



Avaron Emerging Europe Fund

ANNUAL REPORT FOR THE FINANCIAL YEAR 2017

Audited by KPMG

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FUND FACTS

Avaron Emerging Europe Fund is a public common investment fund registered in the Republic of Estonia. The Fund complies with the requirements set out in the Directive 2009/65/EC of the European Parliament and of the Council.

| | |
|---|--|
| Name of the Fund | Avaron Emerging Europe Fund |
| Fund Management Company | AS Avaron Asset Management (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: avaron@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 | KPMG Baltics OÜ (reg. no. 10096082) |
| Supervisor | Estonian Financial Supervision Authority |
| Investment Managers | Kristel Kivinurm-Priisalm, Valdur Jaht, Peter Priisalm |
| Fund established | 3 April 2007 |
| Start of the Fund's activities | 23 April 2007 |
| Reporting period | 1 January 2017–31 December 2017 |

INVESTMENT MANAGERS' REPORT

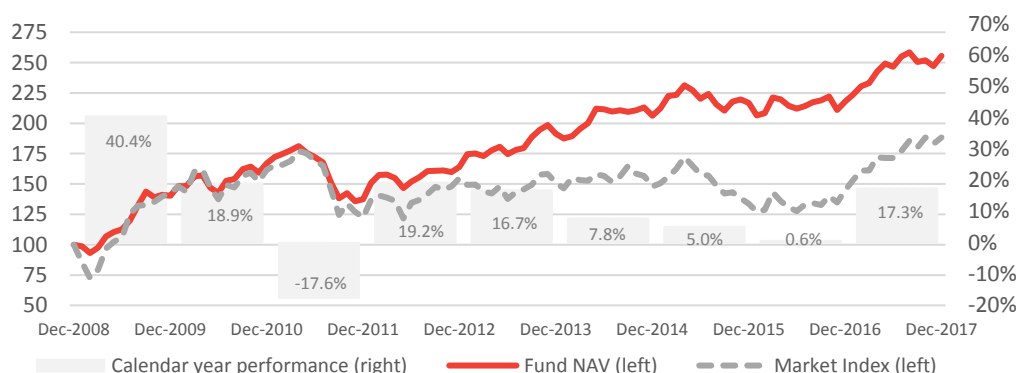
Avaron Emerging Europe Fund (hereinafter: “the Fund”) invests actively in listed equities of European Union new member states and accession countries (Emerging Europe, ex Russia). Benchmark agnostic, it emphasizes bottom-up, value oriented stock picking with a strong small and mid-cap bias. The Fund's investment objective is to maximize 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.

In 2017 Avaron Emerging Europe Fund delivered a solid absolute performance of +16.1% to +17.7% (depending upon a share class) but underperformed the benchmark (MSCI EFM Central and Eastern Europe & CIS ex Russia Index), which gained 30.1% in €, due to high average cash level and limited exposure to CE3, especially Poland which saw a significant rally. Based on our fundamental analysis equities in Poland are overvalued and thus the Fund had very limited exposure to Poland. In 5 years the Fund has returned +56.0% compared to +21.6% for the index with lower volatility (9.1% vs. 15.4% for the index), resulting in 6.9% alpha for our investors. Total net assets of the Fund increased from €63.1 million to €80.6 million during 2017.

Table 1. Cumulative rate of net return of Fund’s NAV, in EUR

| | 2 years | 3 years | 5 years | 7 years | 10 years |
|---------------|----------------|----------------|----------------|----------------|-----------------|
| A unit | 16.6% | 21.9% | 51.8% | 47.7% | -12.7% |
| B unit | 18.0% | 24.0% | 56.0% | 53.2% | -8.0% |
| C unit | 16.6% | 21.4% | 50.4% | 46.8% | |
| D unit | 16.0% | 21.0% | 49.8% | 43.8% | |
| E unit | 17.6% | 21.0% | 47.7% | 46.2% | |
| Index* | 40.8% | 27.3% | 21.6% | 16.4% | -12.5% |

*MSCI EFM Central and Eastern Europe & CIS ex Russia



Graph 1. Performance of Fund’s NAV vs. the market (2009-2017, B unit)

16 February 2018

Kristel Kivinurm-Priisalm
Investment Manager and Member of the Management Board

CONFIRMATION OF ANNUAL FINANCIAL STATEMENTS OF 2017

The Management Board of the Fund Management Company has prepared the annual Financial Statements of Avaron Emerging Europe Fund on 6 April 2018.

The Financial Statements have been prepared in compliance with the requirements stipulated in the the regulation no 1606/2002/EC of the European Parliament and of the Council on the application of International Financial Reporting Standards (hereinafter “IFRS”) as adopted by the European Commission, the Investment Funds Act, