



Avaron Emerging Europe Fund

ANNUAL REPORT FOR THE FINANCIAL YEAR 2013

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FUND FACTS

Avaron Emerging Europe Fund (hereinafter: „the Fund”) is registered in the Republic of Estonia as a contractual open-ended investment fund the units of which are publicly offered. The Fund complies with the requirements set out in the Directive 2009/65/EC of the European Parliament and of the Council.

Name of the Fund	Avaron Emerging Europe Fund
Fund management company	AS Avaron Asset Management
Registered address and contact details of the fund management company	Address: Narva road 7D, Tallinn 10117, Estonia Phone: +372 66 44 200 Facsimile: +372 66 44 201 E-mail: info@avaron.com www.avaron.com
Depository	AS Swedbank
Fund administration (NAV calculation)	AS Swedbank
Auditor	AS Deloitte Audit Eesti
Supervisor	Estonian Financial Supervision Authority
Fund managers	Kristel Kivinurm-Priisalm, Valdur Jaht, Peter Priisalm
Fund established	April 3 rd , 2007
Start of the Fund's activities	April 23 rd , 2007
Reporting period	January 1 st , 2013 – December 31 st , 2013

MANAGEMENT REPORT

Avaron Emerging Europe Fund (hereinafter: the Fund) is an actively managed long-only equity fund that invests in Emerging Europe listed companies (Eastern Europe ex-Russia). The Fund is benchmark agnostic and emphasizes bottom-up, value oriented stock picking with a notable small and mid-cap bias. The Fund's investment universe includes countries that joined the European Union in 2004 and 2007 as well as potential accession countries. It adheres to the UN Principles for Responsible Investment.

In 2013 the Fund delivered an exceptional +16.7% performance compared to -2.4% of the benchmark (MSCI EFM Central and Eastern Europe & CIS ex Russia Index). Main driver of the strong performance was our off-benchmark positioning in the Balkan countries where we have finally started to see a re-rating in valuations towards the regional average. In three and five years the Fund has returned 14.7% and 91.4% vs. -6.5% and 51.1% for the regional index. The Fund's three year volatility is 11.3% vs. 19.7% for the index.

	2009	2010	2011	2012	2013
A unit	39.6%	18.3%	-18.0%	18.6%	16.1%
B unit	40.4%	18.9%	-17.6%	19.2%	16.7%
C unit		17.4%	-18.3%	19.4%	15.7%
D unit			-18.9%	18.3%	15.8%
E unit			-17.3%	19.7%	14.6%

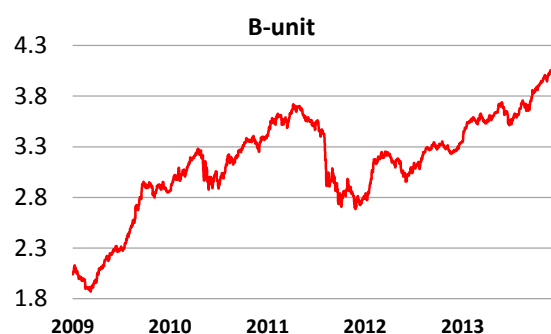


Table 1. Net return of the Fund units, in euros

Graph 1. Fund B-unit's performance (2009-2013)

In terms of bottom-up valuations the region continues to be attractive in the long-term perspective. The Fund portfolio companies traded at 8.0x P/E and 5.0x EV/EBITDA on 2014 estimates, below 11.5x P/E of MSCI EFM Central and Eastern Europe & CIS (CEEC) ex-Russia as at the end of the year. The portfolio comprises companies with strong balance sheets (portfolio net gearing 33%) and solid sustainable dividend yield (5.0% 2013f). EPS growth of the portfolio is foreseen at -13.1% and +20.9% for 2013-14 vs. -18% and +9% for the index, respectively.

Healthy inflows and revived interest of international investors in 2013 are a sign that investors are starting to recognise the value proposition of the region. The Fund's total assets increased to €28.5m, up from €12.7 million a year ago. We expect interest towards Emerging Europe undervalued assets to continue in 2014.

15.01.2014

Kristel Kivinurm-Priisalm

Fund Manager and Member of the Management Board

CONFIRMATION OF THE MANAGEMENT BOARD OF THE FUND MANAGEMENT COMPANY TO THE ANNUAL FINANCIAL STATEMENTS OF 2013

The Management Board of the fund management company has prepared the annual Financial Statements of Avaron Emerging Europe Fund on April 11th, 2014.

The Financial Statements have been prepared in compliance with the requirements stipulated in the Estonian Accounting Act, the Investment Funds Act and Minister of Finance Regulation no 21 of 13.04.2011 „Requirements for the reports of investment funds to be published". It gives a true and fair view of the assets, liabilities, net asset value and performance results of Avaron Emerging Europe Fund. The Management Board considers Avaron Emerging Europe Fund to carry its activities as a going concern.

The annual Financial Statements of Avaron Emerging Europe Fund have been approved by the fund management company and the fund managers.

Name	Date	Signature
Kristel Kivinurm-Priisalm Member of the Management Board of the fund management company / Fund manager	11.04.2014	_____
Valdur Jaht Member of the Management Board of the fund management company/ Fund manager	11.04.2014	_____
Peter Priisalm Fund manager	11.04.2014	_____

BALANCE SHEET

In EUR

ASSETS	Note	31.12.2013	31.12.2012
Cash and cash equivalents	3	4,047,588	793,361
Financial assets at fair value through profit or loss:	4		
Shares and units		20,787,926	9,996,284
Bonds		3,987,425	1,802,144
Derivative instruments		110,789	0
Receivables and prepayments	4;6	13,784	163,550
TOTAL ASSETS		28,947,512	12,755,339
LIABILITIES			
Other financial liabilities	4		
Payables to the management company		27,121	15,902
Payables to the depository		9,228	5,082
Other liabilities		444,133	979
TOTAL LIABILITIES (except net assets attributable to holders)		480,482	21,963
NET ASSETS ATTRIBUTABLE TO HOLDERS		28,467,030	12,733,376

STATEMENT OF INCOME AND EXPENSES

In EUR

	Note	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
INCOME			
Net gain/loss from financial assets at fair value through profit or loss			
From shares and units	5	2,159,209	1,913,893
From bonds	5	820,211	597,160
From derivative instruments	5	110,789	0
Interest income			
From bonds		186,331	188,878
From deposits		1,075	1,045
Dividend income			
From shares and units		589,003	966,402
Net gain/loss from foreign exchange			
		-751,508	195,830
TOTAL INCOME		3,115,110	3,863,208
OPERATING EXPENSES			
Management fees		249,982	276,113
Performance fees		134,070	0
Custodian fees		68,450	63,699
Transaction costs		5,899	5,276
Other operating expenses		3,575	1,221
TOTAL OPERATING EXPENSES		461,976	346,309
NET INCOME		2,653,134	3,516,899

STATEMENT OF CHANGES IN NET ASSETS

In EUR

	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
NET ASSET VALUE AT THE BEGINNING OF THE PERIOD	12,733,377	22,470,210
Cash received for fund units issued	21,075,244	4,636,490
Cash paid for fund units redeemed	-7,994,725	-17,890,222
Net result of the Fund	2,653,134	3,516,899
NET ASSET VALUE AT THE END OF THE PERIOD	28,467,030	12,733,376
Number of A units in circulation at the end of the period:	260,505.963	1,319,308.143
Number of B units in circulation at the end of the period:	896,931.064	990,681.585
Number of C units in circulation at the end of the period:	24,147.804	83,830.332
Number of D units in circulation at the end of the period:	429,379.147	185,901.862
Number of E units in circulation at the end of the period:	1,628,832.954	209,954.618
Number of I units in circulation at the end of the period:	-	99.712
Number of R units in circulation at the end of the period:	-	20,163.146
Net asset value of an A unit:	3.7686	3.2449
Net asset value of an B unit:	3.9088	3.3487
Net asset value of an C unit:	13.6146	11.7621
Net asset value of an D unit:	11.4948	9.9232
Net asset value of an E unit:	11.4898	10.0242
Net asset value of an I unit:	-	9.9110
Net asset value of an R unit:	-	9.8405

STATEMENT OF CASH FLOWS

In EUR

	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	150,769	244,366
Dividends received	595,782	986,609
Net result from foreign exchange	-35,355	2,455
Sale of investments	11,023,216	18,505,125
Purchase of investments	-21,110,366	-7,415,588
Operating expenses paid	-445,984	-368,916
	-9,821,938	11,954,051
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of unit	21,063,882	4,666,051
Payments on redemption of units	-7,994,725	-17,922,769
	13,069,157	-13,256,718
TOTAL CASH FLOWS	3,247,219	-1,302,667
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at the beginning of the period	793,360	2,096,107
Effect of exchange rate fluctuations on cash and cash equivalents	7,006	-81
Cash and cash equivalents at the end of the period	4,047,585	793,360

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED

The annual financial statements of Avaron Emerging Europe Fund (hereinafter „the Fund“) for 2013 have been prepared in compliance with the Estonian Accounting Act, effective Investment Funds Act as supplemented by the regulations of the Minister of Finance. As stipulated in Minister of Finance Regulation no 21 of 13.04.2011 „Requirements for the reports of investment funds to be published“ the financial statements have been prepared using the accounting policies and information presentation principles of International Financial Reporting Standards (hereafter: “IFRS”) approved by European Commission taking into account the specifications of the regulation and Rules for Calculating Net Asset Value of Funds.

The annual financial statements have been prepared in compliance with the regulation of the Minister of Finance no 21 of 13.04.2011 „Requirements for the reports of investment funds to be published“ according to which, the reports are compiled based on IFRS as adopted by the European Commission.

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 1 “First-time Adoption of IFRS” – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 1 “First-time Adoption of IFRS” – Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IFRS 7 “Financial Instruments: Disclosures” - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 1 “Presentation of financial statements” – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- Amendments to IAS 12 “Income Taxes” – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to IAS 19 “Employee Benefits” – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- Amendments to various standards “Improvements to IFRSs (cycle 2009-2011)” resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards has not led to any 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:

- IFRS 10 “Consolidated Financial Statements” - adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 11 “Joint Arrangements” - adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IFRS 12 “Disclosures of Interests in Other Entities” - adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities” – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 (revised in 2011) “Separate Financial Statements” – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- IAS 27 “Separate Financial Statements” (revised in 2011) - adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- IAS 28 “Investments in Associates and Joint Ventures” (revised in 2011) - adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 32 “Financial instruments: presentation” - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 36 “Impairment of assets” - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 “Financial Instruments: Recognition and Measurement” – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

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 9 “Financial Instruments” and subsequent amendments (effective date was not yet determined),
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 19 “Employee Benefits” - Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 July 2014),
- Amendments to various standards “Improvements to IFRSs (cycle 2010-2012)” resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- Amendments to various standards “Improvements to IFRSs (cycle 2011-2013)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 July 2014),
- IFRIC 21 “Levies” (effective for annual periods beginning on or after 1 January 2014).

The Fund anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Fund in the period of initial application.

At the same time the hedge accounting principles for the portfolio of financial assets and liabilities that have not been adopted by the EU, are still unregulated. According to the Fund's estimates, the application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.

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 circumstances. 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. Prices quoted in active markets are mostly used for measuring the fair value of financial instruments. 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 that are based on valuation models that use unobservable inputs.

Foreign currency transactions

Upon recording foreign currency transactions, the last bid rate established by the depositary for the funds managed by AS Avaron Asset Management on the transaction date has been used (hereinafter referred to as the depositary bid rate). The assets and liabilities fixed in foreign currency are translated into EUR based on the depositary bid rate applicable on the balance sheet 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 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 other 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.

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 four categories in accordance to the principles of IAS 39 taking into account the purpose of their acquisition:

1. financial assets at fair value through profit or loss;
2. financial assets held to maturity;
3. loans and receivables;

4. financial assets available for sale.

The Fund does not hold financial assets held to maturity and available for sale.

Financial instruments at fair value through profit and loss

Classification

The Fund classifies its investments into debt, equity and derivative instruments as financial assets or liabilities through profit or loss. This category has two sub-categories: held for trading and financial assets and liabilities through profit and loss – designation upon initial recognition. The Fund reports all the investments under the second category as designated at fair value through profit and loss using the fair value option on initial recognition according to the Fund's investment strategy.

Recognition

During normal operation recognising investments into shares and units, bonds and derivative instruments trade date accounting principles are used. Trade date is defined as when the Fund takes the obligation to buy or sell the investment. Financial assets and liabilities are initially recognised at acquisition cost, which is the fair value of the consideration paid for the financial asset. The acquisition cost includes all direct expenses related to the acquisition of the financial asset including commissions that arise and are paid in acquisition of financial asset but are not clearly identifiable.

After initial recognition all financial assets and liabilities are measured at fair value in the category "at fair value through profit or loss". 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 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

To measure the fair value of financial assets and liabilities of the Fund the principles of IFRS 13 are followed, applying IFRS 13 also for the previous periods.

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

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

Observable inputs are considered inputs that shall be determined based on the market data (such as publicly available information about actual events or transactions) that reflect the assumptions which market participants would use when pricing an asset or 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 the one that is more liquid and the most representative based on professional judgement 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 balance sheet date. If the closing price is unavailable, the official mid price is used. If 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 method.
- The value of options not traded on a regulated market is determined based on the Black & Scholes valuation model. The inputs that are necessary for the calculation are determined by the fund management company after consulting with the counterparty of the option.

Derecognition

Securities are removed from the balance sheet when the Fund has lost control over the corresponding financial assets either as a result of selling 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. The sales amount of securities is the quantity of securities sold multiplied by the sales price less paid commissions.

Offsetting

Financial assets and liabilities at fair value through profit and loss are offset only when the Fund has a legal right to offset the amounts and intends to use the right.

Cash and cash equivalents and cash flows

Cash and cash equivalents comprise 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 term is at maximum 12 months. Deposits are initially recognised at acquisition cost and subsequently measured at amortized cost using effective interest rate method.

Receivables and prepayments

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

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

Other financial liabilities

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

The net asset value of a Unit is determined by dividing the total net asset value of a class of Units by the number of Units of that class that have been issued and not redeemed (adjusted by the number of Units from unsettled subscription and redemption orders that have been received by the management company). The income of the Fund shall not be distributed to unit holders but shall be reinvested. A unit holder's profit or loss shall be reflected in changes in Unit's net asset value.

Interest and dividend income

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

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

Operating expenses

The operating expenses of the Fund include the management fee and performance fee payable to the management company, the depository fee payable to the Fund's depository, fund administration fees, fees to the registrar of fund units, transaction fees and other operating expenses stated in the Fund rules. Transaction fees related to security purchase and sales transactions are recorded under "Transaction fees" in the statement of income and expenses. Commissions which arose and were paid in acquisition of securities, but are not clearly identifiable are included within the acquisition cost of securities.

Related parties

Parties that are considered as related parties to the Fund are management company AS Avaron Asset Management, other investment funds managed by the management company, all companies belonging to the group of Avaron Partners OÜ. According to the Fund rules the Fund pays management fees to the management company on monthly basis. Transactions with group companies have been made at market conditions.

NOTE 2. RISK MANAGEMENT

Short Overview of Investment and Risk Management Techniques

The Fund management company deploys value investing and stock-picking investment style with focus on company-specific, sector and macro analysis. Company analysis comprises 3 phases: quantitative screening, qualitative analysis and valuation work. During the quantitative phase we conduct analysis of company liquidity and basic financial statements. Should the company fulfil our criteria, we will interview the management during qualitative analysis phase. During a management interview, among other things, we study the company's business model, strategy, growth prospects, transparency, dividend policy and compliance to UN Principles for Responsible Investing. If a company has successfully passed the qualitative phase, the Fund management company develops a financial model on the company and determines its target price. Companies with highest upside to target price adjusted to liquidity, transparency, business model cyclicity and other risk parameters are invested in.

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

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

Credit risk

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

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

	31.12.2013	31.12.2012
Corporate bonds	3,573,892	1,802,144
Government bonds	413,533	0
Receivables and prepayments	13,784	163,550
Cash and cash equivalents	4,047,588	793,361
TOTAL	8,048,797	2,759,055

Fund's assets are invested in bonds that are liquid and transferable. Basic financial data of the issuer and terms of the issue (prospectus) will be analysed in case of debt securities with investment grade rating by S&P (or Moody's equivalent) of BBB- or higher. In case of debt securities with no rating / non-investment grade rating, higher due diligence requirements apply.

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

	31.12.2013	31.12.2012
BB+	413,533	0
CCC	0	514,025
No rating	3,573,892	1,288,119
TOTAL	3,987,425	1,802,144

The Fund's cash and cash equivalents are held with Fund's depository Swedbank, which is rated A+ as of 19.08.2013.

Liquidity risk

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

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

The Fund maintains the credit lines of 300,000 EUR that it can access to meet short-term liquidity needs. These resources have not been used as of 31.12.2013.

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

	Up to 3 days		Up to 1 month		Over 1 month	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Payables to the management company	-	-	27,121	15,902	-	-
Payables to the depository	-	-	9,228	5,082	-	-
Payables for redeemed units	442,531	-	-	-	-	-
Other liabilities	-	-	-	-	1,602	979
Assets attributable to holders	-	-	-	-	28,467,030	12,755,339
TOTAL	442,531	0	36,349	20,984	28,468,632	12,756,318

Positions that may take more than 7 days to liquidate based on six months average trading volume.

As per 31.12.2013

Instrument	% of NAV
BULGARIA REAL ESTATE FUND	1.04%
FIRST INVESTMENT BANK	1.66%
PROSPECTIUNI SA BUCURESTI	0.67%
KOMERCIJALNA BANKA AD SKOPJE S	0.34%
TALLINNA VESI AS	1.92%
TELEKOM SPRSKE AD BANJA LUKA	0.69%
ROKISHKIO SHURIS	1.48%
TOTAL	7.80%

As per 31.12.2012

Instrument	% of NAV
ELARG AGRICULTURAL LAND OPPORT	5.98%
ROKISHKIO SHURIS	2.91%
BULGARIA REAL ESTATE FUND	2.27%
FIRST INVESTMENT BANK	2.14%
PROSPECTIUNI SA BUCURESTI	1.72%
IMPACT(RO)	0.69%
TOTAL	15.71%

Market risk

Market risk is the risk of suffering losses due to adverse price movements at a specific securities market or at a market for other assets. Adverse price movements may be caused by a country's weak macroeconomic data, poor financial results of an industry sector, unstable securities market, investor behaviour and psychology and other factors.

Diversification among sectors, countries, currencies and instruments are the main risk management tools used.

Currency risk

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

	31.12.2013	31.12.2012
BGN	1,158,864	1,690,793
CZK	2,347,226	1,694,126
HRK	0	730,247
HUF	540,253	296,630
PLN	1,604,926	415,895
RON	5,017,984	2,556,825
BAM	195,885	196,861
TRY	5,109,161	554,125
MKD	95,502	128,151
RSD	401,823	149,501
EUR	12,475,888	4,342,185
TOTAL	28,947,512	12,755,339

Currency risk sensitivity analysis

Fund's net asset value would have been affected by the weakening of foreign currencies against EUR on December 31st, 2013. The sensitivity analysis uses the weakening of foreign currency rates against EUR during the last seven years from the highest value to the lowest. The analysis assumes that all the other variables remain constant. Analysis for December 31st, 2012 has been made with using the same assumptions.

	Currency weakening	Possible negative effect	
		31.12.2013	31.12.2012
BGN	-8%	-103,117	-
CZK	-28%	-236,218	-387,000
HRK	-9%	-	-57,714
HUF	-30%	-306,385	-87,999
PLN	-58%	-935,489	-145,889
RON	-34%	-2,154,831	-846,028
BAM	-10%	-19,081	-
TRY	-45%	-2,290,888	-222,074
MKD	-7%	-6,430	-12,389
RSD	-37%	-149,817	-56,009

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 an issuer's securities is affected by developments in the issuer's financial results, changes in competitive environment, analyst estimates and commentaries, etc.

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

	31.12.2013	31.12.2012
Financials and real estate	11,844,172	5,003,595
Industrial	-	403,015
Consumer Staples	688,559	370,454
Consumer Discretionary	2,679,461	1,039,120
Energy	1,791,864	535,320
Utilities	4,754,719	2,251,563
Telecom	1,630,983	1,324,631
Health Care	972,060	870,730
Sovereign	413,533	-
TOTAL	24,775,351	11,798,428

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

	31.12.2013	31.12.2012
Austria	3,009,033	1,339,414
Bosnia & Herzegovina	195,885	183,940
Bulgaria	1,158,864	1,690,793
Croatia	-	730,247
Czech Rep.	1,616,750	2,027,457
Estonia	1,569,541	262,200
Hungary	540,253	976,142
Lithuania	420,730	370,454
Luxembourg	2,917,137	-
Macedonia	95,502	128,151
Poland	1,337,097	304,055

	31.12.2013	31.12.2012
Romania	5,017,984	2,507,849
Serbia	401,823	149,501
Slovenia	1,385,593	574,100
Turkey	5,109,161	554,125
TOTAL	24,775,353	11,798,428

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 December 31st, 2012 has been made with using the same assumptions.

	probability	+/- possible change of Fund's NAV during year	
		2013	2012
σ	68.27%	15.35%	16.30%
2σ	95.45%	30.69%	32.61%
3σ	99.73%	46.04%	48.91%

NOTE 3. CASH AND CASH EQUIVALENTS

Deposits in EUR

	31.12.2013	31.12.2012
Deposits	1,619,041	602,480
TOTAL	1,619,041	602,480

Cash and cash equivalents by currency

	31.12.2013	31.12.2012
EUR	1	5
BGN	228,255	-
CZK	-	755,035
HUF	277,147,439	-
PLN	-	456,869
RON	6,165,228	217,822
TOTAL	283,540,923	1,429,731

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

In EUR

31.12.2013

	Designated as at fair value			Loans and receivables			Other financial liabilities		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS									
Cash and cash equivalents	-	-	-	4,047,588			-		
Shares and units	20,787,926	-	-	-	-	-	-	-	-
Bonds	3,987,425	-	-	-	-	-	-	-	-
Derivative instruments	-	110,789	-	-	-	-	-	-	-
Dividend tax reclaims	-	-	-	-	2,420	-	-	-	-
Receivables for shares subscribed	-	-	-	-	11,364	-	-	-	-
LIABILITIES									
Payables to the management company	-	-	-	-	-	-	-	27,121	-
Payables to the depository	-	-	-	-	-	-	-	9,228	-
Other liabilities	-	-	-	-	-	-	-	444,133	-
Net assets attributable to holders	-	-	-	-	-	-	28,467,030	-	-
TOTAL	24,775,351	110,789	0	4,047,588	13,784	0	28,467,030	480,482	0

31.12.2012

	Designated as at fair value			Loans and receivables			Other financial liabilities		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS									
Cash and cash equivalents	-	-	-	793,361	-	-	-	-	-
Shares and units	9,996,284	-	-	-	-	-	-	-	-
Bonds	1,802,144	-	-	-	-	-	-	-	-
Dividend tax reclaims	-	-	-	-	12,920	-	-	-	-
Dividend receivable	-	-	-	-	150,630	-	-	-	-
LIABILITIES									
Payables to the management company	-	-	-	-	-	-	-	15,902	-
Payables to the depository	-	-	-	-	-	-	-	5,082	-
Other liabilities	-	-	-	-	-	-	-	979	-
Net assets attributable to holders	-	-	-	-	-	-	12,733,376	-	-
TOTAL	11,798,428	0	0	793,361	163,550	0	12,733,376	21,963	0

According to the estimates of the Fund management company the carrying value of financial instruments “Loans and receivables” and other financial liabilities 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.

