



Avaron Emerging Europe Fund

ANNUAL REPORT FOR THE FINANCIAL YEAR 2019

Audited by KPMG

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FUND FACTS

Avaron Emerging Europe Fund is a public common investment fund registered in the Republic of Estonia. The Fund complies with the requirements set out in the Directive 2009/65/EC of the European Parliament and of the Council.

Name of the Fund	Avaron Emerging Europe Fund
Fund Management Company	AS Avaron Asset Management (reg. no. 11341336)
Registered address and contact details of the Fund Management Company	Address: Narva mnt 7d, 10117 Tallinn, Estonia Phone: +372 664 4200 Facsimile: +372 664 4201 E-mail: aaron@aaron.com www.aaron.com
Depository & Custody Bank	Swedbank AS (reg. no. 10060701)
Fund Administration (NAV calculation) & Transfer Agent services	Swedbank AS (reg. no. 10060701)
Auditor	KPMG Baltics OÜ (reg. no. 10096082)
Supervisor	Estonian Financial Supervision Authority
Investment Managers	Valdur Jaht, Peter Priisalm, Rain Leesi
Fund established	3 April 2007
Start of the Fund's activities	23 April 2007
Reporting period	1 January 2019–31 December 2019

INVESTMENT MANAGERS' REPORT

General Information

Avaron Emerging Europe Fund (hereinafter: “the Fund”) invests actively in listed equities of Emerging Europe ex-Russia region. Benchmark agnostic, it emphasizes bottom-up, value oriented stock picking with a strong small and mid-cap bias. **The Fund's investment objective is to maximize upside to internally set target prices, taking into account company Quality Score, ESG score, liquidity and FX outlook.** By implementing our investment process we aim to outperform the market with lower volatility. The Fund typically invests in 30-45 regional companies, who generally demonstrate a competitive advantage or attractive risk/return features. It adheres to the UN Principles for Responsible Investment.

The Fund is managed by AS Avaron Asset Management (hereinafter: “Avaron”), an independent investment management company established in 2007 and fully owned by employees. Avaron’s core activity involves investing the assets of our mutual funds and institutional investor managed accounts into Central and Eastern European listed equities. We create additional value to our clients by applying active value investing principles while also adhering to the UN Principles of Responsible Investment. As at the end of 2019 Avaron managed 390 million euros of investor assets. The firm employs 18 investment and finance specialists. Avaron holds a licence from the Estonian Financial Supervision Authority to manage investment portfolios and funds.

The Fund is a UCITS-V fund and registered for public sale in Estonia, France, Switzerland, Germany, United Kingdom, Finland, Sweden, Latvia and Lithuania. The Fund's fund administration, custody services and transfer agent services are outsourced to Swedbank AS.

Investment Philosophy: Value Investing, Stock-Picking and Responsible Investing

Our investment philosophy is based on value investing principles. Over time stock prices tend to over or underreact to market news and thus deviate from fundamental value of a company. In order to take advantage of such occurrences our portfolio construction is fully bottom-up, assessing every investment case on a standalone basis. Our idea generation is proprietary, driven predominantly by upside to internally set fair value targets. We tend to have long term holding periods but our upside oriented investment process also allows us to take advantage of short-term market volatility without losing focus of the underlying fundamental value of the company. We search for well managed companies with leading market positions, identifiable competitive advantage(s) and strong recurring revenue based business models that we understand and are able to model ourselves.

Within our investment process **we put strong emphasis on company quality that is assessed by using an internal Quality Score** focusing on management team and business model quality, and financial strength of the company. Besides conventional financial and non-financial aspects **we have integrated ESG Score (environmental, social, governance) into our investment process leveraging upon our bottom-up regional expertise with an aim to identify material ESG risks and value creation opportunities.** Our investment team has been following vast majority of our current listed equity universe over a decade, which serves as an important strength in assessing the companies’ future potential. In order to have an extensive knowledge base of the companies in our universe we have taken a strategic decision not to outsource ESG analysis to third party providers but rather to educate our research team and develop the knowhow in-house.

Sustainability at Avaron

Avaron as a company is committed to sustainable business practices, which are embedded into our corporate identity. We review sustainability under the categories of People, Community, Environment and Investing. **Avaron as a company can leave the most significant footprint of its activities by investing into companies that follow ESG principles, i.e. care for the environment, pay attention to social aspects and follow corporate governance principles in their activities.** Details of these topics are available in [Avaron Sustainability Report](#) publicly available at our website.

Since 2011 Avaron is signatory of the UN PRI (www.unpri.org) and we have implemented environmental, social and governance (ESG) factors into our quantitative and qualitative investment analysis and decision-making processes. We take an active approach to communicating our views to the companies we invest in and seek improvements where there are shortcomings in performance, or a company has failed to apply appropriate standards, or to provide adequate disclosure.

During 2019 we continued implementing our internal ESG analysis process as well as actively communicating with our portfolio companies on their shortcomings. In the end of 2019, the average ESG score of the companies in Avaron Emerging Europe Fund portfolio is 3.26 on a 1-5 scale. This might seem like a marginal improvement compared to the 3.18 recorded in the end of 2018 when we first introduced this scoring system, but nevertheless we have witnessed improving performance and reporting on environmental as well as society/supply chain issues. We are especially proud of the improved disclosure, since this is something that we have focused on and requested from our portfolio holdings throughout 2019.

A key part of being an active owner of listed equities is using voting rights in an informed way at company meetings. **Starting from 2018 we committed to systematically exercise our voting rights on all shareholder meetings. As a result, in 2019 we voted in 60 shareholders' meetings of the companies in Avaron Emerging Europe Fund portfolio out of 63 meetings held compared to 66 out of 74 in 2018.** On 2% of agenda points we voted against the management proposals and on 5% we abstained. Another important pillar of our investment research is direct dialogue with the companies in our investment universe. During 2019 our team of three investment managers accompanied by seven-member research team held 132 face-to-face meetings (2018: 174) and participated in 592 conference calls (2018: 458) with the representatives of investee companies.

Since 2017 Avaron is a member of the Responsible Business Forum in Estonia, a non-profit organization with an aim to inspire and support furthering corporate social responsibility (CSR) in Estonian society through being the centre of competence building and communication on CSR. **During 2019 we successfully completed the Estonian Responsible Business Index assessment and retained our gold level quality label for the following 2 years.** This quality label is given to organizations that show high performance and systematic approach in responsible activities towards local community, environment, workplace and marketplace.

Going into 2020 as an UN PRI signatory **we continue to be committed to the responsible investment principles as we believe that these accompanied with our bottom-up stock picking approach will deliver solid risk adjusted returns.**

We also continue to support the Carbon Disclosure Project (CDP) as a signatory. CDP is one of the largest investor collaborations globally with combined \$96tr in assets, aiming to improve climate change, water usage and deforestation related disclosure, and risk management of publicly traded companies. Also, **our participation in Climate Action 100+ will continue.** It is a 5-year investor initiative launched in 2018 to engage with the world's largest corporate greenhouse gas emitters

Avaron Emerging Europe Fund

to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change. Within the scope of the engagement we will focus on the companies that operate in Emerging Europe and we also participate as supporting investors in the UN PRI launched oil and gas specific working group.

In 2019 Avaron received an entrepreneurship award from Tallinn City as [the Responsible Company 2019](#) based on our efforts and initiatives in responsible investing.

Main Developments during 2019

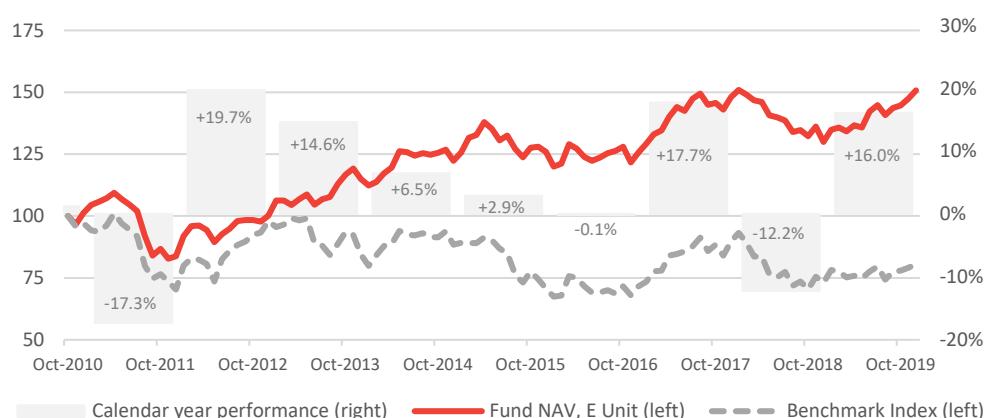
Emerging Europe equities (MSCI EFM EUROPE + CIS (E+C) ex Russia) gained 10.3% in € in 2019, driven by the positive sentiment of global markets and global emerging markets. Among the largest markets the Czech Republic (+14.4% in €), Hungary (+14.2% in €), Romania (+31.3% in €), Turkey (+14.1% in €) and Greece (+49.5%) were the best performers while Poland (+1.1% in €) and the Baltics (+5.7%) were the largest underperformers.

In 2019 Avaron Emerging Europe Fund gained 15.2-16.1% (depending upon a share class), outperforming the benchmark MSCI EFM Europe & CIS ex Russia Index (up 10.3%) mainly due to overweight positioning in Romania (+8.1ppt contribution), strong performance of Polish stock picks (+2ppt) and Turkish companies (+2.8ppt). In 5 years, the Fund has delivered +23.2% return vs. -8.9% for the index, with lower volatility. The Fund's five year alpha is 5%. Total net assets of the Fund increased from €60.7 million to €62.1 million during 2019.

