

## Investment Objectives & Approach

The Fund invests actively in listed equities of European Union new member states and accession countries (Emerging Europe, ex Russia). Benchmark agnostic, it emphasizes bottom-up, value oriented stock picking with a strong small and mid-cap bias. The Fund's investment objective is to maximise upside to internally set target prices, taking into account company quality, liquidity and FX outlook. By implementing our investment process we aim to outperform the market with lower volatility.

The Fund typically invests in 30-40 regional companies, who generally demonstrate a competitive advantage or attractive risk/return features. It adheres to the UN Principles for Responsible Investment.

Suitable for investors seeking a stock picking portfolio in Emerging Europe, it acts as medium to long term diversifier in a global Emerging Markets, European or Global Equity portfolio.

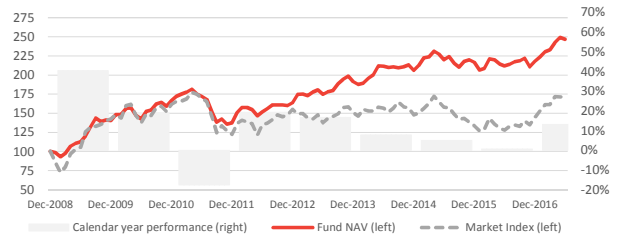
## Fund Manager's Comment, June 2017

Global equities were mixed in June. MSCI World edged up 0.2% in \$, while in € terms the performance was negative (-1.4%) as the dollar continued to lose ground against the euro (-1.6%). Emerging Market equities posted +0.5% return in June (-1.1% in €) while Emerging Europe equity market (MSCI EFM CEEC ex-RU) was flat in € terms. Performance of the regional market was mixed as were the changes in currencies. Notable downward move was seen in the Romanian stock market that posted a 10.4% loss in € terms amid the change in the government that brought along a few proposals regarding taxation and pension system.

Avaron Emerging Europe Fund lost 1.1% in June, underperforming the regional index due to notable OW in Romania. In 5 years the Fund has delivered +62.4% return vs. +27.5% for the index with lower volatility (9.1% vs. 15.7% for the index), resulting in 8.2% alpha. The selection of companies in the Fund portfolio trade at 12.0x 2017f P/E. Over the past 3 months we have seen a notable upward revision of the aggregate EPS growth estimate of our portfolio companies (from 4% to 12%) for 2017, reflecting a continuation of the impressive economic growth we are witnessing in Emerging Europe.

To receive portfolio managers' detailed monthly report please send a request to [info@avaron.com](mailto:info@avaron.com).

## Performance

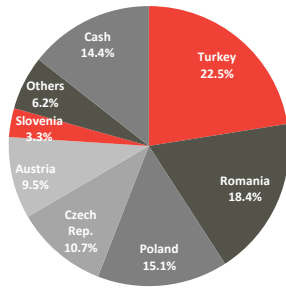


Past performance is not a guarantee or indicative of future results. The Fund was launched in 2007 as a small cap fund. From 2009 it operates as an all cap fund with small and mid-cap bias.

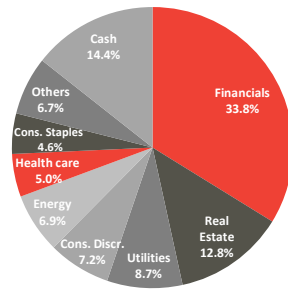
Perf overview	Fund net return	Index return*	Calendar year return			
			Year	Gross	Net	Index*
1 month	-1.1%	0.0%	2016	2.1%	0.6%	8.2%
YTD	13.1%	18.4%	2015	6.7%	5.0%	-9.6%
3 months	5.8%	6.4%	2014	9.4%	7.8%	-2.1%
6 months	13.1%	18.4%	2013	18.5%	16.7%	-2.4%
1 year	16.2%	34.2%	2012	21.1%	19.2%	26.5%
2 years	12.0%	8.5%	2011	-16.3%	-17.6%	-24.3%
3 years	16.6%	9.4%	2010	20.8%	18.9%	13.4%
4 years	41.3%	24.6%	2009	42.6%	40.4%	42.6%
5 years	62.4%	27.5%	<b>CAGR of calendar years</b>			
7 years	72.8%	24.8%	<b>Years</b>	<b>Fund</b>	<b>Index*</b>	
			2015-2016	2.8%	-1.1%	
			2014-2016	4.4%	-1.4%	
			2012-2016	9.7%	3.4%	

