



## **Avaron Flexible Strategies Fund**

**ANNUAL REPORT FOR THE FINANCIAL YEAR 2019**

**Audited by KPMG**

## TABLE OF CONTENTS

FUND FACTS .....	3
MANAGEMENT REPORT .....	4
CONFIRMATION OF ANNUAL FINANCIAL STATEMENTS OF 2019 .....	5
FINANCIAL STATEMENTS .....	6
BALANCE SHEET .....	6
STATEMENT OF INCOME AND EXPENSES .....	7
STATEMENT OF CHANGES IN NET ASSETS .....	8
STATEMENT OF CASH FLOWS .....	9
NOTES TO THE FINANCIAL STATEMENTS .....	10
NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED .....	10
NOTE 2. RISK MANAGEMENT .....	16
NOTE 3. CASH AND CASH EQUIVALENTS .....	22
NOTE 4. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES TO CATEGORIES AND LEVELS ..	23
NOTE 5. NET GAIN/LOSS FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS ..	25
NOTE 6. TRANSACTIONS WITH RELATED PARTIES .....	26
NOTE 7. DERIVATIVE INSTRUMENTS .....	27
NOTE 8. EVENTS AFTER THE REPORTING DATE .....	29
STATEMENT OF INVESTMENTS .....	30
STATEMENT OF COMMISSIONS .....	36
REPORT ON REMUNERATION OF THE FUND MANAGEMENT COMPANY .....	38
INDEPENDENT CERTIFIED AUDITOR'S REPORT .....	39

## FUND FACTS

Avaron Flexible Strategies Fund is a public common alternative investment fund registered in the Republic of Estonia.

Name of the Fund	Avaron Flexible Strategies Fund
Fund Management Company	AS Avaron Asset Management (reg. no. 11341336)
Registered address and contact details of the Fund Management Company	Address: Narva mnt 7d, 10117 Tallinn, Estonia Phone: +372 664 4200 Facsimile: +372 664 4201 E-mail: <a href="mailto:avaron@avaron.com">avaron@avaron.com</a> <a href="http://www.avaron.com">www.avaron.com</a>
Depository & custody bank	Swedbank AS (reg. no. 10060701)
Fund administration (NAV calculation) & Transfer Agent services	Swedbank AS (reg. no. 10060701)
Auditor	KPMG Baltics OÜ (reg. no. 10096082)
Supervisor	Estonian Financial Supervision Authority
Investment managers	Valdur Jaht, Peter Priisalm, Rain Leesi
Fund established	25 November 2008
Start of the Fund's activities	17 December 2008
Report period	1 January 2019–31 December 2019

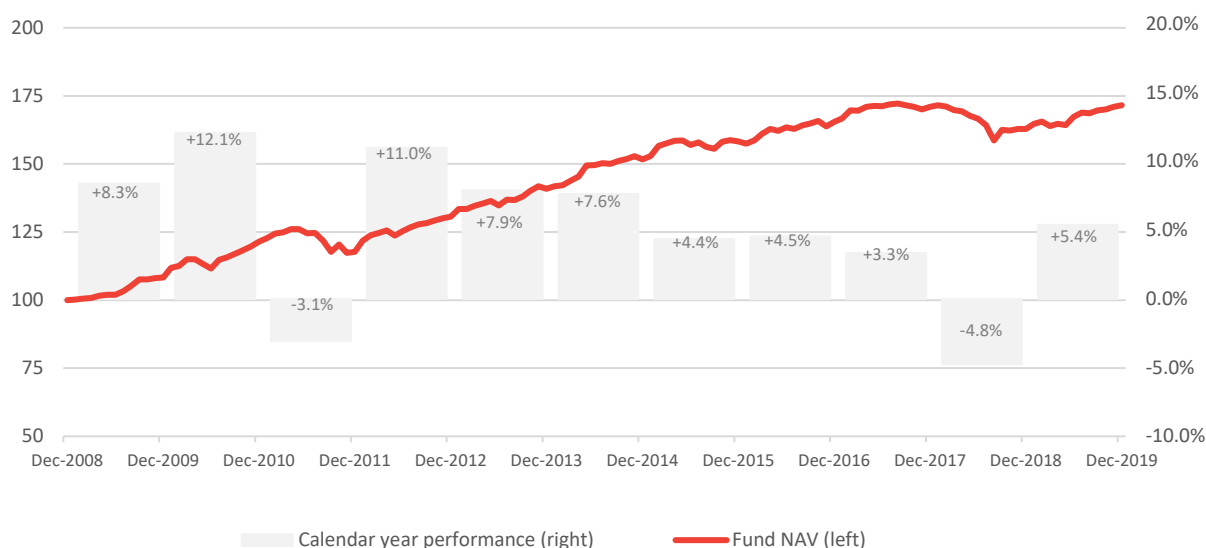
## MANAGEMENT REPORT

Avaron Flexible Strategies Fund (hereinafter: “the Fund”) is an actively managed fund set up for investors that wish to assign asset allocation decision making to Avaron. The Fund can invest in all liquid asset classes, including cash, bonds and fixed income, equities, funds and derivatives. As allocation to different asset classes varies based on Avaron investment managers' views on valuation levels and available investment opportunities, the risk level and risk profile of the Fund are changing over time. However, while making investments, we keep in mind the absolute return target in 3-5 year horizon. The Fund does not guarantee any of the capital invested. The Fund has a global mandate with bias to Central and Eastern Europe, a region of Avaron’s competence.

In 2019 the Fund’s net return (investor return after the deduction of all fees) was +5.4%. In 5 years the Fund has delivered net return of +13.1%. The total net assets of the Fund remained at €10.2 million as at the end of 2019. The Fund portfolio is 10.4% invested in equities offering 6% dividend yield and trading at 10x earnings, 34% in bonds with 5.3% yield to worst of 2 years (adjusted to FX hedging costs), the rest is kept in cash to be used in case of market weakness.

**Table 1.** Net return of the Fund units, in EUR

	1 year	3 years	5 years	7 years	Since inception
<b>Unit</b>	5.4%	3.7%	13.1%	31.3%	71.6%



**Graph 1.** Performance of Fund’s NAV since launch

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

31 March 2020

Kristel Kivinurm-Priisalm  
Member of the Management Board

## CONFIRMATION OF ANNUAL FINANCIAL STATEMENTS OF 2019

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

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

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

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

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

**FINANCIAL STATEMENTS****BALANCE SHEET**

In EUR

<b>ASSETS</b>	<b>Note</b>	<b>31/12/2019</b>	<b>31/12/2018</b>
Cash and cash equivalents	3	4,344,180	4,864,742
Term deposits	3	1,453,642	700,905
Financial assets at fair value through profit or loss:			
Shares and units	4	1,061,244	1,082,010
Bonds	4	2,957,385	2,669,592
Derivatives	4; 7	18,343	-
Loans and receivables			
Receivables and prepayments	4	1	153,373
Unlisted bonds	4	503,081	960,506
<b>TOTAL ASSETS</b>		<b>10,337,876</b>	<b>10,431,128</b>
<b>LIABILITIES</b>			
Financial liabilities at fair value through profit or loss:			
Derivatives	4; 7	-	207,527
Other financial liabilities			
Payables to the management company	4; 6	69,060	10,888
Payables to the depository	4	2,213	2,356
Other liabilities	4	71,182	10,212
<b>TOTAL LIABILITIES (except net assets attributable to holders)</b>		<b>142,455</b>	<b>230,983</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS</b>		<b>10,195,421</b>	<b>10,200,145</b>

