



## **Avaron Flexible Strategies Fund**

**ANNUAL REPORT FOR THE FINANCIAL YEAR 2016**

**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.

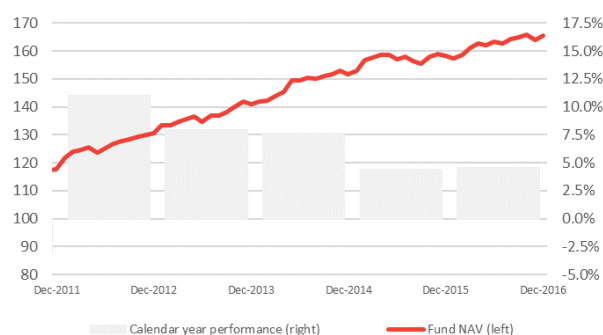
Name of the Fund	Avaron Flexible Strategies Fund
Fund Management Company	AS Avaron Asset Management (reg. no. 11341336)
Registered address and contact details of the Fund Management Company	Address: Narva road 7D, 10117 Tallinn, Estonia Phone: +372 664 4200 Facsimile: +372 664 4201 E-mail: <a href="mailto:avaron@avaron.com">avaron@avaron.com</a> <a href="http://www.avaron.com">www.avaron.com</a>
Depository & custody bank	Swedbank AS (reg. no. 10060701)
Fund administration (NAV calculation) & Transfer Agent services	Swedbank AS (reg. no. 10060701)
Auditor	AS Deloitte Audit Eesti (reg. no. 10687819)
Supervisor	Estonian Financial Supervision Authority
Fund managers	Kristel Kivinurm-Priisalm, Valdur Jaht, Peter Priisalm
Fund established	25 November 2008
Start of the Fund's activities	17 December 2008
Report period	1 January 2016–31 December 2016

## MANAGEMENT REPORT

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

In 2016 the Fund’s net return (final return after the deduction of all fees) reached +4.5%. In 5 years the Fund has delivered net return of +40.6%. The total net assets of the Fund increased from to €10.4 million to €10.8 million.

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
B unit	11.0%	7.9%	7.6%	4.4%	4.5%



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

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

17 February 2017  
 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 2016**

The Management Board of the Fund Management Company has prepared the annual Financial Statements of Avaron Flexible Strategies Fund on 28 April 2017.

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.

<b>Name</b>	<b>Date</b>	<b>Signature</b>
Kristel Kivinurm-Priisalm Member of the Management Board of the Fund Management Company / Fund manager	28/04/2017	/Signed digitally/
Valdur Jaht Member of the Management Board of the Fund Management Company / Fund manager	28/04/2017	/Signed digitally/
Peter Priisalm Fund manager	28/04/2017	/Signed digitally/

## FINANCIAL STATEMENTS

### BALANCE SHEET

In EUR

<b>ASSETS</b>	<b>Note</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
Cash and cash equivalents	3	1,210,168	1,468,314
Term deposits	3	153,499	597,464
Financial assets at fair value through profit or loss:			
Shares and units	4	8,199,206	6,791,759
Bonds	4	1,189,170	1,599,786
Derivatives	4; 7	-	23,515
Reverse repurchase agreements		100,184	-
Receivables and prepayments	4	6,917	5,994
<b>TOTAL ASSETS</b>		<b>10,859,144</b>	<b>10,486,832</b>
<b>LIABILITIES</b>			
Financial liabilities at fair value through profit or loss:			
Derivatives	4; 7	7,770	-
<b>Other financial liabilities</b>			
Payables to the management company	4; 6	63,513	59,069
Payables to the depository	4	4,883	2,698
Other liabilities	4	1,399	1,391
<b>TOTAL LIABILITIES (except net assets attributable to holders)</b>		<b>77,565</b>	<b>63,158</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS</b>		<b>10,781,579</b>	<b>10,423,674</b>