\* MSCI EFM Central and Eastern Europe & CIS ex Russia

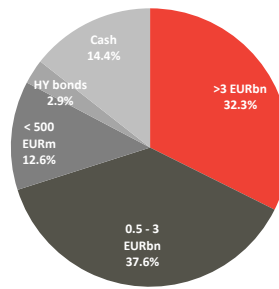
## Geographic breakdown



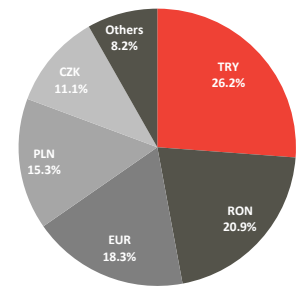
## Sector breakdown



## Market Cap breakdown



## Net currency breakdown



## Country allocation

	Jun-17	Change					Contribution analysis					
		1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Turkey	22.5%	-0.4%	-0.6%	6.4%	1.3%	16.9%	0.4%	2.4%	0.9%	4.0%	3.5%	11.8%
Romania	18.4%	-2.7%	-2.3%	6.5%	2.4%	3.4%	-1.1%	0.9%	5.5%	3.5%	4.9%	21.0%
Poland	15.1%	-0.5%	2.9%	5.2%	11.1%	6.7%	-0.4%	0.5%	3.7%	2.5%	3.4%	3.1%
Czech Rep.	10.7%	-0.3%	-0.5%	1.6%	4.0%	-8.6%	-0.2%	0.7%	1.3%	1.3%	2.2%	4.7%
Austria	9.5%	0.0%	-2.8%	-9.2%	-3.5%	3.5%	0.3%	1.4%	5.3%	1.9%	5.6%	9.6%
Slovenia	3.3%	0.1%	-0.1%	-0.2%	-0.6%	-0.3%	0.1%	0.2%	0.0%	0.1%	-0.8%	2.6%
Croatia	2.1%	0.2%	1.2%	1.5%	2.1%	-0.3%	0.0%	0.2%	0.4%	0.2%	0.4%	0.3%
Baltics	1.5%	0.0%	-0.2%	-0.5%	-3.3%	-0.2%	0.0%	0.0%	0.0%	0.1%	1.0%	2.5%
Bulgaria	1.3%	0.0%	-0.1%	-0.2%	-0.5%	-8.8%	0.0%	0.1%	0.3%	0.1%	0.5%	7.9%
Others	1.4%	2.1%	2.0%	2.5%	6.9%	13.4%	0.0%	0.0%	0.5%	0.4%	1.8%	12.3%

## Risk metrics

Alpha	4%
Volatility & stand. deviation	9.8%
Beta	0.43
Sharpe ratio	0.56
Information ratio	0.19
Tracking error	11.5%

\* MSCI EFM Central and Eastern Europe & CIS ex Russia

## Sector allocation

	Jun-17	Change					Contribution analysis					
		1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Financials	33.8%	-0.4%	-2.3%	3.4%	12.8%	7.2%	-0.4%	2.1%	8.5%	6.4%	8.3%	30.2%
Real Estate	12.8%	0.0%	0.0%	-2.2%	1.1%	3.8%	0.3%	1.4%	0.6%	0.9%	2.3%	8.8%
Utilities	8.7%	-2.0%	-2.7%	-1.1%	-5.7%	-2.2%	-0.4%	0.0%	2.3%	1.8%	1.4%	11.2%
Cons. Discr.	7.2%	-1.0%	0.3%	2.7%	-2.4%	-4.1%	0.0%	0.9%	1.4%	1.5%	4.7%	9.9%
Energy	6.9%	-0.9%	0.2%	0.7%	-0.9%	3.3%	-0.9%	0.0%	2.4%	0.9%	1.3%	3.8%
Health care	5.0%	0.0%	-0.3%	0.6%	-1.3%	1.3%	0.0%	0.5%	0.6%	0.6%	-0.1%	4.6%
Consumer Staples	4.6%	0.3%	2.0%	4.6%	2.9%	2.9%	0.3%	0.8%	0.6%	1.1%	2.7%	3.2%
Industrial	3.0%	0.2%	0.4%	-0.4%	3.0%	1.3%	0.2%	0.6%	0.8%	0.6%	0.8%	2.4%
Others	3.7%	5.2%	5.2%	3.1%	-0.7%	-5.2%	0.0%	0.0%	0.7%	0.4%	1.1%	1.7%

## Fund statistics

Number of positions	38
Top10	44.7%
Top20	69.1%
Gross exposure	85.6%
Net exposure	85.4%
Concentration coefficient	34
Median market cap MEUR	1588
Average market cap MEUR	2389

