

# The Valuation Policy

## Introduction

This Valuation Policy (hereinafter: “**Policy**”) establishes the rules for determination of the net asset value of the investment funds (hereinafter: “**Fund**” or “**Funds**”) managed by AS Avaron Asset Management (hereinafter: “**Avaron**”).

The Policy has been established in accordance with the Investment Funds Act, Securities Market Act, Regulation No. 11 of the Ministry of Finance of 31 January 2017 “Procedure for Establishment of Net Asset Value of an Investment Fund’s Assets” and rules and prospectuses of investment funds managed by Avaron.

Avaron has outsourced fund administration services of Funds to Swedbank AS (hereinafter: “**Fund Administrator**” or “**FA**”). These services include among others keeping account of the Funds’ assets, organising Funds’ accounting and determination of the Funds’ net asset value. FA shall follow this Policy, Fund Administration Agreement signed with Avaron and applicable legislation while providing the service.

## I. Determination of Net Asset Value of Funds

### 1. General principles

- 1.1 The value of the Funds’ assets is determined primarily on the basis of their market value. Should it be impossible to determine an asset’s market value, NAV of a Fund shall be determined on the basis of an alternative method for calculating fair value according to the Policy.
- 1.2 Assets and liabilities not covered in the Policy are recognized at their fair value. Should it not be possible or appropriate, other commonly accepted methods may be used.
- 1.3 In case valuation of Fund assets pursuant to the Policy does not ensure determination of its fair value with sufficient reliability, Avaron may in exceptional cases, if it is in the best interests of Fund unit-holders and based on the best knowledge and skills of Avaron, determine the fair value of assets differently from the provisions of the Policy. Exceptional case primarily denotes situations when trading of securities on a regulated market is suspended or Avaron believes that the market price of assets does not reflect its actual value. In this case, fair value of assets is determined by following the valuation methods of International Financial Reporting Standards (hereinafter: “**IFRS**”). Avaron shall document such cases in writing and justify each respective decision on valuation and valuation principles, and also indicate how Avaron reached such value of assets.

### 2. Determination of the value of money and deposits

- 2.1 The value of currencies and deposits are recorded at their nominal value.
- 2.2 The value of interest on deposits that has been calculated on the accrual basis but not yet received shall be determined as accrued income as of the valuation date.

### 3. Determination of the value of assets denominated in foreign currencies

- 3.1 The value of foreign currencies and Fund foreign currency denominated assets and liabilities shall be revalued to the official currency of Estonia (euro) on the basis of a bid foreign exchange rate of the Fund’s depository as of the valuation date. If bid rate for last valuation date is not available, a morning bid rate for the next working day may be used.

### 4. Determination of the value of listed shares

- 4.1 The value of securities listed on regulated markets shall be determined based on closing prices as of valuation date. If closing price is not available due to the fact that no trades were made during a valuation day, mid-price of bid and ask shall be used. If mid-price is not available, the last available bid price shall be used.

- 4.2 As an exception, in the best interests of Fund unit-holders Avaron may use the regulated market bid, mid or closing price of the last 20 business days to determine fair value of a traded security should Avaron deem that this price represents fair value of a security more accurately.
- 4.3 Value of securities that have not been traded on any of the regulated markets within the last 20 business days, shall be calculated based on clause 7.

## 5. Principles for selection of regulated markets to price listed securities

- 5.1 If a security is listed on several regulated markets, price feed of such market is preferred from which the security was bought (and can be sold to). Should Avaron perform necessary operations to open up possibility for a security sale through another regulated market, price feed of another market is preferred for determination of net asset value.

