clients, receiving or giving inducements etc. In order to minimise the aforementioned conflicts of interest, Avaron has implemented internal procedures and codes of conduct, including setting restrictions on personal securities transactions and limiting the professional activities of Avaron's employees and D&O outside Avaron. The firm has also implemented a best execution policy and evaluates the appropriateness and suitability of financial instruments and services to a client.

We would like to point out to clients that despite the implementation of internal policies, it is still possible that Avaron will have a conflicts of interest situation. Avaron shall disclose the conflict of interest situation to a client prior to providing a service if the measures applied by Avaron do not warrant avoiding damage to the client's interests. If requested by a client, Avaron shall provide further information on its policy for managing conflicts of interest.

## ***Information on Best Execution Policy***

When providing the service of portfolio management, Avaron has the duty to act in the best interests of the

client when executing orders or placing orders with other entities for execution that result from decisions by Avaron to deal in financial instruments on behalf of its professional or retail clients. In order to comply with the above-mentioned obligation, Avaron has adopted and implements a best execution policy that sets out the approved execution venues and intermediaries with whom the orders are placed, the method of choosing such intermediaries, the procedure of supervising the intermediaries etc. The best execution policy is available at Avaron web site.

### *Inducements*

Avaron may receive from or provide to third parties benefits in relation to the provision of investment services or ancillary services. Paying or providing such inducements are acceptable only in case it enhances the quality of the relevant service to the client and does not harm the best interests of the client. Avaron discloses to the client the existence, nature and amount or methodology of calculation of the inducement prior to the provision of the relevant service. As of the date of compiling this information sheet, Avaron receives only minor non-material non-monetary benefits and materials from third parties which is not considered an inducement.

### *Fees and Expenses*

The fees and expenses that shall be payable by the client for the investment services and the procedure for paying the fees and expenses shall be agreed upon in an agreement to be entered into by Avaron and the client. Avaron points out to clients that in addition to fees payable to Avaron for the provision of investment services various other expenses related to providing the investment services shall be payable by the client. Such expenses include expenses and charges for making transactions with and safekeeping the client assets and possible state taxes.

### *Reports to Clients*

The frequency and the procedure of reporting shall be agreed upon in an agreement to be entered into by Avaron and the client.

### *Valuation of Financial Instruments*

Avaron shall value the financial instruments in client portfolios based on fair value or if fair value is unavailable based on acquisition cost. The fair value of a security traded on a regulated market is generally determined based on the official closing price. The fair value of other financial instruments shall be determined by Avaron based on the probable selling

price of the financial instrument in a transaction between knowledgeable, willing parties in an arm's length transaction. The benchmark for evaluating the performance of a client's portfolio shall be agreed upon separately with each client.

### **Safekeeping of Client Assets**

For Avaron to provide portfolio management services to a client, the client is required to enter into an agreement with a credit institution selected by the client for safe-keeping the assets of the client on a securities account and a cash account. Such credit institution is entitled to enter into agreements with third parties for safekeeping the client's assets and making transactions therewith. Avaron is not liable to the client for the non-performance or partial non-performance of such credit institution or the co-operation partners of such credit institution. The assets that are not kept in the accounts of such credit institution shall be kept in other accounts or held by the counter-party of the transaction or by another relevant third party. Avaron notes that although Avaron shall apply due care on choosing the person with whom the client's financial instruments shall be kept and on selecting the counter-parties of transactions, the client may not be entitled to equivalent guarantees upon non-performance or bankruptcy of the third party, in case the client's assets are not kept with a credit institution compared to when they were kept in the securities and cash account opened in a credit institution.

The client's assets may be kept on a nominee account or another equivalent account; consequently, participation in the general meetings of issuers or voting at such meetings on the basis of securities safekept on nominee accounts may be difficult or impossible in certain markets.

The safekeeping of the client's assets may be subject to the legislation of a foreign country. As a result, the rights arising from the securities and cash owned by the client may be different from the provisions set out in Estonia's legislation.

Certain foreign countries lack regulation for holding assets on a nominee account. Consequently, when safekeeping a client's securities on an account opened in the name of another person, the other person is deemed to be the holder of the said securities in legal terms and it may be impossible to distinguish the securities owned by the client from the securities owned by such other person or from the securities

owned by other clients of such other person. In such case the client shall not be able to participate independently in the general meetings of issuers. The client can only participate in the general meetings of issuers if the person who legally owns the securities offers such a service and vote only under the conditions that all persons whose securities are safekept together wish to vote in the same manner. If the securities of a number of persons are safekept together, there is a risk that as a result of an error, securities that are disposed of are really not the object of the relevant disposal transaction. There is also a risk that one of the persons fails to fulfil the lawful obligations of a shareholder (e.g. notification of the authorities of changes in qualifying shareholdings). Such a breach may result in the securities account being seized or blocked and none of the persons may be able to dispose of or use their securities, and the client's right to vote on the basis of said securities may also be withdrawn. The client may be left without or lose certain rights of shareholders or be prevented from participation in certain corporate actions.