## STATEMENT OF INCOME AND EXPENSES

In EUR

<b>INCOME</b>	<b>Note</b>	<b>01/01/2016- 31/12/2016</b>	<b>01/01/2015- 31/12/2015</b>
<b>Interest income</b>		<b>88,157</b>	<b>90,272</b>
From bonds		85,537	84,489
From deposits		2,294	5,041
Repurchase agreements		326	742
<b>Dividend income</b>			
From shares and units		62,196	52,968
<b>Net gain/loss from financial assets at fair value through profit or loss</b>		<b>516,965</b>	<b>436,233</b>
From shares and units	5	527,132	393,515
From bonds	5	1,922	32,746
From derivative instruments	5	-12,089	9,972
<b>Net gain/loss from foreign exchange</b>		-20,964	14,166
<b>Other financial income</b>			
Rebates from investments		43,230	35,104
<b>TOTAL INCOME</b>		<b>689,584</b>	<b>628,743</b>
<b>OPERATING EXPENSES</b>			
Management fees	6	133,902	128,321
Performance fees	6	53,892	49,310
Custodian fees		28,311	26,768
Transaction fees		456	343
Other operating expenses		2,417	2,316
<b>TOTAL OPERATING EXPENSES</b>		<b>218,978</b>	<b>207,058</b>
<b>NET INCOME</b>		<b>470,606</b>	<b>421,685</b>

## STATEMENT OF CHANGES IN NET ASSETS

In EUR

	<b>01/01/2016- 31/12/2016</b>	<b>01/01/2016- 31/12/2016</b>
<b>NET ASSET VALUE AT THE BEGINNING OF THE PERIOD</b>	<b>10,423,674</b>	<b>9,563,365</b>
Cash received for fund units issued	585,407	2,212,916
Cash paid for fund units redeemed	-698,108	-1,774,292
Net result of the Fund	470,606	421,685
<b>NET ASSET VALUE AT THE END OF THE PERIOD</b>	<b>10,781,579</b>	<b>10,423,674</b>
Number of B units in circulation at the end of the period:	<u>651,615.304</u>	<u>658,533.224</u>
Net asset value of a B unit:	<u>16.5459</u>	<u>15.8286</u>
Total net asset value of the B units in circulation:	10,781,579	10,423,674



## STATEMENT OF CASH FLOWS

In EUR

	<b>01/01/2016- 31/12/2016</b>	<b>01/01/2015- 31/12/2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received	101,807	106,219
Dividends received	62,150	52,976
Net result from foreign exchange	16,360	12,516
Sale of investments	1,510,640	2,967,215
Purchase of investments	-1,683,264	-2,873,594
Operating expenses paid	-170,031	-199,830
	<b>-162,338</b>	<b>65,502</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of units	586,855	2,205,249
Payments on redemption of units	-699,557	-1,766,625
	<b>-112,702</b>	<b>438,624</b>
<b>TOTAL CASH FLOWS</b>	<b>-275,040</b>	<b>504,126</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at the beginning of the period	1,468,314	977,270
Effect of exchange rate fluctuations on cash and cash equivalents	16,894	-13,082
<b>Cash and cash equivalents at the end of the period</b>	<b>1,210,168</b>	<b>1,468,314</b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED

The annual financial statements of Avaron Flexible Strategies Fund for 2016 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:

- 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),
- 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 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 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 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 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 9 “Financial Instruments” (2014) (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018).

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 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,
- 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 date deferred indefinitely and EU endorsement halted),
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019),
- IAS 12 “Income Taxes” - Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017),
- IAS 7 “Statement of Cash Flows” (effective for annual periods beginning on or after 1 January 2017),
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 15 “Revenue from Contracts with Customers” – explanations (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 2 “Classification and Measurement of Share-based Payment Transactions” (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IAS 40 “Transfers of Investment Property” (effective for annual periods beginning on or after 1 January 2018),
- Amendments to IFRS 4 “Insurance Contracts”, applying IFRS 9 “Financial Instruments” with IFRS 4 (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments in IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and for IFRS 1 and IAS 28 on or after 1 January 2018).

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**

After assessing the liquidity risks, the calculation of positions that may take more than 20 business days to liquidate has been amended. Up to this point, 7 days were used to calculate the liquidity risk. According to the Fund prospectus the minimum payment date of redemption orders is T+month+3. This enables to extend the liquidity factors calculation period. Recalculations for the previous period have been made in note 2.

