

# The Valuation Policy

## Introduction

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

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

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

## I. Determination of Net Asset Value of Funds

### 1. General principles

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

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

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

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

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

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

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

4.2 As an exception, in the best interests of Fund unitholders/shareholders Avaron may use the regulated market bid, mid or closing price of the last 20 business days to determine fair value of a traded security should Avaron deem that this price represents fair value of a security more accurately.

4.3 Value of securities that have not been traded on any of the regulated markets within the last 20 business days, shall be calculated based on clause 7.

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

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

## 6. Determination of value of debt securities listed on regulated markets and multilateral trading facilities

6.1 The value of a listed debt security shall be determined on the basis of the last known market quote. Avaron will determine which of the following reflects best the last known market quote representing the fair value of a debt security on the valuation date:

6.1.1 last traded price on the regulated market or multilateral trading facility;

6.1.2 last reported traded price based on the source of the financial data vendor currently used;

6.1.3 mid-market price  $((bid+ask)/2)$  on the regulated market or multilateral trading facility;

6.1.4 bid price on the regulated market or multilateral trading facility;

6.1.5 mid-market price provided by sources of the financial data vendor currently used;

6.1.6 bid price provided by sources of the financial data vendor currently used.

6.2 Should none of the above quotes be available on the valuation date, the quote from the previous banking day shall be used taking account the principles described in 6.1.1 to 6.1.6.

6.3 Should market quotes for an instrument not be available as per 6.1 or in the opinion of Avaron do not represent the actual value of a listed debt security, its value will be determined on the basis of the yield curve method.

6.4 If yield curve method cannot be used due to the absence of reliable data or its low sample size, the amortized cost method shall be used.

6.5 While using price for a debt security according to clauses 6.3 or 6.4, Avaron shall compare the value reached against a price quotation provided by the market-maker in that particular security at least once a month and will adjust the value if the difference exceeds 0.2%.

6.6 In cases specified in clauses 6.3-6.4, Avaron shall document in writing and justify the decision on valuation and valuation principles, and also indicate how it reached such value of assets.

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

7.1 In case of non-listed securities, valuation methods specified in IFRS shall be primarily followed for fair value calculation.

7.2 The value of non-listed debt securities is determined by a Fund's Investment Committee.

7.3 Fund Manager or Back-Office Specialist shall inform Investment Committee of the need to determine a price for or revalue a non-listed security.

7.4 Investment Committee decision and its valuation principles shall be documented in writing and recorded. Risk Management Committee shall review the documented decisions once a quarter and give its assessment whether the valuations are fair and adequate.

7.5 The value of a non-listed fixed income security may among other methods be determined on the basis of market makers' quotations or the yield curve method, taking into account bond maturity date and yield curve for relevant currency, which is adjusted to the risk margin of a comparable group of securities.

7.6 As an exception, in the best interests of Fund unitholders/shareholders Avaron can use depreciated acquisition cost method for valuation of non-listed debt securities in case the security has been

initially acquired with the aim to be held till maturity and fair value of a security cannot be reliably determined.

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

- 8.1 The value of shares or units of exchange traded investment funds shall be determined on the basis of clause 4.
- 8.2 The value of non-traded investment fund units that are redeemed, shall be determined based on the last known redemption or repurchase price. Value of non-traded investment fund units that are not redeemed, shall be determined based on the basis of clause 7.
- 8.3 The value of the holdings in private equity funds and the value of other closed-end funds shall be determined either on the basis of:
  - 8.3.1 net asset value of the private equity fund, but not older than one calendar year; or
  - 8.3.2 net asset value of the closed-end fund, but not older than one calendar year.
- 8.4 When market conditions change rapidly, Investment Committee shall assess if the value of private equity funds and other closed-end funds determined on the basis of clause 8.3 is adequate. If necessary, the Investment Committee shall perform a revaluation by documenting the relevant decision and valuation principles in writing. Risk Management Committee shall review documented decisions once a quarter and assess whether the valuations are fair and adequate. If necessary, the revaluation shall be sent back to the Investment Committee.

## **9. Determination of value of derivative instruments**

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

## **10. Determination of the value of immovables**

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

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

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

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

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

## 13. Determination of the value of other assets

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

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

14.1 The following liabilities are subtracted from a Fund asset value in order to determine the net asset value of a Fund:

14.1.1 management fees and other fees and expenses related to Fund management, including performance related fees;

14.1.1.1 Following tables 1 and 2 display how a Fund and Fund unit's/share's performance fee is provisioned and fixed. More detailed rules, examples with effective rates and benchmarks for performance fee calculation can be found in respective Fund Prospectus and Fund Rules or Articles of Association which are available at [www.avaron.com](http://www.avaron.com).

