



Avaron Flexible Strategies Fund

ANNUAL REPORT FOR THE FINANCIAL YEAR 2015

Audited by Deloitte

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FUND FACTS

Avaron Flexible Strategies Fund is a public closed-end contractual 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 road 7D, 10117 Tallinn, Estonia Phone: +372 664 4200 Facsimile: +372 664 4201 E-mail: info@avaron.com www.avaron.com
Depository & custody bank	Swedbank AS (reg. no. 10060701)
Fund administration (NAV calculation) & Transfer Agent services	Swedbank AS (reg. no. 10060701)
Auditor	AS Deloitte Audit Eesti (reg. no. 10687819)
Supervisor	Estonian Financial Supervision Authority
Fund managers	Kristel Kivinurm-Priisalm, Valdur Jaht, Peter Priisalm
Fund established	25 th November 2008
Start of the Fund's activities	17 th December 2008
Report period	1 st January 2015 – 31 st December 2015

MANAGEMENT REPORT

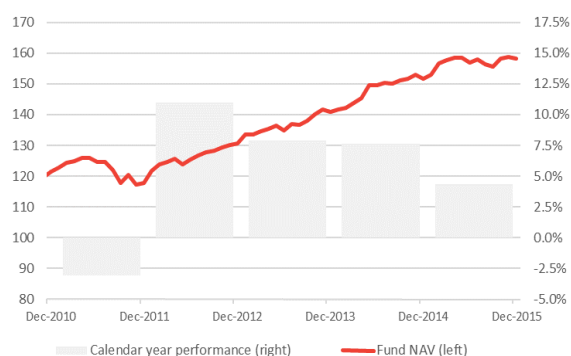
Investment Fund Avaron Flexible Strategies (hereinafter: “the Fund”) is an actively managed fund set up for investors that wish to assign asset allocation decision making to Avaron. The Fund can invest in all liquid asset classes, including cash, bonds and fixed income, equities, funds and derivatives. 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 2015 the Fund’s net return (final return after the deduction of all fees) reached +4.4%. In 5 years the Fund has delivered net return of +30.3%. The total net assets of the Fund increased from to €9.6 million to €10.4 million in 2015.

Net return of the Fund units, in EUR

	2011	2012	2013	2014	2015
B unit	-3.1%	11.0%	7.9%	7.6%	4.4%

Performance of Fund’s NAV



March 15th, 2016

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 2015

The Management Board of the Fund Management Company has prepared the annual Financial Statements of Avaron Flexible Strategies Fund on April 21th, 2016.

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 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 fund managers.

Name	Date	Signature
Kristel Kivinurm-Priisalm Member of the Management Board of the Fund Management Company / Fund manager	21/04/2016	/Signed digitally/
Valdur Jaht Member of the Management Board of the Fund Management Company / Fund manager	21/04/2016	/Signed digitally/
Peter Priisalm Fund manager	21/04/2016	/Signed digitally/

BALANCE SHEET

In EUR

ASSETS	Note	31/12/2015	31/12/2014
Cash and cash equivalents	3	1,468,314	977,270
Term deposits	3	597,464	594,043
Financial assets at fair value through profit or loss:			
Shares and units	4	6,791,759	6,637,859
Bonds	4	1,599,786	1,417,514
Derivatives	4; 7	23,515	21,724
Receivables and prepayments	4	5,994	4,995
TOTAL ASSETS		10,486,832	9,653,405
LIABILITIES			
Other financial liabilities			
Payables to the management company	4; 6	59,069	85,582
Payables to the depository	4	2,698	3,118
Other liabilities	4	1,391	1,340
TOTAL LIABILITIES (except net assets attributable to holders)		63,158	90,040
NET ASSETS ATTRIBUTABLE TO HOLDERS		10,423,674	9,563,365

STATEMENT OF INCOME AND EXPENSES

In EUR	Note	01/01/2015- 31/12/2015	01/01/2014- 31/12/2014
INCOME			
Interest income		90,272	36,712
From bonds		84,489	30,222
From deposits		5,041	3,958
Repurchase agreements		742	2,532
Dividend income			
From shares and units		52,968	58,319
Net gain/loss from financial assets at fair value through profit or loss		436,233	629,897
From shares and units	5	393,515	643,473
From bonds	5	32,746	-27,708
From derivative instruments	5	9,972	14,132
Net gain/loss from foreign exchange		14,166	21,973
Other financial income			
Rebates from investments		35,104	27,441
TOTAL INCOME		628,743	774,342
OPERATING EXPENSES			
Management fees	6	128,321	103,451
Performance fees	6	49,310	75,442
Custodian fees		26,768	24,921
Transaction fees		343	605
Other operating expenses		2,316	2,110
TOTAL OPERATING EXPENSES		207,058	206,529
NET INCOME		421,685	567,813