### **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 depository for the funds managed by AS Avaron Asset Management on the transaction date has been used (hereinafter referred to as the depository bid rate). The rate is based on market inputs. The assets and liabilities fixed in foreign currency are translated into EUR based on the depository 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:

	<b>31/12/2016</b>	<b>% of NAV</b>	<b>31/12/2015</b>	<b>% of NAV</b>
Cash and cash equivalents	1,210,168	11.22%	1,468,314	14.09%
Term deposits	153,499	1.42%	597,464	5.73%
Corporate bonds	1,189,170	11.03%	1,599,786	15.35%
Receivables and prepayments	6,917	0.06%	5,994	0.06%
<b>TOTAL</b>	<b>2,559,754</b>	<b>23.73%</b>	<b>3,671,558</b>	<b>35.23%</b>

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:

	<b>31/12/2016</b>	<b>% of NAV</b>	<b>31/12/2015</b>	<b>% of NAV</b>
BB+	105,690	0.98%	-	-
BB	-	-	238,012	2.28%
BB-	-	-	427,904	4.11%
No rating	1,083,480	10.05%	933,870	8.96%
<b>TOTAL</b>	<b>1,189,170</b>	<b>11.03%</b>	<b>1,599,786</b>	<b>15.35%</b>

The Fund's cash and cash equivalents are held with Fund's depository Swedbank, which was rated AA-. Term deposits are held in 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 31/12/2016

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

	<b>Up to 1 month</b>		<b>Over 1 month</b>	
	<b>31/12/2016</b>	<b>31/12/2015</b>	<b>31/12/2016</b>	<b>31/12/2015</b>
Payables to the management company	63,513	59,069	-	-
Payables to the depository	4,883	2,698	-	-
Other liabilities	-	-	1,399	1,391
Net Assets attributable to Holders	-	-	10,781,579	10,423,674
<b>TOTAL</b>	<b>68,396</b>	<b>61,767</b>	<b>10,782,978</b>	<b>10,425,065</b>

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

<b>Instrument</b>	<b>Country</b>	<b>Sector</b>	<b>% of NAV</b>	
			<b>31/12/2016</b>	<b>31/12/2015</b>
MAINOR EUR 26.11.2018	Estonia	Real Estate	4.20%	4.35%
ADVANCE TERRAFUND SHARE	Bulgaria	Real Estate	1.98%	0.75%
LHV GROUP SUBORDIN 29.10.25	Estonia	Financials	1.47%	1.49%
INBANK SUBORDINATED 28.09.2026	Estonia	Financials	1.14%	-
TALLINK GRUPP AS FRN 18.10.18	Estonia	Consumer Discretionary	-	3.12%
BULGARIA REAL ESTATE FUND	Bulgaria	Real Estate	-	0.51%
<b>TOTAL</b>			<b>8.79%</b>	<b>10.22%</b>

Liquidation of remaining positions based on six months average trading volume may probably take less than 20 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:

	<b>31/12/2016</b>	<b>% of Assets</b>	<b>31/12/2015</b>	<b>% of Assets</b>
EUR	9,251,017	85.19%	9,433,118	89.95%
NOK	411,283	3.79%	385,823	3.68%
RON	306,699	2.82%	293,728	2.80%
BGN	303,635	2.80%	142,907	1.36%
TRY	286,562	2.64%	118,922	1.14%
USD	195,361	1.80%	-	-
PLN	102,318	0.94%	98,693	0.94%
RSD	2,269	0.02%	13,641	0.13%
<b>TOTAL</b>	<b>10,859,144</b>	<b>100.00%</b>	<b>10,486,832</b>	<b>100.00%</b>

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

	<b>31/12/2016</b>	<b>% of Assets</b>	<b>31/12/2015</b>	<b>% of Assets</b>
NOK	521,251	4.83%	264,686	2.54%
RON	306,699	2.84%	293,728	2.82%
BGN	303,635	2.82%	142,907	1.37%
TRY	286,562	2.66%	118,922	1.14%
USD	195,361	1.81%	-	-
PLN	102,318	0.95%	98,693	0.95%
RSD	2,270	0.02%	13,641	0.13%
<b>TOTAL</b>	<b>1,718,096</b>	<b>15.94%</b>	<b>932,577</b>	<b>8.95%</b>

**Currency risk sensitivity analysis**

Fund's net asset value would have been affected by the weakening of foreign currencies against EUR on 31 December 2016. 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 31 December 2015 has been made using the same assumptions.