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

Fund Unit	Avaron Flexible Strategies Fund	
	Rate of Performance Fee	Valuation and Payment
N/A	The rate of the performance fee is 10% of the amount that the Unit return exceeds the reference index return (positive relative return), provided that the Unit had a positive performance over a calendar year. The reference index for the performance fee calculation is Euro area Harmonised Index of Consumer Prices (HICP - All Items) final results officially published by Eurostat. The standard performance fee crystallisation period is a calendar year (January 1 to December 31). Performance fee reference period is up to five years, depending on the performance of the Unit.	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. The value of the applicable reference index <i>HICP – All Items</i> is fixed as of the last banking day each month based on latest available published monthly official results of the reference index. When calculating the entitlement for the performance fee at the end of the calendar year, the official published index value for the month of November shall be used.

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

Avaron is entitled to a performance fee from unit E as stipulated below. No performance fee shall be calculated from units A, B, C and D.

Fund Unit	Avaron Emerging Europe Fund	
	Rate of Performance Fee	Valuation and Payment
E Unit	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 reference index for the performance fee calculation is <i>MSCI EFM Europe + CIS (E+C) ex Russia Net Return EUR Index</i> . The standard performance fee crystallisation period is a calendar year (January 1 to December 31). Performance fee	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.

	reference period is up to five years, depending on the performance of the Unit.	
--	---	--

**Table 3: Performance Fee for Avaron Emerging Europe Smaller Companies Fund MASF**

Avaron is entitled to a performance fee from A-share as stipulated below. No performance fee shall be calculated from B-share.

Fund Share	Avaron Emerging Europe Smaller Companies Fund	
	Rate of Performance Fee	Valuation and Payment
A-share	The rate of the performance fee is 15% of the amount by which the A-share return exceeds the benchmark index return (positive relative return). The reference index for the performance fee calculation is <i>MSCI EFM Europe + CIS (E+C) ex Russia Net Return EUR Index</i> . The standard performance fee crystallisation period is a calendar year (January 1 to December 31). Performance fee reference period is up to five years, depending on the performance of the Unit.	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.

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

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

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

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

### 16. Implementation of this clause

16.1 Rules in clauses 17 and 18 shall be implemented only on errors identified after publishing Funds' net asset values. Should errors be discovered prior to NAV publishing, rules set in clause 15.2 shall be used.

### 17. Material error in NAV

17.1 Should NAV calculation errors be material and exceed 0.5% of the correct net asset value of the Fund, NAV is to be re-determined.

17.2 Errors below the margin set in clause 17.1 shall be considered as immaterial and will not be corrected. Also, damages resulting from immaterial errors shall not be compensated.

17.3 Any error that exceeds the margins specified in clause 17.1 shall be deemed to be a significant error and damages will be compensated. Single errors below the margin shall be considered significant errors when added together and the result exceeds the set margin.

### 18. Correction of errors and compensation

18.1 Person detecting any significant error shall immediately inform all interested parties (Avaron, FA, depositary, Financial Supervision Authority and transfer agent) about the error.

18.2 FA shall in cooperation with Avaron prepare an action for a) elimination of the error and b) compensation of damages:

- FA shall assess the impact the error has on different groups of Fund unitholders/shareholders and the Fund (e.g. depending on whether there have been any subscriptions or redemptions);
- Recalculate the Fund and unit/share NAV from the day the error was ascertained or became significant until the day of correction. Error period is the day significant error occurred until the day the error is corrected. When no units/shares have been subscribed or redeemed during error period no corrections are made, except where the error affected expenses or fees paid by the Fund (e.g. performance related fees);
- Determine damages caused to the Fund or unitholder/shareholder;
- Informs unitholders/shareholders that suffered damages. Information is sent to contact details in the register of units/shares.

18.3 Damages caused by miscalculation or error in Fund net asset value shall be compensated by Avaron. Damage may also be compensated at the expense of Fund assets to unitholders/shareholders, should the amount that is to be compensated be paid out from the surplus of the Fund, and thus not harm the interests of other unitholders/shareholders.

18.4 Minimum sum that will be compensated to a unitholder/shareholder is 100 Euro. Damages below the minimum sum will not be compensated, except in case a unitholder/shareholder expresses its wish to receive compensation.

Valid from:	April 2007
Amended:	December 2022
Approved by:	Management Board of AS Avaron Asset Management