### **Investor Protection Scheme**

Avaron's clients are covered by the investor protection scheme organised by the Estonian Guarantee Fund (*Tagatisfond* in the Estonian language) whereby investments made through Avaron shall be guaranteed and compensated for to clients on the account of the investor protection sub-fund based on the provisions of the Guarantee Fund Act. Up to 90% of the value of the investments on the compensation date but no more than EUR 20,000 per one investor shall be guaranteed and compensated for. However, investments owned by professional investors, financial institutions, Avaron group companies or directors or shareholders of Avaron on the compensation date are not guaranteed or compensated for. The procedure for guaranteeing and compensating of investments has been set out in the Guarantee Fund Act and other legislation provided based on it. Additional information on the investor protection scheme is available from the Guarantee Fund, phone +372 611 0730, web site [www.tf.ee](http://www.tf.ee).

### **Client Communication and Handling of Client Complaints**

The language of communication with clients is English and Estonian. The means of communication and provision of information shall be agreed upon with each client separately in the relevant service agreement. If a client has complaints regarding the services provided by Avaron, the client may contact

his/her client manager or Avaron Compliance Officer. The client shall be immediately notified when we receive the complaint and shall be given additional information on the process of solving the complaint as soon as possible.

### **Information on Financial Instruments**

Based on the investment strategy agreed upon with a client, Avaron may invest the client's assets in various financial instruments. Such financial instruments may or may not be traded on a regulated market. If a financial instrument is not traded on a regulated market, there is a higher risk of the instrument becoming illiquid; however, even if a financial instrument is traded on a regulated market there is no guarantee that there will be sufficient liquidity. Depending on the market where a financial instrument is being traded and the type of the financial instrument, its price may be very volatile. The client is not protected from losing the whole amount of the investment and is responsible for paying back the borrowed capital in case of using financial leverage. In addition to the expense related to acquiring the financial instrument, the client may be responsible for other expenses arising from making transactions with the financial instrument.

### **Shares**

Owning a share grants a right to the client to participate according to applicable legislation in the management of the issuer of the share by participating in general meetings. If the issuer of the share earns profits, it may be distributed to shareholders as dividends. Additionally, owning a share grants a right to participate in the distribution of the issuer's assets upon liquidation. The value of shares may fluctuate widely due to various factors including events related to macroeconomics, politics, the markets and issuer specific risks.

### **Bonds**

When buying a bond, you provide a loan to the company, municipality or government issuing the bond. Owning a bond grants a right to the investor to demand from the issuer of the bond the payment of the principal and interest according to the terms of the bond. Similar rights are attached to deposits and money market instruments (repayment of the amount deposited or invested and the payment of interest). Credit risk and interest risk is related to owning bonds and other fixed income financial instruments. The value of certain bonds may fluctuate to a great extent.

### *Investment Funds*

An investment fund is a special-purpose pool of assets or an investment company that enables investors to pool their assets for investing and use the services of a professional fund management company. Prior to investing in a fund, a client should carefully study the fund rules, prospectus and other documents regulating the activities of the fund. A fund may earn profits or make losses. Based on investment strategy, funds are divided into money market funds, bond funds, equity funds etc. In addition, a fund may focus on a specific industry sector or geographic region. A fund's risk level depends on its investment policy and investment objective. The liquidity of an investment in a fund may be high or nearly absent; therefore, a client should find out before committing money into an investment fund what are the terms for exiting the investment.

Some funds have complex investment strategies, using leverage and investing in instruments that are not traded on a regulated securities market. Such funds include hedge funds, venture capital funds, private equity funds and real estate funds. A client who invests in such a fund should generally have prior investment experience.

### *Derivatives*

The market value of derivative instruments is dependent on the price of an underlying asset such as a share, share index, currency exchange rate or interest rate. Some examples of derivative instruments include options, futures and forwards. Depending on the specific instrument, derivatives entail a right or obligation to buy, sell or swap the underlying asset.

Option is a right, but not an obligation to sell or buy a specified underlying security at a specified strike price at a specified expiry date. Most options are traded over-the-counter and are thus effectively a contract signed between two parties.

Futures and forwards entail an obligation to take or make a delivery of an underlying asset at a specified date and at a specified price. Futures are standardized contracts traded on an exchange. Forwards are similar to futures, but are usually traded over the counter.

In principle, derivative instruments can be used for hedging risks. However, usually a small movement in the price of the underlying asset causes a large change in the value of the relevant derivative instrument. Therefore, the risk of derivative instruments is considered extremely high and derivatives are not

generally recommended to inexperienced investors. An investor is not protected from losing the whole amount of capital invested in a derivative instrument. In case of some derivatives, it is possible that an investor's loss is larger than the initial paid-up capital and the client may be obliged to commit further capital to cover such loss.