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

	31/12/2016			31/12/2015		
	Currency weakening	Possible impact	Currency's % of NAV	Currency weakening	Possible impact	Currency's % of NAV
NOK	-27%	-136,664	3.81%	-27%	-19,690	3.48%
RON	-13%	-39,658	2.84%	-13%	-39,527	2.82%
BGN	-5%	-14,863	2.82%	-5%	-7,070	1.37%
TRY	-50%	-144,318	2.66%	-46%	-54,302	1.14%
USD	-31%	-59,949	1.81%	-31%	-	-
PLN	-17%	-17,312	0.95%	-23%	-22,220	0.95%
RSD	-23%	-528	0.02%	-28%	-3,847	0.13%
<b>TOTAL</b>		<b>-413,293</b>	<b>14.92%</b>		<b>-146,655</b>	<b>9.88%</b>

### *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:

	31/12/2016	% of NAV	31/12/2015	% of NAV
Fixed income fund	6,951,196	64.47%	5,992,196	57.49%
Real estate	874,115	8.11%	584,598	5.61%
Consumer Discretionary	501,127	4.65%	468,525	4.49%
Financials	373,007	3.46%	436,027	4.18%
Equity funds	296,013	2.75%	98,693	0.94%
Utilities	287,228	2.66%	293,728	2.82%
Energy	105,690	0.98%	109,336	1.05%
Telecom	-	-	408,440	3.92%
<b>TOTAL</b>	<b>9,388,376</b>	<b>87.08%</b>	<b>8,391,545</b>	<b>80.50%</b>

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

	<b>31/12/2016</b>	<b>% of NAV</b>	<b>31/12/2015</b>	<b>% of NAV</b>
Avaron Eastern Europe Fixed Income Fund	6,951,196	64.47%	5,992,196	57.49%
Estonia	1,235,871	11.46%	1,076,914	10.33%
Bulgaria	290,703	2.70%	131,535	1.26%
Romania	287,228	2.66%	293,728	2.82%
Turkey	284,933	2.64%	118,922	1.14%
Austria	130,437	1.21%	-	-
Hungary	105,690	0.98%	257,475	2.47%
France	102,318	0.95%	98,693	0.95%
Sweden	-	-	279,765	2.68%
Slovenia	-	-	128,676	1.23%
Serbia	-	-	13,641	0.13%
<b>TOTAL</b>	<b>9,388,376</b>	<b>87.08%</b>	<b>8,391,545</b>	<b>80.50%</b>

### *Instrument's price risk sensitivity analysis*

Sensitivity analysis is based on standard deviation of the Fund since launch, whereas the Fund's risk profile has been calculated based on normal distribution. The analysis assumes that all the other variables remain constant. Analysis as per 31 December 2015 has been made with using the same assumptions.

	<b>Probability</b>	<b>+/- possible change of Fund's NAV during year</b>	
		<b>2016</b>	<b>2015</b>
$\sigma$	68.27%	2.81%	2.90%
$2\sigma$	95.45%	5.62%	5.79%
$3\sigma$	99.73%	8.43%	8.69%

## **NOTE 3. CASH AND CASH EQUIVALENTS**

### **Deposits in EUR**

	<b>31/12/2016</b>	<b>% of NAV</b>	<b>31/12/2015</b>	<b>% of NAV</b>
Deposits, Nordea Pank	153,478	1.42%	153,399	1.47%
Deposits, LHV Pank	-	-	441,227	4.23%
<b>TOTAL</b>	<b>153,478</b>	<b>1.42%</b>	<b>594,626</b>	<b>5.70%</b>

\* "Term deposits" in balance sheet include also accrued interest in the amount of 21.61 EUR in 2016 and 2,837.22 EUR in 2015.