STATEMENT OF CHANGES IN NET ASSETS

In EUR	01/01/2015- 31/12/2015	01/01/2014- 31/12/2014
NET ASSET VALUE AT THE BEGINNING OF THE PERIOD	9,563,365	6,884,912
Cash received for fund units issued	2,212,916	2,427,104
Cash paid for fund units redeemed	-1,774,292	-316,464
Net result of the Fund	421,685	567,813
NET ASSET VALUE AT THE END OF THE PERIOD	<u>10,423,674</u>	<u>9,563,365</u>
Number of B units in circulation at the end of the period:	<u>658,533.224</u>	<u>630,501.654</u>
Net asset value of an B unit:	<u>15.8286</u>	<u>15.1679</u>

STATEMENT OF CASH FLOWS

In EUR	01/01/2015 – 31/12/2015	01/01/2014 – 31/12/2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received	106,219	31,356
Dividends received	52,976	58,610
Net result from foreign exchange	12,516	11,167
Sale of investments	2,967,215	1,776,840
Purchase of investments	-2,873,594	-3,882,544
Operating expenses paid	-199,830	-155,991
	65,502	-2,160,562
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of units	2,205,249	2,424,614
Payments on redemption of units	-1,766,625	-313,973
	438,624	2,110,641
TOTAL CASH FLOWS	504,126	-49,921
CASH AND CASH EQUIVALENTS		
Cash and cash equivalents at the beginning of the period	977,270	1,007,112
Effect of exchange rate fluctuations on cash and cash equivalents	-13,082	20,079
Cash and cash equivalents at the end of the period	1,468,314	977,270

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED

The annual financial statements of Avaron Flexible Strategies Fund for 2015 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 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:

- IFRIC 21 "Levies" (effective for annual periods beginning on or after 17 June 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 - adopted by the EU on 18 December 2014 (amendments are to be applied for annual periods beginning on or after 1 January 2015).

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:

- 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 - adopted by the EU on 17 December 2014 (amendments are to be applied for annual periods beginning on or after 1 February 2015),
- Amendments to IAS 19 "Employee Benefits" - Defined Benefit Plans: Employee Contributions - adopted by the EU on 17 December 2014 (effective for annual periods beginning on or after 1 February 2015).

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

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

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

- IFRS 9 “Financial Instruments” (effective for annual periods beginning on or after 1 January 2018),
- IFRS 14 “Regulatory Deferral Accounts” (effective for annual periods beginning on or after 1 January 2016). The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard,
- IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 10 “Consolidated Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective for annual periods beginning on or after 1 January 2016).
- Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosure of Interests in Other Entities” and IAS 28 “Investments in Associates and Joint Ventures” - Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IFRS 11 “Joint Arrangements” – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 1 “Presentation of Financial Statements” - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 16 “Property, Plant and Equipment” and IAS 41 “Agriculture” - Agriculture: Bearer Plants (effective for annual periods beginning on or after 1 January 2016),
- Amendments to IAS 27 “Separate Financial Statements” - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016),
- Amendments to various standards “Improvements to IFRSs (cycle 2012-2014)” resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016).

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

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.

Changes in the presentation of information

Assessing the liquidity risks, the calculation of positions that may take more than 7 days to liquidate has been amended. Based on six months average trading volume so far 100% of the trading volume has been taken into account. Assessing the liquidity risk calculations we consider that 30% of trading volume represents better the actual liquidity risk of trading with single instrument. In note 2 recalculations for the previous period have been made.

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 rate is based on market inputs. 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 economic activities 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. Initial acquisition cost of financial assets at fair value through profit or loss includes direct expenses related to financial asset or liability (commission). According to IFRS 13 these commissions should be recognized directly in statement of income and expenses. Commissions recognized at acquisition cost are insignificant and have no impact on Fund's assets or net income. Commissions are shown in annual report under "Net gain/loss from financial assets at fair value through profit or loss" through revaluation. If the commissions were directly expensed, they would have been included under operating expenses.

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

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.

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 sale amount of securities includes commissions related to the transaction.

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

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 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 once a month, with prior notice of one to three months according to the Fund rules. 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 unit-holder has chosen notice period of one month, the redemption price shall be the net asset value of the Unit that shall be calculated as of the last banking day of the month that follows to the month of receiving the redemption order from which the redemption fee may be deducted. If the unit-holder has chosen notice period of three months, the redemption price shall be the net asset value of the Unit that shall be calculated as of the last banking day of the third month that follows to the month of receiving the redemption order from which the redemption fee may be deducted.

The net asset value of a unit is determined by dividing the total net asset value of the Fund by the number of units 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 Fund's income shall not be distributed to unit-holders but shall be reinvested. Unit-holders profit or loss shall be reflected in the changes of a 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.

Other financial income

Refunds of management fee received by the Fund are recognized under "Other financial income" in statement of income and expenses. When the assets of the Fund are invested in another investment fund managed by the Management Company, the Management Company refunds the management fee which were charged on the invested amount to the Fund making the investment. The management fee is deducted by fees related to fund size before payment. Refunds of management fee are made each quarter. If the Management Company has made an agreement on refunding management fees with other management companies which are managing funds in which the Fund is investing, the Fund

Management Company transfers the full amount to the Fund and these amounts are also recognised under “Other income”.

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 group companies. 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 cyclicalities 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:

	31/12/2015	% of NAV	31/12/2014	% of NAV
Cash and cash equivalents	1,468,314	14.09%	977,270	10.22%
Term deposits	597,464	5.73%	594,043	6.21%
Government bonds	1,599,786	15.35%	1,417,514	14.82%
Receivables and prepayments	5,994	0.06%	4,995	0.05%
TOTAL	3,671,558	35.23%	2,993,822	31.30%

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 in Standard & Poor's rating scale in EUR:

	31/12/2015	% of NAV	31/12/2014	% of NAV
BB	238,012	2.28%	-	-
BB-	427,904	4.11%	-	-
No rating	933,870	8.96%	1,417,514	14.82%
TOTAL	1,599,786	15.35%	1,417,514	14.82%

The Fund's cash and cash equivalents are held with Fund's depository Swedbank, which was rated AA-. Term deposits are held in AS LHV Pank (no rating) and Nordea Bank Finland Plc Estonian Branch (rated AA-).

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 there is no market (buyer) 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 200,000 EUR that it can access to meet short-term liquidity needs. These resources have not been used as of 31/12/2015

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

	Up to 1 month		Over 1 month	
	31/12/2015	31/12/2014	31/12/2015	31/12/2014
Payables to the management company	59,069	85,582	-	-
Payables to the depository	2,698	3,118	-	-
Other liabilities	-	-	1,391	1,340
Net Assets attributable to Holders	-	-	10,423,674	9,563,365
TOTAL	61,767	88,700	10,425,065	9,564,705

Positions that may take more than 7 days to liquidate based on six months average trading volume (30% of trading volume).

Instrument	Country	Sector	% of NAV	
			31/12/2015	31/12/2014
AVARON E-EUROPE FI FUND B	Eastern Europe	Fixed income fund	57.43%	58.49%
MAINOR EUR 26.11.2018	Estonia	Real Estate	4.35%	-
TALLINK GRUPP AS FRN 18.10.18	Estonia	Consumer Discretionary	3.12%	2.38%
LHV GROUP SUBORDIN 29.10.25	Estonia	Financials	1.49%	-
ADVANCE TERRAFUND SHARE	Bulgaria	Real Estate	0.75%	0.97%
BULGARIA REAL ESTATE FUND	Bulgaria	Real Estate	0.51%	0.58%
AVARON E-EUROPE FI FUND A	Eastern Europe	Fixed income fund	0.06%	-
TALLINNA VESI AS	Estonia	Utilities	-	3.61%
ORIOLA-KD VAR 20.02.2017 EUR	Finland	Health care	-	2.25%
TOTAL			67.71%	68.26%

Liquidation of remaining positions based on six months average trading volume may probably take less than 7 days.

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:

	31/12/2015	% of Assets	31/12/2014	% of Assets
EUR	9,433,118	89.95%	8,763,755	90.78%
NOK	385,823	3.68%	227,243	2.35%
RON	293,728	2.80%	327,825	3.40%
BGN	142,907	1.36%	147,708	1.53%
TRY	118,922	1.13%	-	-
PLN	98,693	0.94%	-	-
RSD	13,641	0.13%	13,707	0.14%
USD	-	-	173,167	1.79%
TOTAL	10,486,832	100.00%	9,653,405	100.00%

Currency risk sensitivity analysis

Fund's net asset value would have been affected by the weakening of foreign currencies against EUR on 31th December 2015. 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 31st December 2014 has been made using the same assumptions.

The impact on net assets attributable to holders and net income:

	31/12/2015			31/12/2014		
	Currency weakening	Possible impact	Currency's % of NAV	Currency weakening	Possible impact	Currency's % of NAV
TRY	-46%	-54,302	1.14%	-48%	-	-
RON	-13%	-39,527	2.82%	-26%	-93,050	3.77%
PLN	-23%	-22,220	0.95%	-35%	-	-
NOK	-27%	-19,690	3.47%	-29%	-13,756	2.59%
BGN	-5%	-7,070	1.37%	-7%	-10,229	1.54%
RSD	-28%	-3,847	0.13%	-39%	-5,347	0.14%
USD	-31%	-	-	-26%	-82,009	3.31%
TOTAL		-146,655	9.88%		-204,391	11.35%

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:

	31/12/2015	% of NAV	31/12/2014	% of NAV
Fixed Income Fund	5,992,196	57.49%	5,593,174	58.49%
Real Estate	584,598	5.61%	484,442	5.07%
Consumer Discretionary	468,526	4.49%	339,908	3.55%
Financials	436,027	4.18%	334,641	3.50%
Telecom	408,441	3.92%	-	-
Utilities	293,728	2.82%	672,880	7.04%
Energy	109,336	1.05%	415,158	4.34%
Other	98,693	0.94%	-	-
Healthcare	-	-	215,169	2.25%
TOTAL	8,391,545	80.50%	8,055,373	84.23%

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

	31/12/2015	% of NAV	31/12/2014	% of NAV
Avaron Eastern Europe Fixed Income Fund	5,992,196	57.49%	5,593,174	58.49%
Estonia	1,076,914	10.33%	684,962	7.16%
Romania	293,728	2.82%	327,826	3.43%
Sweden	279,765	2.68%	-	-
Hungary	257,475	2.47%	465,201	4.86%
Bulgaria	131,535	1.26%	147,708	1.54%
Slovenia	128,676	1.23%	-	-
Turkey	118,922	1.14%	173,167	1.81%
Ireland	98,693	0.95%	-	-
Serbia	13,641	0.13%	13,707	0.14%
Austria	-	-	434,459	4.54%
Finland	-	-	215,169	2.25%
TOTAL	8,391,545	80.50%	8,055,373	84.23%

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 31st December 2014 has been made with using the same assumptions.

	Probability	+/- possible change of Fund's NAV during year	
		2015	2014
σ	68.27%	2.90%	3.01%
2σ	95.45%	5.79%	6.01%
3σ	99.73%	8.69%	9.02%

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

	31/12/2015	% of NAV	31/12/2014	% of NAV
Deposits, LHV Pank	441,227	4.23%	440,000	4.60%
Deposits, Nordea Pank	153,399	1.47%	153,051	1.60%
Total*	594,626	5.70%	593,051	6.20%

* "Term deposits" in balance sheet include also accrued interest in the amount of 2,837.22 EUR in 2015 and 992.00 EUR in 2014.

Cash and cash equivalents by currency

	31/12/2015	% of NAV, converted into EUR	31/12/2014	% of NAV, converted into EUR
EUR	1,420,103	13.62%	781,613	8.17%
NOK	353,824	0.36%	182,621	0.34%
BGN	22,242	0.11%	-	-
USD	-	-	173,032	1.50%
RON	-	-	145,615	0.21%
TOTAL		14.09%		10.22%

NOTE 4. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES TO CATEGORIES AND LEVELSIn EUR
31/12/2015

	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	-	-	-	1,468,314	-	-	-	-	-
Term deposits	-	-	-	597,464	-	-	-	-	-
Shares and units	799,562	-	5,992,196	-	-	-	-	-	-
Bonds	991,397	155,326	453,063	-	-	-	-	-	-
Derivative instruments	-	23,515	-	-	-	-	-	-	-
Receivables for securities transactions	-	-	-	5,994	-	-	-	-	-
LIABILITIES									
Payables to the management company	-	-	-	-	-	-	-	59,069	-
Payables to the depository	-	-	-	-	-	-	-	2,698	-
Other liabilities	-	-	-	-	-	-	-	1,391	-
Net assets attributable to holders	-	-	-	-	-	-	-	10,423,674	-
TOTAL	1,790,959	178,841	6,445,259	2,071,772	-	-	-	10,486,832	-

* Additional information for instruments categorised under Level 3

	2015	
	Shares and units	Bonds
Starting balance of Level 3 instruments	-	-
Transfers from level 2 to level 3**	5,593,174	-
Purchases during 2015	6,610	450,000
Total gains	392,412	-
Interest received	-	7,875
Interest accrued	-	3,063
Total level 3 investments fair value	5,992,196	453,063

** The transfer from level 2 to 3 occurred due to the change of the assets of the Avaron Eastern Europe Fixed Income. An instrument in the Fund was categorised as Level 3 instrument, which resulted in the total portfolio categorisation decrease.

31/12/2014

	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	-	-	-	977,270	-	-	-	-	-
Term deposits	-	-	-	594,043	-	-	-	-	-
Shares and units	1,044,685	5,593,174	-	-	-	-	-	-	-
Bonds	1,202,345	215,169	-	-	-	-	-	-	-
Derivative instruments	-	21,724	-	-	-	-	-	-	-
Receivables for securities transactions	-	-	-	4,995	-	-	-	-	-
LIABILITIES									
Payables to the management company	-	-	-	-	-	-	-	85,582	-
Payables to the depository	-	-	-	-	-	-	-	3,118	-
Other liabilities	-	-	-	-	-	-	-	1,340	-
Net assets attributable to holders	-	-	-	-	-	-	-	9,563,365	-
TOTAL	2,247,030	5,830,067	-	1,576,308	-	-	-	9,653,405	-

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

	01/01/2015- 31/12/2015	01/01/2014- 31/12/2014
Net gain/loss from financial assets at fair value through profit or loss		
From shares and units		
Sales profit/(-loss)	59,975	144,839
Unrealised profit /(-loss)	333,540	498,634
From bonds		
Sales profit/(-loss)	13,841	-
Unrealised profit /(-loss)	18,905	-27,708
From derivative instruments		
Sales profit/(-loss)	8,181	11,845
Unrealised profit /(-loss)	1,791	2,287
Total net gain/loss	436,233	629,897

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 and IFRS 13 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. 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.

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. Avaron Flexible Strategies Fund, which operates in the location of the Management Company, Narva road 7D, Tallinn 10117, Estonia, owned 75.52% of Avaron Eastern Europe Fixed Income Fund units (57.28% in 2014) as at December 31st, 2015.

Avaron Flexible Strategies Fund

The transactions with related parties were as follows:

	2015	2014
Fund Management Company		
Paid management and performance fees	177,631	178,892
Received management fees from investments to Management Company's other Funds	35,104	27,441
Other investment funds managed by Fund Management Company		
Purchase of securities	931,911	2,046,871
Sale of securities	-	16,446
TOTAL	1,144,646	2,269,649

The balances outstanding with related parties were as follows:

Fund Management Company	31/12/2015	31/12/2014
Management and performance fee payable	59,069	85,582
Other receivables - management fees from investments to Management Company's other Funds	9,051	4,995

As of 31/12/2015 related parties of the Fund Management Company owned the units of Avaron Flexible Strategies Fund in market value of 1,709,044 euros (31.12.2014: 1,631,835 euros).

NOTE 7. DERIVATIVE INSTRUMENTS

In EUR
31/12/2015

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	AS SEB Pank	109,409	EUR	08/01/2016	1.0000	1.0000	109,409	31/12/2015	-	714,408,000 EUR
		1,000,000	NOK	08/01/2016	0.1041	0.1094	109,409	31/12/2015	5,358	714,408,000 EUR
Swap	AS SEB Pank	225,187	EUR	17/06/2016	1.0000	1.0000	225,187	31/12/2015	-	714,408,000 EUR
		2,000,000	NOK	17/06/2016	0.1035	0.1126	225,187	31/12/2015	18,157	714,408,000 EUR
TOTAL									23,515	

31/12/2014

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	AS SEB Pank	241,633	EUR	17/06/2015	1.0000	1.0000	241,633	31/12/2014	-	657,868,000 EUR
		2,000,000	NOK	17/06/2015	0.1100	0.1208	241,633	31/12/2014	21,724	657,868,000 EUR
TOTAL									21,724	

STATEMENT OF INVESTMENTS

In EUR as of 31/12/2015

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:										
SC FONDUL PROPRIETATEA SA	ROFPTAACNOR5	RO	1.00	RON	1,641,250	0.13	215,272	0.18	293,728	2.82%
TALLINK GRUPP	EE3100004466	EE	0.60	EUR	166,912	0.94	157,508	0.86	143,044	1.37%
TURKIYE HALK BANKASI	TRETHAL00019	TR	1.00	TRY	36,290	2.86	103,681	3.28	118,922	1.14%
LYXOR ETF WIG20	LU0459113907	FR	0.00	PLN	1,960	48.09	94,257	50.35	98,693	0.95%
AIK BANKA AD	RSAIKBE79302	RS	1,900.00	RSD	903	39.66	35,816	15.11	13,641	0.13%
SHARES TOTAL							606,534		668,028	6.41%

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:											
ADVANCE TERRAFUND SHARE	BG1100025052	BG	1.00	KAROLL FINANCE	BGN	74,140	0.68	50,116	1.06	78,465	0.75%
BULGARIA REAL ESTATE FUND	BG1100001053	BG	1.00	REAL ESTATE MANAGEMENT LTD	BGN	200,000	0.18	36,443	0.27	53,070	0.51%
REAL ESTATE FUNDS TOTAL							86,559		131,535	1.26%	

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, %
BOND FUNDS											
AVARON E-EUROPE FI FUND B	EE3600109385	EE	1.00	AS AVARON ASSET MANAGEMENT	EUR	453,918	10.61	4,815,581	12.32	5,985,541	57.43%
AVARON E-EUROPE FI FUND A	EE3600109377	AIEF	10.00	AS AVARON ASSET MANAGEMENT	EUR	511	12.93	6,610	13.02	6,655	0.06%
BOND FUNDS TOTAL							4,822,191		5,992,196	57.49%	
FUNDS TOTAL							4,908,750		6,123,731	58.75%	

Statement of investments as of 31/12/2015 (continued)

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*													
MAINOR EUR 26.11.2018	EE3300110691	EE	1,000.00	26/11/2018	7.000%		EUR	450,000	100.00	450,000	100.00	453,063	4.35%
TALLINK GRUPP AS FRN 18.10.18	NO0010682255	EE	1,000,000.00	18/10/2018			NOK	3,000,000	12.51	375,237	10.72	325,482	3.12%
EILEME 2 11.75% 31.01.2020 EUR	XS0731129747	SE	1,000.00	31/01/2020	11.750%	BB-	EUR	250,000	112.14	280,344	107.01	279,764	2.68%
LHV GROUP SUBORDIN 29.10.25	EE3300110741	EE	1,000.00	29/10/2025	6.500%		EUR	143,000	100.00	143,000	107.50	155,326	1.49%
OTP BANK 5.27% EUR 19.09.2016	XS0268320800	HU	1,000.00	19/09/2016	5.270%	BB-	EUR	142,000	103.50	146,970	102.84	148,139	1.42%
TEL.SLOVENJE 4.875% 21.12.16	XS0473928371	SI	1,000.00	21/12/2016	4.875%	BB	EUR	125,000	104.78	130,972	102.81	128,676	1.24%
MOL MAGYAR EUR 5.875% 20.04.17	XS0503453275	HU	1,000.00	20/04/2017	5.875%	BB	EUR	100,000	109.43	109,430	105.24	109,336	1.05%
BONDS TOTAL										1,635,953		1,599,786	15.35%
*Accrued interest in the amount of 27,143.50 EUR has been added to the value of bonds.													
DERIVATIVES													
FX-Swap NOK/EUR SEB Pank		EE		17/06/2016			NOK					18,157	0.18%
FX-Swap EUR/NOK SWEDBANK		EE		08/01/2016			NOK					5,358	0.05%
DERIVATIVES TOTAL												23,515	0.23%
SHARES TOTAL												8,415,060	80.73%
DEPOSITS *													
DEPOSIT- LHV PANK(EUR)		EE	16/05/2015	16/05/2016	1.10%	BBB-	EUR			330,000		332,339	3.19%
DEPOSIT- NORDEA PANK TLN(EUR)		EE	11/09/2015	11/03/2016	0.05%	AA-	EUR			122,739		122,759	1.18%
DEPOSIT- LHV PANK(EUR)		EE	14/08/2015	14/08/2016	1.10%	BBB-	EUR			111,227		111,703	1.07%
DEPOSIT- NORDEA PANK TLN(EUR)		EE	23/10/2015	25/04/2016	0.05%	AA-	EUR			30,660		30,663	0.29%
DEPOSITS TOTAL										594,626		597,464	5.73%
*Accrued interest in the amount of 2,837.22 EUR has been added to the value of deposits.													
CASH													
CURRENT ACCOUNT		EE					EUR			1,420,116		1,420,116	13.62%
CURRENT ACCOUNT		EE					NOK			36,826		36,826	0.35%
CURRENT ACCOUNT		EE					BGN			11,372		11,372	0.11%
CURRENT ACCOUNT TOTAL										1,468,314		1,468,314	14.09%
INVESTMENT TOTAL										9,214,177		10,480,838	100.55%

Statement of investments as of 31/12/2015 (continued)

Name	ISIN	Country	Start 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, %
OTHER ASSETS													
RECIEVABLES FOR SECURITIES TRANSACTIONS												5,994	0.06%
OTHER ASSETS TOTAL												5,994	0.06%
TOTAL ASSETS OF THE FUND										9,214,177	10,486,832	100.61%	
LIABILITIES												-63,158	-0.61%
NET ASSETS OF THE FUND												10,423,674	100.00%

In EUR as of 31/12/2014

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, %
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SHARES**SHARES LISTED ON STOCK EXCHANGE:**

TALLINNA VESI AS	EE3100026436	EE	0.60		EUR	26,340	11.10	292,459	13.10	345,054	3.61%
SC FONDUL PROPRIETATEA SA	ROFPTAACNOR5	RO	1.00		RON	1,641,250	0.13	215,272	0.20	327,825	3.43%
TALLINK GRUPP	EE3100004466	EE	0.60		EUR	166,912	0.94	157,508	0.68	112,666	1.18%
OMV AG	AT0000743059	AT	0.00		EUR	4,440	22.53	100,044	22.01	97,724	1.02%
AIK BANKA AD	RSAIKBE79302	RS	1,900.00		RSD	903	39.66	35,817	15.18	13,707	0.14%

SHARES TOTAL**801,100****896,976****9.38%**

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, %
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FUNDS**CLOSED-END FUNDS LISTED ON STOCK EXCHANGE:**

ADVANCE TERRAFUND SHARE	BG1100025052	BG	1.00	KAROLL FINANCE	BGN	74,140	0.68	50,116	1.25	92,490	0.96%
BULGARIA REAL ESTATE FUND	BG1100001053	BG	1.00	REAL ESTATE MANAGEMENT LTD	BGN	200,000	0.18	36,443	0.28	55,218	0.58%

REAL ESTATE FUNDS TOTAL**86,559****147,708****1.54%**

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, %
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BOND FUNDS

AVARON E-EUROPE FI FUND B	EE3600109385	EE	1.00	AS AVARON ASSET MANAGEMENT	EUR	453,918	10.61	4,815,581	12.32	5,593,174	58.49%
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BOND FUNDS TOTAL**4,815,581****5,593,174****58.49%****FUNDS TOTAL****4,902,140****5,740,882****60.03%**

Statement of investments as of 31/12/2014 (continued)

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*													
IMMOFIN CV EUR 4.25% 08/03/18	XS0592528870	AT	4.12	8/03/2018	4.250%		EUR	331,425	105.29	348,970	101.60	336,734	3.52%
TALLINK GRUPP AS FRN 18/10/18	NO0010682255	EE	1,000,000.00	18/10/2018			NOK	2,000,000	13.16	263,106	11.22	227,243	2.38%
ORIOLA-KD VAR 20/02/2017 EUR	FI4000081369	FI	100,000.00	20/02/2017	7.000%		EUR	200,000	102.50	205,000	101.56	215,169	2.25%
MOL 3.876% 05/10/15	XS0231264275	HU	1,000.00	5/10/2015	3.876%		EUR	203,000	102.85	208,786	101.09	207,080	2.17%
TURKIYE BANKASI 5.1% 01/02/16	USM8933FAB33	TR	1,000.00	1/02/2016	5.100%		USD	200,000	76.43	152,858	84.83	173,167	1.81%
OTP FRN EUR 04/03/15	XS0214084252	HU	50,000.00	4/03/2015			EUR	150,000	98.30	147,450	98.46	147,767	1.54%
MOL MAGYAR EUR 5.875% 20/04/17	XS0503453275	HU	1,000.00	20/04/2017	5.875%		EUR	100,000	109.43	109,430	106.25	110,354	1.15%
BONDS TOTAL										1,435,600		1,417,514	14.82%

*Accrued interest in the amount of 24,534.49 EUR has been added to the value of bonds.