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**STATEMENT OF INCOME AND EXPENSES**

In EUR

<b>INCOME</b>	<b>Note</b>	<b>01/01/2019- 31/12/2019</b>	<b>01/01/2018- 31/12/2018</b>
<b>Interest income</b>		<b>279,620</b>	<b>304,097</b>
From bonds		272,050	300,529
From deposits		7,570	3,568
<b>Dividend income</b>			
From shares and units		85,093	78,311
<b>Net gain/loss from financial assets at fair value through profit or loss</b>		<b>325,866</b>	<b>-807,999</b>
From shares and units	5	213,017	-299,328
From bonds	5	226,135	-320,168
From derivative instruments	5	-113,286	-188,503
<b>Net gain/loss from foreign exchange</b>		<b>55,523</b>	<b>39,506</b>
<b>Other financial income</b>			
Other interest income		800	-
<b>TOTAL INCOME</b>		<b>746,902</b>	<b>-386,085</b>
<b>OPERATING EXPENSES</b>			
Management fees	6	127,888	144,794
Performance fees	6	59,231	104
Custodian fees		23,078	26,458
Transaction fees		396	304
Other operating expenses		6,028	6,510
<b>TOTAL OPERATING EXPENSES</b>		<b>216,621</b>	<b>178,170</b>
<b>NET INCOME</b>		<b>530,281</b>	<b>-564,255</b>

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# STATEMENT OF CHANGES IN NET ASSETS

In EUR

	01/01/2019- 31/12/2019	01/01/2018- 31/12/2018	01/01/2017- 31/12/2017
<b>NET ASSET VALUE AT THE BEGINNING OF THE PERIOD</b>	<b>10,200,145</b>	<b>13,149,570</b>	<b>10,781,579</b>
Cash received for fund units issued	36,522	152,805	2,866,180
Cash paid for fund units redeemed	-571,527	-2,537,975	-843,269
Net result of the Fund	530,281	-564,255	345,080
<b>NET ASSET VALUE AT THE END OF THE PERIOD</b>	<b>10,195,421</b>	<b>10,200,145</b>	<b>13,149,570</b>
	<b>31/12/2019</b>	<b>31/12/2018</b>	<b>31/12/2017</b>
Number of units in circulation at the end of the period:	594,269.085	626,430.741	769,197.239
Net asset value of an unit:	17.1562	16.2830	17.0952
Total net asset value of the units in circulation:	10,195,421	10,200,145	13,149,570

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## STATEMENT OF CASH FLOWS

In EUR

	01/01/2019- 31/12/2019	01/01/2018- 31/12/2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received	274,156	313,773
Dividends received	89,108	74,930
Net result from foreign exchange	-333,866	52,117
Sale of investments	2,706,489	2,880,379
Purchase of investments	-2,705,061	-2,098,672
Cash collateral for derivatives	150,000	-150,000
Operating expenses paid	-160,471	-225,064
	<b>20,355</b>	<b>847,463</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of units	36,522	162,805
Payments on redemption of units	-579,520	-2,529,981
	<b>-542,998</b>	<b>-2,367,176</b>
<b>TOTAL CASH FLOWS</b>	<b>-522,643</b>	<b>-1,519,713</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at the beginning of the period	4,864,742	6,370,560
Effect of exchange rate fluctuations on cash and cash equivalents	2,081	13,895
<b>Cash and cash equivalents at the end of the period</b>	<b>4,344,180</b>	<b>4,864,742</b>

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## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### Use of estimates and judgements

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

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

### Foreign currency transactions

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

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

### Financial instruments

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

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

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

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

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

### *Classification*

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

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

### *Recognition*

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

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

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

### *Fair value of financial instruments*

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

- level 1 – unadjusted quoted prices in active market for identical assets or liabilities;
- level 2 – inputs other than quoted prices in level 1 that are observable directly or indirectly;
- level 3 – unobservable inputs for an asset or liability.

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

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

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

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

#### *Financial instruments at amortised cost*

At each reporting date the Fund recognises loss allowances for expected credit losses on financial assets measured at amortised cost. The loss allowance for a financial instrument is measured at an amount equal the lifetime expected credit losses if the credit risk on that financial instrument has increased significantly since initial recognition. When determining the credit risk, financial assets are divided into two categories. Financial assets that are determined to have low credit risk at the reporting date, and other financial assets for which credit risk has not increased significantly since initial recognition are classified to the first category. Financial assets which credit risk has increased significantly are classified to the second category. The Fund measures loss allowances for the first category instruments at an amount equal to 12-month expected credit losses. The second category instruments' loss allowances are measured at an amount equal to lifetime expected credit losses.

Unlisted bonds' credit risk is assessed individually. As the financial position of the issuers has not deteriorated and economic outlook remains favourable, there are no credit losses assessed on unlisted bonds in the application of IFRS 9. The Fund Management Company has applied regular evaluation process to financial assets measured at amortised cost, which includes, among other aspects, counterparties' payment behaviour, financial performance and overall outlook of the economic environment.

#### *Derecognition*

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

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### Offsetting

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

### Cash and cash equivalents and cash flows

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

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

### Deposits

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

### Receivables

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

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

### Reverse-repo transactions

Securities that are bought using reverse repurchase agreement (reverse-repo) are recognized under loans and prepayments to customers. The difference between the sales and repurchase price is considered as interest and is accrued during the contract period using effective interest rate method.

### Other financial liabilities

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

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

### Fund units

The Fund has one class of units which are reported as financial liabilities. Units are issued on every banking day. Units are redeemed with either 7 calendar days' or 30 calendar days' advance notice, as may be chosen by redeeming Unitholder in his or her sole discretion. Switching Units is not allowed. The redemption price of a Unit shall depend on the notice period for fulfilling the redemption order, as chosen by the unit-holder. If the Unitholder has chosen a notice period of 7 calendar days, the redemption price shall be the net asset value of the Unit that is calculated as of the seventh calendar day following the day of receiving the redemption order. If the Unitholder has chosen a notice period of 30 calendar days, the redemption price shall be the net asset value of the Unit that is calculated as of the last Banking Day of the 30 calendar days immediately following the day of receiving the redemption order. In case the Unitholder redeems the Units with 7 calendar days' advance notice, a redemption fee is applicable. In case the Unitholder redeems the Units with 30 calendar days' advance notice, no redemption fee is applied.

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The net asset value of a Unit is determined by dividing the total net asset value of a class of Units by the number of Units of that class that have been issued and not redeemed (adjusted by the number of Units from unsettled subscription and redemption orders that have been received by the management company).

The income of the Fund shall not be distributed to unit holders but shall be reinvested. A unit holder's profit or loss is reflected in the Unit's net asset value change.

### Interest and dividend income

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

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

### Operating expenses

The operating expenses of the Fund include the management fee and performance fee payable to the management company, the depository fee payable to the Fund's depository, fund administration fees, fees to the registrar of fund units, transaction fees and other operating expenses stated in the Fund rules.

### Related parties

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

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## NOTE 2. RISK MANAGEMENT

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

Avaron Flexible Strategies is an asset allocation fund targeting long-term capital growth through economic and market cycles by combining investments into various asset classes, industries and geographies. Predominant exposure of the Fund is invested in listed equities and exchange traded funds, listed and non-listed fixed income, and money market instruments or cash. The allocation to different asset classes depends on Avaron investment managers' views on valuation levels and available investment opportunities, and varies over time. As a result the risk level of the Fund also changes over time.

The Fund is mainly exposed to market risk, including currency risk, interest rate risk and price risk, credit risk and liquidity risk arising from the financial instruments it holds. Funds investing in equities are subject to loss of value because of weakness in the stock market, a particular industry, or specific holdings. Stock prices can decline for many reasons, including adverse political or economic developments, changes in investor psychology, heavy institutional selling, or historical and prospective earnings of the issuer.

Funds that invest in fixed income are subject to interest rate and credit risk. Interest rate risk arises from potential decline in bond prices that accompanies a rise in interest rates. Longer-maturity bonds typically decline more than those with shorter maturities. Credit risk is a chance that any fund holding could have its credit rating downgraded or that a bond issuer will default (fail to make timely payments of interest or principal).

Foreign securities carry additional risks, including exchange rate changes, adverse political and economic developments, differing regulatory environments and accounting standards.

Avaron has established procedures for internal risk management in order to identify, monitor, measure and, if necessary, hedge the risks associated with the Fund's investments. Avaron regularly examines that the Fund is in compliance with its investment restrictions. Portfolio diversification across sectors, countries, currencies and instruments alongside with liquidity analysis are the main risk management tools used. In addition, Avaron may use derivatives to reduce investment risks. Avaron's investment team actively follows financial results of issuers and makes relevant changes in the Fund's portfolio based on the Fund Managers' views of the economy and attractiveness of each financial instrument in respect to issuer specific risk.

### Credit risk

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

Maximum exposure to credit risk as of the end of the period in EUR:

	31/12/2019	% of NAV	31/12/2018	% of NAV
Cash and cash equivalents	4,344,180	42.61%	4,864,742	47.69%
Term deposits	1,453,642	14.26%	700,905	6.87%
Corporate bonds	2,957,385	29.00%	2,669,592	26.17%
Loans and receivables				
Receivables and prepayments	1	0.00%	153,373	1.50%
Unlisted bonds	503,081	4.94%	960,506	9.42%
<b>TOTAL</b>	<b>9,258,289</b>	<b>90.81%</b>	<b>9,349,118</b>	<b>91.65%</b>

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The following table presents information related to the Fund's financial derivative instruments assets and liabilities by counterparty net of amounts available for offset under ISDA agreements and net of related collateral received or pledged by the Fund as of the end of the period in EUR:

31/12/2019		Gross Amount Not Offset in the Balance Sheet				
		Gross Amounts of	Derivative Financial			
Counterparty	Credit Rating	Assets in the Balance Sheet	Instruments Available to Offset	Cash Collateral Pledged	Non-Cash Collateral	Net Amount
Swedbank AS	AA- (S&P) - Swedbank AB	18,343	-	-	-	18,343
TOTAL		18,343	-	-	-	18,343

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

Allocation of bonds according to Standard & Poor's credit rating scale in EUR:

	31/12/2019	% of NAV	31/12/2018	% of NAV
BB-	204,917	2.01%	555,976	5.45%
B+	1,225,989	12.02%	1,156,385	11.34%
B	297,916	2.92%	174,374	1.71%
B-	70,098	0.69%	-	-
No rating	1,661,546	16.30%	1,743,363	17.09%
<b>TOTAL</b>	<b>3,460,466</b>	<b>33.94%</b>	<b>3,630,098</b>	<b>35.59%</b>

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

Initialled for identification purposes only  
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Date/kuupäev.....31.03.2020  
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## Liquidity risk

Liquidity risk refers to the risk that due to low liquidity a financial instrument cannot be sold at the desired time, at the desired price or there is no market (buyer) at all. Liquidity risk is particularly relevant in case of investing into small cap companies and instruments not traded on a regulated securities market. The Fund's financial assets include unlisted bond investments, which are generally illiquid. As a result, the Fund may not be able to liquidate some of its unlisted instruments in due time to meet its liquidity requirements.

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

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

	Up to 1 month		Over 1 month	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
Payables to the management company	69,060	10,888	-	-
Payables to the depository	2,213	2,356	-	-
Payments on redemption of units	70,947	7,994	-	-
Other liabilities	-	-	235	2,219
Net Assets attributable to Holders	-	-	10,195,421	10,200,145
<b>TOTAL</b>	<b>142,220</b>	<b>21,238</b>	<b>10,195,656</b>	<b>10,202,364</b>

The Fund maintains a credit line of 1,000,000 EUR that can be accessed to meet short-term liquidity needs. These resources have not been used as of 31/12/2019.

Initialled for identification purposes only  
Allkirjastatud identifitseerimiseks  
Date/kuupäev.....31.03.2020  
Signature/allkiri.....*KPMG*  
KPMG, Tallinn

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

Instrument	Country	Sector	% of NAV	
			31/12/2019	31/12/2018
LHV GROUP SUBORDIN 29.10.25	Estonia	Financials	3.86%	3.81%
YAPI VE KRD BK 5.5% 06.12.22	Turkey	Financials	3.46%	2.91%
TURKIYE VAKIFLAR BANK 01.11.27	Turkey	Financials	3.13%	5.51%
INBANK SUBORDINATED 28.09.2026	Estonia	Financials	2.03%	2.11%
B2 HOLDING AS FRN EUR 08.12.20	Norway	Financials	2.01%	2.06%
MAGNETIC MRO 8.00% 21.12.21 <sup>1</sup>	Estonia	Industrial	1.96%	1.96%
KERNEL HOLDING 8.75% 31.01.22	Luxembourg	Consumer Staples	1.95%	1.71%
STENA 7% 01.02.2024	Sweden	Industrial	1.86%	-
TURKIYE BANKASI 7.85% 10.12.23	Turkey	Financials	1.84%	1.52%
INBANK SUBORDINATED 19.12.2029	Estonia	Financials	1.82%	-
GL LIMAN ISLETM 8.125% 14.11.21	Turkey	Industrial	1.74%	1.66%
LHV GROUP SUBORDIN 28.11.28	Estonia	Financials	1.71%	1.76%
MAINOR ULEMISTE 5.5% 05.04.23 <sup>1</sup>	Estonia	Real Estate	1.49%	1.49%
ENDOVER AURORA 11.00% 14.12.20 <sup>1</sup>	Estonia	Real Estate	1.48%	2.96%
BULGARIA REAL ESTATE FUND	Bulgaria	Real Estate	1.32%	1.27%
IUTECR 13.000% 07.08.2023 EUR	Luxembourg	Financials	1.03%	-
PRO-GEST 3.250% 15.12.2024 EUR	Italy	Materials	0.97%	-
HKSCAN 2.625% 21.09.2022	Finland	Consumer Staples	0.91%	-
HEIDELBERGER 8.000% EUR 15.05.22	Germany	Industrial	0.69%	-
ENDOVER FABRIK 11.00% 17.10.20 <sup>1</sup>	Estonia	Real Estate	-	3.01%
ATRIUM EUROPEAN REAL ESTATE	Jersey	Real Estate	-	1.86%
FINANSBANK 6.25% 30.04.19 USD	Turkey	Financials	-	1.73%
TALLINK GRUPP AS	Estonia	Industrial	-	1.66%
TURKIYE BANKASI VAR% 29.06.28	Turkey	Financials	-	1.39%
<b>TOTAL</b>			<b>35.26%</b>	<b>40.38%</b>

<sup>1</sup>Bonds not traded on a regulated market

As the bonds are not traded on the stock exchange, we are not able to calculate the average daily turnover of bonds. Due to the conservative approach, we have listed all the bonds in the list above. Liquidation of remaining positions based on six months average trading volume may probably take less than 20 days.

### Market risk

Market risk refers to the risk of suffering losses due to adverse price movements at a specific securities market or a market for other assets. Adverse price movements may be caused by a country's weak economic indicators, poor financial results of an business sector, volatile securities market, investors' behaviour and psychology and other factors.

Diversification among sectors, countries, currencies and instruments are the main risk management tools used by the Fund to address market risk.

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Date/kuupäev..... 31.03.2020  
Signature/allkiri..... *KPMG*  
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**Currency risk**

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

	<b>31/12/2019</b>	<b>% of Assets</b>	<b>31/12/2018</b>	<b>% of Assets</b>
EUR	7,677,243	74.27%	7,312,998	70.11%
USD	1,822,342	17.63%	2,353,747	22.57%
BGN	341,269	3.30%	329,025	3.15%
RON	289,835	2.80%	362,625	3.48%
SEK	106,273	1.03%	-	-
TRY	72,463	0.70%	61,947	0.59%
RUB	26,068	0.25%	8,418	0.08%
RSD	2,383	0.02%	2,368	0.02%
<b>TOTAL</b>	<b>10,337,876</b>	<b>100.00%</b>	<b>10,431,128</b>	<b>100.00%</b>

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

	<b>31/12/2019</b>	<b>% of Assets</b>	<b>31/12/2018</b>	<b>% of Assets</b>
BGN	341,269	3.30%	329,025	3.15%
RON	289,835	2.80%	362,625	3.48%
USD	229,947	2.22%	-35,454	-0.34%
SEK	106,273	1.03%	-	-
TRY	72,463	0.70%	61,947	0.59%
RUB	26,068	0.25%	8,418	0.08%
RSD	2,383	0.02%	2,368	0.02%
<b>TOTAL</b>	<b>1,068,238</b>	<b>10.32%</b>	<b>728,929</b>	<b>6.98%</b>

**Currency risk sensitivity analysis**

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

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

	<b>31/12/2019</b>			<b>31/12/2018</b>		
	<b>Currency weakening</b>	<b>Possible impact</b>	<b>Currency's % of NAV</b>	<b>Currency weakening</b>	<b>Possible impact</b>	<b>Currency's % of NAV</b>
RON	-35%	-102,204	2.84%	-34%	-123,809	3.56%
USD	-36%	-70,607	1.95%	-36%	15,407	-0.43%
TRY	-80%	-57,849	0.71%	-81%	-50,296	0.61%
SEK	-31%	-32,571	1.04%	-	-	-
BGN	-8%	-28,286	3.35%	-10%	-32,468	3.23%
RUB	-66%	-17,262	0.26%	-66%	-7,826	0.12%
RSD	-40%	-963	0.02%	-40%	-958	0.02%
<b>TOTAL</b>		<b>-309,742</b>	<b>10.17%</b>		<b>-199,950</b>	<b>7.10%</b>

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*Instrument's price risk*

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

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

	<b>31/12/2019</b>	<b>% of NAV</b>	<b>31/12/2018</b>	<b>% of NAV</b>
Financials	2,382,040	23.36%	2,419,011	23.71%
Industrial	924,220	9.07%	496,939	4.87%
Real Estate	640,620	6.28%	1,079,649	10.59%
Consumer Staples	475,960	4.66%	337,278	3.31%
Materials	98,870	0.97%	-	-
Utilities	-	-	209,815	2.06%
Consumer Discretionary	-	-	169,416	1.66%
<b>TOTAL</b>	<b>4,521,710</b>	<b>44.34%</b>	<b>4,712,108</b>	<b>46.20%</b>

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

	<b>31/12/2019</b>	<b>% of NAV</b>	<b>31/12/2018</b>	<b>% of NAV</b>
Estonia	1,749,935	17.16%	2,039,887	20.01%
Turkey	1,106,877	10.86%	1,564,354	15.33%
Luxembourg	304,144	2.98%	174,374	1.71%
Sweden	295,843	2.90%	-	-
Russia	259,987	2.55%	194,260	1.90%
Norway	204,917	2.01%	209,875	2.06%
Jersey	202,964	1.99%	190,021	1.86%
Bulgaria	134,975	1.32%	129,522	1.27%
Italy	98,870	0.97%	-	-
Finland	93,100	0.91%	-	-
Germany	70,098	0.69%	-	-
Romania	-	-	209,815	2.06%
<b>TOTAL</b>	<b>4,521,710</b>	<b>44.34%</b>	<b>4,712,108</b>	<b>46.20%</b>

*Instrument's price risk sensitivity analysis*

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

	<b>Probability</b>	<b>+/- possible change of Fund's NAV during year</b>	
		<b>2019</b>	<b>2018</b>
$\sigma$	68.27%	2.61%	2.68%
$2\sigma$	95.45%	5.22%	5.36%
$3\sigma$	99.73%	7.82%	8.04%

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**NOTE 3. CASH AND CASH EQUIVALENTS****Deposits in EUR**

	<b>31/12/2019</b>	<b>% of NAV</b>	<b>31/12/2018</b>	<b>% of NAV</b>
Deposits, Luminor Bank AS	1,050,000	10.30%	400,000	3.92%
Deposits, Bigbank AS	400,000	3.92%	300,000	2.95%
Over-night deposits, Swedbank AS	119,090	1.17%	482,613	4.73%
<b>TOTAL*</b>	<b>1,569,090</b>	<b>15.39%</b>	<b>1,182,613</b>	<b>11.60%</b>

\* "Term deposits" in balance sheet include also accrued interest in the amount of 3,641.68 EUR as at 31/12/2019 and 905.27 EUR as at 31/12/2018. "Receivables and prepayments" in the balance sheet include also accrued interest from overnight deposit in the amount of 0.60 EUR as at 31/12/2019 (31/12/2018: 12.89 EUR). Deposits' maturity is between 1-12 months and interest rates vary from 0.25-1.10%.

**Cash and cash equivalents by currency**

	<b>31/12/2019</b>	<b>% of NAV, converted into EUR</b>	<b>31/12/2018</b>	<b>% of NAV, converted into EUR</b>
<b>Swedbank AS</b>		<b>23.37%</b>		<b>22.31%</b>
EUR	1,737,516	17.04%	1,429,887	14.02%
RON	1,388,541	2.84%	711,561	1.50%
BGN	403,490	2.02%	390,209	1.96%
USD	133,420	1.17%	553,654	4.73%
RUB	1,811,535	0.26%	672,903	0.08%
RSD	280,382	0.02%	280,382	0.02%
TRY	13,380	0.02%	478	0.00%
<b>Luminor Bank AS</b>		<b>9.43%</b>		<b>15.58%</b>
EUR	961,107	9.43%	1,589,067	15.58%
<b>AS SEB Pank</b>		<b>9.81%</b>		<b>9.80%</b>
EUR	999,996	9.81%	999,996	9.80%
<b>TOTAL</b>		<b>42.61%</b>		<b>47.69%</b>

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

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 Date/kuupäev..... 31.03.2020  
 Signature/allkiri.....  
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**NOTE 4. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES TO CATEGORIES AND LEVELS**

In EUR

31/12/2019	Measured at fair value through profit or loss			Financial assets at amortised cost			Financial liabilities at amortised cost		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>ASSETS</b>									
Cash and cash equivalents	-	-	-	4,344,180	-	-	-	-	-
Term deposits	-	-	-	1,453,642	-	-	-	-	-
Shares and units	1,061,244	-	-	-	-	-	-	-	-
Bonds	2,957,385	-	-	-	-	-	-	-	-
Derivative instruments	-	18,343	-	-	-	-	-	-	-
Unlisted bonds	-	-	-	-	-	503,081	-	-	-
Interest receivable	-	-	-	1	-	-	-	-	-
<b>LIABILITIES</b>									
Payables to the management company	-	-	-	-	-	-	-	69,060	-
Payables to the depository	-	-	-	-	-	-	-	2,213	-
Payments on redemption of units*	-	-	-	-	-	-	-	70,947	-
Other liabilities	-	-	-	-	-	-	-	235	-
Net assets attributable to holders	-	-	-	-	-	-	-	10,195,421	-
<b>TOTAL</b>	<b>4,018,629</b>	<b>18,343</b>	<b>-</b>	<b>5,797,823</b>	<b>-</b>	<b>503,081</b>	<b>-</b>	<b>10,337,876</b>	<b>-</b>

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

Additional information for instruments categorised under Level 3

	<b>Unlisted bonds</b>
Starting balance of Level 3 instruments	960,506
Sales	-450,000
Interest received	72,169
Interest accrued	3,081
<b>Total level 3 investments</b>	<b>503,081</b>

According to the estimates of the Fund Management Company the carrying value of financial assets and liabilities at amortised cost amounts approximate fair value. There have been no transfers of the assets designated as at fair value from one level to another as of the end of the period.

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 Allkirjastatud identifitseerimiseks  
 Date/kuupäev.....31.03.2020  
 Signature/alkiri.....  
 KPMG, Tallinn

In EUR

31/12/2018

	Measured at fair value through profit or loss			Financial assets at amortised cost			Financial liabilities at amortised cost		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>ASSETS</b>									
Cash and cash equivalents	-	-	-	4,864,742	-	-	-	-	-
Term deposits	-	-	-	700,905	-	-	-	-	-
Shares and units	1,082,010	-	-	-	-	-	-	-	-
Bonds	2,669,592	-	-	-	-	-	-	-	-
Unlisted bonds	-	-	-	-	-	960,506	-	-	-
Interest receivable	-	-	-	13	-	-	-	-	-
Dividend receivable	-	-	-	3,360	-	-	-	-	-
Collateral receivable	-	-	-	150,000	-	-	-	-	-
<b>LIABILITIES</b>									
Derivative instruments	-	207,527	-	-	-	-	-	-	-
Payables to the management company	-	-	-	-	-	-	-	10,888	-
Payables to the depository	-	-	-	-	-	-	-	2,356	-
Payments on redemption of units*	-	-	-	-	-	-	-	7,993	-
Other liabilities	-	-	-	-	-	-	-	2,219	-
Net assets attributable to holders	-	-	-	-	-	-	-	10,200,145	-
<b>TOTAL</b>	<b>3,751,602</b>	<b>207,527</b>	-	<b>5,719,020</b>	-	<b>960,506</b>	-	<b>10,223,601</b>	-

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

Additional information for instruments categorised under Level 3

	<b>Unlisted bonds</b>
Starting balance of Level 3 instruments	956,302
Purchases	800,000
Sales	-800,000
Interest received	17,375
Interest accrued	10,506
<b>Total level 3 investments</b>	<b>960,506</b>

According to the estimates of the Fund Management Company the carrying value of financial assets and liabilities at amortised cost amounts approximate fair value. There have been no transfers of the assets designated as at fair value from one level to another as of the end of the period.

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 Date/kuupäev.....31.03.2020  
 Signature/allkiri.....  
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## NOTE 5. NET GAIN/LOSS FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In EUR

	01/01/2019- 31/12/2019	01/01/2018- 31/12/2018
<b>Net gain/loss from financial assets at fair value through profit or loss</b>		
<b>From shares and units</b>		
Sales profit/(-loss)	176,662	12,699
Unrealised profit /(-loss)	36,355	-312,027
<b>From bonds</b>		
Sales profit/(-loss)	1,615	-31,472
Unrealised profit /(-loss)	224,520	-288,696
<b>From derivative instruments</b>		
Sales profit/(-loss)	-339,156	84,349
Unrealised profit /(-loss)	225,870	-272,852
<b>Total net gain/(-loss)</b>	<b>325,866</b>	<b>-807,999</b>

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## NOTE 6. TRANSACTIONS WITH RELATED PARTIES

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

Consolidation exception applies for the Fund as it corresponds to Investment Entity's definition introduced in IFRS 10. The Fund carries its investment in Avaron Flexible Strategies Fund at fair value through profit or loss.

Transactions with related parties in EUR were as follows:

	01/01/2019- 31/12/2019	01/01/2018- 31/12/2018
<b>Fund Management Company</b>		
Paid management and performance fees	187,119	144,898
Units bought	-	394,456
<b>Other entities belonging to the consolidation group of the Fund Management Company</b>		
Units bought	-	98,000
Units sold	-	394,456
<b>TOTAL</b>	<b>187,119</b>	<b>1,031,810</b>

The balances outstanding with related parties were as follows:

	31/12/2019	31/12/2018
<b>Fund Management Company</b>		
Management and performance fee payable	69,060	10,888
<b>TOTAL</b>	<b>69,060</b>	<b>10,888</b>

Related parties of the Fund Management Company owned the units of Avaron Flexible Strategies Fund in market value as follows:

	31/12/2019	31/12/2018
Ultimate parent of the Fund Management Company	1,591,582	1,510,575
Fund Management Company	398,554	378,269
<b>TOTAL</b>	<b>1,990,136</b>	<b>1,888,844</b>

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Date/kuupäev..... 31.03.2020  
Signature/allkiri..... *KPMG*  
KPMG, Tallinn

**NOTE 7. DERIVATIVE INSTRUMENTS**

In EUR  
31/12/2019

Type of Instrument	Issuer of Instrument	Quantity of underlying	The underlying currency	Exercise date	Price of Instrument / premium	Exercise price		Market value		Equity of the issuer of the instrument
						Per unit	Total	Date	Total	
Swap	Swedbank AS	1,610,738	EUR	08/05/2020	1.0000	1.0000	1,610,738	31/12/2019	-	EUR 1,652,001,000
		1,800,000	USD	08/05/2020	0.8847	0.8949	1,610,738	31/12/2019	18,343	EUR 1,652,001,000
TOTAL									18,343	

**Collateral and margin accounts received and paid by the Fund in respect of financial derivative instruments**

No collateral was pledged or received at the end of 31/12/2019

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Date/kuupäev.....31.03.2020.....  
Signature/allkiri.....*KPMG*.....  
KPMG, Tallinn

Avaron Flexible Strategies Fund

In EUR  
31/12/2018

Type of Instrument	Issuer of Instrument	Quantity of underlying	The underlying currency	Exercise date	Price of Instrument / premium	Exercise price		Market value		Equity of the issuer of the instrument
						Per unit	Total	Date	Total	
Swap	Swedbank AS	2,181,674	EUR	08/02/2019	1.0000	1.0000	2,181,674	31/12/2018	-	EUR 1,666,587,000
		2,750,000	USD	08/02/2019	0.8688	0.7933	2,181,674	31/12/2018	-207,527	EUR 1,666,587,000
TOTAL									-207,527	

Collateral and margin accounts received and paid by the Fund in respect of financial derivative instruments

In EUR  
31/12/2018

Type of Collateral	Counterparty	Currency	Amount received	Amount paid
Cash	Swedbank AS	EUR	-	150,000
<b>TOTAL</b>			<b>-</b>	<b>150,000</b>

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Allkirjastatud identifitseerimiseks  
Date/kuupäev..... 31.03.2020  
Signature/allkiri..... *KPMG*  
KPMG, Tallinn

## NOTE 8. EVENTS AFTER THE REPORTING DATE

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

Initialed for identification purposes only  
Allkirjastatud identifitseerimiseks  
Date/kuupäev.....31.03.2020.....  
Signature/allkiri.....*[Signature]*.....  
KPMG, Tallinn

## STATEMENT OF INVESTMENTS

In EUR 31/12/2019

Name	ISIN	Emitent country	Rating agency	Rating	FX	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
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**SHARES****SHARES LISTED ON STOCK EXCHANGE:**

ATRIUM EUROPEAN REAL ESTATE	JE00B3DCF752	JE	S&P	BBB-	EUR	3.39	199,146	3.45	202,964	1.99%
TALLINK GRUPP AS	EE3100004466	EE			EUR	0.94	157,508	0.98	162,906	1.60%
SBERBANK COMMON SHARE	RU0009029540	RU	Fitch	BBB	USD	3.22	128,933	3.67	146,631	1.44%
TALLINNA SADAM AKTSIA	EE3100021635	EE			EUR	1.70	105,924	1.99	123,681	1.21%
MAGNIT COMMON STOCK	RU000A0JKQU8	RU	S&P	BB	USD	86.94	199,965	49.29	113,356	1.11%
SWEDBANK AB SER A	SE0000242455	SE	S&P	AA-	SEK	12.61	100,872	13.28	106,273	1.04%
COCA-COLA ICECEK AS	TRECOLA00011	TR	Fitch	BB	TRY	10.29	125,024	5.80	70,458	0.69%

**SHARES TOTAL****1,017,372****926,269****9.08%**

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

BULGARIA REAL ESTATE FUND	BG1100001053	BG	REAL ESTATE MANAGEMENT LTD	BGN	0.76	101,204	1.01	134,975	1.32%
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**CLOSED-END FUNDS TOTAL****101,204****134,975****1.32%****FUNDS TOTAL****101,204****134,975****1.32%****SHARES AND FUNDS TOTAL****1,118,576****1,061,244****10.40%**

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

Name	ISIN	Emitent country	Rating agency	Rating	FX	Interest rate	Maturity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
<b>BONDS*</b>												
LHV GROUP SUBORDIN 29.10.25	EE3300110741	EE			EUR	6.50%	29/10/2025	105.07	389,810	105.05	393,889	3.86%
YAPI VE KRD BK 5.5% 06.12.22	XS0861979440	TR	Fitch	B+	USD	5.50%	06/12/2022	82.06	328,241	87.73	352,284	3.46%
TURKIYE VAKIFLAR BANK 01.11.27	XS1551747733	TR	S&P	B+	USD	8.00%	01/11/2027	85.55	307,997	87.50	319,288	3.13%
INBANK SUBORDINATED 28.09.2026	EE3300110964	EE			EUR	7.00%	28/09/2026	102.76	203,460	104.25	206,531	2.03%
B2 HOLDING AS FRN EUR 08.12.20	NO0010753072	NO	S&P	BB-	EUR	7.00%	08/12/2020	109.50	219,000	102.00	204,917	2.01%
MAGNETIC MRO 8.00% 21.12.21 <sup>1</sup>	EE3300111608	EE			EUR	8.00%	21/12/2021	100.00	200,000	100.00	200,400	1.96%
KERNEL HOLDING 8.75% 31.01.22	XS1533923238	LU	S&P	B	USD	8.75%	31/01/2022	93.16	186,316	96.27	199,046	1.95%
STENA 7% 01.02.2024	USW8758PAK22	SE	S&P	B+	USD	7.00%	01/02/2024	90.88	181,760	92.18	189,570	1.86%
TURKIYE BANKASI 7.85% 10.12.23	XS1003016018	TR	S&P	B+	USD	7.85%	10/12/2023	88.85	177,705	93.23	187,282	1.84%
INBANK SUBORDINATED 19.12.2029	EE3300001544	EE			EUR	6.00%	19/12/2029	100.00	176,000	105.00	185,151	1.82%
GL LIMAN ISLETM 8.125%14.11.21	XS1132825099	TR	Fitch	B+	USD	8.125%	14/11/2021	86.16	172,312	87.84	177,565	1.74%
LHV GROUP SUBORDIN 28.11.28	EE3300111558	EE			EUR	6.00%	28/11/2028	100.00	166,000	104.71	174,696	1.71%
MAINOR ULEMISTE 5.5% 05.04.23 <sup>1</sup>	EE3300111343	EE			EUR	5.50%	05/04/2023	100.00	150,000	100.00	151,948	1.49%
ENDOVER AURORA 11.00% 14.12.20 <sup>1</sup>	EE3300111582	EE			EUR	11.00%	14/12/2020	100.00	150,000	100.00	150,733	1.48%
IUTECR 13.000% 07.08.2023 EUR	XS2033386603	LU			EUR	13.00%	07/08/2023	100.00	100,000	99.94	105,098	1.03%
PRO-GEST 3.250% 15.12.2024 EUR	XS1733958927	IT	S&P	B	EUR	3.25%	15/12/2024	58.75	96,938	59.78	98,870	0.97%
HKSCAN 2.625% 21.09.2022	FI4000278536	FI			EUR	2.625%	21/09/2022	93.50	93,500	92.38	93,100	0.91%
HEIDELBERGER 8.000% EUR 15.05.22	DE000A14J7A9	DE	S&P	B-	EUR	8.00%	15/05/2022	96.55	70,509	94.97	70,098	0.69%
<b>BONDS TOTAL</b>									<b>3,369,548</b>		<b>3,460,466</b>	<b>33.94%</b>

\*Accrued interest in the amount of 36,426.16 EUR has been added to the value of bonds

<sup>1</sup>Bonds not traded on a regulated market

Name	Derivative Type	Emitent country	Rating agency	Rating	FX	Maturity	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
DERIVATIVES										
FX-Swap EUR/USD Swedbank AS	Swap	EE	S&P	AA- (Swedbank AB)	USD	08/05/2020			18,343	0.18%
DERIVATIVES TOTAL									18,343	0.18%
INSTRUMENTS TOTAL							4,506,467		4,540,053	44.52%