### **Cash and cash equivalents by currency**

Avaron Flexible Strategies Fund

	<b>31/12/2016</b>	<b>% of NAV, converted into EUR</b>	<b>31/12/2015</b>	<b>% of NAV, converted into EUR</b>
EUR	915,961	8.50%	1,420,116	13.62%
USD	205,500	1.81%	-	-
NOK	568,599	0.58%	353,824	0.36%
RON	88,449	0.18%	-	-
BGN	25,292	0.12%	22,242	0.11%
RSD	280,382	0.02%	-	-
TRY	6,050	0.02%	-	-
<b>TOTAL</b>		<b>11.22%</b>		<b>14.09%</b>

The Fund's cash and cash equivalents are held with Fund's depository Swedbank, which is rated AA- and deposits in Nordea Bank Finland Plc Eesti filial rated AA-.

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

In EUR

31/12/2016

	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
<b>ASSETS</b>									
Cash and cash equivalents	-	-	-	1,210,168	-	-	-	-	-
Term deposits	-	-	-	153,499	-	-	-	-	-
Shares and units	1,248,010	-	6,951,196	-	-	-	-	-	-
Bonds	105,690	630,505	452,975	-	-	-	-	-	-
Repurchase agreements	-	-	-	100,184	-	-	-	-	-
Receivables for securities transactions	-	-	-	6,917	-	-	-	-	-
<b>LIABILITIES</b>									
Derivative instruments	-	-7,770	-	-	-	-	-	-	-
Payables to the management company	-	-	-	-	-	-	-	63,513	-
Payables to the depository	-	-	-	-	-	-	-	4,883	-
Other liabilities	-	-	-	-	-	-	-	1,399	-
Net assets attributable to holders	-	-	-	-	-	-	-	10,781,579	-
<b>TOTAL</b>	<b>1,353,700</b>	<b>622,735</b>	<b>7,404,171</b>	<b>1,470,768</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10,851,374</b>	<b>-</b>

\* Additional information for instruments categorised under Level 3

	Shares and units	Bonds
<b>Starting balance of Level 3 instruments</b>	5,992,196	453,063
Purchases	500,000	-
Total gains	459,000	-
Interest received	-	31,500
Interest accrued	-	2,975
<b>Total level 3 investments fair value</b>	<b>6,951,196</b>	<b>452,975</b>

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.

In 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
<b>ASSETS</b>									
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	-	-	-	-	-
<b>LIABILITIES</b>									
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	-
<b>TOTAL</b>	<b>1,790,959</b>	<b>178,841</b>	<b>6,445,259</b>	<b>2,071,772</b>	-	-	-	<b>10,486,832</b>	-

\* Additional information for instruments categorised under Level 3

	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
<b>Total level 3 investments fair value</b>	<b>5,992,196</b>	<b>453,063</b>

\*\* The transfers 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.



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

In EUR

	01/01/2016- 31/12/2016	01/01/2015- 31/12/2015
<b>Net gain/loss from financial assets at fair value through profit or loss</b>		
<b>From shares and units</b>		
Sales profit/(-loss)	-3,220	59,975
Unrealised profit /(-loss)	530,352	333,540
<b>From bonds</b>		
Sales profit/(-loss)	-28,303	13,841
Unrealised profit /(-loss)	30,225	18,905
<b>From derivative instruments</b>		
Sales profit/(-loss)	19,196	8,181
Unrealised profit /(-loss)	-31,285	1,791
<b>Total net gain/loss</b>	<b>516,965</b>	<b>436,233</b>

In EUR

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, 10117 Tallinn, Estonia, owned 86.72% of Avaron Eastern Europe Fixed Income Fund units (75.52% in 2015) as at 31 December 2016.

Avaron Flexible Strategies Fund

The transactions with related parties were as follows:

	<b>01/01/2016- 31/12/2016</b>	<b>01/01/2015- 31/12/2015</b>
<b>Fund Management Company</b>		
Paid management and performance fees	187,794	177,631
Received management fees from investments to Management Company's other Funds	43,230	35,104
<b>Other investment funds managed by Fund Management Company</b>		
Purchase of securities	686,351	931,911
<b>Other entities belonging to the consolidation group of the Fund Management Company</b>		
Units bought	154,656	1,023,069
Units sold	128,074	1,119,673
<b>TOTAL</b>	<b>1,200,105</b>	<b>3,287,388</b>

The balances outstanding with related parties were as follows:

	<b>31/12/2016</b>	<b>31/12/2015</b>
<b>Fund Management Company</b>		
Management and performance fee payable	63,513	59,069
Other receivables - management fees from investments to Management Company's other	10,432	9,051
<b>TOTAL</b>	<b>73,945</b>	<b>68,120</b>

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

	<b>31/12/2016</b>	<b>31/12/2015</b>
Fund Management Company	1,523,384	1,431,707
Main shareholder of the Fund Management Company	289,905	277,337
<b>TOTAL</b>	<b>1,813,289</b>	<b>1,709,044</b>

**NOTE 7. DERIVATIVE INSTRUMENTS**

In EUR

31/12/2016

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	102,197	EUR	06/01/2017	1.0000	1.0000	102,197	30/12/2016	-	EUR 764,692,000
		1,000,000	NOK	06/01/2017	0.1100	0.1022	102,197	30/12/2016	-7,770	EUR 764,692,000
<b>TOTAL</b>									<b>-7,770</b>	

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
<b>TOTAL</b>									<b>23,515</b>	

**STATEMENT OF INVESTMENTS**

In EUR as of 31/12/2016

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:**

SC FONDUL PROPRIETATEA SA	ROFPTAACNOR5	RO	0.85	RON	1,641,250	0.14	226,963	0.18	287,228	2.66%
TURKISH LARGE CP BANKS ETF-A	TRYFNBK00048	TR	0.00	TRY	55,140	3.74	206,201	3.51	193,695	1.80%
TALLINK GRUPP	EE3100004466	EE	0.54	EUR	166,912	0.94	157,508	0.91	152,390	1.41%
ATRIUM EUROPEAN REAL ESTATE	JE00B3DCF752	AT	0.00	EUR	33,190	3.09	102,412	3.93	130,437	1.21%
LYXOR ETF WIG20	LU0459113907	FR	0.00	PLN	1,960	48.09	94,257	52.20	102,318	0.95%
TURKIYE HALK BANKASI	TRETHAL00019	TR	1.00	TRY	36,290	2.86	103,680	2.51	91,238	0.85%

**SHARES TOTAL****891,021                      957,306                      8.88%**

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	199,740	0.92	182,916	1.07	213,435	1.98%
BULGARIA REAL ESTATE FUND	BG1100001053	BG	1.00	REAL ESTATE MANAGEMENT LTD	BGN	66,666	0.55	36,443	1.16	77,269	0.72%

**REAL ESTATE FUNDS TOTAL****219,359                      290,704                      2.70%****BOND FUNDS**

AVARON E-EUROPE FI FUND B	EE3600109385	AIEF	1.00	AS AVARON ASSET MANAGEMENT	EUR	491,858	10.81	5,315,581	14.12	6,944,096	64.41%
AVARON E-EUROPE FI FUND A	EE3600109377	AIEF	10.00	AS AVARON ASSET MANAGEMENT	EUR	511	12.93	6,610	13.89	7,100	0.07%

**BOND FUNDS TOTAL****5,322,190                      6,951,196                      64.47%****FUNDS TOTAL****5,541,550                      7,241,900                      67.17%****SHARES AND FUNDS TOTAL****6,432,571                      8,199,206                      76.05%**

**Statement of investments as of 31/12/2016 (continued)**

Name	ISIN	Country	Nominal value	Maturity	Interest rate	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, %
<b>BONDS*</b>													
MAINOR EUR 26.11.2018	EE3300110691	EE	1,000	26/11/2018	7.000%		EUR	450,000	100	450,000	100.00	452,975	4.20%
TALLINK GRUPP AS FRN 18.10.18	NO0010682255	EE	1,000,000	18/10/2018	0.000%		NOK	3,000,000	12.51	375,237	11.49	348,737	3.23%
LHV GROUP SUBORDIN 29.10.25	EE3300110741	EE	1,000	29/10/2025	6.500%		EUR	143,000	100	143,000	110.05	158,946	1.47%
INBANK SUBORDINATED 28.09.2026	EE3300110964	EE	1,000	28/09/2026	7.000%		EUR	114,000	100	114,000	107.70	122,822	1.14%
MOL MAGYAR EUR 5.875% 20.04.17	XS0503453275	HU	1,000	20/04/2017	5.875%	BB+	EUR	100,000	109.43	109,430	101.60	105,690	0.98%
<b>BONDS TOTAL</b>										<b>1,191,667</b>		<b>1,189,170</b>	<b>11.03%</b>
*Accrued interest in the amount of 12,771.34 EUR has been added to the value of bonds.													
<b>DERIVATIVES</b>													
FX-Swap EUR/NOK SEB Pank		EE		06/01/2017			NOK					-7,770	-0.07%
<b>DERIVATIVES TOTAL</b>												<b>-7,770</b>	<b>-0.07%</b>
<b>Reverse repos</b>													
AVARON FLEXIBLE STRATEGIES FUND, reversed repo		EE		05/04/2017			EUR					100,184	0.93%
<b>Reverse repos TOTAL</b>												<b>100,184</b>	<b>0.93%</b>
<b>SHARES TOTAL</b>										<b>7,624,238</b>		<b>9,480,790</b>	<b>87.94%</b>