Table 1. Cumulative rate of net return of Fund's NAV, in EUR

	1 year	3 years	5 years	7 years	10 years
A unit	15.4%	17.6%	22.8%	52.9%	75.9%
B unit	16.0%	19.4%	26.1%	58.7%	85.3%
C unit	16.1%	18.1%	23.6%	53.0%	75.3%
D unit	15.2%	16.6%	21.2%	50.1%	
E unit	16.0%	19.9%	23.2%	50.4%	
Index*	10.3%	12.5%	-8.9%	-17.9%	-1.1%

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

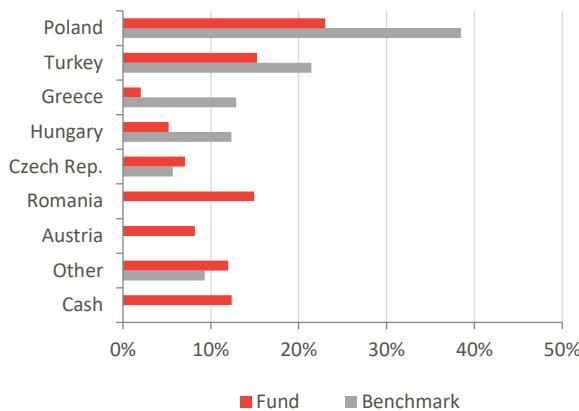


Graph 1. Performance of Fund's NAV vs. the market (2010-2019, E unit)

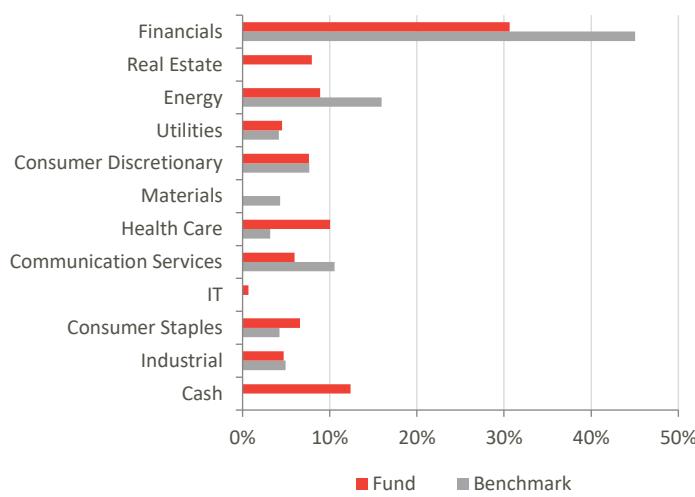
Fund Positioning and Portfolio Valuation

As at the end of 2019 the Fund's assets were mainly invested in Polish, Turkish, Romanian, Austrian, Czech, Slovenian and Hungarian listed companies. Over 2019 the Fund's cash level decreased by 7ppts to 12%. Such stance is a reflection of our modest bottom-up estimates for corporate earnings growth in the region amid maturing economic cycle and slowing growth. Our portfolio construction process is benchmark agnostic and fully bottom-up. In comparison to the benchmark the Fund is currently strongly OW in Romania, and UW in Poland, Turkey, Greece and Hungary. Besides the large cash position majority of the difference is balanced by off-benchmark exposure in Vienna-listed regional real estate companies.

Romanian stocks are in our view reasonably valued with MSCI Romania trading at 9x 1YR FWD P/E albeit poor short-term earnings' outlook as growth is slowing. Limited relative exposure to Poland compared to the index is due to the market being in general fairly valued with MSCI Poland trading at 11.5x 1YR FWD P/E. In Turkey we are underweight compared to the benchmark despite decent valuations as macro risks related to fiscal discipline and the central bank's independence remain (MSCI Turkey 9x 1YR FWD P/E).



Graph 2. Fund vs. Benchmark Country Weights



Graph 3. Fund vs. Benchmark Sector Weights

The selection of companies in the Fund portfolio trade at 10.5x 1YR FWD P/E compared to 9.6x historical average. We favour companies with strong balance sheets and solid sustainable free cash

Avaron Emerging Europe Fund

flow generation. The aggregate net gearing of our portfolio companies stands at 19%, cash flow yield at 9% and dividend yield at 5%+ on an average pay-out rate of 59%.

Table 2. Style Allocation of the Fund

	% of the Fund	EPS adj growth				Div			
		P/E adj		EV/EBITDA		yield 2018	P/B 12M		
		12M	2019	2020	2019	2020			
Cyclical	53.6%	9.5	9.9	9.5	-6.7%	4.3%	5.0	4.6	6.1%
Non-cyclical	24.0%	13.9	14.7	13.5	14.8%	8.3%	7.0	6.4	3.4%
Asset play	10.0%	-	-	-	-	-	-	-	5.8%
Total equity	87.6%	10.5	11.0	10.5	-2.4%	5.3%	5.8	5.4	5.3%
									1.28

Coronavirus outbreak in 2020

In 2020 there has been a significant outbreak of the Coronavirus (COVID-19) around the world, including Estonia. The outbreak of the virus is treated as a non-corrective event after the reporting date. The Coronavirus outbreak has had a negative impact on financial markets, which has caused a decrease in the Fund's net asset value. As the coronavirus outbreak is still uncertain and rapidly evolving, we have not measured its quantitative impact to the Fund. We are taking all necessary steps to protect our people and mitigate the risk to the Fund and our business. The impact on macroeconomic projections is taken into account in the Fund's estimate of expected losses according to IFRS 9 in the annual financial statements for 2020.

31 March 2020

Kristel Kivinurm-Priisalm
Member of the Management Board

CONFIRMATION OF ANNUAL FINANCIAL STATEMENTS OF 2019

The Management Board of the Fund Management Company has prepared the annual Financial Statements of Avaron Emerging Europe Fund on 31 March 2020.

The Financial Statements have been prepared in compliance with the requirements stipulated in the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of International Financial Reporting Standards (hereinafter "IFRS") as adopted by the European Commission, the Investment Funds Act, Minister of Finance Regulation no 8 of 18/01/2017 "Requirements for the reports of investment funds to be published" and no 11 of 31/01/2017 "Procedure for Determination of Net Asset Value of Investment Funds" as established on the basis of the Investment Funds Act.

It gives a true and fair view of the assets, liabilities, net asset value and performance results of Avaron Emerging Europe Fund. The Management Board considers Avaron Emerging Europe Fund to carry its activities as a going concern.

The annual Financial Statements of Avaron Emerging Europe Fund have been approved by the Fund Management Company and the investment managers.

Name	Date	Signature
Kristel Kivinurm-Priisalm Member of the Management Board of the Fund Management Company	31/03/2020	/Signed digitally/
Valdur Jaht Member of the Management Board of the Fund Management Company / Investment manager	31/03/2020	/Signed digitally/
Peter Priisalm Investment manager	31/03/2020	/Signed digitally/
Rain Leesi Investment manager	31/03/2020	/Signed digitally/

FINANCIAL STATEMENTS

BALANCE SHEET

In EUR

ASSETS	Note	31/12/2019	31/12/2018
Cash and cash equivalents	3	5,614,186	10,522,718
Term deposits	3	2,353,249	1,001,197
Financial assets at fair value through profit or loss:	4		
Shares and units		54,445,487	49,062,202
Receivables and prepayments	4; 6	-	214,555
TOTAL ASSETS		62,412,922	60,800,672
LIABILITIES			
Other financial liabilities	4		
Payables to the management company	7	244,316	49,287
Payables to the depository		18,807	19,520
Other liabilities		6,508	14,652
TOTAL LIABILITIES		269,631	83,459
NET ASSETS ATTRIBUTABLE TO HOLDERS		62,143,291	60,717,213

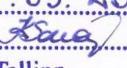
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STATEMENT OF INCOME AND EXPENSES

In EUR

	Note	01/01/2019- 31/12/2019	01/01/2018- 31/12/2018
INCOME			
Interest income		10,031	20,865
From deposits		10,031	20,865
Dividend income		2,694,327	2,834,190
From shares and units		2,694,327	2,834,190
Net gain/loss from financial assets at fair value through profit or loss		8,427,519	-6,782,568
From shares and units	5	8,427,519	-6,786,840
From derivative instruments	5	-	4,272
Net gain/loss from foreign exchange		-1,116,347	-4,488,556
TOTAL INCOME		10,015,530	-8,416,069
OPERATING EXPENSES			
Management fees	7	575,806	729,424
Performance fees	7	199,265	154,978
Custodian fees		200,174	232,019
Transaction fees		2,689	3,602
Other operating expenses		31,968	36,389
TOTAL OPERATING EXPENSES		1,009,902	1,156,412
NET INCOME		9,005,628	-9,572,481

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STATEMENT OF CHANGES IN NET ASSETS

In EUR

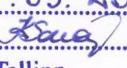
	01/01/2019- 31/12/2019	01/01/2018- 31/12/2018	01/01/2017- 31/12/2017
NET ASSET VALUE AT THE BEGINNING OF THE PERIOD	60,717,213	80,590,739	63,112,459
Cash received for fund units issued	2,740,991	10,168,535	14,777,040
Cash paid for fund units redeemed	-10,320,541	-20,469,580	-8,101,794
Net result of the Fund	9,005,628	-9,572,481	10,803,034
NET ASSET VALUE AT THE END OF THE PERIOD	62,143,291	60,717,213	80,590,739
NUMBER OF THE UNITS IN CIRCULATION AT THE END OF REPORTING PERIOD			
Number of A units in circulation:	111,057.906	129,724.290	142,433.692
Number of B units in circulation:	380,407.243	392,152.280	485,510.950
Number of C units in circulation:	186,783.533	73,821.470	17,876.270
Number of D units in circulation:	240,339.311	266,875.410	686,309.828
Number of E units in circulation:	<u>3,490,404.384</u>	<u>4,137,796.120</u>	<u>4,515,395.987</u>
NET ASSET VALUE OF AN UNIT AT THE END OF REPORTING PERIOD			
Net asset value of the A unit:	4.9625	4.2984	4.9270
Net asset value of the B unit:	5.3135	4.5794	5.2226
Net asset value of the C unit:	17.9968	15.4949	17.6853
Net asset value of the D unit:	14.8972	12.9359	14.8690
Net asset value of the E unit:	<u>15.0782</u>	<u>12.9943</u>	<u>14.8010</u>
TOTAL NET ASSET VALUE OF THE FUND UNITS			
Total net asset value of the A units:	551,126	557,602	701,770
Total net asset value of the B units:	2,021,299	1,795,812	2,535,620
Total net asset value of the C units:	3,361,506	1,143,860	316,147
Total net asset value of the D units:	3,580,380	3,452,279	10,204,729
Total net asset value of the E units:	<u>52,628,980</u>	<u>53,767,660</u>	<u>66,832,473</u>
TOTAL NET ASSET VALUE	62,143,291	60,717,213	80,590,739

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STATEMENT OF CASH FLOWS

In EUR

	01/01/2019- 31/12/2019	01/01/2018- 31/12/2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	3,305	13,777
Dividends received	2,722,595	2,826,725
Net result from foreign exchange	-40,594	-319,470
Sale of investments	14,346,715	14,946,037
Purchase of investments	-13,524,462	-18,999,811
Operating expenses paid	-821,718	-1,194,323
	<hr/>	<hr/>
	2,685,841	-2,727,065
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of units	2,740,991	10,185,322
Payments on redemption of units	-10,315,700	-20,473,749
	<hr/>	<hr/>
	-7,574,709	-10,288,427
TOTAL CASH FLOWS		
	<hr/>	<hr/>
	-4,888,868	-13,015,492
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at the beginning of the period	10,522,718	23,515,538
Effect of exchange rate fluctuations on cash and cash equivalents	-19,664	22,672
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	5,614,186	10,522,718

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED

The annual financial statements of Avaron Emerging Europe Fund for 2019 have been prepared in compliance with the valid Investment Funds Act as supplemented by the regulations of the Minister of Finance. The financial statements have been prepared, as stipulated in the Minister of Finance Regulation 8 of 18/01/2017 "Requirements for the reports of investment funds to be published" in accordance with the accounting policies and information presentation principles of the International Financial Reporting Standards as approved by the European Commission while taking into account the specifications of the regulation and Rules for Calculating Net Asset Value of Funds.

The financial statements have been prepared in EUR, which is also Fund's functional and presentation currency.

The main accounting principles used when preparing the financial statements have been set out below.

The following standards and interpretations have been used for the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- Amendments to IFRS 9 "Prepayment Features With Negative Compensation" (effective for annual periods beginning on or after 1 January 2019),
- IFRS 16 "Leases" (2017) (effective for annual periods beginning on or after 1 January 2019),
- IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement" (effective for annual periods beginning on or after 1 January 2019),
- Annual Improvements to IFRS Standards 2015-2017 Cycle (effective for annual periods beginning on or after 1 January 2019).

The adoption of these amendments to the existing standards has not led to any significant changes in the Fund's accounting policies.

Standards and Interpretations issued by IASB that are adopted by the EU but have not yet been implemented

At present EU has approved the following standards, amendments to the existing standards and interpretations, which were not yet applicable:

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IAS 1 and IAS 8: Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020).

The Fund has not applied the new standards or amendments before deadline. The new standards and amendments listed above may have an impact on Fund's effective accounting principles. The Fund measures the potential impact on its financial reports.

Standards and interpretations issued by IASB but not yet adopted by the EU

At present, the IFRS' as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at date of publication of the financial statements:

- IFRS 17 "Insurance Contracts" was issued on May 2017 and will replace IFRS 4 "Insurance Contracts" and is effective for annual periods beginning on or after 1 January 2022,
- Amendment to IFRS 3 "Business Combinations" (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IAS 1 "Presentation of Financial Statements" (effective for annual periods beginning on or after 1 January 2022).

The Fund has not estimated the impact on the new standards and amendments on its accounting principles and annual report.

Use of estimates and judgements

The preparation of the financial statements calls for the management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Estimates and judgements have been used according to the best knowledge based on prior experience and other factors that the management considers reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

Financial instruments are recognized in the balance sheet at fair value taking into account the principles stipulated in the Rules for Calculating Net Asset Value of Funds approved by the Management Board. The fair value of financial instruments quoted on actively traded markets is determined by the quoted prices. If the prices in active markets are not available other valuation models are being used according to the Rules for Calculating Net Asset Value of Funds. Main risks involved with the estimates and judgements that may affect the value of the Fund's assets and liabilities are related to measuring the fair value of financial instruments based on valuation models that use unobservable inputs.

Foreign currency transactions

Foreign currency transactions are recorded using the last bid rate established by the depositary for the funds managed by AS Avaron Asset Management on the transaction date (hereinafter referred to as the depositary bid rate). This rate is based on market inputs. The assets and liabilities quoted in foreign currency are translated into EUR based on the depositary bid rate applicable on the reporting date.

Gains and losses from foreign currency transactions are recorded in the statement of income and expenses under "Gain/ (loss) from transactions in foreign currencies" on a net basis.

Financial instruments

Financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets include cash, contractual right to receive cash or another financial assets (for example receivables) from another entity, equity instruments of another entity and contractual rights to exchange financial assets with another entity under potentially favourable conditions. Financial liabilities include contractual obligation to deliver cash or other financial assets to another entity or to exchange financial assets with another entity under potentially unfavourable conditions.

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Financial assets and liabilities are initially recorded at cost, which is the fair value of the consideration paid or received to acquire the financial asset or liability. Financial instruments are later divided into three categories in accordance to the principles of IFRS 9 taking into account the measurement:

1. amortised cost (AC);
2. fair value through other comprehensive income (FVOCI);
3. fair value through profit or loss (FVTPL).

The Fund does not hold financial assets measured at fair value through other comprehensive income.

Classification

On initial recognition, the Fund classifies financial instruments at amortised cost or fair value through profit or loss. A financial instrument is measured at amortised cost if it is not designated as at FVTPL, it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). The classification and subsequent measurement depend on the business model for managing the financial assets and the contractual cash flow characteristics. The classification of financial assets is determined at initial recognition. The Fund has determined the following business models for managing financial assets:

- Held-to-collect business model, which includes financial assets that are held to collect contractual cash flows.
- Other business model, where financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent purchases and sales taking place.

Recognition

In the course of normal business activities investments into shares or units of funds, bonds and derivative instruments are recognised using the trade date accounting principles. Trade date is defined as the date when the Fund takes the obligation to buy or sell the financial instrument. Financial assets and liabilities are initially recognised at acquisition cost, which is the fair value of the consideration paid for the financial asset.

After initial recognition the financial assets and liabilities are measured at fair value in the category "At fair value through profit or loss" or at amortised cost. Gains/ (losses) from the revaluation of securities are recorded in the statement of income and expenses under "Net gain/loss from financial assets at fair value through profit or loss".

Dividend income from the financial assets at fair value through profit or loss are recorded in the statement of income and expenses under "Dividends" at the moment when the Fund's right to the dividend is fixed.

Fair value of financial instruments

Fair value is the price that would be received upon selling an asset or paid upon transferring a liability in an orderly transaction in the principal market (or the most advantageous market) (i.e. exit price) between market participants at the measurement date, irrespective if the price is easily traceable or shall be determined using other valuation techniques. According to the fair value hierarchy stipulated in IFRS 13 the financial instruments at fair value shall be divided into three levels depending on the rate of observable inputs used:

- level 1 – unadjusted quoted prices in active market for identical assets or liabilities,

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- level 2 – inputs other than quoted prices in level 1 that are observable directly or indirectly,
- level 3 – unobservable inputs for an asset or liability.

Observable inputs are inputs that are determined based on the market data (such as publicly available information about actual events or transactions) and that reflect assumptions which market participants would use when pricing an asset or a liability. When a fair value measurement is developed using inputs from multiple levels of the fair value hierarchy, the fair value measurement of that instrument shall fall entirely into the lowest level from which the inputs have been used.

If an instrument is traded on multiple regulated markets, based on professional judgement, the one that is most liquid and most representative is considered as the principal market.

Measuring the fair value of financial instruments is based on the Rules for Calculating Net Asset Value of Funds approved by the Management Board. General principles are the following:

- The market value of shares traded on a regulated market is determined on the basis of the official closing price on the reporting date. If the closing price is unavailable, the official mid price is used. If the mid price is also unavailable, the last official bid price is used.
- In Avaron's opinion the market price of bonds may not reflect the fair value of the securities even when the market price is available. The value of bonds not traded on a regulated market is determined based on the average of the bid and ask quotes as provided by the price feed service provider being used. If the quotes are not available or if the quotes do not reflect the fair value of the bond in the opinion of the Fund Management Company, the price is determined based on the yield curve.
- The value of options not traded on a regulated market is determined based on the Black & Scholes valuation model. The inputs that are necessary for the calculation are determined by the Fund Management Company after consulting with the counterparty of the option.

Derecognition

Securities are removed from the balance sheet when the Fund has lost control over the corresponding financial assets either as a result of selling them or expiry of their term. FIFO method is used in accounting for the realised gains/ (losses) from securities transactions. The line "Sales profit/ (loss)" in the statement of income and expenses indicates the difference between the sales amount of an instrument and the corresponding acquisition cost.

Offsetting

Financial assets and liabilities are offset only when the Fund has a legal right to offset the amounts and it intends to use the right.

Cash and cash equivalents and cash flows

Cash and cash equivalents comprise of the Fund's current accounts and over-night deposits that are subject to an insignificant risk of changes in their fair value.

Cash flows from operating activities are reported using the direct method.

Deposits

Deposits comprise term deposits of credit institutions given that their maturity is less than 12 months. Deposits are initially recognised at acquisition cost and subsequently measured at amortized cost using the effective interest rate method.

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Receivables

Receivables include revenues calculated on the accrual basis but not yet collected, including dividend receivables and other accrued income. Miscellaneous receivables include receivables from unsettled sales transactions.

Receivables are initially recognised at fair value and subsequently recorded at amortized cost using the effective interest rate method from which any possible impairment loss has been deducted.

Other financial liabilities

Other financial liabilities include management fee and performance fee payables to the Fund Management Company; depository fee, safekeeping fee and transaction fee payables to the depository. Liabilities also include payables to Fund unit holders for redeemed units. Miscellaneous liabilities include payables for securities purchase transactions.

Other financial liabilities are initially recognised at fair value and subsequently recorded at amortized cost using the effective interest rate method.

Fund units

The Fund has five classes of units which are redeemable at demand of the unit-holder. Different rights are attached to different unit classes. All the unit classes are reported as financial liabilities. Units shall be issued, redeemed and switched on every banking day according to the Fund rules. The redemption price of a unit is equal to the net asset value of the unit as of the trade date from which the redemption fee and penalty charge may be deducted.

The net asset value of a Unit is determined by dividing the total net asset value of a class of Units by the number of Units of that class 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 income of the Fund shall not be distributed to unit holders but shall be reinvested. A unit holder's profit or loss is reflected in the Unit's net asset value change.

Interest and dividend income

Interest income is recognised on accrual basis using the effective interest rate method. It comprises reported interest from cash and cash equivalents, deposits and debt instruments at fair value through profit or loss.

Received dividends are recorded under "Dividends" at the moment when the shareholder's right to the dividend is fixed.

Operating expenses

The operating expenses of the Fund include the management fee and performance fee payable to the management company, the depository fee payable to the Fund's depository, fund administration fees, fees to the registrar of fund units, transaction fees and other operating expenses stated in the Fund rules. Transaction fees related to security purchase and sales transactions are recorded under "Transaction fees" in the statement of income and expenses.

Related parties

Parties that are considered as related parties to the Fund are the Management Company AS Avaron Asset Management, other investment funds managed by the management company, all the group companies, the Management Board of the Fund Management Company and their related parties. According to the Fund rules the Fund pays management fees to the Management Company on a monthly basis.

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NOTE 2. RISK MANAGEMENT

Short Overview of the Investment and Risk Management Techniques

Avaron focuses on Emerging Europe listed equity asset class with an objective to deliver positive risk adjusted return to our clients over the market cycle. This is achieved by constructing a portfolio of companies that maximises the aggregate upside to internally set target prices of individual companies in our investment universe taking into account the quality and ESG profile of a company, liquidity of an instrument and where relevant also FX outlook.

Our investment philosophy is based on value investing principles. Over time stock prices tend to over or underreact to market news and thus deviate from fundamental value of a company. In order to take advantage of such occurrences our portfolio construction is fully bottom-up, assessing every investment case on a standalone basis. Our idea generation is proprietary, driven predominantly by upside to internally set fair value targets. We tend to have long term holding periods but our upside oriented investment process also allows us to take advantage of short-term market volatility without losing focus of the underlying fundamental value of the company. We search for well managed companies with leading market positions, identifiable competitive advantage(s) and strong recurring revenue based business models that we understand and are able to model ourselves.

Within our investment process we put strong emphasis on company quality that is assessed by using an internal Quality Score focusing on management team and business model quality, and financial strength of the company. Besides conventional financial and non-financial aspects we have integrated ESG Score into our investment process leveraging upon our bottom-up regional expertise with an aim to identify material ESG risks and value creation opportunities. Our investment team has been following vast majority of our current listed equity universe over a decade, which serves as an important strength in assessing the companies' future potential. In order to have an extensive knowledge base of the companies in our universe we have taken a strategic decision not to outsource ESG analysis to third party providers but rather to educate our research team and add an ESG specific layer within our investment process.

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's portfolio based on the Fund Manager's views of the economy and attractiveness of each financial instrument.

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

Credit risk

Credit risk refers to the risk that the issuer of a security 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 the issued debt obligations, a counterparty to a trade does not deliver the securities or cash during the settlement, a counterparty defaults on a loan granted by the Fund), causing damage to the Fund.

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Avaron Emerging Europe Fund

Maximum exposure to credit risk as of the end of the period in EUR (detailed overview regarding cash and cash equivalents and term deposits presented in Note 3):

	31/12/2019	% of NAV	31/12/2018	% of NAV
Cash and cash equivalents	5,614,186	9.03%	10,522,718	17.34%
Term deposits	2,353,249	3.79%	1,001,197	1.65%
Receivables and prepayments	-	-	214,555	0.35%
TOTAL	7,967,435	12.82%	11,738,470	19.34%

The Fund's assets can be invested in bonds that are liquid and transferable. In case of debt securities with investment grade rating by S&P (or Moody's equivalent) of BBB- or higher a basic financial analysis and a study of terms of the issue (prospectus) is conducted. In case of debt securities with no rating / non-investment grade rating, higher due diligence requirements apply.

The Fund had no investments in bonds as at 31 December 2019 nor 31 December 2018.

The Fund's cash and cash equivalents are held with Fund's depository Swedbank AS, which parent company Swedbank AB is rated AA- as of 27/09/2019 by Standard & Poor's, with AS SEB Bank, which parent company Skandinaviska Enskilda Banken AB is rated A+ as of 30/10/2018 (Standard & Poor's) and with Luminor Bank AS, which is rated A- as of 25/03/2019 (Moody's).

Liquidity risk

Liquidity risk refers to the risk that due to low liquidity a financial instrument cannot be sold at the desired time, at the desired price or there is no market (buyer) at all. Liquidity risk is particularly relevant in case of investing into small cap companies and instruments not traded on a regulated securities market.

Liquidity risk is managed through regular liquidity analysis and limitations on estimated exit times from positions and share capital/ free float ownership.

The Fund maintains a credit line of 6,000,000 EUR that can be accessed to meet short-term liquidity needs. These resources have not been used as of 31/12/2019.

Maximum exposure to financial liabilities according to the maturity as of the end of the period in EUR:

	Up to 3 days		Up to 1 month		Over 1 month	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Payables to the management company	-	-	244,316	49,287	-	-
Payables to the depository	-	-	18,807	19,520	-	-
Payables for redeemed units	5,459	617	-	-	-	-
Trade settlement payable	-	6,854	-	-	-	-
Other liabilities	-	-	-	-	1,049	7,181
Assets attributable to holders	-	-	-	-	62,143,291	60,717,213
TOTAL	5,459	7,471	263,123	68,807	62,144,340	60,724,394

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Avaron Emerging Europe Fund

Positions that may take more than 10 business days to liquidate based on the six month average trading volume (30% of trading volume).

Instrument	Country	Sector	% of NAV	
			31/12/2019	31/12/2018
OMV PETROM SA	Romania	Energy	7.83%	5.52%
KRKA	Slovenia	Health Care	4.86%	3.93%
BRD-GROUPE SOCIETE GENERALE	Romania	Financials	4.53%	-
ANADOLU HAYAT EMEKLILIK	Turkey	Financials	1.87%	1.85%
NOVA LJUBLJANSKA BANKA DD	Slovenia	Financials	1.59%	-
TALLINK GRUPP AS	Estonia	Industrial	1.34%	1.93%
TALLINNA SADAM AS	Estonia	Industrial	1.05%	1.10%
WIRTUALNA POLSKA HOLDING SA	Poland	Communication Services	1.05%	1.49%
ARENA HOSPITALITY GROUP DD	Croatia	Consumer Discretionary	1.04%	1.04%
BULGARIA REAL ESTATE FUND	Bulgaria	Real Estate	0.90%	1.16%
HRVATSKI TELEKOM DD	Croatia	Communication Services	0.87%	0.77%
SPHERA FRANCHISE GROUP SA	Romania	Consumer Discretionary	0.50%	0.56%
SC FONDUL PROPRIETATEA SA	Romania	Utilities	-	5.33%
atrium European Real Estate	Jersey	Real Estate	-	2.83%
TELEKOM SPRSKE AD BANJA LUKA	Bosnia & Herzegovina	Communication Services	-	0.04%
TOTAL			27.43%	27.55%

Positions that may take more than 20 business days to liquidate based on the six month average trading volume (30% of trading volume).

Instrument	Country	Sector	% of NAV	
			31/12/2019	31/12/2018
OMV PETROM SA	Romania	Energy	7.83%	-
KRKA	Slovenia	Health Care	4.86%	3.93%
ANADOLU HAYAT EMEKLILIK	Turkey	Financials	1.87%	1.85%
NOVA LJUBLJANSKA BANKA DD	Slovenia	Financials	1.59%	-
TALLINK GRUPP AS	Estonia	Industrial	1.34%	1.93%
ARENA HOSPITALITY GROUP DD	Croatia	Consumer Discretionary	1.04%	1.04%
BULGARIA REAL ESTATE FUND	Bulgaria	Real Estate	0.90%	1.16%
SPHERA FRANCHISE GROUP SA	Romania	Consumer Discretionary	0.50%	-
atrium European Real Estate	Jersey	Real Estate	-	2.83%
TOTAL			19.93%	12.74%

Market risk

Market risk refers to the risk of suffering losses due to adverse price movements at a specific securities market or a market for other assets. Adverse price movements may be caused by a country's weak economic indicators, poor financial results of an business sector, volatile securities market, investors' behaviour and psychology and other factors. Diversification among sectors, countries, currencies and instruments are the main risk management tools used by the Fund to address market risk.

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Currency risk

The Fund is open to foreign currency risk. Currency breakdown of the Fund's assets in EUR:

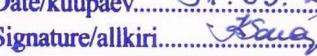
	% of Fund's		% of Fund's	
	31/12/2019	assets	31/12/2018	assets
EUR	17,606,598	28.21%	13,288,849	21.86%
PLN	12,797,731	20.50%	12,038,557	19.80%
RON	12,081,292	19.36%	13,077,059	21.51%
TRY	9,473,773	15.18%	7,292,337	11.99%
CZK	4,378,874	7.02%	7,684,190	12.64%
HUF	3,646,216	5.84%	3,164,865	5.20%
HRK	1,258,721	2.02%	1,097,556	1.81%
BGN	1,169,717	1.87%	1,102,357	1.81%
USD	-	-	2,031,373	3.34%
BAM	-	-	23,529	0.04%
TOTAL	62,412,922	100.00%	60,800,672	100.00%

Taking into account the derivatives contracts, net FX positions as per foreign currency were the following:

	% of Fund's		% of Fund's	
	31/12/2019	assets	31/12/2018	assets
PLN	12,797,731	20.50%	12,038,557	19.80%
RON	12,081,292	19.36%	13,077,059	21.51%
TRY	9,473,773	15.18%	7,292,337	11.99%
CZK	4,378,874	7.02%	7,684,190	12.64%
HUF	3,646,216	5.84%	3,164,865	5.20%
HRK	1,258,721	2.02%	1,097,556	1.81%
BGN	1,169,717	1.87%	1,102,357	1.81%
USD	-	-	2,031,373	3.34%
BAM	-	-	23,529	0.04%
TOTAL	44,806,324	71.79%	47,511,823	78.14%

Currency risk sensitivity analysis

Fund's net asset value would have been affected by the weakening of foreign currencies against EUR on 31 December 2019. The sensitivity analysis assumes the weakening of foreign currency rates against EUR in the magnitude of the change from the higher to lower value from 2007 onwards. The analysis assumes that all the other variables remain constant. Analysis for 31 December 2018 has been made using the same assumptions. Compared to the annual report for 2018, the period covered for the currency risk sensitivity calculations has been extended from 10 year to 13 year period, to cover the important fluctuations occurred during last recession, especially the large depreciation of PLN.

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Derivatives contracts have been taken into account and net open positions as per foreign currency were used. The impact on net assets attributable to holders and net income:

	31/12/2019			31/12/2018		
	Currency wakening	Possible impact	Currency's % of NAV	Currency wakening	Possible impact	Currency's % of NAV
TRY	-80%	-7,563,168	15.25%	-81%	-5,920,789	12.01%
PLN	-35%	-4,502,360	20.59%	-35%	-4,299,196	20.13%
RON	-35%	-4,260,225	19.44%	-34%	-4,464,841	21.54%
HUF	-32%	-1,183,028	5.87%	-31%	-986,498	5.21%
CZK	-23%	-994,286	7.05%	-23%	-1,744,805	12.66%
HRK	-13%	-163,528	2.03%	-13%	-142,590	1.81%
BGN	-8%	-96,951	1.88%	-10%	-108,781	1.82%
USD	-36%	-	-	-36%	-721,244	3.35%
BAM	-21%	-	-	-10%	-2,406	0.04%
TOTAL		-18,763,546	72.10%		-18,391,150	78.55%

Instrument's 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 a specific security is affected by developments in the issuer's financial results, changes in the competitive environment, analyst estimates and commentaries, etc.

Concentration of risk of the Fund's investments based on sectors as of the end of the period in EUR:

	31/12/2019	% of NAV	31/12/2018	% of NAV
Financials	19,031,851	30.63%	15,295,465	25.20%
Health Care	6,237,932	10.04%	5,548,190	9.14%
Energy	5,531,619	8.90%	4,860,185	8.01%
Real Estate	4,943,912	7.95%	5,130,251	8.45%
Consumer Discretionary	4,725,454	7.60%	4,217,080	6.94%
Consumer Staples	4,087,428	6.58%	3,145,283	5.17%
Communication Services	3,710,535	5.97%	1,115,604	1.84%
Industrial	2,928,521	4.71%	3,805,826	6.26%
Utilities	2,827,109	4.55%	4,830,552	7.96%
IT	421,126	0.68%	1,113,766	1.83%
TOTAL	54,445,487	87.61%	49,062,202	80.80%

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Concentration of risk of Fund's investments based on the issuer's geographic location as of the end of the period in EUR:

	31/12/2019	% of NAV	31/12/2018	% of NAV
Poland	11,687,433	18.80%	10,426,826	17.17%
Turkey	9,472,992	15.26%	7,292,337	12.00%
Romania	9,283,463	14.94%	10,516,402	17.33%
Czech Rep.	4,378,874	7.05%	4,537,715	7.48%
Slovenia	4,200,065	6.76%	3,308,985	5.45%
Austria	3,253,098	5.23%	2,709,163	4.46%
Hungary	3,219,603	5.18%	3,164,865	5.21%
Jersey	1,833,434	2.95%	1,716,519	2.83%
Portugal	1,554,490	2.50%	1,096,040	1.80%
Estonia	1,485,694	2.39%	1,841,597	3.03%
Greece	1,264,138	2.03%	-	-
Croatia	1,188,315	1.91%	1,097,556	1.81%
Luxembourg	1,061,748	1.71%	626,099	1.03%
Bulgaria	562,140	0.90%	704,569	1.16%
Bosnia & Herzegovina	-	-	23,529	0.04%
TOTAL	54,445,487	87.61%	49,062,202	80.80%

Instrument's price risk sensitivity analysis

Sensitivity analysis is based on standard deviation of the Fund since launch, whereas the Fund's risk profile has been calculated based on normal distribution. The analysis assumes that all the other variables remain constant. Analysis as per 31 December 2018 has been made with using the same assumptions.

probability	+/- possible change of Fund's NAV during year	
	2019	2018
σ	68.27%	12.72% 13.06%
2σ	95.45%	25.43% 26.12%
3σ	99.73%	38.15% 39.19%

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NOTE 3. CASH AND CASH EQUIVALENTS

Deposits in EUR

	31/12/2019	% of NAV	31/12/2018	% of NAV
Deposits, Luminor Bank AS	2,350,000	3.79%	999,999	1.65%
Overnight deposit, Swedbank	-	-	2,031,308	3.35%
TOTAL	2,350,000	3.79%	3,031,307	5.00%

* "Term deposits" in balance sheet include also accrued interest in the amount of 3,249.18 EUR as of 31/12/2019 (2018: 1,197.79 EUR). "Receivables and prepayments" in balance sheet include accrued interest from overnight deposit in the amount of 0 EUR as of 31/12/2019 (2018: 65.53 EUR). Deposits' maturity is between 6-12 months and interest rates vary from 0.25-0.60%.

Cash and cash equivalents (incl. overnight deposits) by credit institution and currency

	31/12/2019	% of NAV, converted		31/12/2018	% of NAV, converted	
		into EUR	7.26%		into EUR	15.77%
Swedbank AS						
RON	13,403,838	4.50%	11,923,701	4.22%		
BGN	1,188,360	0.98%	778,034	0.66%		
EUR	557,249	0.90%	450,845	0.74%		
HUF	141,302,746	0.69%	-	-		
HRK	524,374	0.11%	-	-		
PLN	206,696	0.08%	4,228,953	1.62%		
TRY	5,211	0.00%	-	-		
CZK	-	-	80,917,898	5.18%		
USD	-	-	2,330,317	3.35%		
Luminor Bank AS		1.30%			1.40%	
EUR	810,184	1.30%	850,025	1.40%		
AS SEB Pank		0.47%			0.17%	
EUR	294,997	0.47%	99,989	0.17%		
TOTAL		9.03%			17.34%	

The Fund's cash and cash equivalents are held with Fund's depository Swedbank AS, which parent company Swedbank AB is rated AA- as of 27/09/2019 by Standard & Poor's, with AS SEB Bank, which parent company Skandinaviska Enskilda Banken AB is rated A+ as of 30/10/2018 (Standard & Poor's) and with Luminor Bank AS, which is rated A- as of 25/03/2019 (Moody's).

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NOTE 4. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES TO CATEGORIES AND LEVELS

In EUR

31/12/2019

ASSETS	Measured at fair value through profit or loss			Financial assets at amortised cost			Financial liabilities at amortised cost		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and cash equivalents	-	-	-	5,614,186	-	-	-	-	-
Term deposits	-	-	-	2,353,249	-	-	-	-	-
Shares and units	54,445,487	-	-	-	-	-	-	-	-
LIABILITIES									
Payables to the management company	-	-	-	-	-	-	-	244,316	-
Payables to the depository	-	-	-	-	-	-	-	18,807	-
Payments on redemption of units*	-	-	-	-	-	-	-	5,459	-
Other liabilities*	-	-	-	-	-	-	-	1,049	-
Net assets attributable to holders	-	-	-	-	-	-	62,143,291	-	-
TOTAL	54,445,487	-	-	7,967,435	-	-	62,143,291	269,631	-

* Liabilities are carried in the balance sheet under "Other liabilities"

According to the estimates of the Fund Management Company the carrying value of financial assets and liabilities at amortised cost amounts approximate fair value.

There have been no transfers of the assets designated as at fair value from one level to another as of the end of the period.

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In EUR

31/12/2018

ASSETS	Measured at fair value through profit or loss			Financial assets at amortised cost			Financial liabilities at amortised cost		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and cash equivalents	-	-	-	10,522,718	-	-	-	-	-
Term deposits	-	-	-	1,001,197	-	-	-	-	-
Shares and units	49,062,202	-	-	-	-	-	-	-	-
Dividend receivable	-	-	-	-	1,172	-	-	-	-
Dividend tax reclaims	-	-	-	-	31,626	-	-	-	-
Interest receivable	-	-	-	-	66	-	-	-	-
Receivables for securities transactions	-	-	-	-	181,691	-	-	-	-
LIABILITIES									
Payables to the management company	-	-	-	-	-	-	-	49,287	-
Payables to the depository	-	-	-	-	-	-	-	19,520	-
Payments on redemption of units*	-	-	-	-	-	-	-	617	-
Trade settlement payable*	-	-	-	-	-	-	-	6,854	-
Other liabilities*	-	-	-	-	-	-	-	7,181	-
Net assets attributable to holders	-	-	-	-	-	-	60,717,213	-	-
TOTAL	49,062,202	-	-	11,523,915	214,555	-	60,717,213	83,459	-

* Liabilities are carried in the balance sheet under "Other liabilities"

According to the estimates of the Fund Management Company the carrying value of financial assets and liabilities at amortised cost amounts approximate fair value.

There have been no transfers of the assets designated as at fair value from one level to another as of the end of the period.

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KPMG, Tallinn

NOTE 5. NET GAIN/LOSS FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In EUR

	01/01/2019-	01/01/2018-
	31/12/2019	31/12/2018
Net gain/loss from financial assets at fair value through profit or loss		
From shares and units		
Sales profit/(-loss)	1,255,582	247,661
Unrealised profit /(-loss)	7,171,937	-7,034,501
From derivative instruments		
Sales profit/(-loss)	-	-13,956
Unrealised profit /(-loss)	-	18,228
Total net gain/(-loss)	8,427,519	-6,782,568

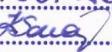
NOTE 6. RECEIVABLES AND PREPAYMENTS

In EUR

	31/12/2019	31/12/2018
Dividend receivable	-	1,172
Receivables for securities transactions	-	181,691
Dividend tax reclaims	-	31,626
Interest receivable	-	66
TOTAL	-	214,555

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NOTE 7. TRANSACTIONS WITH RELATED PARTIES

In addition to the Fund Management Company, companies belonging to the same group, other investment funds managed by the Management Company and shareholders of the management company are considered to be related parties to the Fund.

The transactions with related parties were in EUR as follows:

	01/01/2019-	01/01/2018-
	31/12/2019	31/12/2018
Fund Management Company		
Paid management and performance fees	775,071	884,402
Units bought	-	5,915
Units sold	-	5,915
TOTAL	775,071	896,232

The balances outstanding with related parties were as follows in EUR:

	31/12/2019	31/12/2018
Fund Management Company		
Management and performance fee payable	244,316	49,287

The market value of Avaron Emerging Europe Fund units owned by the shareholders of the Fund Management Company amounted to 52,164 EUR as of 31/12/2019 (31/12/2018: 44,957 EUR).

NOTE 8. OTHER INFORMATION

Total expense ratio (TER)

The total expense ratios (including management fees, performance fees, depository fees and other fees) of different unit classes are set out below. Total expense ratios are calculated on annual basis.

	TER without performance fees	TER with performance fees
A units	2.13%	2.13%
B units	1.63%	1.63%
C units	1.53%	1.53%
D units	2.38%	2.38%
E units	1.23%	1.25%

Portfolio turnover rate

The Fund's portfolio turnover ratio, which is calculated by taking the lesser of purchases or sales and dividing it by the average value of monthly net assets, amounted to 12.4% in 2019 (20.7% in 2018).

Adjusted to the Fund's inflows and outflows the Fund's portfolio turnover rate amounted to 32.7% in 2019 (2.6% in 2018).

$$\text{Portfolio Turnover Rate\%} = \frac{(\text{Total 1 EUR} - \text{Total 2 EUR})}{\text{Average net assets in EUR}} * 100$$

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Where

$$\begin{aligned} \text{Total 1} &= \sum \text{securities purchases} + \sum \text{securities sales} \\ \text{Total 2} &= \sum \text{units issued} + \sum \text{units redeemed} \end{aligned}$$

NOTE 9. EVENTS AFTER THE REPORTING DATE

In 2020 there has been a significant outbreak of the Coronavirus (COVID-19) around the world, including Estonia. The outbreak of the virus is treated as a non-corrective event after the reporting date. The Coronavirus outbreak has had a negative impact on financial markets, which has caused a decrease in the Fund's net asset value. As the coronavirus outbreak is still uncertain and rapidly evolving, we have not measured its quantitative impact to the Fund. We are taking all necessary steps to protect our people and mitigate the risk to the Fund and our business. The impact on macroeconomic projections is taken into account in the Fund's estimate of expected losses according to IFRS 9 in the annual financial statements for 2020.

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STATEMENT OF INVESTMENTS

In EUR as of 31/12/2019

Name	ISIN	Emitent country	Rating agency	Rating	FX	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
SHARES										
SHARES LISTED ON STOCK EXCHANGE:										
OMV PETROM SA	ROSNPPACNOR9	RO			RON	0.06	2,977,090	0.09	4,866,551	7.83%
RICHTER GEDEON NYRT	HU0000123096	HU			HUF	16.61	2,761,218	19.37	3,219,603	5.18%
BANK PEKAO SA	PLPEKAO00016	PL	S&P	BBB+	PLN	30.00	4,000,809	23.59	3,146,359	5.06%
KRKA	SI0031102120	SI			EUR	59.27	2,443,758	73.20	3,018,329	4.86%
KOMERCNI BANKA	CZ0008019106	CZ	S&P	A	CZK	33.34	2,907,658	32.60	2,843,064	4.58%
BRD-GROUPE SOCIETE GENERALE	ROBRDBACNOR2	RO	Fitch	BBB+	RON	2.17	1,847,113	3.31	2,812,070	4.53%
IMMOFINANZ AG	AT0000A21KS2	AT	S&P	BBB-	EUR	18.39	1,961,233	23.90	2,548,338	4.10%
POWSZECHNY ZAKLAD UBEZP SHARE	PLPZU0000011	PL	S&P	A-	PLN	10.02	2,625,850	9.40	2,463,442	3.96%
atrium European Real Estate	JE00B3DCF752	JE	S&P	BBB-	EUR	3.85	2,043,639	3.45	1,833,434	2.95%
TOFAS TURK OTOMOBIL FABRIKA	TRATOASO91H3	TR			TRY	4.43	2,016,161	4.03	1,831,455	2.95%
PKO BANK POLSKI	PLPKO0000016	PL			PLN	8.61	1,844,729	8.09	1,733,555	2.79%
JERONIMO MARTINS SGPS SA	PTJMT0AE0001	PT			EUR	13.07	1,385,925	14.67	1,554,490	2.50%
CESKE ENERGETICKE ZAVODY AS	CZ0005112300	CZ	S&P	A-	CZK	22.29	1,709,505	20.03	1,535,810	2.47%
CYFROWY POLSAT SA	PLCFRPT00013	PL	S&P	BB+	PLN	5.68	1,261,028	6.56	1,456,917	2.34%
COCA-COLA CECEK AS	TRECOLA00011	TR	Fitch	BB	TRY	8.47	1,924,317	5.80	1,318,282	2.12%
SC FONDUI PROPRIETATEA SA	ROFPTAACNOR5	RO			RON	0.19	983,832	0.25	1,291,299	2.08%
BIM BIRLESIK MAGAZALAR AS	TREBIMM00018	TR			TRY	7.16	1,244,334	6.99	1,214,656	1.96%
ANADOLU HAYAT EMEKLILIK	TRAANHYT91O3	TR			TRY	1.51	1,705,335	1.03	1,159,284	1.87%
PLAY COMMUNICATIONS SA	LU1642887738	LU			PLN	8.52	1,100,706	8.22	1,061,748	1.71%
NOVA LIUBLJANSKA BANKA DD	SI0021117344	SI	S&P	BBB-	EUR	52.49	837,125	62.00	988,776	1.59%
TURK TRAKTOR VE ZIRATAK MAKIN	TRETTRK00010	TR			TRY	6.20	681,945	8.30	913,232	1.47%
TALLINK GRUPP AS	EE3100004466	EE			EUR	0.97	828,579	0.98	835,674	1.34%
BANK HANDLOWY W WARSZAWIE	PLBH0000012	PL	Fitch	A-	PLN	16.14	1,007,848	12.17	759,905	1.22%
TURKIYE GARANTI BANKASI	TRAGARAN91N1	TR	Fitch	B+	TRY	1.31	591,250	1.67	751,236	1.21%
JUMBO SA	GRS282183003	GR			EUR	14.82	586,704	18.55	734,543	1.18%
ERSTE GROUP BANK AG	AT0000652011	AT	S&P	A	EUR	28.44	597,206	33.56	704,760	1.13%
SANTANDER BANK POLSKA SA	PLBZ00000044	PL	Fitch	BBB+	PLN	72.37	689,912	72.20	688,318	1.11%
TUPRAS-TURKIYE PETROL RAFINIER	TRATUPRS91E8	TR	Fitch	BB-	TRY	18.99	664,534	19.00	665,068	1.07%
WIRTUALNA POLSKA HOLDING SA	PLWRTPL00027	PL			PLN	11.37	451,442	16.40	650,815	1.05%
TALLINNA SADAM AS	EE3100021635	EE			EUR	1.70	556,692	1.99	650,020	1.05%
ARENA HOSPITALITY GROUP DD	HRARNTRA0004	HR			HRK	57.97	755,350	49.68	647,260	1.04%
KORDSA GLOBAL ENDUSTRIYEL IP	TRAKORDS91B2	TR			TRY	1.84	605,665	1.96	646,845	1.04%
HRVATSKI TELEKOM DD	HRHT0RA0005	HR			HRK	18.79	432,588	23.50	541,055	0.87%
WARSAW STOCK EXCHANGE	PLGPW0000017	PL			PLN	9.33	540,816	9.23	535,213	0.86%
AEGEAN AIRLINES S.A.	GRS495003006	GR			EUR	7.92	499,195	8.40	529,595	0.85%
LOGO YAZILIM SANAYI VE TICAR	TRALOGOW91U2	TR			TRY	14.25	658,464	9.11	421,126	0.68%
SPHERA FRANCHISE GROUP SA	ROSGFPACNOR4	RO			RON	6.64	530,420	3.92	313,543	0.50%
BRISA BRIDGESTONE SABANCI	TRABRISA91E3	TR			TRY	0.96	191,712	1.43	285,183	0.46%
FORD OTOMOTIV SANAYI AS	TRAOTOSN91H6	TR			TRY	7.83	196,693	10.62	266,625	0.43%
ALIOR BANK SA	PLALIOR00045	PL	S&P	BB	PLN	11.78	442,158	6.74	252,909	0.41%
NOVA LIUBLJANSKA BANKA GDR	US66980N2036	SI	S&P	BBB-	EUR	12.17	194,678	12.06	192,960	0.31%
SHARES TOTAL							51,285,214		53,883,347	86.71%

Statement of investments as of 31/12/2019 (continued)

Name	ISIN	Fund country	Fund Management Company	FX	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
FUNDS:									
CLOSED-END FUNDS LISTED ON STOCK EXCHANGE:									
BULGARIA REAL ESTATE FUND	BG1100001053	BG	REAL ESTATE MANAGEMENT LTD	BGN	0.82	454,113	1.01	562,140	0.90%
CLOSED-END FUNDS TOTAL					454,113		562,140		0.90%
SHARES AND FUNDS TOTAL					51,739,327		54,445,487		87.61%

Credit Institution	Deposit type	Credit Institution's country	Rating agency	Rating	FX	Interest rate	Start date	Maturity	Average acquisition cost	Total market value	Share of market value of fund's net assets
DEPOSITS*											
Luminor Bank AS	Deposit	EE	Moody's	A- (Luminor Bank AS)	EUR	0.4000%	07/10/2019	07/10/2020	900,000	900,860	1.45%
Luminor Bank AS	Deposit	EE	Moody's	A- (Luminor Bank AS)	EUR	0.2500%	07/10/2019	07/04/2020	900,000	900,537	1.45%
Luminor Bank AS	Deposit	EE	Moody's	A- (Luminor Bank AS)	EUR	0.6000%	12/08/2019	12/08/2020	300,000	300,710	0.48%
Luminor Bank AS	Deposit	EE	Moody's	A- (Luminor Bank AS)	EUR	0.6000%	02/04/2019	02/04/2020	250,000	251,142	0.41%
DEPOSITS TOTAL									2,350,000	2,353,249	3.79%

*Accrued interest in the amount of 3,249.18 EUR has been added to the value of deposits

Statement of investments as of 31/12/2019 (continued)

Name	ISIN	Credit Institution's country	Credit Institution	FX	Interest rate	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
CASH										
CURRENT ACCOUNT	EE	Swedbank	RON			2,797,829		2,797,829		4.50%
CURRENT ACCOUNT	EE	Luminor	EUR			810,184		810,184		1.30%
CURRENT ACCOUNT	EE	Swedbank	BGN			607,577		607,577		0.98%
CURRENT ACCOUNT	EE	Swedbank	EUR			557,249		557,249		0.90%
CURRENT ACCOUNT	EE	Swedbank	HUF			426,613		426,613		0.69%
CURRENT ACCOUNT	EE	SEB	EUR			294,997		294,997		0.47%
CURRENT ACCOUNT	EE	Swedbank	HRK			70,406		70,406		0.11%
CURRENT ACCOUNT	EE	Swedbank	PLN			48,550		48,550		0.08%
CURRENT ACCOUNT	EE	Swedbank	TRY			781		781		0.00%
CURRENT ACCOUNT TOTAL						5,614,186		5,614,186		9.03%
DEPOSITS AND CASH TOTAL						7,964,186		7,967,435		12.82%
INVESTMENTS TOTAL						59,703,513		62,412,922		100.43%
TOTAL ASSETS OF THE FUND						59,703,513		62,412,922		100.43%
LIABILITIES								-269,631		-0.43%
NET ASSETS OF THE FUND								62,143,291		100.00%

In EUR as of 31/12/2018

Name	ISIN	Emitent country	Rating agency	Rating	FX	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
SHARES										
SHARES LISTED ON STOCK EXCHANGE:										
BANK PEKAO SA	PLPEKAO00016	PL	S&P	BBB+	PLN	30.00	4,000,809	25.40	3,387,749	5.58%
OMV PETROM SA	ROSNPPACNOR9	RO			RON	0.06	2,977,090	0.06	3,349,140	5.52%
SC FONDUL PROPRIETATEA SA	ROFPTAACNOR5	RO			RON	0.18	3,115,211	0.19	3,235,122	5.33%
RICHTER GEDEON NYRT	HU0000123096	HU			HUF	16.10	3,015,169	16.90	3,164,865	5.21%
KOMERCNI BANKA	CZ0008019106	CZ	S&P	A	CZK	33.34	2,978,395	32.94	2,942,285	4.85%
IMMOFINANZ AG	AT0000A21KS2	AT	S&P	BBB-	EUR	18.81	2,438,073	20.90	2,709,163	4.46%
KOC HOLDING AS	TRAKCHOL91Q8	TR	S&P	BB-	TRY	2.70	3,102,825	2.34	2,692,986	4.43%
KRKA	SI0031102120	SI			EUR	59.27	2,443,758	57.80	2,383,325	3.93%
BRD GR SOCIETE GENERALE SA RON	ROBRDBACNOR2	RO	Fitch	BBB+	RON	2.17	1,847,113	2.45	2,082,208	3.43%
PKO BANK POLSKI	PLPKO0000016	PL			PLN	8.61	1,844,729	9.20	1,970,225	3.24%
atrium European Real Estate	JE00B3DCF752	JE	S&P	BBB-	EUR	3.85	2,043,639	3.23	1,716,519	2.83%
POWSZECHNY ZAKLAD UBEZP SHARE	PLPZU0000011	PL	S&P	A-	PLN	10.82	1,730,882	10.23	1,637,067	2.70%
CESKE ENERGETICKE ZAVODY AS	CZ0005112300	CZ	S&P	A-	CZK	22.29	1,709,505	20.80	1,595,430	2.63%
SNGN ROMGAZ SA	ROSNGNACNOR3	RO			RON	7.42	1,877,269	5.97	1,511,045	2.49%
BIM BIRLESIK MAGAZALAR AS	TREBIMM00018	TR			TRY	14.33	1,244,334	14.35	1,246,141	2.05%
TALLINK GRUPP AS	EE3100004466	EE			EUR	0.95	1,100,526	1.02	1,173,566	1.93%
CYFROWY POLSAT SA	PLCFRPT00013	PL	S&P	BB+	PLN	5.68	1,261,028	5.26	1,167,277	1.92%
ANADOLU HAYAT EMEKLILIK	TRAANHYT91O3	TR			TRY	1.51	1,705,335	0.99	1,120,927	1.85%
JERONIMO MARTINS SGPS SA	PTJMT0AE0001	PT			EUR	13.07	1,385,925	10.34	1,096,040	1.80%
NOVA LJUBLJANSKA BANKA DD	SI0021117344	SI	S&P	BB+	EUR	52.33	781,278	62.00	925,660	1.52%
WIRTUALNA POLSKA HOLDING SA	PLWRTPLO0027	PL			PLN	11.27	830,460	12.31	906,901	1.49%
TOFAS TURK OTOMOBIL FABRIKA	TRATOAS091H3	TR			TRY	5.04	1,639,505	2.79	905,770	1.49%
COCA-COLA ICECEK AS	TRECOLA00011	TR	Fitch	BBB-	TRY	9.86	1,554,872	5.09	803,102	1.32%
BANK HANDLOWY W WARSZAWIE	PLBH00000012	PL	Fitch	A-	PLN	17.56	833,243	16.11	764,278	1.26%
TALLINNA SADAM AS	EE3100021635	EE			EUR	1.70	556,692	2.04	668,031	1.10%
ARENA HOSPITALITY GROUP DD	HRARNTRA0004	HR			HRK	57.94	795,457	46.00	631,580	1.04%
PLAY COMMUNICATIONS SA	LU1642887738	LU			PLN	8.52	1,100,706	4.85	626,099	1.03%
HRVATSKI TELEKOM DD	HRHT00RA0005	HR			HRK	18.79	432,588	20.24	465,976	0.77%
ALIOR BANK SA	PLALIOR00045	PL	S&P	BB	PLN	11.78	442,158	12.39	465,066	0.77%
SPHERA FRANCHISE GROUP SA	ROSFGPACNOR4	RO			RON	6.64	530,420	4.24	338,887	0.56%
TURK TRAKTOR VE ZIRAAT MAKIN	TRETTRK00010	TR			TRY	6.32	347,772	5.76	316,546	0.52%
LOGO YAZILIM SANAYI VE TICAR	TRALOGOW91U2	TR			TRY	14.25	658,464	4.48	206,865	0.34%
PRIME CAR MANAGEMENT SA	PLPRMCM00048	PL			PLN	10.44	446,972	2.99	128,263	0.21%
TELEKOM SPRSKE AD BANJA LUKA	BA100TLKMRA2	BA			BAM	0.75	41,390	0.42	23,529	0.04%
SHARES TOTAL							52,813,592		48,357,633	79.64%

Statement of investments as of 31/12/2018 (continued)

Name	ISIN	Fund country	Fund Management Company	FX	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
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FUNDS:**CLOSED-END FUNDS LISTED ON STOCK EXCHANGE:**

BULGARIA REAL ESTATE FUND	BG1100001053	BG	REAL ESTATE MANAGEMENT LTD	BGN	0.75	542,077	0.97	704,569	1.16%
CLOSED-END FUNDS TOTAL									
SHARES AND FUNDS TOTAL									

Credit Institution	Deposit type	Credit Institution's country	Rating agency	Rating	FX	Interest rate	Start date	Maturity	Average acquisition cost	Total market value	Share of market value of fund's net assets
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DEPOSITS*

Overnight											
Swedbank AS	deposit	EE	S&P	AA- (Swedbank AB)	USD	1.1614%	31/01/2018	01/01/2019	2,031,307	2,031,373	3.35%
Luminor Bank AS	Deposit	EE	Moody's	A- (Luminor Bank AS)	EUR	0.5000%	05/10/2018	07/10/2019	900,000	901,100	1.48%
Luminor Bank AS	Deposit	EE	Moody's	A- (Luminor Bank AS)	EUR	0.4000%	05/10/2018	05/04/2019	99,999	100,097	0.17%
DEPOSITS TOTAL											

*Accrued interest in the amount of 1,263.32 EUR has been added to the value of deposits

Statement of investments as of 31/12/2018 (continued)

Name	ISIN	Credit Institution's country	Credit Institution	FX	Interest rate	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
CASH										
CURRENT ACCOUNT	EE	Swedbank	CZK			3,146,475	3,146,475		3,146,475	5.18%
CURRENT ACCOUNT	EE	Swedbank	RON			2,560,657	2,560,657		2,560,657	4.22%
CURRENT ACCOUNT	EE	Swedbank	PLN			985,632	985,632		985,632	1.62%
CURRENT ACCOUNT	EE	Luminor	EUR			850,025	850,025		850,025	1.40%
CURRENT ACCOUNT	EE	Swedbank	EUR			450,845	450,845		450,845	0.74%
CURRENT ACCOUNT	EE	Swedbank	BGN			397,788	397,788		397,788	0.66%
CURRENT ACCOUNT	EE	SEB	EUR			99,989	99,989		99,989	0.17%
CURRENT ACCOUNT TOTAL						8,491,411	8,491,411		8,491,411	13.99%
DEPOSITS AND CASH TOTAL						11,522,717	11,523,981		11,523,981	18.99%
INVESTMENTS TOTAL						64,878,386	60,586,183		60,586,183	99.79%
OTHER ASSETS										
RECEIVABLES FOR SECURITIES TRANSACTIONS				EUR					181,691	0.30%
DIVIDEND TAX RECLAIMS				EUR					31,626	0.05%
DIVIDEND RECEIVABLE				EUR					1,172	0.00%
OTHER ASSETS TOTAL						214,489	0.35%			
TOTAL ASSETS OF THE FUND						64,878,386	60,800,672		60,800,672	100.14%
LIABILITIES									-83,459	-0.14%
NET ASSETS OF THE FUND						60,717,213	60,717,213		60,717,213	100.00%

STATEMENT OF COMMISSIONS

In EUR

01/01/2019-31/12/2019

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
Regulated securities market transactions*				
Shares				
Erste Group Bank AG	10	4,638,815	7,705	0.17%
Santander Biuro Maklerskie	9	2,298,934	1,379	0.06%
Wood and Company Financial Services a.s.	16	1,942,008	1,723	0.09%
Swiss Capital S.A.	2	709,705	1,464	0.21%
Patria Finance A.S.	10	637,435	356	0.06%
PKO Bank Polski	1	489,634	489	0.10%
AS SEB Pank	4	252,165	379	0.15%
AS LHV PANK	2	32,473	33	0.10%
Raiffeisen CAPITAL a.d. Banjaluka	1	24,351	172	0.70%
Funds				
First Financial Brokerage House	3	172,851	695	0.40%
Third country securities market transactions				
Shares				
BGC Partners Turkey	15	3,440,179	2,065	0.06%
OYAK Yatirim Menkul Degerler A.S.	8	1,639,510	819	0.05%
Is Yatirim Menkul Degerler A.S.	4	782,961	391	0.05%
OTC trades				
Stock dividend	1	-	-	-
TOTAL	86	17,061,021	17,670	0.10%

* Contracting Party to the EEA Agreement (European Economic Area countries)

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
Regulated securities market transactions*				
Shares				
Patria Finance A.S.	10	4,971,140	2,753	0.06%
Dom Maklerski mBanku	13	4,478,802	3,582	0.08%
Erste Group Bank AG	18	4,295,504	4,362	0.10%
Raiffeisen Centrobank AG	7	1,432,475	2,283	0.16%
Dom Maklerski BZ WBK	2	670,632	402	0.06%
Wood and Company Financial Services a.s.	9	597,361	656	0.11%
Swiss Capital S.A.	1	406,609	815	0.20%
AS SEB Pank	2	405,341	609	0.15%
Karoll AD	1	397,788	1,598	0.40%
Santander Biuro Maklerskie	2	307,383	185	0.06%
ILIRIKA Investments AD Skopje	1	275,605	5,140	1.87%
Raiffeisen CAPITAL a.d. Banjaluka	4	81,898	577	0.70%
Intercapital	1	60,999	140	0.23%
Third country securities market transactions				
Shares				
BGC Partners Turkey	31	9,851,446	5,910	0.06%
TEB Yatirim Menkul Degerler A.S.	3	1,068,873	802	0.08%
OTC trades				
IPO	2	1,545,850	-	-
Corporate Action	4	736,374	-	-
Exchange offer	1	1,121,578	2,586	0.23%
TOTAL	112	32,705,658	32,400	0.10%

* Contracting Party to the EEA Agreement (European Economic Area countries)

REPORT ON REMUNERATION OF THE FUND MANAGEMENT COMPANY

The remuneration principles of the Management Board members, investment managers and risk-takers are set in the Company's Remuneration Policy. The remuneration of the identified staff consists of fixed and variable remuneration. The total remuneration is based on local labour market conditions, and is designed so as to achieve a reasonable balance between the fixed and variable components of the salary.

Avaron's investment managers and risk-takers receive a fixed salary. Bonuses depend on Avaron's long-term goals, the Company's sustainability and employees' personal contribution. Bonuses are not linked to managed funds' hurdle return rates. For staff whose professional activities have a material impact on the risk profile of the Company, the variable component shall not exceed the fixed component of the remuneration. After awarding a bonus to the Management Board members or employees the Company has a three-year period during which it has the right to reduce the bonus, stop the payments of the announced bonus or even require partial or full repayment. Avaron's investment managers and risk-takers can be paid a severance which cannot exceed 6-month salary.

Significant amendments were enforced in the Remuneration Policy of the Fund Management Company at the end of 2016 according to the changes in UCITS V principles. In December 2019 the policy has been updated and is valid for all Avaron employees. The full Remuneration Policy of AS Avaron Asset Management can be downloaded here www.avaron.com/documents.

The Fund Management Company employed 18 specialists as at the end of 2019 (end-2018: 20 specialists). Total remuneration amounted to:

In EUR

	2019	2018
Wages and salaries	413,659	434,144
Social tax and unemployment insurance contributions	145,136	142,481
Total	558,795	576,625
incl. bonus program cost with applicable taxes	40,848	26,492

The Members of the Management Board did not receive extra remuneration for participating in the work of the managing bodies. Independent member of the Supervisory Board was paid, in total with applicable social tax, EUR 4,788 in the financial year 2019 (2018: EUR 4,788).

No remuneration has been paid by the Fund.



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Independent Auditors' Report

(Translation of the Estonian original)

To the Fund Management Company and Unitholders of Avaron Emerging Europe Fund

Opinion

We have audited the financial statements of Avaron Emerging Europe Fund (the Fund), which comprise balance sheet as at 31 December 2019, the statement of income and expenses, statement of changes in net assets and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements presented on pages 10 to 30, present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Management is responsible for the other information contained in the annual report in addition to the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management of Fund Management Company and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Tallinn, 31 March 2020

/digitally signed/

Eero Kaup
Certified Public Accountant, Licence No 459
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