### *Structured Instruments*

A structured bond/deposit is a bond/deposit the interest of which is linked to the price movement of another asset (e.g. share or fund unit) or a basket of assets. Structured instruments may be issued with a risk premium. In case of unfavourable price movements of the underlying asset, the interest payable on the structured instrument may be lower than the initial risk premium, i.e. it is not guaranteed that the investor will get back the whole amount of invested capital on the maturity date.

### *Repo and Reverse Repo Contracts*

A repo contract is essentially a loan taken by a client and backed by the client's securities. A repo loan is often used for acquiring additional securities. It is a high-risk strategy involving financial leverage. If the value of securities that have been put up as collateral for the repo loan decreases, the provider of a repo loan is entitled to demand further collateral or sell the securities that have been set as collateral. A client taking out a repo loan should take into account that in case of decrease in securities prices such strategy may result in substantial losses.

In case of a reverse repo contract a client gives a loan to a third party and accepts securities as collateral. Although the provider of the loan is entitled to demand further collateral or sell the securities put up as collateral in case the value of collateral decreases, it should be taken into account that in case of very rapid price decrease and/or low liquidity it may not be sufficient and the strategy may result in substantial losses.

### *Risks*

Various risks that may affect the return from the investment are related to the services. Some of the risks related to investing have been described below. However, it is not a complete overview of all related risks. Each client should independently evaluate the risks arising from his/her investment activities and assess their impact and possible consequences taking into account the client's investment experience and knowledge, his/her financial position, the investment

horizon and the objectives of the investments. We would like to point out that the Central and Eastern European markets that are in Avaron's focus are classified as emerging markets that are accompanied by a substantially higher level of risk compared to investing in mature markets.

**Market risk** – the risk of suffering losses due to general unfavourable price movements at the relevant securities market or a market for other assets. Unfavourable price movements may be caused by poor economic indicators of the relevant country or industry sector, unstable economic environment, unstable stock exchange, etc.

**Price risk** – price risk is closely associated with market risk, but mainly concerns a certain security or other financial instrument. A client may suffer a loss when the price of the security or other financial instrument in which he/she has invested moves unfavourably.

**Currency risk** – the risk that may occur upon investment in securities whose price is denominated in foreign currencies or that have been acquired for foreign currencies as the client may suffer a loss due to unfavourable changes in currency exchange rates.

**Political or country risk** – the risk that unfavourable trends or events (e.g. changes in economic policy or legal environment, nationalisation, riots, war) that affect the political or economic stability of a country or future economic development take place in countries where the client's assets have been invested, creating a risk that the client loses a part or all of his/her investments or that the value of the investments decreases.

**Issuer risk** – the risk of decrease in a financial instrument's value resulting from the nature of its issuer's business activities, the issuer's financial results or other issuer specific reasons. Issuer's risk may lead to a situation where the issuer is not capable of fulfilling its obligations taken when issuing securities.

**Credit risk** – the risk that the issuer of securities that belong to the client's assets or the counterparty to a transaction made on account of the client fails to fully or partially perform its obligations (e.g. an issuer fails to redeem issued debt obligations or the counterparty to a transaction made on account of the client does not transfer the money or securities during settlement as agreed) resulting in a loss for the client.

**Custody risk** – the risk that a client suffers losses due to actions or inactions of sub-custodians or 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 due to low liquidity it is not possible to sell assets at the desired time and price or it is not possible to sell the assets at all. Liquidity risk is particularly important in case of investing into small cap companies and into financial instruments not traded on a regulated securities market.

**Interest risk** – the risk that interest rates, yield curves, the volatility of interest rates or other parameters related to interest rates change in an adverse direction for a client.

**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 the return of client's assets because the client's investments are concentrated on one or a small number of markets (e.g. Central and Eastern European countries) or asset classes (e.g. equities).

**Legal risk** – the risk arising from the fact that the client may not have a sufficient overview of the legislation effective in the countries where the client's assets have been invested. As a result of this, the client may suffer losses, or sanctions arising from law may be applied with respect to him/her. Additionally, legal acts may be amended in the country after making an investment and this may bring about the establishment of restrictions or obligations unfavourable for the client.

**Systemic risk** – the risk that a client suffers losses (first and foremost) due to technical failures in the accounting and other systems of custodians, regulated markets and other persons associated with the settlement of securities transactions as securities transactions cannot be executed, entries of transactions are delayed, incorrect entries are made, etc.

**Tax risk** – a client must take into account that his/her income earned in the Republic of Estonia or in other countries where the client has invested may be taxable and the tax may be withheld from payments to the client's cash account.