Name	ISIN	Country	Nominal value	Maturity	Interest rate	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, %
<b>DEPOSITS*</b>													
DEPOSIT- NORDEA PANK TLN(EUR)		EE	12/09/2016	13/03/2017	0.050%	AA-	EUR			122,802		122,821	1.14%
DEPOSIT- NORDEA PANK TLN(EUR)		EE	25/10/2016	25/04/2017	0.050%	AA-	EUR			30,676		30,678	0.28%
<b>DEPOSITS TOTAL</b>										<b>153,478</b>		<b>153,499</b>	<b>1.42%</b>

\*Accrued interest in the amount of 21.61 EUR has been added to the value of deposits.

**Statement of investments as of 31/12/2016 (continued)**

Name	ISIN	Country	Nominal value	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, %
<b>CASH</b>											
CURRENT ACCOUNT		EE						915,961		915,961	8.50%
CURRENT ACCOUNT		EE						195,361		195,361	1.81%
CURRENT ACCOUNT		EE						62,547		62,547	0.58%
CURRENT ACCOUNT		EE						19,470		19,470	0.18%
CURRENT ACCOUNT		EE						12,931		12,931	0.12%
CURRENT ACCOUNT		EE						2,269		2,269	0.02%
CURRENT ACCOUNT		EE						1,628		1,628	0.02%
<b>CURRENT ACCOUNT TOTAL</b>								<b>1,210,168</b>		<b>1,210,168</b>	<b>11.22%</b>
<b>INVESTMENT TOTAL</b>								<b>8,987,884</b>		<b>10,844,457</b>	<b>100.58%</b>
<b>OTHER ASSETS</b>											
RECEIVABLES FOR SECURITIES TRANSACTIONS										6,917	0.06%
<b>OTHER ASSETS TOTAL</b>										<b>6,917</b>	<b>0.06%</b>
<b>TOTAL ASSETS OF THE FUND</b>								<b>8,987,884</b>		<b>10,851,374</b>	<b>100.65%</b>
<b>LIABILITIES</b>										-69,795	-0.65%
<b>NET ASSETS OF THE FUND</b>										<b>10,781,579</b>	<b>100.00%</b>

## 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, %
<b>SHARES</b>											
<b>SHARES LISTED ON STOCK EXCHANGE:</b>											
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%
<b>SHARES TOTAL</b>								<b>606,534</b>		<b>668,028</b>	<b>6.41%</b>
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, %
<b>FUNDS</b>											
<b>CLOSED-END FUNDS LISTED ON STOCK EXCHANGE:</b>											
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%
<b>REAL ESTATE FUNDS TOTAL</b>								<b>86,559</b>		<b>131,535</b>	<b>1.26%</b>
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, %
<b>BOND FUNDS</b>											
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%
<b>BOND FUNDS TOTAL</b>								<b>4,822,191</b>		<b>5,992,196</b>	<b>57.49%</b>
<b>FUNDS TOTAL</b>								<b>4,908,750</b>		<b>6,123,731</b>	<b>58.75%</b>
<b>SHARES AND FUNDS TOTAL</b>								<b>5,515,283</b>		<b>6,791,759</b>	<b>65.16%</b>

## 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, %
<b>BONDS*</b>													
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%
<b>BONDS TOTAL</b>										<b>1,635,953</b>		<b>1,599,786</b>	<b>15.35%</b>
*Accrued interest in the amount of 27,143.50 EUR has been added to the value of bonds.													
<b>DERIVATIVES</b>													
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%
<b>DERIVATIVES TOTAL</b>												<b>23,515</b>	<b>0.23%</b>
<b>SHARES TOTAL</b>												<b>8,415,060</b>	<b>80.73%</b>
<b>DEPOSITS *</b>													
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%
<b>DEPOSITS TOTAL</b>										<b>594,626</b>		<b>597,464</b>	<b>5.73%</b>
*Accrued interest in the amount of 2,837.22 EUR has been added to the value of deposits.													
<b>CASH</b>													
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%
<b>CURRENT ACCOUNT TOTAL</b>										<b>1,468,314</b>		<b>1,468,314</b>	<b>14.09%</b>
<b>INVESTMENT TOTAL</b>										<b>9,214,177</b>		<b>10,480,838</b>	<b>100.55%</b>



**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, %
<b>OTHER ASSETS</b>													
RECIEVABLES FOR SECURITIES TRANSACTIONS												5,994	0.06%
<b>OTHER ASSETS TOTAL</b>												<b>5,994</b>	<b>0.06%</b>
<b>TOTAL ASSETS OF THE FUND</b>										<b>9,214,177</b>	<b>10,486,832</b>	<b>100.61%</b>	
LIABILITIES												-63,158	-0.61%
<b>NET ASSETS OF THE FUND</b>												<b>10,423,674</b>	<b>100.00%</b>

## STATEMENT OF COMMISSIONS

In EUR

01/01/2016-31/12/2016

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
Avaron Eastern Europe Fixed Income Fund	3	686,351	-	-
TEB Yatirim Menkul Degerler A.S.	2	206,201	268	0.13%
Karoll AD	2	132,801	529	0.40%
Erste Group Bank AG	2	102,412	102	0.10%
Raiffeisen Centrobank AG	5	52,257	131	0.25%
<i>IPO</i>	1	114,000	-	-
<i>Other</i>	3	726,003	-	-
<b>TOTAL</b>	<b>18</b>	<b>2,020,025</b>	<b>1,030</b>	<b>0.05%</b>

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	-	-
<b>TOTAL</b>	<b>24</b>	<b>3,743,574</b>	<b>860</b>	<b>0.02%</b>

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 AUDITOR'S REPORT

To the Shareholders of Avaron Flexible Strategies Fund and the Fund Manager

### Opinion

We have audited the annual report of Avaron Flexible Strategies Fund (hereinafter also „the Fund “), which comprise the financial statements, investments report and the statement of transactions fees. The financial statements comprise the balance sheet as at 31 December 2016, the income statement for the year then ended, the statement of changes in the fund's net assets, statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying annual report present fairly, in all material respects, the financial position of the Fund as at 31 December 2016, and its financial performance, cash flows, investments and transaction fees for the year then ended in accordance with Estonian Accounting Act, Investment Funds Act and with decree no 21 by the Minister of Finance “The requirements for annual reports of investment funds”.

### Basis for Opinion

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

### Other Information

The Management Board of the Management Company AS Avaron Asset Management is responsible for the other information. The other information comprises the information included in the management report, but does not include the annual report and our auditor's report thereon.

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

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

### Responsibilities of the Management Board of the Management Company and Those Charged with Governance for the annual report

The Management Board of the Management Company AS Avaron Asset Management is responsible for the preparation and fair presentation of the annual report in accordance with Estonian Accounting Act, Investment Funds Act and and 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 of the Management Board of the Management Company determines is necessary to enable the preparation of annual report that are free from material misstatement, whether due to fraud or error.

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

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

### **Auditor's Responsibilities for the Audit of the annual report**

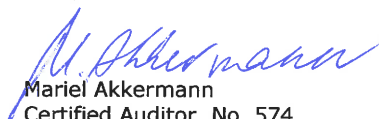
Our objectives are to obtain reasonable assurance about whether the annual report as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an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

As part of an audit in accordance with ISAs (EE), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

28 April 2017



Mariel Akkermann  
Certified Auditor, No. 574  
AS Deloitte Audit Eesti  
Licence No. 27

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