## 6. Determination of value of listed debt securities on regulated markets

- 6.1 Avaron assumes that the market quotes/prices do not represent actual value of listed debt securities, even if it is available. Thus, value of listed debt securities is determined on the basis of mid-price  $((ask+bid)/2)$  provided by price feed of a financial data vendor used.
- 6.2 Should quotes for an instrument not be available or they do not represent actual value of a listed debt security, its value will be determined on the basis of the yield curve method.
- 6.3 If yield curve method cannot be used due to the absence of reliable data or its low sample size, the amortized cost method shall be used.
- 6.4 While using price for a debt security according to clauses 6.2 or 6.3, Avaron shall compare the value reached against a price quotation provided by the market-maker in that particular security at least once a month and will adjust the value if the difference exceeds 0.2%.
- 6.5 In cases specified in clauses 6.1-6.3, the FA shall document in writing and justify the decision on valuation and valuation principles, and also indicate how it reached such value of assets.

## 7. Determination of value of non-listed securities

- 7.1 In case of non-listed securities, valuation methods specified in IFRS shall be primarily followed for fair value calculation.
- 7.2 The value of non-listed debt securities is determined by a Fund's Investment Committee.
- 7.3 Fund Manager or Back-Office Specialist shall inform Investment Committee of the need to determine a price for or revalue a non-listed security.
- 7.4 Investment Committee decision and its valuation principles shall be documented in writing and recorded.
- 7.5 The value of a non-listed fixed income security may among other methods be determined on the basis of market makers' quotations or the yield curve method, taking into account bond maturity date and yield curve for relevant currency, which is adjusted to the risk margin of a comparable group of securities.
- 7.6 As an exception, in the best interests of Fund unit-holders Avaron can use depreciated acquisition cost method for valuation of non-listed debt securities in case the security has been initially acquired with the aim to be held till maturity and fair value of a security cannot be reliably determined.

## 8. Determination of the value of investment fund shares or units

- 8.1 The value of shares or units of exchange traded investment funds shall be determined on the basis of clause 4.
- 8.2 The value of non-traded investment fund units that are redeemed, shall be determined based on the last known redemption or repurchase price. Value of non-traded investment fund units that are not redeemed, shall be determined based on the basis of clause 7.
- 8.3 The value of the holdings in private equity funds and the value of other closed-end funds shall be determined either on the basis of:
- 8.3.1 net asset value of the private equity fund, but not older than one calendar year; or
- 8.3.2 net asset value of the closed-end fund, but not older than one calendar year.

## 9. Determination of value of derivative instruments

- 9.1 The value of listed derivative instruments shall be determined on the basis of clause 4.
- 9.2 If market value cannot be used or it is not reliable, fair value of such derivative instruments shall be based on generally acknowledged valuation models.
- 9.3 Currency forwards and swaps shall be valued by using valuation date spot rate and forward points, interpolated to maturity.
- 9.4 Value of non-listed options shall be determined based on the Black & Scholes model.

## 10. Determination of the value of immovables

- 10.1 The value of an immovable is determined on the basis of its market value or the fair value in case of market value's unavailability, determined on the basis of a valuation report provided by an attested property valuator. When choosing an attested property valuator, the following criteria shall be considered: experience in assessing the value of similar immovables, good reputation and professionalism. The attested property valuator shall not be a unit-holder of the Fund.
- 10.2 The valuation report specified in clause 10.1 shall be ordered at least once a year. In case the management company has reason to believe that the fair value of immovable has considerably changed, the valuation report specified in clause 10.1 shall be ordered more frequently than once a year.
- 10.3 If the fair value of the immovable cannot be reliably determined according to clause 10.1, the acquisition cost method must be used according to IFRS.
- 10.4 If the management company has a reason to believe that external quotations or valuation estimates do not represent the correct fair value of immovable, the management company has a right to determine the fair value based on generally acknowledged valuation models adequate for the valuation of the respective immovable.

## 11. Determination of value of repurchase agreements and reverse repurchase agreements

- 11.1 The value of repurchase agreements shall be determined by the sales price of the underlying securities plus the accrued difference between the securities' repurchase and sales price.
- 11.2 The value of reverse repurchase agreement is the lowest of the following:
  - value of the underlying securities' purchase price to which the accrued difference between the securities redemption and purchase price is added;
  - value of the underlying securities.