DERIVATIVES

FX-Swap EUR/NOK SWEDBANK		EE		17/06/2015								21,724	0.23%
DERIVATIVES TOTAL												21,724	0.23%

SHARES TOTAL

8,077,096 84.46%

Name	ISIN	Country	Start 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 *													
DEPOSIT- LHV PANK(EUR)		EE	14/11/2014	14/05/2015	0.90%	BBB-	EUR			330,000		330,396	3.45%
DEPOSIT- NORDEA PANK TLN(EUR)		EE	11/09/2014	11/03/2015	0.30%	AA-	EUR			122,430		122,544	1.28%
DEPOSIT- LHV PANK(EUR)		EE	14/08/2014	14/08/2015	1.10%	BBB-	EUR			110,000		110,471	1.16%
DEPOSIT- NORDEA PANK TLN(EUR)		EE	23/10/2014	23/04/2015	0.20%	AA-	EUR			30,621		30,633	0.32%
DEPOSITS TOTAL										593,051		594,044	6.21%

*Accrued interest in the amount of 992.75 EUR has been added to the value of deposits.

CASH

CURRENT ACCOUNT		EE								977,270		977,270	10.22%
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INVESTMENT TOTAL

8,709,161 9,648,410 100.89%

Statement of investments as of 31/12/2014 (continued)

Name	ISIN	Country	Start 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, %
OTHER ASSETS													
RECIEVABLES FOR SECURITIES TRANSACTIONS										4,995		4,995	0.05%
OTHER ASSETS TOTAL										4,995		4,995	0.05%
TOTAL ASSETS OF THE FUND										8,714,156		9,653,405	100.94%
LIABILITIES												-90,040	-0.94%
NET ASSETS OF THE FUND												9,563,365	100.00%

STATEMENT OF COMMISSIONS

In EUR

01/01/2015- 31/12/2015

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
Avaron Eastern Europe Fixed Income Fund	5	925,302	-	-
Unicredit Bank AG London	4	719,688	-	-
Swedbank AS	4	355,695	534	0.15%
AS SEB Pank	2	282,469	-	-
TEB Yatirim Menkul Degerler A.S.	1	103,681	135	0.13%
Erste Group Bank AG	1	96,784	97	0.10%
PKO Bank Polski	1	94,257	94	0.10%
AS Avaron Asset Management	1	6,610	-	-
<i>OTHER</i>	5	1,159,088	-	-
TOTAL	24	3,743,574	860	0.02%

01/01/2014- 31/12/2014

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
Avaron Eastern Europe Fixed Income Fund	9	1,886,910	-	-
TEB Yatirim Menkul Degerler A.S.	6	389,978	601	0.15%
Avaron Emerging Europe Fund	1	176,407	-	-
Unicredit Bank AG London	1	172,563	-	-
Wood and Company Financial Services, a.s.	1	167,877	135	0.08%
AS SEB Pank	1	146,007	73	0.05%
Erste Group Bank AG	1	100,044	100	0.10%
First Financial Brokerage House	1	54,941	276	0.50%
Raiffeisen Centrobank AG	1	32,885	82	0.25%
AS Avaron Asset Management	1	10,480	-	-
TOTAL	23	3,138,092	1,267	0.04%

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" public offerings and repurchases resulting from corporate events, liquidations and maturities are shown.

[Translation from Estonian original]

INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholders of Avaron Flexible Strategies Fund and the Fund Manager:

We have audited the accompanying annual report (pages 6 to 33) of Avaron Flexible Strategies 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 2015, 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.

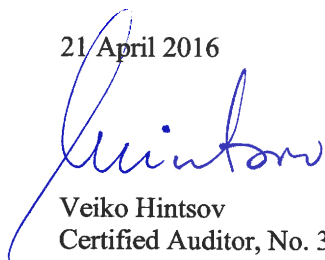
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report of the fund. The procedures selected depend on the certified auditor's judgment, including the assessment of the risks of material misstatement of the annual report of the fund, whether 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.

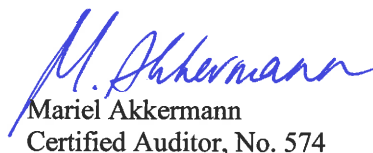
Opinion

In our opinion, the annual report of the fund presents fairly, in all material respects, the financial position of Avaron Flexible Strategies Fund as at 31 December 2015, 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”.

21 April 2016



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



Mariel Akkermann
Certified Auditor, No. 574