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

In EUR

	01.01.2013- 31.12.2013	01.01.2012- 31.12.2012
Net gain/loss from financial assets at fair value through profit or loss		
From shares and units		
Sales profit/(-loss)	1,662,369	-1,161,204
Unrealised profit /(-loss)	496,840	3,075,096
From bonds		
Sales profit/(-loss)	43,490	294,924
Unrealised profit /(-loss)	776,721	302,235
From derivative instruments		
Sales profit/(-loss)	110,789	0
Total net gain/loss	3,090,209	2,511,053

Sales profit/loss and unrealised profit/loss include commissions paid to brokers on acquisition and disposal of securities. According to the principles of IAS 39 the commissions should be reflected in the statement of income and expenses under transaction costs. According to the estimates of the Fund management company the effect of commissions to net gain/loss from financial assets is not significant.

NOTE 6. RECEIVABLES AND PREPAYMENTS

In EUR

	31.12.2013	31.12.2012
Dividend tax reclaims	2,420	0
Dividend receivable	0	12,920
Receivables for securities transactions	0	150,630
Receivables for shares subscribed	11,364	0
TOTAL	13,784	163,550

NOTE 7. TRANSACTIONS WITH RELATED PARTIES

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

The transactions with related parties were as follows:

	2013	2012
Fund management company		
Paid management and performance fees	384,052	276,113
Other investment funds managed by Fund management company		
Sale of securities	113,393	145,949
TOTAL	497,445	422,062

The balances outstanding with related parties were as follows:

Fund management company	31.12.2013	31.12.2012
Management and performance fee payable	27,121	15,902

Shareholders of the Fund management company owned the units of Avaron Emerging Europe Fund 38,373 EUR in market value as of 31.12.2013 (31.12.2012: 32,875 EUR).

NOTE 8. COMPARATIVE ANALYSIS OF THE NET ASSET VALUE

In EUR

	31.12.2013	31.12.2012
Net asset value of the Fund	28,467,030	12,733,376
Net asset value of A unit	3.7686	3.2449
Net asset value of B unit	3.9088	3.3487
Net asset value of C unit	13.6146	11.7621
Net asset value of D unit	11.4948	9.9232
Net asset value of E unit	11.4898	10.0242
Net asset value of I unit	-	9.911
Net asset value of R unit	-	9.8405

NOTE 9. OTHER INFORMATION

The total expense ratios (including management, performance fees, depository fees and other fees) of different unit classes are set out below:

	TER without performance fees	TER with performance fees
A units	2.10%	2.10%
B units	1.60%	1.60%
C units	1.60%	2.34%
D units	2.35%	2.35%
E units	1.20%	2.47%
I units	n.a.	n.a.
R units	n.a.	n.a.

Total expense ratios are on annual basis.

The Fund's portfolio turnover ratio calculated by taking the lesser of purchases or sales and dividing by average monthly net assets amounted to 53.2% in 2013 (38% in 2012).

The Fund's portfolio turnover rate calculated according to the Swiss Funds & Asset Management Association's (SFAMA) guidelines was 16.8% in 2013 (13.1% in 2012). SFAMA standard portfolio turnover rate is calculated as follows:

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

Where

$$\text{Total 1} = \sum \text{securities purchases} + \sum \text{securities sales}$$

$$\text{Total 2} = \sum \text{units issued} + \sum \text{units redeemed}$$

NOTE 10. DERIVATIVE INSTRUMENTS

In EUR

31.12.2013

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	
Forward	Swedbank AS	1,350,000	EUR	18.02.2014	1	1	1,350,000	31.12.2013	0	1,366,213,000 EUR
		34,317,000	CZK	18.02.2014	0.0421	0.0393	1,350,000	31.12.2013	95,289	1,366,213,000 EUR
Forward	Swedbank AS	375,000	EUR	18.02.2014	1	1	375,000	31.12.2013	0	1,366,213,000 EUR
		9,832,500	CZK	18.02.2014	0.0397	0.0381	375,000	31.12.2013	15,500	1,366,213,000 EUR
TOTAL									110,789	

31.12.2012

There were no derivative instruments.