## 12. Determination of the value of structured notes and deposits

- 12.1 The value of structured notes or deposits is determined by dividing the value of a bond or deposit into components (e.g. deposit plus option). Value of a single component is determined by the Policy. Various components are added for the total value of a structured note or deposit.

## 13. Determination of the value of other assets

- 13.1 The fair value shall be used in the valuation of assets not specified in this Policy. If it is impossible or irrelevant to take the fair value as basis, other generally acknowledged methods primarily following the valuation methods specified in IFRS may be used.

## 14. Determination of the net asset value of a Fund and Fund unit

- 14.1 The following liabilities are subtracted from a Fund asset value in order to determine the net asset value of a Fund:
  - 14.1.1 management fees and other fees and expenses related to Fund management, including performance related fees;
  - 14.1.1.1 Following table 1 and table 2 display how a Fund and Fund unit's performance fee is provisioned and fixed. More detailed rules and the effective rates and benchmark for performance fee calculation can be found in respective Fund Prospectus and Fund Rules which are available at [www.avaron.com](http://www.avaron.com).

**Table 1: Performance Fee of Avaron Flexible Strategies Fund**

| Fund Unit | Avaron Flexible Strategies Fund  |   |
|-----------|--|---|
|           | Rate of Performance Fee  | Valuation and Payment   |
| N/A       | The rate of the performance fee is 10% of the increase in the net asset value of a Unit that exceeds the most recent, on 31 December fixed NAV, to which 12-month Euribor rate has been added. The performance fee calculation is annual.<br>Euribor rate being negative, a rate of 0% shall be applied. | The performance fee provision shall be revalued on each day the net asset value is calculated compared to the NAV on last year's 31 December. The performance fee shall be fixed as of 31 December of each year and shall be paid out during January of the following year. |

**Table 2: Performance Fee for Avaron Emerging Europe Fund**

| Fund Unit | Avaron Emerging Europe Fund   |   |
|-----------|---|---|
|           | Rate of Performance Fee   | Valuation and Payment   |
| A Unit    | The rate of the performance fee is 15% of the increase in the net asset value of a Unit that exceeds the high-water mark, to which 5% minimum return rate has been added. The performance fee calculation is monthly.   | The performance fee provision shall be revalued and fixed on each day the net asset value is calculated and shall be paid out monthly.  |
| B Unit    | The rate of the performance fee is 15% of the increase in the net asset value of a Unit that exceeds the high-water mark, to which 8% minimum return rate has been added. The performance fee calculation is monthly.   | The performance fee provision shall be revalued and fixed on each day the net asset value is calculated and shall be paid out monthly.  |
| C Unit    | No performance fee.   |   |
| D Unit    | No performance fee.   |   |
| E Unit    | The rate of the performance fee is 15% of the increase in the net asset value of a Unit that exceeds the most recent, on June 30 <sup>th</sup> fixed NAV, to which return of the benchmark index <i>MSCI EFM Europe + CIS (E+C) ex Russia Net Return EUR Index</i> has been added. The performance fee calculation is annual: from 30 June until 30 June of the following year. | The performance fee provision shall be revalued on each day the net asset value is calculated compared to the NAV on last year's 30 June. The performance fee shall be fixed as of 30 June of each year and shall be paid out during the following month. |

- 14.1.1.2 Should Units be redeemed prior to the date performance fee is fixed, accrued but unpaid performance fee for the Units redeemed, shall be paid to Avaron during the following month. Performance fee is paid out only in case the Fund has earned performance fee for the Units of a specific investor, if possible to identify.
- 14.1.2 other fees and expenses payable by the Fund based on Fund Rules and Prospectus.
- 14.2 Income calculated on the accrual basis but not received shall be summarized under accrued income and prepaid expenses, incl. interest and claims of interest nature, dividend claims and other accrued income and prepaid expenses.
- 14.3 Net asset value of a Fund Unit is calculated by dividing the total net asset value of Fund Units in the given share class by the number of share class Units issued (and not yet redeemed) as of the moment of calculation, which has been adjusted to the Units to be issued and redeemed (not yet settled) based on orders received by Avaron.

