



# Avaron Emerging Europe Fund

## PROSPECTUS

7 February 2024

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This prospectus is not for distribution, and does not constitute an offer to sell or buy, or the solicitation of any offer to sell or buy, any securities in Germany. German investors shall read Avaron Emerging Europe Fund prospectus and fund rules available at [www.avaron.com/documents](http://www.avaron.com/documents).

Subscription to Avaron Emerging Europe Fund should be made on the basis of this Prospectus, the fund rules and the latest available annual or semi-annual report. These documents can be obtained from Avaron. Past performance is not indicative of future results. The value of investments and any income derived from the fund may fall as well as rise and investors may not get back the amount invested. An investment in the fund entails risks, some of which are described in this Prospectus. Investors should be aware of the high risks associated with investments in emerging markets such as Central and Eastern Europe.

Any dispute, controversy or claim arising out of or in connection with the information provided in this material shall be settled in accordance with Estonian law, exclusively in Estonian courts.

## TABLE OF CONTENTS

GENERAL INFORMATION .....	3
Main Information about the Fund.....	3
DEFINITIONS .....	4
THE INVESTMENT OBJECTIVES, POLICY AND RESTRICTIONS .....	5
Investment Objectives.....	5
Responsible investment and sustainability .....	5
Investment Policy .....	6
Past Performance of the Fund.....	9
RISKS .....	9
General Risk Warning.....	9
Risk Warning Related to Emerging Markets.....	9
Risk Level of the Fund.....	9
Profile of a Typical Investor .....	9
Overview of Major Risk Factors Related to the Investment.....	9
UNIT, RIGHTS AND OBLIGATIONS ATTACHED TO UNITS .....	12
Unit.....	12
Rights Attached to Units.....	12
NET ASSET VALUE OF THE UNIT AND TRANSACTIONS WITH UNITS .....	12
Net Asset Value of the Fund and Unit .....	12
Transactions with Fund Units .....	13
Subscription and issue of units.....	13
Redemption of units.....	14
Conversion of Units .....	14
Cut-off Dates .....	14
Suspending Transactions.....	14
Taxation.....	15
FEES AND EXPENSES .....	15
Fees and Expenses.....	15
INFORMATION ON THE FUND .....	17
Accounting and Reporting.....	17
Amending Prospectus.....	17
Liquidation of the Fund .....	18
Liability Attributable to the Prospectus .....	18
MANAGEMENT COMPANY .....	18
DEPOSITARY .....	19
REGISTRAR .....	20
APPENDIX 1 .....	21
APPENDIX 2 .....	22
APPENDIX 3 .....	23
APPENDIX 4 .....	26

## GENERAL INFORMATION

This prospectus is the offering prospectus within the meaning of the Investment Funds Act of the Republic of Estonia of the units of Avaron Emerging Europe Fund. **The Rules of the Fund form an integral part of the Prospectus, and both the Prospectus and the Rules should be thoroughly acquainted before investing in Avaron Emerging Europe Fund. Each prospective investor is encouraged to seek independent professional advice in relation to his or her investment.**

### MAIN INFORMATION ABOUT THE FUND

<b>Name and legal status of the Fund</b>	Avaron Emerging Europe Fund (in Estonian: <i>Avaron Areneva Euroopa Fond</i> ), a public common investment fund as per the definitions provided by the Investment Funds Act. The Fund qualifies and is authorized as a UCITS. The Fund's initial launch date is 23 April 2007.
<b>Management Company</b>	AS Avaron Asset Management, registry code 11341336, registered address at Narva Road 7D, 10117 Tallinn, Estonia, website <a href="http://www.avaron.com">www.avaron.com</a> Management board members: Kristel Kivimurm-Priisalm, Valdur Jaht Supervisory board members: Maris Jaht, Peter Priisalm, Rain Leesi
<b>Location of the Fund</b>	Narva Road 7D, 10117 Tallinn, Estonia
<b>Depository, Administrator (NAV calculation and Fund accounting), Registrar and transfer agent</b>	Swedbank AS, registry code 10060701, registered address at Liivalaia 8, 15040 Tallinn, Estonia, website <a href="http://www.swedbank.ee">www.swedbank.ee</a>
<b>Auditor</b>	KPMG Baltics OÜ, registry code 10096082, registered address at Narva Road 5, 10117 Tallinn, Estonia, website <a href="http://www.kpmg.ee">www.kpmg.ee</a>
<b>Supervisory Authority</b>	Estonian Financial Supervision Authority (in Estonian: <i>Finantsinspektsioon</i> ), registered address at Sakala 4, 15030 Tallinn, Estonia, website <a href="http://www.fi.ee">www.fi.ee</a>
<b>Registration of Fund Rules</b>	The effective Fund Rules entered into force on 1 January 2022.
<b>Issue and Redemption of Units</b>	Units are issued and redeemed on every Banking Day.
<b>Unit prices</b>	The Management Company calculates and publishes the net asset value of the Fund and Units, and the subscription price and redemption price of a Unit at least once for each Banking Day on the following Banking Day by 16.30 CET.
<b>Launch dates of Unit Classes and the fixing of the base NAV for the calculation of performance fee</b>	A Units: 23.04.2007; B Units: 23.04.2007; C Units: 08.09.2009; D Units 27.09.2010; E Units 25.10.2010. These dates serve as the start of the NAV history for the respective class of Units, also for the purpose of calculating the performance fee, if any. Since the launch dates for Unit classes are different, it is possible that during a specific time period, the performance fee is payable on one Unit class but not on another.
<b>Publication of information</b>	The important information and documents relating to the Fund, as well as up to date information on the net asset value of the Fund and Units, subscription and redemption price, are available at the website of the Management Company at <a href="http://www.avaron.com">www.avaron.com</a> , and at the registered address of the Management Company.
<b>Reference Currency</b>	The reference currency for the calculation of the net asset value of the Fund and the Units, as well as the issue and redemption prices and for any relevant transactions with Units shall be euro (EUR), the currency used within the European Monetary System.
<b>Financial year</b>	The financial year of the Fund begins on 1 January and ends on 31 December
<b>Distribution of proceeds</b>	All proceeds from the Fund's investments shall be reinvested, and no distributions shall be made to the Unitholders from the Fund. The Unitholder's return on his or her investment into the Fund is reflected in the increase or decrease of the net asset value of the Unit. The Unitholder may realize its return by exercising the redemption or sale right. For the avoidance of doubt, the Fund has only accumulating Units.

## DEFINITIONS

In the Prospectus, unless the context otherwise requires, the defined terms shall have the following meaning:

<b>Applicable Law</b>	all laws and regulations applicable to the Management Company in relation to the management of the Fund whether in Estonia or elsewhere, in particular the Investment Funds Act and derivative acts issued thereunder, European Union legal acts, as well as acts or resolutions of competent supervisory or other authorities to the extent these are legally binding to the Management Company
<b>Banking Day</b>	a day when credit institutions are generally open for business in Estonia, excluding Saturdays, Sundays, national and public holidays
<b>Depository Fee</b>	a fee payable to a designated depository for safekeeping the assets of the Fund, and performing certain other functions in relation to the Fund, subject to and in accordance with an agreement concluded with the depository
<b>Emerging Europe</b>	Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Moldova, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia, Slovenia, Turkey, Ukraine and all European countries of MSCI Emerging Markets' and Frontier Markets' indices, excluding Russia
<b>Emerging Europe Company</b>	a company who has its registered office in an Emerging Europe country, or has substantial business interests in Emerging Europe countries, or whose securities are issued in the currencies of Emerging Europe countries, or listed in the regulated markets of Emerging Europe countries. Substantial business interests shall be deemed to exist if more than 40% of the company's turnover, EBITDA, assets, cost base, number of employees, operating profit or net profit is derived from Emerging Europe countries.
<b>Financial Supervision Authority</b>	the Estonian Financial Supervision Authority (in Estonian: <i>Finantsinspeksioon</i> )
<b>Fund</b>	Avaron Emerging Europe Fund
<b>Investment Funds Act</b>	Estonian Investment Funds Act, as adopted on 14 December 2016, as amended or supplemented from time to time
<b>Investment Policy</b>	the investment policy of the Fund, as stipulated in the Prospectus
<b>Investment Restrictions</b>	the investment restrictions applicable to the management of the Fund, as stipulated in the Prospectus
<b>KID</b>	Key Information Document is a short form pre-sale disclosure document, containing only key information about the essential characteristics of the Fund as prescribed in the Applicable Law
<b>Management Company or Avaron</b>	AS Avaron Asset Management, registry code of 11341336, with registered address at Narva Road 7D, 10117 Tallinn, Estonia
<b>Management Fee</b>	fee payable by the Fund to the Management Company for the management of the Fund pursuant to and in accordance with the Rules and the Prospectus
<b>Member State</b>	means a member state of the European Economic Area
<b>OTC</b>	means an over-the-counter transaction, i.e. a transaction between parties outside a regulated market
<b>Performance Fee</b>	fee payable by the Fund to the Management Company pursuant and in accordance with the Rules and the Prospectus dependent on the result of the investment management services rendered by the Management Company
<b>Prospectus</b>	this document for the public offering of the Fund, presenting information to the extent required by the Applicable Law, and any other information deemed necessary or advisable by the Management Company for deciding on investing into the Fund
<b>Registrar</b>	the registrar of the Unit Registry
<b>Rules</b>	the terms and conditions of the Fund, regulating the legal relationship between the Management Company and the Unitholders, including the investment management mandate provided hereunder
<b>Trade Date</b>	the Banking Day of receiving a duly compiled order to transact with Units
<b>Transferable Securities</b>	as defined in section "Investment Policy" – "Permitted Instruments"

<b>UCITS</b>	a fund established pursuant to and in accordance with the UCITS Directive
<b>UCITS Directive</b>	Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities
<b>Unit</b>	a unit representing a holding in the Fund
<b>Unit Registry</b>	registry of Units, maintained electronically by the Registrar
<b>Unitholder</b>	person who has subscribed for and/or is holding a Unit

The Rules, as enclosed to the Prospectus in Appendix 4, form an inseparable part of the Prospectus and shall be interpreted together with the Prospectus and the Applicable Law. In the case of any conflict between the Prospectus and imperative provisions of the Applicable Law, such imperative provisions of the Applicable Law shall prevail. In the case of any ambiguity, the Prospectus shall be interpreted in the best interests of the Unitholders.

## THE INVESTMENT OBJECTIVES, POLICY AND RESTRICTIONS

### INVESTMENT OBJECTIVES

The investment objective of the Fund is to invest primarily in equity instruments of Emerging Europe Companies with the purpose of long term capital growth through economic and market cycles. In order to achieve these investment objectives, at least 60% of the Fund's net assets shall be invested into equity instruments of Emerging Europe Companies as defined in the Prospectus.

The Fund invests primarily in attractively valued companies in Emerging Europe ex-Russia region with an objective to deliver positive risk-adjusted return over the market cycle. Benchmark agnostic, the Fund emphasizes bottom-up, value-oriented stock picking with a strong small and mid-cap bias. Fund's investment objective is to provide positive risk adjusted return by finding the optimal balance between highest upside to internally set target prices and the risk level perceived by the Management Company, considering among others company quality, liquidity and FX outlook. Avaron adheres to the UN Principles for Responsible Investment. By implementing Avaron's investment process the Fund aims to outperform the market with lower volatility.

The return on an investment into the Fund, or achievement of its investment objective is not guaranteed. The past performance of the Fund is neither a guarantee nor an indication of future performance. With the investment into the Fund, the Unitholder acknowledges and accepts that such an investment involves risk and it may result in both profit or loss to the Unitholder, including loss of the entire amount invested. The overview of the risks pertaining to an investment into the Fund is provided in the section "Risks" below.

### RESPONSIBLE INVESTMENT AND SUSTAINABILITY

Commitment to responsible investment is an integral part of Avaron's fiduciary duty to act in the best long-term interests of its beneficiaries. Responsible investment entails incorporating environmental, social, corporate governance (ESG) factors and sustainability risks in investment decisions and influencing investee companies through active dialogue in these matters. The Fund is invested in accordance with Avaron Responsible Investment Policy.

**The Fund promotes environmental and social characteristics but does not have a sustainable investment as its objective. According to Sustainable Finance Disclosure Regulation (SFDR), a European regulation introduced to improve transparency in the market for sustainable investment products, the Fund is a SFDR article 8 product.** Information disclosed pursuant to SFDR about the environmental or social characteristics is available in Appendix 3 and on website [www.avaron.com/our-products/aef/](http://www.avaron.com/our-products/aef/).

The consideration and management of ESG issues and sustainability risks has been integrated into the investment process of the Fund by undertaking ESG due diligence on all prospective and existing investments. The ESG integration includes negative and norms-based screening and in-depth ESG analysis of issuers before making investment decisions. Negative screening is applied based on exclusion principles to avoid financing companies that are engaged in activities with clear adverse impact on people and environment. Norms-based screening is applied to ensure that the Fund investments comply with relevant international sanctions, anti-money laundering regulations and minimum internationally recognized standards of business practice. The Fund favours investments in companies that demonstrate sound sustainability practices. This is attained by using proprietary ESG rating that considers 31 environmental, 42 social and supply chain, 50 governance indicators, and has an overlay taking into account ESG related controversies. The rating scale is 1-5. All companies that score below 2 are excluded, while for companies with a rating between 2-5 a pre-defined adjustment factor is applied in estimating company's fair value to reflect ESG performance.

Avaron actively engages with the investee companies in the Fund portfolio. Engagement is the interaction with investee companies on ESG and sustainability topics to understand the risks and opportunities of each specific investment case, and to influence the companies to improve their sustainability practices. Engagement may take several forms including direct dialogue with the executive management, formal correspondence with the board of directors or supervisory board, and exercising shareholder's rights on the general assembly. The Fund considers principle adverse impacts on sustainability factors. These factors as outlined in the SFDR are assessed and monitored as part of the routine ESG analysis process the Fund holdings undergo. The Fund will report on all indicators related to principal adverse impact on sustainability factors as set out in Table 1 of Annex I of the

Regulatory Technical Standards (RTS) of the SFDR. Furthermore, at least one additional indicator related to principal adverse impacts on a climate or other environment related sustainability factor that qualifies as principal (set out in SFDR RTS Table 2 of Annex I), as well as at least one additional indicator related to principal adverse impacts on a social, employee, human rights, anti-corruption, or anti-bribery sustainability factor that qualifies as principal (set out in SFDR RTS Table 3 of Annex I) shall be reported on.

Information on the Management Company's activities related to sustainability and responsible investment, including the Responsible Investment Policy of the Management Company, is available on website [www.avaron.com/responsible-investing/](http://www.avaron.com/responsible-investing/).

## INVESTMENT POLICY

### General

**The general principles of the Investment Policy have been agreed upon and are stipulated in the Rules.** In order to achieve the investment objectives, the Fund's assets can be invested into equities, various debt instruments, deposits, derivative instruments and other financial instruments, the Fund can use leverage by borrowing or using derivative instruments, subject to and in accordance with the more detailed Investment Policy guidelines and Investment Restrictions provided below, as well as the Applicable Law.

The Fund is suitable for investors seeking a stock picking portfolio in Emerging Europe. The Fund acts as a medium to long term diversifier in a global Emerging Markets, European or Global Equity portfolio. The allocation of the Fund's assets between different countries and sectors shall be determined by the Management Company in exercising active portfolio management strategy, subject to its professional assessment and the prevailing market conditions. The degree of diversification of the Fund's investments between different countries and sectors changes over time and may be low. Due to investing in equities in developing markets that carry less liquidity the Fund has a high-risk level.

### Permitted Instruments

The Fund may invest in the following instruments:

- transferrable securities, incl. shares and other securities equivalent to shares in companies, bonds and other forms of securitised debt (debt securities), any other negotiable securities which carry the right to acquire any such transferable securities by subscription or exchange, incl. convertible bonds and subscription rights (the "**Transferrable Securities**");
- money market instruments;
- listed units of investment funds or shares of collective investment undertakings;
- FX derivative instruments for hedging purposes only;
- deposits with credit institutions.

The Fund shall not:

- take any leverage;
- buy derivatives and money market instruments for risk-taking;
- grant loans or guarantees in favour of a third party;
- invest directly into real estate or commodities.

The Management Company shall not carry out on behalf of the Fund uncovered sales of Transferable Securities or other permitted instruments.

### Transferrable Securities

Considering the restrictions provided in section "Investment Policy – General", the Fund may invest up to 100% of the Fund's net asset value into Transferrable Securities that meet any of the following criteria:

such an instrument is admitted to trading or dealt in on a regulated market of any Member State or any other regulated trading facility in a Member State, which operates regularly and is recognised and open to trading to the public;

- such an instrument is admitted to official listing on a stock exchange in any other third country (excl. FATF non-cooperative countries) or dealt in on another regulated trading venue in any other third country, which operates regularly and is recognised and open to the public;
- such an instrument has not been admitted to trading on any venue listed above, but the terms of issue include an undertaking that such an instrument will be admitted to trading on any of the trading venue meeting the above listed criterion within a year of the issue.

The Fund may invest up to 10% of the Fund's net asset value into Transferrable Securities and/or money market instruments that do not meet the above criterion. The provisions and restrictions in relation to investment into Transferrable Securities are applied also in relation to an investment into closed-ended investment funds or collective investment undertakings.

### Investment funds and collective investment undertakings

The Fund may invest up to 10% of its assets into other UCITS funds, or other collective investment undertakings within the meaning of Article 1(2)(a) and (b) of the UCITS Directive, whether or not established in a Member State, provided that:

- such other collective investment undertakings are authorised under laws which provide that they are subject to supervision equivalent to that laid down in the European Union, and that cooperation between the EFSA and the authorities of the home jurisdiction of such collective investment undertaking is sufficiently ensured;
- the level of protection for unitholders in the other collective investment undertakings is equivalent to that provided for unitholders in a UCITS, and in particular that the rules on asset segregation, borrowing, lending, and uncovered sales of transferable securities and money market instruments are equivalent to the requirements of the UCITS Directive;
- the business of the other collective investment undertakings is reported in semi-annual and annual reports to enable an assessment to be made of the assets and liabilities, income and operations over the reporting period; and
- no more than 10% of the assets of the UCITS or of the other collective investment undertakings, whose acquisition is contemplated, can, according to their rules or instruments of incorporation, be invested in aggregate in units of other UCITS or other collective investment undertakings.

The provisions and restrictions in relation to investment into Transferrable Securities are applied in relation to an investment into closed-ended investment funds or collective investment undertakings that are dealt in on a regulated market, and not the restrictions provided herein in relation to investment into other collective investment undertakings.

The Fund may not invest into any investment funds or collective investment undertakings managed by the Management Company, either as a designated management company or on delegation basis.

### Deposits

The Fund's assets may be placed in deposits with credit institutions which are repayable on demand or have the right to be withdrawn, and mature in no more than 12 months, provided that the credit institution has its registered office in a Member State or in a third country, subject to prudential rules equivalent to those provided in the European Union legislation.

### Derivative instruments

The Fund is permitted to invest in and transact with derivative instruments both for investment and hedging purposes, provided that the imperative provisions of the Applicable Law are at all time complied with.

The Fund may invest in derivative instruments where the underlying consists of one or more of the following:

- financial instruments that are permitted for investment by the Fund;
- securities or other financial indices that reflect price movements of Emerging Europe stock markets or single Emerging Europe country's stock market or segment, including list 1 of Appendix 1;
- deposits of credit institutions;
- currency or exchange rates of Emerging Europe countries or currencies in which Transferrable Securities are listed, including list 2 of Appendix 1.

The Fund may enter into OTC derivative transactions subject to and in accordance with the imperative provisions of Applicable Law. The Fund's total open exposure relating to derivative instruments may not exceed the total net asset value of the Fund.

The Fund uses derivatives mainly for hedging risks. Upon investment of the Fund's assets in derivative instruments the Fund shall not take net short positions, except in relation to foreign currencies.

### Leverage and Other Transactions

The Fund may borrow and assume other liabilities referred to above in the amount of up to 10% of its assets. The Fund shall not grant loans or guarantees in favour of a third party, but may invest in non-fully paid-up transferable securities, money market instruments or other financial instruments.

The Management Company shall not carry out on behalf of the Fund uncovered sales of Transferable Securities or other permitted instruments.

The Fund may not invest directly into real estate or commodities.

### Investment Restrictions

Unless additional exposure per issuer (or issuers within the same consolidation group) is permissible by the Applicable Law, the Fund shall not invest more than 10% of the Fund's net asset value into Transferrable Securities or money market instruments issued by the same entity.

The Fund shall not place more than 20% of the Fund's net asset value into deposits with the same credit institution. This restriction does not apply in relation to an account with the Depository, where funds from the issue of Units or sale of the Fund's assets, as well as dividends, interest and other monetary payment attributable to the Fund's assets are received, or in relation to funds held in overnight deposit.

An OTC derivative exposure to a credit institution, in which the Fund is permitted to hold deposits, may amount to 10% of the Fund's net assets. Risk exposures through OTC derivative instruments into other counterparties shall not exceed 5% of the Fund's net assets.

The total value of the Transferable Securities and/or money market instruments in entities in each of which it invests more than 5% of the Fund's net asset value shall not exceed 40% of the value of its net assets. This restriction does not apply to deposits with credit institutions, or OTC derivative transactions with such credit institutions where the Fund is permitted to hold deposits. The Fund shall not invest more than 20% of the Fund's net asset value into Transferable Securities, money market instruments, deposits or exposures to OTC derivative instruments with the same entity.

The Fund shall not invest more than 10% of the Fund's net asset value into investment funds or collective investment undertakings.

Notwithstanding the restrictions provided in the first paragraph of this section, the Fund may invest up to 25% of the Fund's net asset value into covered bonds, issued by a credit institution with a registered office in a Member State, subject to the restrictions provided in the Investment Funds Act. The total value of the covered bonds issued by credit institutions, where the Fund has invested more than 5% of its net assets, shall not exceed 40% of the value of its net assets. Such covered bonds shall not be taken into calculation of the combined 40% limit provided above in this section.

Notwithstanding the restrictions provided elsewhere in this section, the Fund may incur a maximum exposure of 35% in relation to a single entity by means of investment into Transferrable Securities or money market instruments or covered bonds issued by the same entity, and/or deposits and/or derivative instruments made with the same entity, except and to the extent the Fund is permitted to invest into the financial instruments issued by such entity pursuant to this Prospectus and/or the Investment Funds Act in excess of 35%.

Companies which are included in the same group for the purposes of consolidated accounts shall be regarded as a single entity for the purpose of these Investment Restrictions, unless exempted from such treatment by the Investment Funds Act. In this regard, the cumulative investment of Transferrable Securities and money market instruments issued within the same group may not exceed 20% of the Fund's net asset value.

The Fund shall not acquire or hold more than:

- 10% of non-voting shares or other equivalent rights in a single issuer;
- 10% of the debt securities of a single issuer;
- 10% of the money market instruments of a single issuer;
- 25% of the units or shares of another UCITS or other collective investment undertaking.

In addition to the Investment Restrictions provided above, the Management Company shall comply with all other limitations and restrictions provided by imperative provisions of the Applicable Law. The Management Company may, on temporary basis, deviate from the Investment Restrictions provided in the Prospectus, pursuant to and in accordance with the Applicable Law.

#### Short Overview of Investment and Risk Management Techniques

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

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

The Management Company has established procedures for internal risk management in order to identify, monitor, measure and hedge the risks associated to the Fund's investments. The Management Company regularly examines the Fund's compliance with its investment restrictions. Should the Fund's portfolio become in breach with the applicable Investment Restrictions due to share price movements or other circumstances, the Management Company is obligated to immediately take measures to correct such breaches.

The Rules or the Prospectus do not exclude the possibility to use efficient portfolio management techniques and instrument for investment, hedging, cost optimization or other portfolio management purposes. Such techniques and instruments may include the use of derivatives and/or securities financing transactions (incl. securities lending, repurchase and reverse repurchase transactions). Use of such techniques and instruments shall always meet the requirements of the Applicable Law, and shall never result in circumventing the requirements of the Investment Policy and Investment Restrictions. However, the Management Company does not at this time use such techniques for efficient portfolio management. This does not prevent the Management Company from starting to use such efficient portfolio management techniques in the future, subject to appropriate disclosures in accordance with the Applicable Law.



## PAST PERFORMANCE OF THE FUND

Past return is not a guarantee or indicative of future performance. The rates of return from previous years are presented in Appendix 2.

## RISKS

### GENERAL RISK WARNING

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

### RISK WARNING RELATED TO EMERGING MARKETS

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

### RISK LEVEL OF THE FUND

The assets of the Fund shall be invested in the financial instruments of emerging countries. Based on the investment policy of the Fund, the risk profile and risk level shall change over time. However, overall, the Fund should be considered as an investment product with high risk.

### PROFILE OF A TYPICAL INVESTOR

The Fund is suitable to an investor with high risk tolerance who seeks long-term capital growth through investing into the equity markets of the Emerging Europe region. The investor should acknowledge that there is no guarantee that the capital invested into the Fund will be preserved or that it will grow. The recommended investment horizon is at least 5-10 years and the investor should be able to tolerate volatility in the net asset value of the Unit during this period. The investor should have prior experience with investing into investment products or knowledge of the functioning of the financial markets. Being a regional equity fund investing into Emerging Markets, the Fund is suitable as one constituent of a diversified investment portfolio. Each investor is required to independently evaluate the risks related to investing in the Fund and the effects and possible consequences of such risks in light of the investor's investment experience and knowledge, as well as the investor's financial and economic circumstances, and the time period and the objectives of the investment. The Management Company recommends that potential investors consult with a professional investment advisor, before making the decision to invest.

### OVERVIEW OF MAJOR RISK FACTORS RELATED TO THE INVESTMENT

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

A list of risks that could influence the return on the investment into the Fund and what we think is important has been presented below. The list of risks is not comprehensive. Additional risks entail with the investment and have been discussed in other parts of the Prospectus or are not explicitly addressed in the Prospectus. When investing into Emerging Europe markets, the investor should take into account that any risk factor listed below is more likely to materialise as compared to investing into developed markets. Considering the investment objectives and investment policy of the Fund, the most critical risks that are most likely to have an impact on the market value of the assets of the Fund include market risk, issuer's price risk, liquidity risk, foreign currency risk, political risk and the risk arising from the concentration of asset classes or markets.

**Benchmark risk** – Management Company is not seeking to meet Emerging Europe ex-Russia region benchmark. Instead, the Management Company deploys stock-picking investment style by investing the Fund's assets into companies with the highest upside to target price. Therefore, the Fund's return may differ substantially from the market return.

**Credit risk** – the risk that the issuer of securities where the Fund has invested or the counterparty to a transaction on account of the Fund, fails to perform its obligations either fully or partially (e.g. an issuer fails to redeem issued debt

obligations, a counterparty to a trade does not deliver securities or cash during the settlement, a counterparty defaults on a loan granted by the Fund) causing damage to the Fund.

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

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

**Fund fees** – Fund management fees and expenses are paid on behalf of the Fund, of whether the Fund performs or underperforms. This influences the Fund's performance. The Management Company has set the limits for the fees and expenses paid by the Fund to protect the Shareholders' interests. Management fee is based on fixed rate and performance fee, which aims to align the Management Company's and Shareholders' interests by linking the management fee partially with the performance of Fund's investments.

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

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

**Key personnel related risk** – the Fund's performance depends on investment managers and other key personnel actions and experiences. The Management Company might experience negative impact when key employees leave. The Management Company aims to guarantee competitive and motivating working conditions to its managers and employees. Key investment team members are direct and indirect owners of the Management Company and thus incentivised directly by the performance and pay-out capability of the Management Company. Compensation package of other key employees is also related to the performance of the Management Company in compliance with the limitations set out in applicable legislation.

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

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

**Market concentration risk** – the risk arises from the fact that the majority of the fund's investments may be allocated to a certain country or region, which may result in an additional price fluctuation risk.

**Market risk** – the risk of suffering losses due to adverse price movements at a specific securities market or at a market for other assets. Adverse price movements may be caused by a country's weak macroeconomic data, poor financial results of an industry sector, unstable securities market, investor behaviour and psychology and other factors. Investors should bear in mind that smaller companies' volatility is usually higher compared to blue chips, thus in market downturn smaller companies' shares may fall more compared to the share prices of blue chip companies.

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

**Registrar risk** – the risk of suffering losses due to actions or inaction of the Registrar (e.g. due to failed trades arising from technical faults, delayed settlements, erroneous transactions, unauthorised disclosure of confidential information etc.).

**Responsible investing risk** – following responsible investment principles carries the risk that, under certain market conditions, the Fund may underperform funds that do not utilize a responsible investment strategy. The application of responsible investment criteria may affect the Fund's exposure to certain sectors or types of investments and may impact the Fund's relative investment performance depending on whether such sectors or investments are in or out of favour in the market. An investment's ESG performance or the Management Company's assessment of such performance may change over time, which could cause the Fund to temporarily hold securities that do not comply with the Fund's responsible investment criteria. In evaluating an investment, the Management Company is dependent upon information and data that may be incomplete, inaccurate or unavailable, which could adversely affect the analysis of the ESG factors relevant to a particular investment. Successful application of the Fund's responsible investment strategy will depend on the Management Company's skill in properly identifying and analysing material ESG issues.

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

***Risk associated with conflict of interests*** – in addition to the Fund, the Management Company manages other funds and client portfolios with potentially conflicting interests during certain period of time. Management Company has established internal rules and policies to effectively avoid and/or adequately manage potential conflict of interests and shall adhere to such policies and procedures.

***Risk of investing in funds*** – the Management Company is not always able to completely monitor the activity of investment funds where the funds have invested, since such investment funds may use investment strategies, which are not comprehensively disclosed to the Management Company, or contain risks in certain market situations, which are not envisioned by the Management Company. Furthermore, the risk associated with valuation of the assets arises when investing in other investment funds as the Management Company may not be able to monitor the price of every single component affecting the net asset value of the investment fund.

***Risk of investing in small cap companies*** – the Fund may invest in small cap companies. The stocks of smaller companies are generally subject to greater price fluctuations, limited liquidity, higher transaction costs and higher investment risk than the stocks of larger, more established companies. Such companies may have limited product lines, markets or financial resources, may be dependent on a limited management group, and may lack substantial capital reserves or an established performance record. There may be generally less publicly available information about such companies than for larger, more established companies. Stocks of these companies frequently have lower trading volumes making them more volatile and potentially more difficult to value.

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

***Risk related to securities not traded on regulated markets*** – The assets of the Fund may be partially invested in securities not traded on regulated securities markets. In addition to ordinary investment risks, such investments entail a higher liquidity risk and higher risk related to valuing such assets.

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

***Sustainability risk*** – An environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. The probability of sustainability risks and the extent to which they impact the returns of the Fund depend on several factors. Although duly mapped, identified, and managed in the investment process, the following elements can affect the degree to which sustainability risks are likely to impact the returns of the Fund. Sustainability risks are often complex, multidisciplinary, and interlinked, which can make it difficult to assess in their entirety. Sustainability risks are usually difficult to quantify and are long-term in nature, and the probability of materialisation also depends on the investor’s time horizon. Sustainability risks, such as risks stemming from changes in physical climate, political action, societal expectation, consumer demand or technological development, can be driven by megatrends that are large in scope and magnitude or occur at an unanticipated pace, which may not be reflected to a full extent when investment decisions are made. Lack of comprehensive or standardized ESG data can make it difficult to uncover all sustainability risks or to base investment decisions on faulty grounds. Sustainability risk assessments can be inaccurate, which may cause the Fund to invest in companies that are exposed to greater sustainability risks than anticipated, or to miss investment opportunities, or to buy or sell investments at a sub-optimal time. The impact of sustainability risks can increase in magnitude in combination with other risks, especially in relation with market, credit, liquidity, concentration and tax risks. Funds that have environmental and/or social characteristics (article 8 funds under SFDR) would usually be considered to have lower exposure to sustainability risks because of their investment strategy and processes.

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

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

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

## UNIT, RIGHTS AND OBLIGATIONS ATTACHED TO UNITS

### UNIT

A Unit represents the Unitholder's share in the assets of the Fund. The Unit is a dematerialised book-entry security, maintained in an electronic Unit Registry. No certificate in relation to the Units is issued to the Unitholder. Information about the Unit Registry and the Registrar is provided in section "Registrar" below.

A Unit is divisible. The fractions of Units created by dividing Units are rounded up to three decimal points. The following rules are applied for rounding: numbers NNN.NNN0 until NNN.NNN4 are rounded to NNN.NNN and numbers NNN.NNN5 to NNN.NNN9 are rounded to NNN.NN(N+1). The Fund has five classes of Units:

- Avaron Emerging Europe Fund A, nominal value 6.39 EUR, launched 23 April 2007 (hereafter "A Unit"), ISIN EE3600090049;
- Avaron Emerging Europe Fund B, nominal value 6.39 EUR, launched 23 April 2007 (hereafter "B Unit"), ISIN EE3600090056;
- Avaron Emerging Europe Fund C, nominal value 10 EUR, launched 8 September 2009 (hereafter "C Unit"), ISIN EE3600102901;
- Avaron Emerging Europe Fund D, nominal value 10 EUR, launched 27 September 2010 (hereafter "D Unit"), ISIN EE3600108866;
- Avaron Emerging Europe Fund E, nominal value 10 EUR, launched 25 October 2010 (hereafter "E Unit"), ISIN EE3600108874.

### RIGHTS ATTACHED TO UNITS

The issue and redemption of Units, and the creation and termination of the rights and obligation relating thereto, shall take effect with relevant entry into the Unit Registry.

The Management Company is committed to protecting the interests of the Unitholders. Unitholders shall be treated equally in equal circumstances. A Unit shall grant to the Unitholder the following rights, to be exercised in accordance with the terms and procedures provided in this Prospectus and the Applicable Laws: (i) right to demand redemption of Units; (ii) right to transfer the Units to third parties; (iii) right to receive a share of the assets remaining upon the liquidation of the Fund and of any distributions made from the Fund in proportion to the number of Units and the class of Units held; (iv) right to access and receive information regarding the Fund; (v) upon request, to receive a confirmation from the Registrar relating to Units registered to his or her name in the Registry; (vi) to exercise other rights provided by the imperative provisions of the Applicable Law. Information on handling complaints by the Management Company is published on Avaron's website [www.avaron.com/documents](http://www.avaron.com/documents).

The Fund does not have a general meeting nor any other Unitholders' representative body, and therefore the Unitholders do not have the right or the opportunity to participate in the management of the Fund through any Unitholders' representative body. Without limiting the above, the Unit does not grant any right to participate or demand participation in the investment management of the Fund. No Unitholder is entitled to demand termination of the Fund.

Unitholders shall exercise their rights attached to the Units in good faith and in accordance with the Rules, the Prospectus, and the Applicable Law. The exercise of such rights shall not be with the intent or objective to damage the interests of other Unitholders, the Management Company, the Depositary, or any third party.

## NET ASSET VALUE OF THE UNIT AND TRANSACTIONS WITH UNITS

### NET ASSET VALUE OF THE FUND AND UNIT

The net asset value of the Fund and of the Unit depends on the value of the assets of the Fund. The Management Company shall calculate the net asset value of the Fund and Units based on the provisions of its internal rules and the Applicable Law. In order to determine the net asset value of the Fund, the value of the assets shall be calculated in accordance with the internal rules of the Management Company (available on website [www.avaron.com](http://www.avaron.com)), from which the liabilities of the Fund shall be deducted. The value of the assets shall be determined primarily based on their market value. If the market value cannot be established, valuation shall be based on another suitable and generally accepted method for establishing the fair value as set out in the Management

Company's internal rules. The net asset value of a Unit is determined by dividing the total net asset value of the Fund by the number of issued and outstanding Units of that class (adjusted by transaction orders received by the Management Company, but not yet settled). The net asset value of a particular class of Unit is calculated by subtracting the liabilities of the Fund that are allocated to such class of Units from the aggregate market value of the securities and other assets of the Fund attributable to such class of Units, and dividing such value with the number of outstanding Units of that particular class.

The net asset value of a Unit shall be calculated every Banking Day in the reference currency of the relevant Unit.

The Management Company shall publish the net asset value of the Fund and the Unit at least once for each Banking Day on the following Banking Day by 16.30 CET at its website [www.avaron.com](http://www.avaron.com). A Unit's net asset value shall be rounded up to four decimal points.

In case an event or a fact occurs or becomes evident after the net asset value of the Fund has been calculated and published and if such an event or fact, based on the professional assessment of the Management Company, substantially affects the calculation of the net asset value, the Management Company has the right to perform revaluation, if not doing so would be detrimental to the interests of Unitholders.

### **TRANSACTIONS WITH FUND UNITS**

The issue and redemption of Units is organised by the Transfer Agent. In order to enter into transactions with Units, an investor or a credit institution in which investor has a cash account shall have a securities account and a cash account linked to it opened with the Transfer Agent or only a registry account opened with the Transfer Agent and a cash account in another credit institution.

A qualified investor can open a segregated account in its own name, or a nominee account on terms and conditions as provided by such third party-service provider (e.g. a distributor). If the Units are kept on a nominee account, the Unit transaction orders shall be submitted by the nominee, and all transfers and payments in relation to Unit transactions shall be made to the nominee account (and to the current account of the nominee, respectively).

Transactions with Units shall be performed and settled in the reference currency of the respective Units.

By submitting an order, the Unitholder confirms that he or she has thoroughly acquainted with, consents to and undertakes to adhere to the Rules and the Prospectus. The Unitholder is not permitted to revoke or make amendments to his or her subscription, redemption or conversion order after it has been submitted to the Management Company. Upon subscribing Units, the investor shall pay the subscription amount within the prescribed time limit to the Fund's cash account. In case the Unitholder has not duly performed its obligations, the Management Company is entitled to use any legal remedy available to it pursuant to the Applicable Law, including the right of withdrawal from the transaction and claim damage caused by such non-performance to the Fund, other Unitholders and/or to the Management Company. The Management Company has the right in its sole discretion to refuse to execute a subscription or conversion order, if this is deemed necessary for protecting the interests of existing Unitholders, or for the orderly management of the Fund.

### **SUBSCRIPTION AND ISSUE OF UNITS**

Units can be subscribed and are issued on every Banking Day (additional information in section "Cut-off Dates"), unless the transactions are suspended pursuant to and in accordance with the Prospectus and/or the Applicable Law. The subscription price of a Unit is the net asset value of the Unit that has been calculated as of the day of receiving the subscription order (the Trade Date). No subscription fee is added to the net asset value of the Unit. Units shall be issued only upon due payment of the full subscription price. The subscription of Units is not limited by the number of Units, or an amount of investment.

Class A and B Units shall be only issued to investors who owned Units of the respective class as of 30 May 2009 at 00:00 (existing investors). New investors cannot subscribe A and B Units. The minimum initial subscription amounts of Units are as follows:

- C Unit - 500,000 EUR,
- D Unit - the minimum subscription requirement is not applied,
- E Unit - 500,000 EUR.

The Management Company is entitled to reduce the minimum initial subscription amounts of C and E Units at its discretion. There is no minimum subscription requirement for A, B and D Units.

In order to subscribe Units, an investor shall submit a subscription order to the Transfer Agent. A Unit shall be issued upon receiving the subscription amount in the reference currency of the Unit to the Fund's cash account latest by the settlement date, and the registration of the Unit in the Unit Registry. The settlement date shall be no later than the third Banking Day from the Trade Date (T+3), unless the Management Company and the investor agree on a different settlement cycle.

By submitting a subscription order, each person consents to the processing of his/her data (including personal data) pursuant to the Management Company's principles of processing client data (available at the website [www.avaron.com](http://www.avaron.com)). The persons authorised by the Management Company to process personal data (authorised processors) and their contact details are also available at the above website.

## REDEMPTION OF UNITS

Upon the redemption of Units, a payment in the amount of the aggregate redemption price of the Units redeemed shall be made out of the assets of the Fund to the Unitholder's cash account. The redemption payment shall be made in the reference currency of the Unit. Payment in-kind is not available. Upon making the redemption payment, the Units will be deleted from the Unit Registry (on the settlement date), and all the rights and obligations relating to Units shall be deemed as terminated as from making such a deletion. Units are redeemed on daily basis. The redemption price of a Unit is the net asset value of the Unit that has been calculated as of the day of receiving the redemption order. No redemption fee is applied.

In order to redeem Units, a Unitholder shall submit a redemption order to the Transfer Agent. The settlement date shall be no later than the third Banking Day from the date of executing the redemption order, unless the Management Company and the Unitholder agree on a different settlement cycle, or when special arrangements specified below are applied. The term for making the redemption payment does not include the time for executing any transfer by the beneficiary bank.

### Special arrangements

If a single Unitholder submits a redemption and/or conversion order or orders that result in redemption of Units on the same Trade Date in the amount exceeding 5% of the net asset value of the Fund, the Management Company has the right (but not an obligation) to split the redemption and/or conversion orders and apply special principles for determining the Trade Date of such orders. In the case the Unitholder's aggregate orders result in redemption in the amount of (i) up to 5% of the net asset value of the Fund, the general provisions for redemption shall be applied; (ii) between 5%-10% of the net asset value of the Fund, the Trade Date shall be the next Banking Day following the date determined; (iii) exceeding 10% of the net asset value of the Fund, the Trade Date will be the next Banking Day following the date in point (ii).

If Unitholders together submit redemption and/or conversion orders that result in redemptions on the same Trade Date in the amount exceeding 5% of the net asset value of the Fund and according to the estimate of the Management Company it is not necessary to suspend the redemption of the Units, the Management Company is entitled to postpone the payment date for such orders up to 10 banking days (T+10), taking into account the order of the receipt of such redemption and conversion requests. The payment of the postponed orders shall take place in the sequence of the receipt of orders. Postponing the payment date of the orders does not affect the settlement of the redemption and/or conversion orders received on the following days, unless the conditions for postponement of the payment date provided in this section are met for such orders. The Management Company shall notify the Unitholders affected by the postponement of the payment date and publish a notice on its website.

The Unitholder is not entitled to demand fine for delay, penalty, indemnification or use any other legal remedies and the Management Company is not liable for any potential damages that might occur due to splitting of orders into parts, postponing the Trade Date or payment date of the orders as described above.

## CONVERSION OF UNITS

The Unitholder is entitled to exchange the Units with the Units of another class of the Fund, provided that the conditions for the minimum initial subscription

## CUT-OFF DATES

The date of a subscription, redemption and exchange order is the Banking Day when it is duly submitted and received by the Transfer Agent by 11.00 CET on such Banking Day. Transaction orders received by the Transfer Agent after such a cut-off date are deemed to have been received on the immediately following Banking Day.

## SUSPENDING TRANSACTIONS

The Management Company may suspend the issue or redemption of Units subject to and in accordance with the Investment Funds Act, if such suspension would be in the collective interests of the Unitholders, or to ensure the due operation and management of the Fund. The Management Company has the right to suspend redemption of Units where: (i) the Fund does not have liquid assets to redeem the Units; (ii) the Management Company is unable to repatriate moneys for the purpose of making payments on the redemption of Units or during which any transfer of moneys involved in the realisation or acquisition of investments or payments due on redemption of such Units cannot in the opinion of the Management Company be effected at fair value; (iii) the calculation of the net asset value of the Fund is complicated, for example due to the breakdown or restriction in the use of the means of communication normally employed in determining the price or value of any of the investments or the current prices on any stock exchange or trading venue; (iv) any stock exchange or trading venue, which is a relevant market or venue on which a material part of the Fund's assets for the time being are quoted, is closed (otherwise than for ordinary holidays), or during which dealings are substantially restricted or suspended, or the redemption of units or shares of the funds where the Fund holds relevant investments has been suspended or is restricted; (v) the redemption would otherwise be detrimental to the collective interests of the Unitholders or for the management and operation of the Fund (e.g. preparation for corporate events such as a merger or dissolution and liquidation); (vi) other grounds for suspension of subscriptions or redemptions exist as per the Applicable Law.

The Management Company shall promptly notify the Financial Supervision Authority of the suspension of subscriptions or redemptions of Units, unless this is due to the suspension of trading on a relevant stock exchange or other relevant trading venue. The Management Company shall publish a notice regarding the suspension of subscriptions or redemptions on its website. The

subscription and redemption of Units may be suspended for the period of three months, and such period may be extended with the approval of the Financial Supervision Authority.

Upon the suspension of the redemption of Units, the Registrar shall retain all subscription orders and payments on its account, and Units are issued based on the net asset value first determined after the suspension is lifted and redemption of Units is continued. All such orders shall be executed in order of their receipt.

## TAXATION

The Fund has only accumulating Units. All proceeds from the Fund's investments shall be reinvested, and no distributions shall be made to the Unitholders from the Fund. Profit generated or loss incurred by the Fund accrues in changes of the net asset value, consequently the value of the Unit increases or decreases. The investor has earned profit from the Fund if the redemption price of the Unit exceeds the cost of acquisition. The Fund and/or investors could be liable to pay taxes in the countries where the Fund has investments, subject to the tax system of the particular country. Declaring and paying respective taxes is the obligation of each Unitholder. The tax system applicable to an investor may depend on his or her tax residency, legal form and other circumstances. Investors are advised to consult a professional tax advisor before investing into the Fund.

## FEES AND EXPENSES

### FEES AND EXPENSES

The rates of Management and Depositary Fees as provided in the Table 1. The Management Company is entitled to reduce or waive subscription fees at its sole discretion.

	A Unit	B Unit	C Unit	D Unit	E Unit
<b>Expenses paid by the Unitholder:</b>					
Subscription fee	None	None	None	None	None
Redemption fee	None	None	None	None	None
<b>Fees and expenses paid by the Fund:</b>					
Management Fee	1.75%	1.25%	1.15%	2.0%	0.85%
Performance Fee	None	None	None	None	15% of return over benchmark index
Depositary Fee (including VAT)	0.096% (no less than 10,800 Euros) per annum, plus 0.034%-0.42% per annum depending on where the Fund's assets are registered				
Other expenses	According to the price list of the service provider				

**Table 1** Fees for the Fund and Unitholder

The Management Fee and Depositary Fee are calculated as a percentage of the market value of the assets of the Fund. The Management and Depositary Fees are deducted from the market value of the assets of the Fund on a daily basis and paid out monthly for the previous calendar month.

The Management Company is entitled to a Performance Fee if E Unit outperforms the benchmark. The Performance Fee shall be payable also in case E Unit has outperformed the benchmark but had a negative performance. The standard performance fee crystallisation period is calendar year (January 1 to December 31). Exception is the first period to measure the Performance Fee which begins with July 1<sup>st</sup>, 2021 and ends with December 31<sup>st</sup>, 2022 due to amendments in the Performance Fee model implemented due to regulative changes. The rate of the Performance Fee is 15% of the amount by which the Unit return exceeds the benchmark index return (positive relative return). The benchmark index is MSCI EFM Europe + CIS (E+C) ex Russia Net Return EUR Index<sup>1</sup>. If Performance Fee is due at the end of the calendar year, the Performance Fee shall be crystallised. Performance Fee measurement shall begin anew after each time the Performance Fee is crystallised at the end of the calendar year.

If E Unit underperforms the benchmark index at the end of the calendar year (negative relative return), Management Company will not receive Performance Fee and the performance fee measurement period shall be extended to include the next calendar year. The Management Company is entitled to the Performance Fee at the end of the second year if the cumulative return of E Unit exceeds the cumulative return of the benchmark index (positive cumulative relative return) during the extended performance fee measurement period.

If by the end of the second year the cumulative E Unit return is below the cumulative return of the benchmark index (negative cumulative relative return), the measurement period shall be extended again to include the next calendar year. The same

<sup>1</sup> For more information visit: <https://www.msci.com/end-of-day-data-search> (search for Emerging Markets, EUR Net index)

cumulative outperformance/underperformance assessments for the entitlement of the Performance Fee shall be made at the end of each calendar year until the end of the fifth year. If by the end of the fifth calendar year the negative cumulative relative return has still not been covered and no Performance Fee is due, the return from the first calendar year is no longer relevant and performance fee measurement period shall be adjusted for the next year to include four preceding calendar years. If by the end of the adjusted measurement period positive cumulative relative return occurs and also E Unit outperforms the benchmark index during the latest calendar year, the Management Company is entitled to the Performance Fee which is calculated from the amount by which E Unit return exceeds the benchmark index return during the latest calendar year (not the measurement period positive cumulative relative return). In case there is positive cumulative relative return during the adjusted five year measurement period but E Unit underperforms (negative relative return) the benchmark index during the latest calendar year, no Performance Fee is due and the measurement period shall be adjusted again for the next year to include four preceding calendar years. Same outperformance/underperformance assessments shall be made at the end of this newly adjusted period.

The Management Company shall have the right to change the benchmark index and notify the Unitholders of the change of the index at least three months in advance on the website of the Management Company. If the new benchmark index becomes effective on any other day except January 1, the Management Company shall not be entitled to a Performance Fee for the period that begins on January 1 preceding the day of changing the benchmark index and ends on December 31 following the day of changing the benchmark index.

The entitlement for Performance Fee is revalued on each day when the net asset value of the Fund is calculated and fixed on December 31 each calendar year if Performance Fee is due. The Performance Fee is paid out thereafter within one-month period. Should Units be redeemed prior to the date when Performance Fee is fixed, any accrued but unpaid Performance Fee for the redeemed Units shall be crystallised and paid during the month following the fixing of the Performance Fee.

Examples of Performance Fee entitlement calculation with fictitious figures not reflecting the results of the Unit or benchmark index

Year	E Unit return	Benchmark index return	Relative return*
Y1	10%	5%	5%
Y2	2%	9%	-7%
Y3	0%	4%	-4%
Y4	10%	2%	8%
Y5	5%	3%	2%
Y6	1%	2%	-1%
Y7	2%	3%	-1%
Y8	3%	1%	2%
Y9	-1%	-5%	4%
Y10	6%	2%	4%

\* Relative return – E Unit return minus benchmark index return during calendar year

Y1	Measurement period is one year, E Unit outperforms the benchmark index (+5%), Performance Fee is paid. New measurement period shall begin from Y2.
Y2	Measurement period is one calendar year (Y2), E Unit underperforms the benchmark index (-7%), no Performance Fee is paid. Performance fee measurement period shall be extended to include Y2 and Y3.
Y3	Performance fee measurement period includes Y2 and Y3. Cumulative E Unit return = 2.0% = (1+2%)*(1+0%) -1 Cumulative benchmark index return = 13.4% = (1+9%)*(1+4%) -1 Cumulative relative return = -11.4% = 2.0% - 13.4% No Performance Fee is paid and measurement period shall be extended to include Y2, Y3 and Y4.
Y4	Performance fee measurement period includes Y2 to Y4. Cumulative E Unit return = 12.2% = (1+2%)*(1+0%)*(1+10%) -1 Cumulative benchmark index return = 15.6% = (1+9%)*(1+4%)*(1+2%) -1 Cumulative relative return = -3.4% = 12.2% - 15.6% Although the Unit outperforms the benchmark index during Y4, no Performance Fee is paid because cumulative relative return is still negative. The measurement period shall be extended to include Y2, Y3, Y4 and Y5.



Y5	<p>Performance fee measurement period includes Y2 to Y5.  Cumulative E Unit return = 17.8% = <math>(1+2\%)*(1+0\%)*(1+10\%)*(1+5\%) -1</math>  Cumulative benchmark index return = 19.1% = <math>(1+9\%)*(1+4\%)*(1+2\%)*(1+3\%) -1</math>  Cumulative relative return = -1.3% = 17.8% - 19.1%  No Performance Fee is paid (despite the positive relative return during the calendar year, the cumulative relative return is still negative) and measurement period shall be extended to include Y2, Y3, Y4, Y5 and Y6.</p>
Y6	<p>Performance fee measurement period includes Y2 to Y6.  Cumulative E Unit return = 19.0% = <math>(1+2\%)*(1+0\%)*(1+10\%)*(1+5\%)*(1+1\%) -1</math>  Cumulative benchmark index return = 21.5% = <math>(1+9\%)*(1+4\%)*(1+2\%)*(1+3\%)*(1+2\%) -1</math>  Cumulative relative return = -2.5% = 19.0% - 21.5%  No Performance Fee is paid, Y2 returns are no longer accounted for next period, measurement period shall be adjusted to include Y3, Y4, Y5, Y6 and Y7.</p>
Y7	<p>Performance fee measurement period includes Y3 to Y7.  Cumulative E Unit return = 19.0% = <math>(1+0\%)*(1+10\%)*(1+5\%)*(1+1\%)*(1+2\%) -1</math>  Cumulative benchmark index return = 14.8% = <math>(1+4\%)*(1+2\%)*(1+3\%)*(1+2\%)*(1+3\%) -1</math>  Cumulative relative return = 4.2% = 19.0% - 14.8%  As Y7 relative return is negative (-1%) no Performance Fee is paid  Y3 returns are no longer accounted for next period, measurement period shall be adjusted to include Y4, Y5, Y6, Y7 and Y8.</p>
Y8	<p>Performance fee measurement period includes Y4 to Y8.  Cumulative E Unit return = 22.6% = <math>(1+10\%)*(1+5\%)*(1+1\%)*(1+2\%)*(1+3\%) -1</math>  Cumulative benchmark index return = 11.5% = <math>(1+2\%)*(1+3\%)*(1+2\%)*(1+3\%)*(1+1\%) -1</math>  Cumulative relative return = 11.1% = 22.6% - 11.5%  Y8 relative return is also positive (+2%) and Performance Fee is paid from the 2% outperformance.  New measurement period shall begin from Y9.</p>
Y9	<p>Measurement period is one year. Although E Unit calendar year performance is negative, E Unit outperforms the benchmark index (+4%), Performance Fee is paid. New measurement period shall begin from Y10.</p>
Y10	<p>Measurement period is one year, E Unit outperforms the benchmark index (+4%), Performance Fee is paid. New measurement period shall begin from Y11.</p>

The Fund shall pay expenses related to the management of the Fund, as specified in the Rules (incl. liquidation costs).

The total fees and expenses (excl. liquidation costs) payable on behalf of the Fund may not exceed 5% of the weighted average market value of the Fund's assets per annum.

## INFORMATION ON THE FUND

### ACCOUNTING AND REPORTING

The Management Company is responsible for arranging the accounting and reporting of the Fund subject to and in accordance with the Investment Funds Act, the Accounting Act, as well as other applicable legislation and the internal rules of accounting. The annual report of the Fund shall be audited, and the auditor's report attached to the Fund's annual report. The annual reports of the Fund shall be approved and made available within four months after the end of the financial year, and semi-annual reports within two months after the end of the respective reporting period.

Any person has the right to access the following information and documents at the Management Company's registered address and at its website [www.avaron.com](http://www.avaron.com): (i) the Rules; (ii) the annual report of the Fund for the most recent year; (iii) the semi-annual report of the Fund if it has been approved later than the most recent annual report; (iv) the Prospectus and the KID; (v) the name and contact details of the Management Company; (vi) the names of persons responsible for the investment management activities; (vii) the name and contact details of the Depositary; (viii) the rules for calculating the net asset value and the internal rules for making derivative transactions on the account of the Fund; (ix) information on the size of the Management Company's holding in the Fund; (x) annual reports of the Management Company for the most recent year.

On request, the Unitholders shall receive a copy of the Rules, the Fund's most recent annual and/or semi-annual report, the Prospectus and the KID free of charge, either electronically via e-mail or as a physical copy by mail or at the location of the Management Company.

### AMENDING PROSPECTUS

The Prospectus may be amended with the resolution of the Management Company's management board, including in material issues such as amendments to the Investment Policy or Investment Restrictions, fees, costs and expenses payable on behalf of the Fund. In the case of material amendments to the Prospectus, the Management Company shall ensure that the Unitholders are provided with a period of at least one month before such material amendments enter into effect during the period the

Management Company redeems the Units at the request of the Unitholder without a redemption fee or ensures an option to exit by sale of the Units at the price at least equal to the net asset value of the Units. The Management Company shall inform the Unitholders of such rights via its website.

Subject to the one-month period provided in the previous paragraph, the amendments to the Prospectus shall take effect only after the amended Prospectus has been notified to the Financial Supervision Authority and published on the Management Company's website, unless a later date is provided with a relevant resolution. If material amendments to the Prospectus are due to amendments to the Rules, such amendments shall take effect together with the amended Rules.

## **LIQUIDATION OF THE FUND**

The Fund shall be terminated and liquidated only with the resolution of the Management Company's management board, or pursuant to the imperative provisions of the Applicable Law. The approval of the Financial Supervision Authority is required for the liquidation of the Fund. Upon receipt of such approval, the Management Company shall without delay publish a notice regarding the liquidation of the Fund on its website.

The dissolution and liquidation of the Funds shall be performed in accordance with the Applicable Law by the Management Company, Depositary or a third-party liquidator appointed by the Financial Supervision Authority, respectively. Upon publishing the liquidation notice, the Management Company shall suspend the issue and redemption of Units. The Management Company (or other designated liquidator) shall sell and dispose of the assets of the Fund as soon as possible and in accordance with the interests of the Fund (and thereby collective interests of the Unitholders), collect the debts owed to the Fund and satisfy the claims of the creditors of the Fund. The liquidation proceedings must be completed within 6 months starting from the publishing of the liquidation notice. With the consent of the Financial Supervision Authority such period may be extended to up to 18 months.

The costs and expenses of the liquidation procedure may be covered at the account of the Fund. However, such expenses shall not exceed 2% of the net asset value of the Fund at the date of the resolution to liquidate, unless such additional expenses are identified and justified with the liquidation resolution. If the actual liquidation expenses exceed the limit threshold, the Management Company or the person who was the designated Management Company prior to the liquidation shall be responsible for the expenses exceeding such limit.

The Management Company (or other designated liquidator) shall distribute the remaining assets between the Unitholders on the basis of the class, number and net asset value of Units owned by each of them. A notice concerning the liquidation distributions shall be published on the Management Company's website.

## **LIABILITY ATTRIBUTABLE TO THE PROSPECTUS**

If the Prospectus or the KID contains information material for the assessment of the value of the Fund or the Units, and such information turns out to be incorrect, the Management Company shall compensate the damage to the Unitholders resulting therefrom, subject to and in accordance with the Applicable Law. In order to compensate such damage, the Management Company is entitled to redeem the Units without redemption fee at the same net asset value, as was applied in issuing the Units to the Unitholder. In compensating the damage by redemption, the Unitholder does not have the right to apply any other remedies. For the avoidance of doubt, the Management Company shall not be responsible for any information derived from a third party, if such third-party source has been identified in the Prospectus, and the Management Company did not know and should not have known that such information was incorrect.

## **MANAGEMENT COMPANY**

### General

The Fund is managed by AS Avaron Asset Management, registry code 11341336, registered address at Narva mnt 7d, 10117 Tallinn, Estonia. The Management Company is a public limited liability company registered in Estonia (date of establishment 14 September 2006). With the resolution No. 119 of the Financial Supervision Authority dated 28 December 2006, the Management Company is authorised to manage investment funds established pursuant to and in accordance with the UCITS Directive, other funds pursuant to and in accordance with the Investment Funds Act, and to provide portfolio management and investment advisory services.

The share capital of the management Company totals to EUR 271,447. The Management Company is owned by OÜ Princo and OÜ Venatio, the companies belonging to founders of the Management Company Kristel Kivinurm-Priisalm, Valdur Jaht and Peter Priisalm. The beneficial owners of the Management Company are Kristel Kivinurm-Priisalm, Valdur Jaht and Peter Priisalm and senior research staff who are long-term employees - Rain Leesi, Piotr Jurga and Reino Pent. AS Avaron Asset Management manages UCITS funds and alternative investment fund(s). The members of the supervisory board of the Management Company are Peter Priisalm, Maris Jaht and Rain Leesi. The members of the management board of the Management Company are Kristel Kivinurm-Priisalm and Valdur Jaht.

### The Activities of the Management Company

Pursuant to the mandate provided with the Rules, the Management Company has the full power and authority, on behalf of the Fund, to enter into transactions for investment and divestment of the Fund's assets, pursuant to and in accordance with the Investment Policy and Investment Restrictions provided in this Prospectus, and the imperative provisions of the Applicable Law. The Management Company shall conduct transactions with the assets of the Fund in its own name and for the account of all the Unitholders collectively (i.e. for the account of a common fund). When performing the investment management function, the Management Company shall obtain sufficient information on the assets which the Management Company intends to acquire or has acquired on behalf of the Fund, monitor the financial situation of the issuer whose securities the Management Company intends to acquire or has acquired, obtain sufficient information with regard to the solvency of the persons with whom they transact on behalf of the Fund, and perform its duties otherwise with due care, skill and diligence, as is common in the investment management industry. The assets of the Fund shall be kept segregated from the assets of the Management Company and any other fund or pool of assets managed by the Management Company, and such assets are excluded from the estate of the Management Company in the case of bankruptcy. The claims of the Management Company's creditors cannot be satisfied out of the Fund's assets.

### Outsourcing the Activities of the Management Company

In order to provide more efficient services, the Management Company has the right to delegate the following functions relating to the management of the Fund to third-parties in accordance with the Investment Funds Act: (i) investment management; (ii) Unit issues and redemptions; (iii) issuing confirmations to Unitholders regarding Units registered to their name in the Unit Registry; (iv) providing necessary information to the Fund's Unitholders and other customer services; (v) distribution; (vi) fund management accounting services; (vii) valuation and pricing (including tax returns); (viii) regulatory compliance monitoring. Delegation of its functions does not affect the liability of the Management Company in relation to the management of the Fund.

The Management Company has outsourced maintaining the Unit Registry, organising the issue and redemption of Units and carrying out the due diligence of investors as prescribed in the Prevention of Money Laundering and Financing of Terrorism Act to Swedbank AS, registry code 10060701, registered address at Liivalaia 8, 15040 Tallinn, Estonia. In addition, the Management Company has outsourced to Swedbank AS the accounting of proceeds of the Fund, valuation of the Fund's assets and the determination of their net value, including provision of information and reports on the Fund's assets. Swedbank AS is a licensed credit institution, and it provides various financial services. Swedbank AS is supervised by the Financial Supervision Authority.

### Remuneration Policy

The Management Company has established a remuneration policy for the employees of the Management Company regulating practices regarding fixed (monthly) and variable remuneration. The remuneration principles are adopted by the senior partners of Avaron. No remuneration committee has been established at the Management Company. The total remuneration of the Management Company's employees consists of a fixed and variable remuneration. The total remuneration is based on the conditions prevalent on the labour market and devised so as to achieve a reasonable balance between its fixed and variable components. Details of the Management Company's up to date remuneration policy are disclosed at the website [www.avaron.com](http://www.avaron.com).

## **DEPOSITARY**

The Depositary of the Fund is Swedbank AS, registry code 10060701, registered address at Liivalaia 8, 15040 Tallinn, Estonia. Swedbank AS is a licensed credit institution and it provides various financial services. The activities of the Depositary are supervised by the Financial Supervision Authority.

### The Activities of the Depositary

The Depositary shall safekeep the cash, securities and other liquid assets of the Fund. The Depositary does not safekeep other assets of the Fund not referred to, unless it is agreed otherwise between the Management Company and the Depositary. The Depositary shall also carry out other duties entrusted to it by legislation. The Depositary shall act independently of the Management Company and in the best interests of the Fund and the Unitholders.

The Depositary has the right, in accordance with the policies provided for in the depositary agreement, to enter into agreements with third parties for delegating the safekeeping of the Fund's assets, performing settlements therewith and fulfilling other functions. The Depositary shall keep the assets of the Fund segregated from its own assets and shall keep separate accounting of the assets of Fund. The Depositary shall choose the third parties safekeeping the Fund's assets or securities with due care to ensure the reliability of such third parties. The Depositary shall, before delegating its functions, assess and perform ongoing monitoring to ensure that the organisational and technical arrangement of the delegate as well as its financial condition is sufficient for performing its contractual obligations. The Depositary shall be liable for the direct proprietary damage caused to the Fund and Unitholders as a result of breach of its duties.

The Depositary may offer its services to the Fund or to the Management Company which do not entail conflicts of interest between the Fund, the Management Company, Fund investors and the Depositary. In case of an existence of a conflict of interest's situation, the Depositary is only allowed to offer services if the organisational set up and the level of technical systems of the Depositary enable the Depositary to separate the depositary functions from the services that create conflicting interests.

Conflicts of interest may occur in a situation where Swedbank AS offers different services in addition to the depositary service to the Management Company or to the Fund. Detailed information regarding the conflict of interests' situations and the management of such situations can be found at the website.

The organisational set up and the arrangement of the technical systems enable the Depositary to separate the depositary function from the services causing conflicts of interest. Efficient internal control systems, the division of responsibilities and reporting lines enable the Depositary to identify, manage and avoid conflicts of interests.

The Depositary has the right, in accordance with the policies provided for in the depositary agreement and in the Applicable Law, to delegate to third parties the safekeeping of the Funds' assets. Where the law of a third country requires that certain financial instruments be held in custody by a local entity and no local entities satisfy the delegation requirements, the Depositary may delegate its functions to such a local entity only to the extent required by the law of that third country, only for as long as there are no local entities that satisfy the delegation requirements, and only where the Unitholders of the Fund are duly informed, prior to their investment, of the fact that such a delegation is required due to legal constraints in the law of the third country, of the circumstances justifying the delegation and of the risks involved in such a delegation

By delegating the safekeeping of the Fund's assets, the Depositary ensures that it has sufficient internal procedures for identifying, managing and avoiding conflicts of interests. For example, the conflicts of interest situation could arise in an event where safekeeping of assets has been delegated by the Depositary to an entity belonging to the same group within the Depositary.

Detailed information regarding the Sub-custodians who have been delegate with the safekeeping of the Fund's asset can be found at the website [www.avaron.com](http://www.avaron.com).

Upon request of the Unitholder, an updated information of the conflict of interests and delegating the safekeeping of the Fund's assets shall be provided by the Management Company.

## REGISTRAR

The Unit Registry may be maintained by the Management Company, or such function may be delegated to a third-party service provider. Such service provider shall have sufficient organizational, technical and financial capacity, as well as appropriate internal control measures and procedures as well as qualified human resources to be able to perform such a function with due care and diligences in accordance with the relevant agreement and the applicable law in a sustainable manner.

The Management Company has delegated the function of maintaining the Unit Registry to the Registrar, being Swedbank AS, registry code 10060701, registered address at Liivalaia 8, 15040 Tallinn, Estonia, website [www.swedbank.ee](http://www.swedbank.ee).

The Unit Registry shall be maintained in an electronic book-entry form in accordance with the agreement and data processing rules agreed between the Management Company and the Registrar, as well as the Applicable Laws, including the Personal Data Protection Act. Access to the Unit Registry information is enabled pursuant to the Applicable Laws. Each Unitholder has the right to acquaint with the registry information relating to him or her, and upon request, to receive a confirmation from the Registrar relating to the Units registered to his or her name in the Unit Registry. The Registrar shall retain the data and documents received for making a register entry as prescribed by the Applicable Law.

Member of the Management Board of the Management Company

Kristel Kivinurm-Priisalm

## APPENDIX 1

### 1. List of financial indices in addition to the indices in paragraph Derivative Instruments under Investment Policy that are allowed as underlying for derivative instruments into which the Fund's assets may be invested:

Regional indices	CECEUR, CETOP, EUETMP, NTX, SETXEUR
Baltic countries	OMX Baltic, OMX Baltic 10
Austria	ATX, ATX five, IATX
Bosnia and Herzegovina	BATX, BIFX, BIRS, ERS10, SASE Free Market 10
Bulgaria	BGBX40, BTX, SOFIX
Croatia	CROBEX, CROBEX10, CROX
Cyprus	CSE
Czech Republic	CTX, PX
Estonia	OMX Tallinn
Greece	ASE, FTASE
Hungary	BUX, HTX
Latvia	OMX Riga
Lithuania	OMX Vilnius
North Macedonia	MBI10
Malta	MSE Equity Price Index, MSE Equity Total Return Index, MSE Index
Montenegro	MNSE10, MONEX
Poland	PTX, WIG, WIG 20, WIG 40, WIG 80, WIGBANK
Romania	BET, BET-FI, BETPlus, ROTX
Serbia	BELEX15, BELEXline, SRX
Turkey	BIST30, XBANK, XU100
Ukraine	PFTS, UX, UXagro
CEE related tradable indices listed on Wiener Börse	CECE (CECE Composite Index), CECE BNK (CECE Banking), CECE HCA (CECE Health Care), CECE MID (CECE Mid Cap Index), CECE NTR (CECE Net Total Return), CECE OIL (CECE Oil & Gas), CECE TD (CECE Top Dividend), CECE TEL (CECE Telecom), CECE TR (CECE Total Return), CECE SRI (CECE Socially Responsible), CECEX (CECE Extended Index), CERX (CEE Real Estate Index), CFND (CECE Fundamental), NTX (New Europe Blue Chip Index), SCECE (Short CECE), SETX (South-East Europe Traded Index)

### 2. List of foreign currencies that are allowed as underlying for derivative instruments into which the Fund's assets may be invested:

ALL	Albanian Lek
BAM	Bosnian Convertible Marka
BGN	Bulgarian Lev
CHF	Swiss Franc
CZK	Czech Koruna
DKK	Danish Krone
EUR	Euro
GBP	British Pound
HRK	Croatian Kuna
HUF	Hungarian Forint
JPY	Japanese Yen
MDL	Moldavan Leu
MKD	North Macedonian Denar
NOK	Norwegian Krone
PLN	Polish Zloty
RON	Romanian Leu
RSD	Serbian Dinar
SEK	Swedish Krona
TRY	Turkish Lira
UAH	Ukrainian Hryvnia
USD	US Dollar

It shall be noted that combination of any currency pair among the currencies listed in point 2 may be underlying for the derivatives.

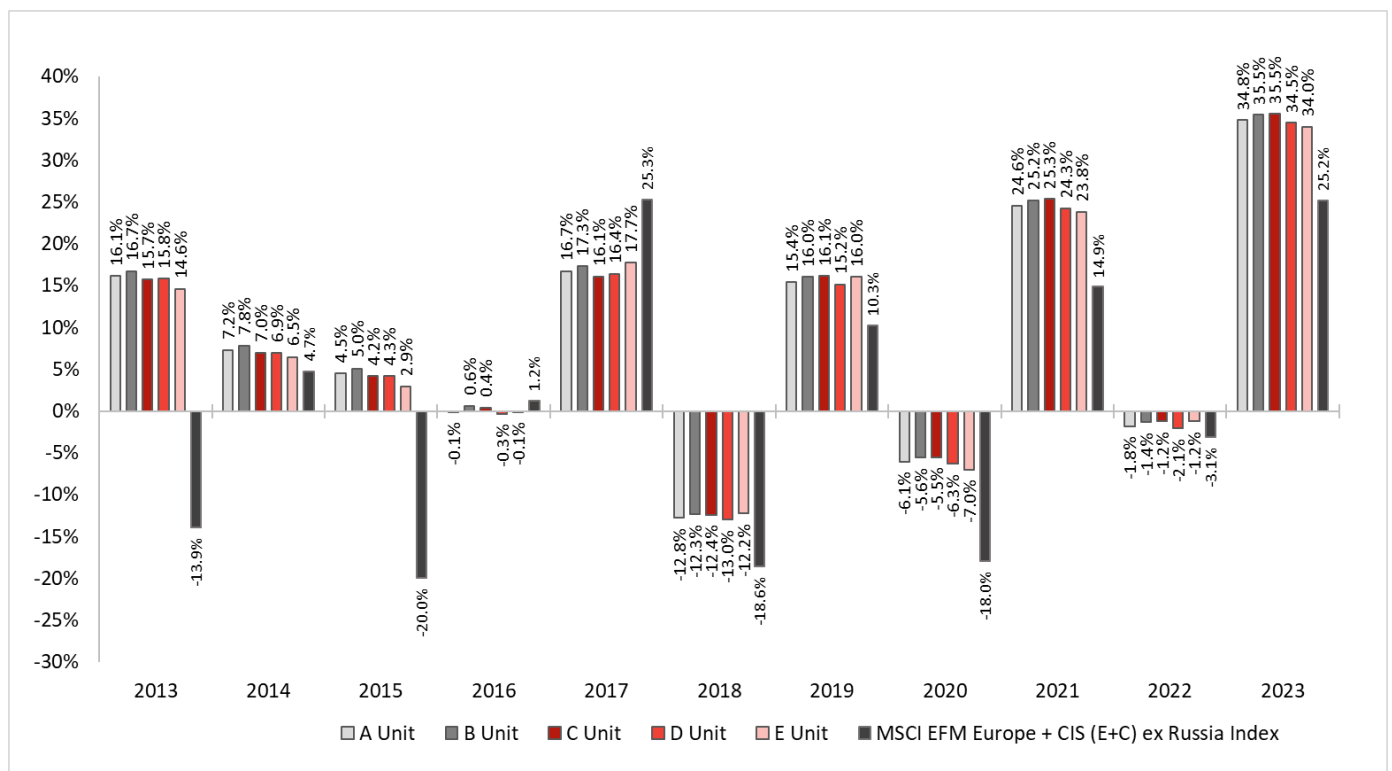
## APPENDIX 2

The table below displays the average annual cumulative rate of return of the Fund (as at 31/12/2023):

	2 years	3 years	5 years
<b>A Unit</b>	15.0%	18.1%	12.3%
<b>B Unit</b>	15.6%	18.7%	12.9%
<b>C Unit</b>	15.7%	18.8%	13.0%
<b>D Unit</b>	14.7%	17.8%	12.0%
<b>E Unit</b>	15.0%	17.9%	12.1%
<b>Index*</b>	10.1%	11.7%	4.7%

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

The chart shows the Fund's performance as the percentage loss or gain per year over previous years. The figures below have been calculated for the corresponding calendar year based on the net asset value of the Fund's assets. The performance is shown after deduction of ongoing charges and incidental costs.



The past performance of the Fund helps you to assess how the Fund has been managed in the past. However, please bear in mind that the past performance is not a reliable indicator of future performance. Markets could develop very differently in the future.

AVARON EMERGING EUROPE FUND (LEI: 5299002W6ED92XBPCX25)

ENVIRONMENTAL AND/OR SOCIAL CHARACTERISTICS

**Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

**Does this financial product have a sustainable investment objective?**

**Yes**    **No**

<input type="checkbox"/> It will make a minimum of <b>sustainable investments with an environmental objective:</b> ___%  <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy  <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy	<input type="checkbox"/> It <b>promotes Environmental/Social (E/S) characteristics</b> and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ___% of sustainable investments  <input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy  <input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy  <input type="checkbox"/> with a social objective
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with a social objective:</b> ___%	<input checked="" type="checkbox"/> It promotes E/S characteristics, but <b>will not make any sustainable investments</b>



**Sustainability indicators** measure how the environmental or social characteristics promoted by the financial product are attained.

**What environmental and/or social characteristics are promoted by this financial product?**

The Fund is invested in accordance with Avaron Responsible Investment Policy and favours investments into corporates with sound environmental, social and governance practices, while limiting exposure to issuers active in weapons, adult content, tobacco, alcohol, gambling, coal mining and coal-based energy generation. The Fund has not defined a benchmark with regards of attaining the sustainability characteristics. The Fund follows relevant international sanctions to avoid exposure to controversial jurisdictions, and recommendations to combat money laundering and terrorist financing. The Fund seeks to influence investee companies' and issuers' sustainability practices through engagement and actively exercising shareholder rights.

● **What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?**

Sound sustainability practices is measured by the ESG rating. Within the rating system a number of quantitative environmental and social metrics are assessed e.g. carbon footprint, carbon intensity, renewable energy usage, amount of discharged water, percentage of waste recycled, CEO salary gap, gender pay gap, employee turnover, employee satisfaction, workplace fatalities and injuries, customer satisfaction.

Reduction of involvement in controversial activities and jurisdictions is measured by the number of companies restricted as a result of exclusions.

*The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.*

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

*Any other sustainable investments must also not significantly harm any environmental or social objectives.*

**Principal adverse impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.



### Does this financial product consider principal adverse impacts on sustainability factors?

Yes, the Fund considers principle adverse impacts on sustainability factors. These factors as outlined in the Regulation are assessed and monitored as part of the routine ESG analysis process the Fund holdings undergo. The Fund will report on all indicators related to principal adverse impact on sustainability factors as set out in Table 1 of Annex I of the Regulatory Technical Standards of the Regulation. Furthermore, at least one additional indicator related to principal adverse impacts on a climate or other environment related sustainability factor that qualifies as principal as set out in Table 2 of Annex I, as well as at least one additional indicator related to principal adverse impacts on a social, employee, human rights, anti-corruption or anti-bribery sustainability factor that qualifies as principal as set out in Table 3 of Annex I shall be reported on.

No



### What investment strategy does this financial product follow?

The Fund invests in Emerging Europe listed equity asset class and with an objective to outperform Emerging Europe ex-Russia benchmark index on risk-adjusted basis over 5-year period. This is achieved by constructing a portfolio of companies that optimizes the aggregate upside to internally set target prices of individual companies in our investment universe taking into account the quality and ESG profile of an issuer, liquidity of the underlying security and where relevant also currency outlook. Issuer specific ESG analysis is integrated into investment process and ensures that environmental, social and governance characteristics are taken into consideration in investment decision-making process.

● **What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?**

Negative screening is used as a tool to ensure no investments are made into activities that have a clear negative impact on people or the environment. The Fund does not invest in:

- i. Weapons: Companies that are involved in production, development, sale, distribution or overhaul of weapons, weapon systems or components.
- ii. Adult content: Companies that are involved in production, publication, printing or distribution of newspapers or magazines or films or videos classified as pornographic. Exclusion is not applicable to general retailers 'as long as the share of revenue from distribution of adult content does not exceed 10%.
- iii. Tobacco: Companies are involved in production or distribution of tobacco or alternative smoking products (e-cigarettes, next-generation tobacco/nicotine products). Exclusion is not applicable to general retailers 'as long as the share of revenue from distribution of tobacco products does not exceed 10%.
- iv. Alcohol: Companies that generate more than 10% of revenue from production or distribution of alcoholic drinks.
- v. Commercial gambling: Companies that generate more than 10% of revenue from gambling or lottery services.
- vi. Coal mining: Companies that generate more than 20% of revenue from the extraction of any kind of coal.
- vii. Coal-based energy: Companies that generate more than 20% of revenue from coal-based energy production. Exclusion is not applicable to companies that have set net-zero ambitions in accordance with Science-Based Targets Initiative (SBTi) Net-Zero Standard.

The Fund investments undergo norms-based screening to detect compliance with relevant international sanctions (e.g., United Nations, European Union, Organisation for Security and Cooperation in Europe), Financial Action Task Force Recommendations, UN Global Compact, Universal Declaration of Human Rights and ILO's International Labour Standards.

The Fund favours investments in companies that demonstrate sound sustainability practices. This is attained by using proprietary ESG rating that takes into account 31 environmental, 42 social and supply chain, 50 governance indicators, and has an overlay taking into account ESG related controversies. The rating scale is 1-5. All companies that score below 2 are excluded, while for companies with a rating between 2-5 a pre-defined adjustment factor is applied in estimating company's fair value to reflect ESG performance.

● **What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?**

The Fund does not commit to a minimum rate of reduction of the investments considered prior to the application of the investment strategy.

● **What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?**

Considerations related to good governance practices form an integral part of the investment process of the Fund, in respect to both the selection of investments and their management within the portfolio. Governance of issuers is assessed within the proprietary ESG rating system, analysing 50 indicators across 6 main areas (board structure, composition and remuneration, board functions, quality of financial communication, accounting risks, shareholder rights and sustainability management).

**The investment strategy** guides investment decisions based on factors such as investment objectives and risk tolerance.

**Good governance** practices include sound management structures, employee relations, remuneration of staff and tax compliance.

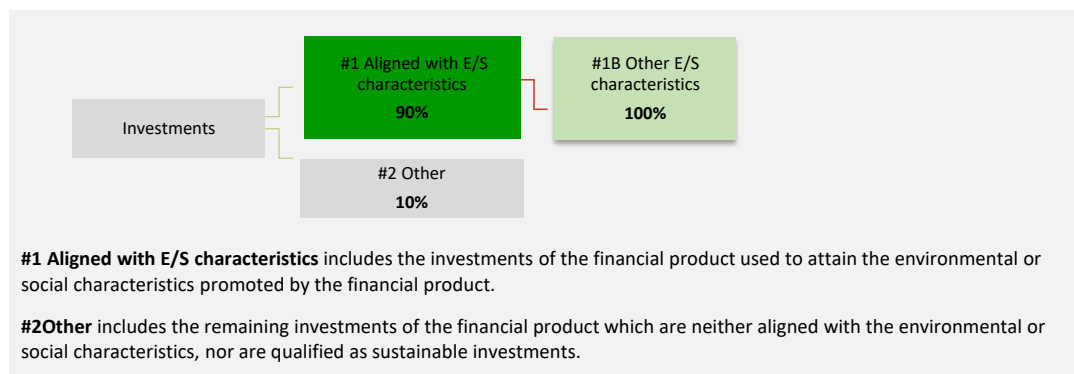




**Asset allocation** describes the share of investments in specific assets.

### What is the asset allocation planned for this financial product?

The Fund invests in direct holdings. The minimum proportion of the assets of the Fund used to meet the environmental or social characteristics promoted is 60%. However, generally more than 60% of the Fund's total assets is invested into securities of Emerging Europe issuers that undergo proprietary ESG screening and analysis. The rest of the assets are invested either in cash or deposits. The level of cash in the Fund is a residual outcome of the bottom-up stock picking process and may fluctuate within 0-40% range. The Management Company aims to keep the level of non-cash investments above 90%. Over the past 5 year period the average daily level of non-cash investments has been 87.2%. Hence, nearly 90% of the investments are considered to be aligned with the environmental or social characteristics but are not sustainable



● **How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**

The Fund may use derivatives only to hedge or take directional exposure in currencies and thereby the ESG screening and analysis process does not apply to derivatives used in the Fund's portfolio.



**What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?**

The Fund may invest in cash and cash equivalents or money market instruments that are subject to norms-based screening to ensure compliance with relevant international sanctions (e.g., United Nations, European Union, Organisation for Security and Cooperation in Europe) and Financial Action Task Force Recommendations to combat money laundering and terrorist financing.

Credit institutions where cash is held or deposited are not subject to the ESG screening and analysis process by Avaron. However, annual sustainability related check is carried out to assess whether to what degree the credit institutions are following sustainable business practices. The credit institutions used are obliged financial market participants and/or financial advisers under SFDR.



**Where can I find more product specific information online?**

More product-specific information can be found on the website:  
<https://avaron.com/our-products/aef/>

## APPENDIX 4

### FUND RULES OF AVARON EMERGING EUROPE FUND

These Fund Rules registered with the Financial Supervision Authority are effective as of 1 January 2023.

#### 1. Definitions and interpretation

1.1 In these Rules, unless the context otherwise requires, the defined terms shall have the following meaning:

<b>Applicable Law</b>	all laws and regulations applicable to the Management Company in relation to the management of the Fund, in particular the Estonian Investment Funds Act and derivative acts issued thereunder, as well as legal acts of the European Union and acts or resolutions of competent supervisory or other authorities to the extent these are legally binding to the Management Company
<b>Banking Day</b>	a day when credit institutions are generally open for business in Estonia, excluding Saturdays, Sundays, national and public holidays
<b>Depository Fee</b>	a fee payable to a designated depository for safekeeping assets of the Fund, and performing certain other functions in relation to the Fund, subject to and in accordance with an agreement concluded with the depository
<b>EFSA</b>	the Estonian Financial Supervision Authority (in Estonian: <i>Finantsinspeksioon</i> )
<b>Fund</b>	Avaron Emerging Europe Fund, constituted pursuant to these Rules
<b>Investment Policy</b>	the investment policy of the Fund, as stipulated in the Prospectus
<b>Investment Restrictions</b>	the investment restrictions applicable to the management of the Fund, as stipulated in the Prospectus
<b>KID</b>	Key Information Document is a short form pre-sale disclosure document, containing only key information about the essential characteristics of the Fund as prescribed in the Applicable Law
<b>Management Company</b>	AS Avaron Asset Management, registry code of 11341336, with registered address at Narva mnt 7d, 10117 Tallinn, Estonia
<b>Management Fee</b>	fee payable by the Fund to the Management Company for the management of the Fund pursuant to and in accordance with the Rules and the Prospectus
<b>Performance Fee</b>	fee payable by the Fund to the Management Company pursuant and in accordance with the Rules and the Prospectus dependent on the result of the investment management services rendered by the Management Company
<b>Prospectus</b>	a document for the public offering of the Fund, presenting information to the extent required by the Applicable Law, and any other information deemed necessary or advisable by the Management Company for deciding an investment into the Fund
<b>Registrar</b>	the registrar of the Unit Registry, as identified in the Prospectus
<b>Rules</b>	these rules, constituting the Fund and regulating the legal relationship between the Management Company and the Unitholders, including the investment management mandate provided hereunder
<b>Trade Date</b>	the Banking Day of receiving a duly compiled order to transact with Units
<b>UCITS</b>	a fund established pursuant to and in accordance with the UCITS Directive
<b>UCITS Directive</b>	Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS)
<b>Unit</b>	a unit representing a holding in the Fund
<b>Unit Registry</b>	registry of Units, maintained electronically by the Registrar
<b>Unitholder</b>	person who has subscribed for and/or is holding a Unit

- 1.2 The terms not defined above shall have the meaning as provided in the Prospectus or, if not defined, as used by professional financial market participants in similar transactions, and if no such specific meaning, in their ordinary meaning
- 1.3 The Rules shall be interpreted together with the Prospectus and the Applicable Law. In the case of any conflict between the Rules and imperative provisions of Applicable Law, such imperative provisions of Applicable Law shall prevail. In the case of any ambiguity, the Rules shall be interpreted in the best interests of the Unitholders.

## 2. The Fund

- 2.1 **Avaron Emerging Europe Fund** (in Estonian: **Avaron Areneva Euroopa Fond**) has been established with the resolution of the Management Company dated 3 April 2007, and originally registered with the EFSA on 23 April 2007. The Fund shall be deemed to be located at the registered address of the Management Company, as provided in Clause 3.1.
- 2.2 The Fund is a public common investment fund constituted by the Rules and does not have a separate legal personality. The pool of money raised through issue of Units, and other assets acquired through investment activities belong jointly to the Unitholders. The assets of the Fund are managed by the Management Company pursuant to and in accordance with the Rules, the Prospectus and the Applicable Law. The assets of the Fund are segregated from the assets of the Management Company or any other fund or pool of assets managed by the Management Company, and are excluded from the estate of the Management Company in the case of bankruptcy. The claims of the Management Company's creditors cannot be satisfied out of the Fund's assets.
- 2.3 The Unitholders shall not be personally liable for the obligations of the Fund, and their liability for the performance of such obligations is limited to their respective investment into the Fund. The Rules do not authorise the Management Company to assume obligation in the name of the Unitholder.
- 2.4 The Fund may be offered to the public in Estonia, and in any other jurisdictions where it is specifically authorised do so by the competent authorities. The list of jurisdictions where the Fund may be offered to the public is provided on Management Company's website.

## 3. The Management Company

- 3.1 The designated Management Company of the Fund is **AS Avaron Asset Management**, an Estonian limited liability company registered with the Estonian Commercial Register under the registry code of 11341336, with registered address at Narva Road 7D, 10117 Tallinn, Estonia. The Management Company is authorised and supervised by the EFSA. The Management Company is authorised to manage investment funds established pursuant to and in accordance with the UCITS Directive, other funds pursuant to and in accordance with the Estonian investment funds act, and to provide portfolio management and investment advisory services.
- 3.2 The Management Company has the full power and authority, on behalf of the Fund, to do all such things as are, in the reasonable opinion of the Management Company, necessary or desirable in connection with the management of the Fund, its investments, or otherwise in the furtherance of the business or operations of the Fund, subject to and in accordance with the Rules, the Prospectus and the imperative provisions of Applicable Law. The Management Company shall conduct transactions with the assets of the Fund in its own name and for the account of all the Unitholders collectively (hereinafter for account of common fund).
- 3.3 The Management Company shall, pursuant to the Applicable Law, act with all due care, skill and diligence in discharging its role as the Management Company of the Fund, considering the best interests of the Fund, and thereby the collective best interests of the Unitholders.
- 3.4 The Management Company shall appoint a depositary for safekeeping of the Fund's assets, and for performance certain other functions, subject to and in accordance with the Applicable Law. Information about the depositary designated for the Fund, and description of its functions and liability is provided in the Prospectus.
- 3.5 The Management Company may, subject to the requirements and restrictions of the Applicable Law, delegate certain functions relating to management of the Fund to third parties, whether related to the Management Company or not. The Management Company shall apply due care in selecting, retaining and monitoring such third party. Delegation of its functions does not relieve the Management Company from its responsibility or liability towards the Unitholders in relation to management of the Fund, unless otherwise provided by the Applicable Law. The information regarding functions delegated to third parties is provided in the Prospectus.
- 3.6 The Management Company shall submit and process on behalf of the Fund, and thereby collectively on behalf of the Unitholders, any claims against the depositary or any third party, if the failure to submit or process such claim would result or may result in significant damage to the Fund and thereby collectively to its Unitholders. The Management company is not obliged to submit such claims, if these have already been submitted by or on behalf of the Fund and/or the Unitholders, or

if the potential damage or amount of claim is small and insignificant in total amount (being less than EUR 10,000), or if costs relating to enforcing such claims would be disproportionate in relation to the amount of the claim.

#### **4. General description of the Investment Policy**

- 4.1 The investment objective of the Fund is to invest primarily in equity instruments of Emerging Europe companies with the purpose of long term capital growth through economic and market cycles. In order to achieve these investment objectives, at least 60% of the Fund's net assets shall be invested into equity instruments of Emerging Europe companies as defined in the Prospectus.
- 4.2 Subject to the Investment Policy and Investment Restrictions, the Fund's assets can be invested into equities, various debt instruments, deposits, derivative instruments and other financial instruments, the Fund can use leverage by borrowing or using derivative instruments. The assets of the Fund shall be invested into Emerging Europe countries. The allocation of the Fund's assets between different asset classes, industrial sectors and regions shall be determined by the Management Company in exercising active portfolio management strategy, subject to its professional assessment and the prevailing market circumstances. Therefore, the proportions of various financial instruments in the Fund's assets vary over time and the exact combination shall be determined based on the Management Company's views and on the issuer specific and macroeconomic research as carried out by the Management Company.
- 4.3 A detailed overview of the Investment Policy and the Investment Restrictions is provided in the Prospectus.
- 4.4 The return on investment into the Fund, or achievement of its investment objective is not guaranteed. The past performance of the Fund is neither a guarantee nor an indication of future performance. With the investment into the Fund the Unitholder acknowledges and accepts that such investment involves risk and it may result in both profit or loss to the Unitholder, including loss of the entire amount invested. The overview of risks pertaining to investment into the Fund is provided in the Prospectus. Each client is advised to consult with a professional investment advisor prior to making an investment.

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

- 5.1 A Unit represents the Unitholder's share in the assets of the Fund. A Unit is a dematerialised book-entry security, maintained in an electronic Unit Registry. No certificate in relation to the Units is issued to the Unitholder. Issue and redemption of Units, and creation and termination of rights and obligation relating thereto, shall take effect with relevant entry into the Unit Registry. Information about the Unit Registry and the Registrar is provided in the Prospectus.
- 5.2 The reference currency for the Fund and for the Units is euro (EUR).
- 5.3 The Fund has five class of Units:
  - a) Avaron Emerging Europe Fund A, nominal value 6.39 EUR (hereafter "A Unit");
  - b) Avaron Emerging Europe Fund B, nominal value 6.39 EUR (hereafter "B Unit");
  - c) Avaron Emerging Europe Fund C, nominal value 10 EUR (hereafter "C Unit");
  - d) Avaron Emerging Europe Fund D, nominal value 10 EUR (hereafter "D Unit");
  - e) Avaron Emerging Europe Fund E, nominal value 10 EUR (hereafter "E Unit").
- 5.4 A Unit is divisible. The fractions of Units that are created by dividing Units are rounded up to three decimal points. The following rules are applied for rounding numbers NNN.NNN0 until NNN.NNN4 are rounded to NNN.NNN and numbers NNN.NNN5 to NNN.NNN9 are rounded to NNN.NN(N+1).
- 5.5 The issue of the Units is not limited by time or amount. The issue, redemption and exchange of the Units is performed on every Banking Day, unless the issue or redemption is suspended pursuant to and in accordance with the Prospectus and/or the Applicable Law.
- 5.6 The subscription and redemption price of a Unit shall be based on the net asset value of the Unit calculated as of the Trade Date. Detailed terms and procedure for Unit transactions, including applicable cut-off times, are provided in the Prospectus.
- 5.7 By submitting a subscription order, the Unitholder confirms that he or she has thoroughly acquainted, consents and undertakes to adhere to the Rules and the Prospectus. The Management Company has the right in its sole discretion to refuse to execute a subscription order if this is deemed necessary for protecting the interests of existing Unitholders, or for the orderly management of the Fund.
- 5.8 Unitholders shall be treated equally in equal circumstances. A Unit grants to the Unitholder the following rights, subject to and in accordance with the terms and procedures provided in the Prospectus and the Applicable Laws:
  - a) right to demand redemption of Units;

- b) right to transfer the Units to third parties;
  - c) right to receive a share of the assets remaining upon liquidation of the Fund and of any distributions made from the Fund in proportion to the number of Units and the class of Units held;
  - d) right to access and receive information regarding the Fund;
  - e) upon request, to receive a confirmation from the Registrar relating to Units registered to his or her name in the Registry;
  - f) to exercise other rights provided by the imperative provisions of the Applicable Law.
- 5.9 The Unitholder is entitled to demand exchange of the Units with shares or units of other funds managed by the Management Company and other class of Units of the Fund. Detailed terms and procedure for exchanging Units, are provided in the Prospectus.
- 5.10 The Fund does not have a general meeting nor any other Unitholders' representative body, and therefore Unitholders do not have the right or the opportunity to participate in the management of the Fund through any Unitholders' representative body. Without limiting the above, the Unit does not grant any right to participate or demand participation in the investment management of the Fund. No Unitholder is entitled to demand termination of the Fund.
- 5.11 Unitholders shall exercise their rights attached to Units in good faith and in accordance with the Rules, the Prospectus, and the Applicable Law. The exercise of such rights shall not be with the intent or objective to damage the interests of other Unitholders, the Management Company, the depositary of the Fund, or any third party.
- 5.12 By the declaration of intention to acquire Units (whether by submitting a subscription order or otherwise), each person consents to the processing of his/her data (including personal data) pursuant to the Management Company's principles of processing client data (available at the website [www.avaron.com/documents](http://www.avaron.com/documents)). The persons authorised by the Management Company to process personal data (authorised processors) and their contact details are also available at the above website. The Management Company has the right to send notices and reports about the Fund at any known postal or e-mail address of the Unitholder.
- 5.13 All proceeds from the investments of the Fund shall be reinvested, and no distributions shall be made to the Unitholders from the Fund. The Unitholder's return on his or her investment into the Fund is reflect in the increase or decrease of the net asset value of the Unit. The Unitholder may realize its return by exercising redemption or sale right.
- 5.14 Subscription and redemption fees, as well as all other direct expenses related to subscribing and redeeming Units shall be paid for by the Unitholder. The subscription and redemption fees relating to issue or redemption of same class of Units may differ depending on the number or value of Units issued or redeemed, or circumstances relating to the structure or arrangement of the issue or redemption. The applicable rates and procedure for determining the subscription and redemption fees are provided in the Prospectus. The Management Company is entitled to reduce or waive subscription and/or redemption fees at its sole discretion. At the request of the Unitholder subscribing for or redeeming Units, the Management Company shall report the amount of subscription or redemption fees charged to him or her in relation to such transaction.

## **6. Fees and Expenses of the Fund**

- 6.1 The Management Company shall be paid a Management Fee on the account of the Fund, on terms and conditions as provided in the Rules and the Prospectus. The maximum annual rate of the Management Fee of the market value of the assets of the Fund is up to:
- a) A Unit – 1.75%
  - b) B Unit – 1.25%
  - c) C Unit – 1.15%
  - d) D Unit – 2.00%
  - e) E Unit – 0.85%
- 6.2 In addition to the Management Fee, the Management Company is entitled to the Performance Fee, if the E Unit's return exceeds the benchmark index return (positive relative return). No Performance Fee is paid for other – A, B, C, D – Units. The rate of the Performance Fee and benchmark index is provided in the Prospectus. The standard performance fee crystallisation period is a calendar year. The entitlement for Performance Fee is revalued on each day when the net asset value of the Fund is calculated and fixed on December 31 each calendar year if Performance Fee is due. Description of the Performance Fee model with examples of calculation and the rate of the Performance Fee is provided in the Prospectus.
- 6.3 The Depositary shall be paid a Depositary Fee for its services on the account of the Fund. The rate of the Depositary Fee and payment conditions are provided in the Prospectus.

- 6.4 The Management Fee and Depositary Fee shall be accrued on each day the net asset value of the Fund is calculated, and shall be paid out monthly for the previous calendar month.
- 6.5 The following costs and expenses shall be paid on the account of the Fund:
- a) expenses related to holding the Fund's assets and making transactions therewith (transaction fees, brokerage fees, transfer fees, subscription fees, exchange fees, registry fees, state fees, etc.), and bank charges for banking services (money transfers, international money transfers, account debiting and crediting, currency conversion etc.);
  - b) expenses related to auditing the Fund and its reports;
  - c) fees related to borrowing on behalf of the Fund;
  - d) fund administration fees to the service providers (the service includes keeping the Fund's accounts and calculating net asset value);
  - e) expenses related to maintaining the Units Registry, based on the price list of the Registrar (including the Registrar's charges related to receiving and processing the subscription and redemption orders);
  - f) charges related to registering and distributing the Fund abroad, incl. costs for agents required by the law, amendments to the Fund's documentation and the expenses related to publishing relevant notices;
  - g) expenses related to marketing and distribution of the Fund, including initial set-up, ongoing registration, listing and quotation fees of distribution platforms;
  - h) expenses related to preparing, printing, translating and distributing the Rules, Prospectus and other Fund documents;
  - i) Other fees and costs related to the management of the Fund related to the Fund's investments, liquidation costs, taxes to the Fund's investments, fees and interest costs (including costs related to negative interest on deposits and other fixed-income investments), costs related to the realisation of rights related to the Fund's assets and legal (incl. court costs) expenses incurred by the Fund.
- 6.6 The total fees and expenses (excl. liquidation fees) paid on behalf of the Fund may not exceed 5% of the weighted average net asset value of the Fund's assets per year.

## **7. Amendments**

- 7.1 The Rules may be amended with the resolution of the Management Company's management board, including in material issues such as amendments to the Investment Policy or Investment Restrictions, fees, costs and expenses payable on behalf of the Fund.
- 7.2 The amendments to the Rules shall be approved by the EFSA, unless such amendments are solely due to changes to the Applicable Law, resulting in the obligation of the Management Company to amend the Rules, or when such amendments do not affect the rights of the Unitholders, or are beneficial to the Unitholders. In such case the approval of the EFSA is not required, and the amended Rules shall only be notified to the EFSA without delay.
- 7.3 Following the registration of the amendments by the EFSA, or notification of the amendments to the EFSA, as relevant, the Management Company shall without delay publish a notice regarding such amendments together with the amended Rules on its website [www.avaron.com](http://www.avaron.com). The amended Rules shall take effect in one month after publishing the corresponding notice, unless the notice prescribes a later date.
- 7.4 In the case of material amendments to the Rules, the Management Company shall ensure that the Unitholders are provided with the period of at least one month before such material amendments enter into effect during which the Management Company redeems the Units at the request of the Unitholder without a redemption fee, or ensures an option to exit by sale of the Units at the price at least equal to the net asset value of the Units. The material amendments shall take effect only after such one-month period has passed.

## **8. Liquidation of the Fund**

- 8.1 The Fund shall be terminated and liquidated only with the resolution of the Management Company's management board, or pursuant to the imperative provisions of the Applicable Law. The approval of the EFSA is required for the liquidation of the Fund.
- 8.2 Upon receipt of the approval from EFSA, the Management Company shall without delay publish a notice regarding the liquidation of the Fund on its website [www.avaron.com](http://www.avaron.com).
- 8.3 Upon publishing the liquidation notice, the Management Company shall suspend the issue and redemption of Units.

- 8.4 The liquidation shall be performed in accordance with the Applicable Law by the Management Company, depositary or a third-party liquidator appointed by the EFSA.
- 8.5 The Management Company (or other designated liquidator) shall sell and dispose of the assets of the Fund as soon as possible and in accordance with the interests of the Fund (and thereby collective interests of the Unitholders), collect the debts owed to the Fund and satisfy the claims of the creditors of the Fund. The liquidation proceedings must be completed within 6 months starting from the publishing of the liquidation notice. With the consent of the EFSA such period may be extended to up to 18 months.
- 8.6 The costs and expenses of the liquidation procedure may be covered at the account of the Fund. However, such expenses shall not exceed 2% of the net asset value of the Fund at the date of the resolution to liquidate, unless such additional expenses are identified and justified with the liquidation resolution. If the actual liquidation expenses exceed the limit threshold, the Management Company or the person who was the designated Management Company prior to liquidation shall be responsible for the expenses exceeding such limit.
- 8.7 The Management Company (or other designated liquidator) shall distribute the remaining assets between the Unitholders on the basis of the class, number and net asset value of Units owned by each of them. Notice concerning the liquidation distributions shall be published on the Management Company's website [www.avaron.com](http://www.avaron.com).

## **9. Liability**

- 9.1 The Management Company shall compensate to the Fund any damages attributable to its intentional breach or gross negligence in performance of its obligations arising out of the Rules, Prospectus, documents issued thereunder, or the Applicable Law, subject to and in accordance with the imperative provisions of the Applicable Law.
- 9.2 The Management Company shall only be liable for direct monetary damage, except and to the extent the imperative provisions of the Applicable Law provide otherwise. Liability of the Management Company not specifically regulated in the Rules or the Prospectus, shall be excluded to the maximum extent permitted by the Applicable Law.
- 9.3 Unitholder is not personally liable for the obligations of the Fund assumed by the Management Company on behalf of the Fund, or for obligations the performance of which the Management Company has the right to demand from the Fund pursuant to the Rules and the Prospectus. The Unitholder's liability for such obligations is limited to his or her share of the Fund's assets.
- 9.4 The Management Company shall not assume any obligations on behalf of any individual Unitholder. In order to satisfy a claim against a Unitholder, the claim may be enforced against the Units held by the Unitholder, not the assets of the Fund.