STATEMENT OF INVESTMENTS

In EUR as of 31.12.2013

Name	ISIN	Country	Nominal value	FX	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, %
SHARES										
SHARES LISTED ON STOCK EXCHANGE:										
AIK BANKA AD	RSAIKBE79302	RS	1,900.00	RSD	10,973	34.94	383,438	13.37	146,657	0.52%
BRD Gr Societe Generale SA RON	ROBRDBACNOR2	RO	1.00	RON	315,860	2.63	831,013	2.02	636,672	2.24%
CESKE ENERGETICKE ZAVODY AS	CZ0005112300	CZ	100.00	CZK	27,961	28.54	798,017	18.90	528,511	1.86%
ENERGA SA	PLENERG00022	PL	10.92	PLN	207,700	3.90	809,679	3.83	795,523	2.79%
ERSTE GROUP BANK AG	AT0000652011	AT	0.00	EUR	33,060	24.03	794,444	25.33	837,410	2.94%
FIRST INVESTMENT BANK	BG1100106050	BG	1.00	BGN	381,202	1.07	408,906	1.24	473,603	1.66%
FONDUL PROPRIETATEA	ROFPTAACNOR5	RO	1.00	RON	12,557,762	0.14	1,807,081	0.19	2,344,209	8.23%
FORD OTOMOTIV SANAYI AS	TRAOTOSN91H6	TR	1.00	TRY	120,653	8.94	1,078,232	7.68	926,844	3.26%
IS GAYRIMENKUL YATIRIM ORTAK	TRAIISGYO91Q3	TR	1.00	TRY	1,890,200	0.52	984,215	0.47	895,526	3.15%
KERNEL HOLDING SA SHARE	LU0327357389	LU	0.00	PLN	29,260	9.14	267,549	9.15	267,829	0.94%
KOMERCIJALNA BANKA AD	RSKOBBE16946	RS	1,000.00	RSD	19,421	10.57	205,322	13.14	255,165	0.90%
KOMERCIJALNA BANKA AD SKOPJE S	MKKMBS101019	MK	1,000.00	MKD	3,286	62.23	204,491	29.06	95,502	0.34%
KRKA	SI0031102120	SI	400.00	EUR	16,201	58.67	950,588	60.00	972,060	3.41%
MOL MAGYAR OLAJ-ESGAZIDARI	HU0000068952	HU	1,000.00	HUF	11,110	48.47	538,533	48.63	540,253	1.90%
NUCLEARELECTRICA SA	ROSNNEACNOR8	RO	10.00	RON	215,100	2.55	548,369	2.51	539,075	1.89%
OMV AG	AT0000743059	AT	0.00	EUR	14,848	31.22	463,585	34.79	516,562	1.81%
PEGAS NONWOVENS CZK	LU0275164910	LU	1.24	CZK	33,750	17.27	582,980	21.64	730,477	2.57%
PKO BANK POLSKI	PLPKO0000016	PL	1.00	PLN	57,140	9.42	538,475	9.48	541,574	1.90%
PROSPECTIUNI SA BUCURESTI	ROPRSNACNOR5	RO	0.10	RON	5,914,480	0.05	297,900	0.03	189,422	0.67%
ROKISHKIO SHURIS	LT0000100372	LT	1.00	EUR	264,610	0.78	205,235	1.59	420,730	1.48%
SNT GAZE NATURALE TRANSGAZ SA	ROTGNTACNOR8	RO	10.00	RON	13,151	41.27	542,749	41.49	545,627	1.92%
TALLINK GRUPP	EE3100004466	EE	0.60	EUR	1,148,473	0.95	1,094,303	0.89	1,022,141	3.59%
TALLINNA VESI AS	EE3100026436	EE	0.60	EUR	46,000	9.70	446,391	11.90	547,400	1.92%
TELEFONICA CZECH REPUBLIC SH	CZ0009093209	CZ	100.00	CZK	100,900	10.87	1,096,946	10.79	1,088,239	3.82%
TELEKOM SPRSKE AD BANJA LUKA	BA100TLKMRA2	BA	1.00	BAM	233,608	0.74	172,174	0.84	195,885	0.69%
TURK TELEKOMUNIKASYON SHARE	TRETTLK00013	TR	1.00	TRY	171,975	1.93	331,954	2.02	346,860	1.22%
TURKIYE HALK BANKASI	TRETHAL00019	TR	1.00	TRY	458,080	5.12	2,343,730	4.11	1,883,476	6.62%
YAPI VE KREDI BANKASI SHARE	TRAYKBNK91N6	TR	1.00	TRY	839,200	1.46	1,224,421	1.26	1,056,455	3.71%
SHARES TOTAL							19,950,720		19,339,687	67.95%

Avaron Emerging Europe Fund

Statement of investments as of 31.12.2013 (continued)

Name	ISIN	Country	Nominal value	Fund management company	FX	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, %
FUNDS											
CLOSED-END FUNDS LISTED ON STOCK EXCHANGE:											
EQUITY FUNDS											
SIF MOLDOVA (RON)	ROSIFBACNORO	RO	0.10	SIF TRANSILVANIA	RON	2,317,483	0.29	663,826	0.33	762,979	2.68%
EQUITY FUNDS TOTAL								663,826		762,979	2.68%
REAL ESTATE FUNDS											
ADVANCE TERRAFUND SHARE	BG1100025052	BG	1.00	KAROLL FINANCE	BGN	319,964	0.56	179,926	1.22	389,342	1.37%
BULGARIA REAL ESTATE FUND	BG1100001053	BG	1.00	BULGARIA REAL ESTATE FUND	BGN	1,087,946	0.17	189,792	0.27	295,919	1.04%
REAL ESTATE FUNDS TOTAL								369,718		685,261	2.41%
FUNDS TOTAL								1,033,544		1,448,240	5.09%

Name	ISIN	Country	Nominal value	Maturity	Interest	Rating	FX	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, %
BONDS*													
SLOVENIA EUR 4.375% 18.01.2021	SI0002103149	SI	1,000.00	18.01.2021	4.375%	Ba1	EUR	400,000	89.15	356,600	99.22	413,533	1.45%
IMMOFIN CV EUR 4.25% 08.03.18	XS0592528870	AT	4.12	8.03.2018	4.250%	-	EUR	1,405,328	109.03	1,532,250	116.43	1,655,061	5.81%
OTP CONV 3.95% EUR 31.10.49-16	XS0272723551	LU	1,000.00	31.10.2016	3.950%	-	EUR	2,455,000	46.45	1,140,364	77.50	1,918,831	6.74%
BONDS TOTAL										3,029,214		3,987,425	14.00%

* Accrued interest in the amount of 51,652.22 EUR has been added to the value of bonds.

DERIVATIVES

EXCHANGE-FORWARD EUR.CZK SWEDBANK		EE		18.02.2014								110,789	0.39%
DERIVATIVES TOTAL												110,789	0.39%

Avaron Emerging Europe Fund

Statement of investments as of 31.12.2013 (continued)

Name	ISIN	Country	Starting date	Maturity	Interest	Rating	FX	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, %
DEPOSITS *													
OVER-NIGHT DEPOSIT -SWEDBANK(EUR)		EE	31.12.2013	1.01.2014	0.06%	A1	EUR			1,619,038		1,619,041	5.69%
DEPOSITS TOTAL										1,619,038		1,619,041	5.69%
* Accrued interest in the amount of 2.7 EUR has been added to the value of deposits													
CASH													
CURRENT ACCOUNT		EE								2,428,547		2,428,547	8.53%
INVESTMENT TOTAL										27,691,341		28,933,728	101.64%
OTHER ASSETS													
RECIEVABLES FOR SHARES SUBSCRIBED												11,364	0.04%
DIVIDEND RECEIVABLES												2,420	0.01%
OTHER ASSETS TOTAL												13,784	0.05%
TOTAL ASSETS OF THE FUND										27,691,341		28,947,512	101.69%
LIABILITIES												-480,481	-1.69%
NET ASSETS OF THE FUND												28,467,030	100.00%