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

Credit Institution	Deposit type	Credit Institution's country	Rating agency	Rating	FX	Interest rate	Start date	Maturity	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
<b>DEPOSITS*</b>												
Luminor Bank AS	Term deposit	EE	Moody's	A-	EUR	0.40%	27/09/2019	28/09/2020	300,000		300,320	2.95%
Luminor Bank AS	Term deposit	EE	Moody's	A-	EUR	0.35%	27/09/2019	29/06/2020	300,000		300,280	2.95%
Luminor Bank AS	Term deposit	EE	Moody's	A-	EUR	0.60%	02/04/2019	02/04/2020	250,000		251,142	2.46%
Bigbank AS	Term deposit	EE			EUR	1.10%	26/04/2019	26/04/2020	200,000		201,528	1.98%
Luminor Bank AS	Term deposit	EE			EUR	0.25%	27/09/2019	27/03/2020	200,000		200,133	1.96%
	Overnight											
Swedbank AS	deposit	EE	S&P	AA-	USD	0.18%	31/12/2019	01/01/2020	118,975		118,976	1.17%
Bigbank AS	Term deposit	EE			EUR	1.10%	26/10/2019	26/10/2020	100,000		100,202	0.98%
Bigbank AS	Term deposit	EE			EUR	0.45%	02/12/2020	02/01/2020	100,000		100,037	0.98%
<b>DEPOSITS TOTAL</b>									<b>1,568,975</b>		<b>1,572,618</b>	<b>15.43%</b>

\*Accrued interest in the amount of 3,642.28 EUR has been added to the value of deposits

Name	Credit Institution's country	Credit Institution	FX	Interest rate	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
<b>CASH</b>										
CURRENT ACCOUNT	EE	Swedbank	EUR				1,737,516		1,737,516	17.04%
CURRENT ACCOUNT	EE	SEB	EUR				999,996		999,996	9.81%
CURRENT ACCOUNT	EE	Luminor	EUR				961,107		961,107	9.43%
CURRENT ACCOUNT	EE	Swedbank	RON				289,835		289,835	2.84%
CURRENT ACCOUNT	EE	Swedbank	BGN				206,294		206,294	2.02%
CURRENT ACCOUNT	EE	Swedbank	RUB				26,068		26,068	0.26%
CURRENT ACCOUNT	EE	Swedbank	RSD				2,383		2,383	0.02%
CURRENT ACCOUNT	EE	Swedbank	TRY				2,005		2,005	0.02%
<b>CURRENT ACCOUNT TOTAL</b>							<b>4,225,204</b>		<b>4,225,204</b>	<b>41.44%</b>
<b>INVESTMENTS TOTAL</b>							<b>10,282,303</b>		<b>10,337,875</b>	<b>101.39%</b>
<b>OTHER ASSETS</b>										
INTEREST RECEIVABLE			EUR						1	0.00%
<b>OTHER ASSETS TOTAL</b>									<b>1</b>	<b>0.00%</b>
<b>TOTAL ASSETS OF THE FUND</b>							<b>10,282,303</b>		<b>10,337,876</b>	<b>101.39%</b>
<b>LIABILITIES</b>									-142,455	-1.39%
<b>NET ASSETS OF THE FUND</b>									<b>10,195,421</b>	<b>100.00%</b>



In EUR 31/12/2018

Name	ISIN	Emitent country	Rating agency	Rating	FX	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
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**SHARES****SHARES LISTED ON STOCK EXCHANGE:**

SC FONDUL PROPRIETATEA SA	ROFPTAACNOR5	RO			RON	0.15	168,191	0.19	209,815	2.06%
ATRIUM EUROPEAN REAL ESTATE	JE00B3DCF752	JE	S&P	BBB-	EUR	3.39	199,146	3.23	190,021	1.86%
TALLINK GRUPP AS	EE3100004466	EE			EUR	0.94	157,508	1.02	169,416	1.66%
TALLINNA SADAM AS	EE3100021635	EE			EUR	1.70	105,924	2.04	127,108	1.25%
MAGNIT PJSC	RU000A0JKQU8	RU	S&P	BB	USD	86.94	199,965	43.93	101,036	0.99%
SBERBANK OF RUSSIA PJSC	RU0009029540	RU	Fitch	BBB-	USD	3.22	128,933	2.33	93,224	0.91%
COCA-COLA ICECEK AS	TRECOLA00011	TR	Fitch	BBB-	TRY	10.29	125,024	5.09	61,868	0.61%

<b>SHARES TOTAL</b>							<b>1,084,691</b>		<b>952,488</b>	<b>9.34%</b>
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Name	ISIN	Fund country	Fund Management Company	FX	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
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**FUNDS****CLOSED-END FUNDS LISTED ON STOCK EXCHANGE:**

BULGARIA REAL ESTATE FUND	BG1100001053	BG	REAL ESTATE MANAGEMENT LTD	BGN	0.76	101,204	0.97	129,522	1.27%
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<b>CLOSED-END FUNDS TOTAL</b>							<b>101,204</b>		<b>129,522</b>	<b>1.27%</b>
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<b>FUNDS TOTAL</b>							<b>101,204</b>		<b>129,522</b>	<b>1.27%</b>
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<b>SHARES AND FUNDS TOTAL</b>							<b>1,185,895</b>		<b>1,082,010</b>	<b>10.61%</b>
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## Statement of investments as of 31/12/2018 (continued)

Name	ISIN	Emitent country	Rating agency	Rating	FX	Interest rate	Maturity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
<b>BONDS*</b>												
TURKIYE VAKIFLAR BANK 01.11.27	XS1551747733	TR	S&P	B+	USD	8.00%	01/11/2027	86.86	660,106	72.79	562,006	5.51%
LHV GROUP SUBORDIN 29.10.25	EE3300110741	EE			EUR	6.50%	29/10/2025	105.07	389,810	103.60	388,509	3.81%
ENDOVER FABRIK 11.00% 17.10.20 <sup>1</sup>	EE3300111491	EE			EUR	11.00%	17/10/2020	100.00	300,000	100.00	306,691	3.01%
ENDOVER AURORA 11.00% 14.12.20 <sup>1</sup>	EE3300111582	EE			EUR	11.00%	14/12/2020	100.00	300,000	100.00	301,467	2.96%
YAPI VE KRD BK 5.5% 06.12.22	XS0861979440	TR	S&P	B+	USD	5.50%	06/12/2022	82.06	328,241	73.88	296,834	2.91%
INBANK SUBORDINATED 28.09.2026	EE3300110964	EE			EUR	7.00%	28/09/2026	102.76	203,460	108.45	214,847	2.11%
B2 HOLDING AS FRN EUR 08.12.20	NO0010753072	NO	S&P	BB-	EUR	7.00%	08/12/2020	109.50	219,000	104.50	209,875	2.06%
MAGNETIC MRO 8.00% 21.12.21 <sup>1</sup>	EE3300111608	EE			EUR	8.00%	21/12/2021	100.00	200,000	100.00	200,400	1.96%
LHV GROUP SUBORDIN 28.11.28	EE3300111558	EE			EUR	6.00%	28/11/2028	100.00	166,000	107.60	179,501	1.76%
FINANSBANK 6.25% 30.04.19 USD	XS1063442484	TR	Fitch	BB-	USD	6.25%	30/04/2019	86.49	172,976	87.43	176,670	1.73%
KERNEL HOLDING 8.75% 31.01.22	XS1533923238	LU	S&P	B	USD	8.75%	31/01/2022	93.16	186,316	84.01	174,374	1.71%
GL LIMAN ISLETM 8.125%14.11.21	XS1132825099	TR	Fitch	BB-	USD	8.13%	14/11/2021	86.16	172,312	83.79	169,431	1.66%
TURKIYE BANKASI 7.85% 10.12.23	XS1003016018	TR	S&P	B+	USD	7.85%	10/12/2023	88.85	177,705	77.33	155,451	1.52%
MAINOR ULEMISTE 5.5% 05.04.23 <sup>1</sup>	EE3300111343	EE			EUR	5.50%	05/04/2023	100.00	150,000	100.00	151,948	1.49%
TURKIYE BANKASI VAR% 29.06.28	XS1623796072	TR	S&P	B+	USD	7.00%	29/06/2028	83.35	166,709	67.96	142,094	1.39%
<b>BONDS TOTAL</b>									<b>3,792,635</b>		<b>3,630,098</b>	<b>35.59%</b>

\*Accrued interest in the amount of 43,689.39 EUR has been added to the value of bonds

<sup>1</sup>Bonds not traded on a regulated market

Name	Derivative Type	Emitent country	Rating agency	Rating	FX	Maturity	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
DERIVATIVES										
FX-Swap EUR/USD Swedbank AS	Swap	EE	S&P	AA- (Swedbank AB)	USD	08/02/2019			-207,527	-2.03%
DERIVATIVES TOTAL									-207,527	-2.03%
INSTRUMENTS TOTAL							4,771,003		4,504,581	44.17%

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

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

	Overnight deposit	EE	S&P	AA-	USD	0.96%	31/12/2018	01/01/2019	482,613		482,627	4.73%
Swedbank AS	deposit	EE										
Bigbank AS	Term deposit	EE			EUR	0.75%	26/10/2018	26/04/2019	200,000		200,279	1.97%
Luminor Bank AS	Term deposit	EE	Moody's	A-	EUR	0.50%	05/10/2018	07/10/2019	200,000		200,244	1.96%
Bigbank AS	Term deposit	EE			EUR	1.00%	26/10/2018	28/10/2019	100,000		100,186	0.98%
Luminor Bank AS	Term deposit	EE	Moody's	A-	EUR	0.40%	05/10/2018	07/01/2019	100,000		100,098	0.98%
Luminor Bank AS	Term deposit	EE	Moody's	A-	EUR	0.40%	05/10/2018	05/04/2019	100,000		100,098	0.98%

**DEPOSITS TOTAL**

**1,182,613** **1,183,532** **11.60%**

\*Accrued interest in the amount of 918.16 EUR has been added to the value of deposits

Name	Credit Institution's country	Credit Institution	FX	Interest rate	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
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**CASH**

CURRENT ACCOUNT	EE	Luminor	EUR				1,589,067		1,589,067	15.58%
CURRENT ACCOUNT	EE	Swedbank	EUR				1,429,887		1,429,887	14.02%
CURRENT ACCOUNT	EE	SEB	EUR				999,996		999,996	9.80%
CURRENT ACCOUNT	EE	Swedbank	BGN				199,503		199,503	1.96%
CURRENT ACCOUNT	EE	Swedbank	RON				152,810		152,810	1.50%
CURRENT ACCOUNT	EE	Swedbank	RUB				8,418		8,418	0.08%
CURRENT ACCOUNT	EE	Swedbank	RSD				2,368		2,368	0.02%
CURRENT ACCOUNT	EE	Swedbank	TRY				79		79	0.00%

**CURRENT ACCOUNT TOTAL**

**4,382,128** **4,382,128** **42.96%**

**INVESTMENTS TOTAL**

**10,543,271** **10,070,241** **98.73%**

**OTHER ASSETS**

COLLATERAL RECEIVABLE			EUR						150,000	1.47%
DIVIDEND RECEIVABLE			EUR						3,360	0.03%

**OTHER ASSETS TOTAL**

**153,360** **1.50%**

**TOTAL ASSETS OF THE FUND**

**10,543,271** **10,223,601** **100.23%**

**LIABILITIES**

**-23,456** **-0.23%**

**NET ASSETS OF THE FUND**

**10,200,145** **100.00%**

## STATEMENT OF COMMISSIONS

In EUR

01/01/2019-31/12/2019

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
<b>Regulated securities market transactions*</b>				
<b>Shares</b>				
Erste Group Bank AG	1	262,573	473	0.18%
Raiffeisen Centrobank AG	4	224,061	191	0.09%
Wood and Company Financial Services a.s.	1	100,506	737	0.73%
Swiss Capital S.A.	1	9,065	99	1.09%
<b>Exchange Traded Commodities</b>				
Wood and Company Financial Services a.s.	2	439,794	352	0.08%
<b>Bonds</b>				
Adamant Capital Partners	5	884,228	-	-
Banca Promos SPA	2	317,723	-	-
Pareto Securities AS	1	183,488	-	-
<b>OTC transactions</b>				
Early redemption	6	450,000	-	-
IPO	2	276,000	-	-
Final maturity	1	178,285	-	-
<b>Derivatives</b>				
Swedbank AS	5	7,326,962	-	-
<b>TOTAL</b>	<b>31</b>	<b>10,652,685</b>	<b>1,852</b>	<b>0.02%</b>

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

In EUR

01/01/2018-31/12/2018

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
<b>Regulated securities market transactions*</b>				
<b>Regulated securities market transactions*</b>				
<b>Shares</b>				
Karoll AD	1	198,341	797	0.40%
Raiffeisen Centrobank AG	2	85,860	86	0.10%
Erste Group Bank AG	1	72,740	168	0.23%
AS SEB Pank	1	39,581	59	0.15%
<b>Third country securities market transactions</b>				
<b>Shares</b>				
BCS Prime Brokerage Limited	1	74,111	52	0.07%
BGC Partners Turkey	1	37,170	22	0.06%
<b>OTC transactions</b>				
<b>Early redemption</b>	3	1,276,000	-	-
<b>IPO</b>	2	305,924	-	-
<b>Corporate Action</b>	1	-	-	-
<b>Final maturity</b>	3	856,161	-	-
<b>Derivatives</b>				
Swedbank AS	1	2,248,569	-	-
AS SEB Pank	2	512,568	-	-
<b>Note issue</b>	3	800,000	-	-
<b>TOTAL</b>	<b>22</b>	<b>6,507,025</b>	<b>1,184</b>	<b>0.02%</b>

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

## REPORT ON REMUNERATION OF THE FUND MANAGEMENT COMPANY

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

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

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

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

In EUR

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

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

No remuneration has been paid by the Fund.



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## Independent Auditors' Report

*(Translation of the Estonian original)*

To the Fund Management Company and Unitholders of Avaron Flexible Strategies Fund

### Opinion

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

In our opinion, the financial statements presented on pages 6 to 29, present fairly, in all material respects, the financial position of the Fund as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Basis for Opinion

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

### Other Information

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

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

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

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

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

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

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



## Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

Tallinn, 31 March 2020

*/digitally signed/*

Eero Kaup  
Certified Public Accountant, Licence No 459

KPMG Baltics OÜ  
Licence No 17