## Style allocation

	Jun-17	Change					Contribution analysis					
		1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Cyclical	47.8%	-1.9%	-1.4%	4.9%	12.8%	21.4%	-1.1%	2.7%	11.1%	7.4%	10.6%	28.0%
Non-cyclical	17.1%	-1.3%	0.0%	4.8%	-6.2%	-8.6%	0.1%	2.2%	3.6%	4.0%	5.4%	13.3%
Asset play	17.7%	-0.4%	-0.7%	3.2%	6.6%	-1.1%	0.1%	1.4%	2.1%	1.9%	4.3%	22.7%
Convertible bonds	0.0%	0.0%	0.0%	0.0%	-7.7%	-5.1%	0.0%	0.0%	0.0%	0.0%	-0.7%	7.4%
High yield bonds	2.9%	0.0%	-0.3%	-1.8%	2.9%	-7.2%	-0.1%	0.0%	0.9%	0.5%	2.4%	3.6%
FX Derivatives	0.2%	0.0%	-0.1%	0.2%	0.2%	0.2%	0.0%	0.0%	0.2%	0.2%	0.3%	1.0%
Cash	14.4%	3.7%	2.5%	-11.2%	-8.6%	0.4%	0.0%	-0.1%	-0.1%	0.0%	0.0%	0.0%

## Turnover

	Adj*
FY 2016	17.7%
FY 2015	22.2%
FY 2014	47.9%

\* Adjusted for fund flows

## Liquidity analysis\*

20%	65.2%	78.9%
50%	83.4%	94.8%
	93.0%	98.3%

\* Proportion of portfolio that can be turned into cash based on past 6 month average trading volume if Fund accounted for 20% & 50% of trading volume

**Fund Facts - Avaron Emerging Europe Fund**

<b>Investment Manager</b>	AS Avaron Asset Management
<b>Fund type</b>	Open-ended, UCITS-IV
<b>Launch date</b>	April 23, 2007
<b>Domicile</b>	Estonia
<b>Currency</b>	EUR
<b>Dividends</b>	reinvested
<b>Fund size, MEUR</b>	68.0
<b>Total AUM, MEUR</b>	450+

**TER 2016** 0.28% (excluding management and performance fees)

	ISIN Code	NAV 30-Jun 2017
<b>A unit</b>	EE3600090049	4.7630 EUR
<b>B unit</b>	EE3600090056	5.0362 EUR
<b>C unit</b>	EE3600102901	17.1164 EUR
<b>D unit</b>	EE3600108866	14.3936 EUR
<b>E unit</b>	EE3600108874	14.2480 EUR

**A & B units** only for investors who owned units as of May 30, 2009  
**C, D & E units** for all investors

<b>Cut-off</b>	10am CET
<b>NAV frequency</b>	Daily dealing, T+3
<b>Public offering</b>	France, Switzerland, Germany, Finland, Sweden, Estonia, Latvia
<b>Morningstar rating</b>	Yes, five stars (3 years & 5 years)
<b>Tax transparency</b>	Germany
<b>Supervised by</b>	Estonian FSA
<b>Custodian</b>	Swedbank AS
<b>Transfer agent</b>	Swedbank AS
<b>NAV calculation</b>	Swedbank AS
<b>External auditor</b>	Deloitte
<b>Internal auditor</b>	PWC
<b>Fund documents &amp; prospectus</b>	<a href="http://www.avaron.com/documents">www.avaron.com/documents</a>

Unit class	D (Retail)	C (Institutional)	E (Institutional)
<b>Min. initial investment</b>	-	125,000 EUR	1M EUR
<b>Front-end load</b>	2%	-	-
<b>Management fee</b>	2%	1.25%	0.85%
<b>Performance fee (unit based)</b>	-	10% over 12-month EURIBOR, HWM	15% over MSCI EFM CEEC ex-Russia Index, annual reset (June 30)
<b>Back-end load</b>	-	-	-

**Bloomberg tickers**

A unit: AVAEESA  
B unit: AVAEESB  
C unit: AVAEESC  
D unit: AVEMEUD  
E unit: AVEMEUE

See Lipper, TK Valoren tickers:  
[www.avaron.com/fundfacts\\_aef](http://www.avaron.com/fundfacts_aef)

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**About Avaron Asset Management**

Avaron Asset Management is an independent management-owned asset manager with a clear focus on Emerging Europe listed equities and fixed income. Our 8 investment professionals, in Estonia and Poland, focus on active investment management. In total 14 professionals are employed by Avaron.

We combine top down macroeconomic and sector analysis with bottom-up research. We source investment ideas through in-house proprietary research on approximately 300 companies, backed by regular visits and meetings. We seek inefficiencies in the valuation of companies' equity and debt with the aim to invest in well managed companies with leading market positions, highly motivated and dynamic management teams and competitive edge. Our preference goes to investments with attractive risk/return.

We adhere to the *UN Principles for Responsible Investment (PRI)* and are supervised by the Estonian Financial Supervision Authority.



**Kristel Kivnurm-Priisalm**  
Managing Partner,  
CEO & COO



**Peter Priisalm**  
Partner, co-CIO,  
Investment Manager



**Valdur Jaht**  
Partner, co-CIO,  
Investment Manager

**Important Legal Information**

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