Avaron Emerging Europe Fund

In EUR as of 31.12.2012

Name	ISIN	Country	Nominal value	FX	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, %
SHARES										
SHARES LISTED ON STOCK EXCHANGE:										
AIK BANKA AD	RSAIKBE79302	RS	1,900.00	RSD	10,740	35.70	383,438	13.92	149,501	1.17%
BANCA TRANSILVANIA SA (RON)	ROTLVAACNOR1	RO	1.00	RON	516,664	0.29	147,283	0.29	147,535	1.16%
BRD Gr Societe Generale SA RON	ROBRDBACNOR2	RO	1.00	RON	231,860	2.84	658,242	1.82	422,796	3.32%
CESKE ENERGETICKE ZAVODY AS	CZ0005112300	CZ	100.00	CZK	27,961	28.54	798,017	27.08	757,057	5.95%
ELARG AGRICULTURAL LAND OPPORT	BG1100019055	BG	1.00	BGN	650,145	0.49	316,058	1.17	761,201	5.98%
FIRST INVESTMENT BANK	BG1100106050	BG	1.00	BGN	381,202	1.07	408,906	0.71	272,273	2.14%
FONDUL PROPRIETATEA	ROFPTAACNOR5	RO	1.00	RON	8,963,100	0.12	1,034,437	0.12	1,107,414	8.70%
HRVATSKI TELEKOM DD	HRHT00RA0005	HR	100.00	HRK	27,793	28.08	780,388	26.27	730,247	5.73%
IMPACT(RO)	ROIMPCACNORO	RO	1.00	RON	3,391,000	0.11	368,170	0.03	87,682	0.69%
KOMERCIJALNA BANKA AD SKOPJE S	MKKMBS101019	MK	1,000.00	MKD	3,286	62.23	204,491	39.00	128,151	1.01%
KRKA	SI0031102120	SI	400.00	EUR	11,482	61.75	709,031	50.00	574,100	4.51%
NETIA SA	PLNETIA00014	PL	1.00	PLN	171,000	1.26	215,076	1.05	179,163	1.41%
OMV AG	AT0000743059	AT	0.00	EUR	11,548	26.37	304,565	27.36	315,896	2.48%
PEGAS NONWOVENS CZK	LU0275164910	LU	1.24	CZK	26,750	16.42	439,210	19.63	525,095	4.12%
PROSPECTIUNI SA BUCURESTI	ROPRSNACNORS	RO	0.10	RON	5,914,480	0.05	297,900	0.04	219,424	1.72%
RICHTER GEDEON	HU0000067624	HU	1,000.00	HUF	2,390	127.75	305,311	124.11	296,630	2.33%
ROKISHKIO SHURIS	LT0000100372	LT	1.00	EUR	264,610	0.78	205,235	1.40	370,454	2.91%
TALLINNA VESI AS	EE3100026436	EE	0.60	EUR	28,500	9.02	257,013	9.20	262,200	2.06%
TAURON POLSKA ENERGIA SA	PLTAURN00011	PL	9.00	PLN	107,407	1.52	163,728	1.16	124,892	0.98%
TAV HAVALIMANLARI HOLDING	TRETAVH00018	TR	1.00	TRY	65,100	3.92	255,297	3.87	251,914	1.98%
TELEFONICA CZECH REPUBLIC SH	CZ0009093209	CZ	100.00	CZK	17,950	15.41	276,625	12.88	231,281	1.82%
TELEKOM SPRSKE AD BANJA LUKA	BA100TLKMRA2	BA	1.00	BAM	233,608	0.74	172,174	0.79	183,940	1.44%
TURKIYE HALK BANKASI	TRETHAL00019	TR	1.00	TRY	40,700	4.46	181,334	7.43	302,211	2.37%
VIENNA INSURANCE GROUP	AT0000908504	AT	0.00	EUR	6,534	34.84	227,645	40.38	263,810	2.07%
WIENERBERGER AG	AT0000831706	AT	0.00	EUR	21,807	10.08	219,815	6.93	151,101	1.19%
SHARES TOTAL							9,329,389		8,815,968	69.24%

Avaron Emerging Europe Fund

Statement of investments as of 31.12.2012 (continued)

Name	ISIN	Country	Nominal value	Fund management company			FX	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, %
CLOSED-END FUNDS LISTED ON STOCK EXCHANGE:													
EQUITY FUNDS													
SIF OLTENIA (RON)	ROSIFEACNOR4	RO	0.10	SIF TRANSILVANIA			RON	1,657,900	0.31	508,379	0.32	522,998	4.11%
EQUITY FUNDS TOTAL										508,379		522,998	4.11%
REAL ESTATE FUNDS													
ADVANCE TERRAFUND SHARE	BG1100025052	BG	1.00	KAROLL FINANCE			BGN	319,964	0.56	179,926	1.15	368,076	2.89%
BULGARIA REAL ESTATE FUND	BG1100001053	BG	1.00	BULGARIA REAL ESTATE FUND			BGN	1,087,946	0.17	189,792	0.27	289,244	2.27%
REAL ESTATE FUNDS TOTAL										369,718		657,319	5.16%
FUNDS TOTAL										878,097		1,180,317	9.27%
Name	ISIN	Country	Nominal value	Maturity	Interest	Rating	FX	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, %
BONDS*													
CENT EUR MEDIA 11.625 15.09.16	XS0452168536	BM	1,000.00	15/09/2016	11.625%	CCC	EUR	473,000	101.00	477,730	105.25	514,025	4.04%
IMMOFIN CV EUR 4.25% 08.03.18	XS0592528870	AT	4.12	08/03/2018	4.250%	-	EUR	552,426	105.58	583,265	110.17	608,607	4.78%
OTP CONV 3.95% EUR 31.10.49-16	XS0272723551	LU	1,000.00	31/10/2016	3.950%	-	EUR	1,485,000	39.42	585,344	45.10	679,511	5.34%
BONDS TOTAL										1,646,339		1,802,143	14.16%
* Accrued interest in the amount of 25,966.65 EUR has been added to the value of bonds.													
DEPOSITS *													
OVER-NIGHT DEPOSIT -SWEDBANK(EUR)		EE	30/12/2012	01/01/2013	0.06%					602,480		602,481	4.73%
DEPOSITS TOTAL										602,480		602,481	4.73%
* Accrued interest in the amount of 1 EUR has been added to the value of deposits													
CASH													
CURRENT ACCOUNT		EE								190,880		190,880	1.50%

Avaron Emerging Europe Fund

Statement of investments as of 31.12.2012 (continued)