## 15. Verification of net asset value prior to publishing

- 15.1 Avaron shall verify Funds' net asset value (including value of assets and recognition of liabilities) determined by FA prior to the publication. Daily controls must include at least the following:
- 15.1.1 comparing security prices set by FA against the price feed available to Avaron;
  - 15.1.2 comparing instrument quantities in custody (depository) system against the information at the disposal of Avaron;
  - 15.1.3 check of correct corporate action records;
  - 15.1.4 comparing exchange rates against the information at the disposal of Avaron;
  - 15.1.5 comparing cash balances against the information at the disposal of Avaron and custody system;
  - 15.1.6 comparing other Fund assets against the information at the disposal of Avaron;
  - 15.1.7 comparing Fund liabilities against the information at the disposal of Avaron.
- 15.2 All differences occurred shall be investigated immediately. In case of errors, Avaron shall immediately notify the FA. FA shall make corrections immediately, should the error exceed 0.05% of the net asset value of a Fund and Fund Unit. Should the difference be lower than 0.05%, correction will be made during next valuation date.
- 15.3 Avaron confirms daily NAV calculation made by the FA. FA shall not publish net asset values prior to Avaron's confirmation by e-mail or phone.

## II. Correction of Miscalculations and Errors and Compensation for Damages

### 16. Implementation of this clause

- 16.1 Rules in clauses 17 and 18 shall be implemented only on errors identified after publishing Funds' net asset values. Should errors be discovered prior NAV publishing, rules set in clause 0 shall be used.

### 17. Material error in NAV

- 17.1 Should NAV calculation errors be material and exceed the below permitted margin of error, NAV is to be re-determined. Permitted error margin depends on fund type:
- Equity fund 0.5% of the correct net asset value;
  - Bond Fund 0.5% of the correct net asset value;
  - Mixed fund 0.5% of the correct net asset value.
- 17.2 Errors below the margin set in clause 17.1 shall be considered as immaterial and will not be corrected. Also, damages resulting from immaterial errors shall not be compensated.
- 17.3 Any error that exceeds the margins specified in clause 17.1 shall be deemed to be a significant error and damages will be compensated. Single errors below the margin shall be considered significant errors when added and the result exceeds the set margin.

### 18. Correction of errors and compensation

- 18.1 Person detecting any significant error shall immediately inform all interested parties (Avaron, FA, depository, Financial Supervision Authority and transfer agent) about the error.
- 18.2 FA shall in cooperation with Avaron prepare an action for a) elimination of the error and b) compensation of damages:
- FA shall assess the impact the error has on different groups of Fund unit-holders and the Fund (e.g. depending on whether there have been any subscriptions or redemptions);
  - Recalculate the Fund and Unit NAV from the day the error was ascertained or became significant until the day of correction. Error period is the day significant error occurred until the day the error is corrected. When no Units have been subscribed or redeemed during error period no corrections are made, except where the error affected expenses or fees paid by the Fund (e.g. performance related fees);
  - Determine damages caused to the Fund or unit-holder;
  - Informs unit-holders that suffered damages. Information is sent to contact details in the register of Units.

- 18.3 Damages caused by miscalculation or error in Fund net asset value shall be compensated by Avaron. Damage may also be compensated at the expense of Fund assets to unit-holders, should the amount that is to be compensated be paid out from the surplus of the Fund, and thus not harm the interests of other unit-holders.
- 18.4 Minimum sum that will be compensated to a unit-holder is 6 Euros. Damages below the minimum sum will not be compensated, except in case a unit-holder expresses its wish to receive compensation.

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| Valid from:  | April 2007                                     |
| Amended:     | December 2019                                  |
| Approved by: | Management Board of AS Avaron Asset Management |