OTHER ASSETS			
RECEIVABLES FOR SECURITIES TRANSACTIONS		150,630	1.18%
DIVIDEND RECEIVABLES		12,920	0.10%
OTHER ASSETS TOTAL		163,550	1.28%
<hr/>			
TOTAL ASSETS OF THE FUND	12,277,464	12,755,339	100.17%
LIABILITIES		-21,963	-0.17%
NET ASSETS OF THE FUND		12,733,376	100.00%

STATEMENT OF COMMISSIONS

In EUR

01.01.2013 - 31.12.2013

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
AS SEB Pank	13	1,823,821	2,184	0.12%
BGC Partners Turkey	2	404,567	606	0.15%
Citigroup Global Markets Ltd	1	587,444	-	0.00%
Erste Group Bank AG	6	1,295,138	1,500	0.12%
InterCapital Securities AD Belgrade	1	205,322	729	0.36%
InterCapital Securities Ltd.	17	696,533	1,746	0.25%
KBC SECURITIES NV	1	263,291	660	0.25%
Nomura International Plc	3	621,670	-	0.00%
SSIF BROKER SA	3	238,708	714	0.30%
Swedbank AS	1	189,388	378	0.20%
Swiss Capital	43	4,834,747	13,546	0.28%
TEB Yatirim Menkul Degerler A.S.	38	9,531,771	19,043	0.20%
Unicredit Bank AG London	1	95,161	-	0.00%
Unicredit CAIB Securities UK Ltd	1	101,827	254	0.25%
Wood and Company Financial Services, a.s.	46	10,131,057	14,682	0.14%
Avaron Fonds	1	113,393	-	0.00%
OTHER	3	1,302,320	-	0.00%
TOTAL	181	32,436,158	56,042	0.17%

Fund executes all securities transactions at net price. In acquisition the commission fee is included in the acquisition cost and in disposal the commission is deducted from the sale amount.

Under "OTHER" transactions for takeover bids, liquidation, and for the rights of subscriptions are shown.

01.01.2012 - 31.12.2012

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
TEB Yatirim Menkul Degerler A.S.	7	1,467,465	2,941	0.20%
First Financial Brokerage House	11	931,649	4,168	0.45%
KBC Securities Romania S.A.	21	3,916,233	15,701	0.40%
Wood and Company Financial Services, a.s.	63	11,359,775	16,430	0.14%
Banco Espirito Santo de Investimento, S.A. Branch in Poland	2	302,281	606	0.20%
Karol AD	1	132,909	534	0.40%
Concorde Securities	4	809,224	733	0.09%
ILIRIKA Investments AD Skopje	2	100,447	805	0.80%
InterCapital Securities AD Belgrade	1	54,058	176	0.32%
Erste Group Bank AG	5	1,239,417	2,338	0.19%
AS SEB Pank	8	1,146,510	2,061	0.18%
Sofia International Securities	1	257,799	1,035	0.40%
Swedbank AS	5	248,128	497	0.20%
Raiffeisen CAPITAL Banja Luka	1	208,033	1,466	0.70%
Citigroup Global Markets Ltd	4	1,641,582	0	0.00%
Raiffeisen BROKERS d.o.o.	1	60,217	470	0.78%
Raiffeisen Bank d.d. BiH	1	9,897	77	0.78%
KBC Brussels	1	14,910	60	0.40%
InterCapital Securities Ltd.	5	780,484	2,042	0.26%
Balkan Advisory Company	2	44,617	220	0.49%
BGC Partners Turkey	1	255,297	382	0.15%
Avaron Eastern Europe Fixed Income Fund	1	105,872	0	0.00%
Avaron Flexible Strategies Fund	1	40,077	0	0.00%
Avaron Asset Management clients	1	6,433	0	0.00%
TOTAL	150	25,133,314	52,742	0.21%

Fund executes all securities transactions at net price. In acquisition the commission fee is included in the acquisition cost and in disposal the commission is deducted from the sale amount.

[Translation from Estonian original]

INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholders of Avaron Emerging Europe Fund and the Fund Manager:

We have audited the accompanying annual report (pages 4 to 34) of Avaron Emerging Europe Fund, which comprises the financial statements, the investments report and the statement of transaction fees and commissions. The financial statements comprise the balance sheet as at 31 December 2013, the income statement for the year then ended, the statement of changes in the fund's net assets, statement of cash flows, a summary of significant accounting policies and other explanatory notes.

Fund Manager Management Board's Responsibility for the Fund's Annual Report

Management Board of the Fund Manager AS Avaron Asset Management is responsible for the preparation and fair presentation of these annual report in accordance with Estonian Accounting Act, Investment Funds Act and its fair presentation in accordance with decree no 21 by the Minister of Finance „The requirements for annual reports of investment funds” and for such internal control as the Management Board of the Fund Manager determines is necessary to enable the preparation of the annual report of the fund that is free from material misstatement, whether due to fraud or error.

Certified Auditor's Responsibility

Our responsibility is to express an opinion on this annual report of the fund based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual report of the fund is free from material misstatement.

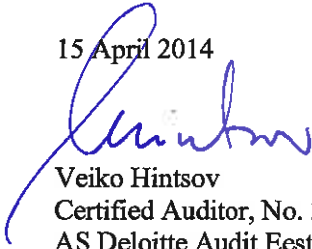
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report of the fund. The procedures selected depend on the certified auditor's judgment, including the assessment of the risks of material misstatement of the annual report of the fund, whether due to fraud or error. In making those risk assessments, the certified auditor considers internal control relevant to the entity's preparation and fair presentation of the annual report of the fund 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board of the Fund Manager, as well as evaluating the overall presentation of the annual report of the fund.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual report of the fund presents fairly, in all material respects, the financial position of Avaron Emerging Europe Fund as at 31 December 2013, and of the financial performance for the financial year then ended, investments and commission fees in accordance with Estonian Accounting Act, Investment Funds Act and decree no 21 by the Minister of Finance „The requirements for annual reports of investment funds”.

15 April 2014



Veiko Hintsov
Certified Auditor, No. 328
AS Deloitte Audit Eesti
License No. 27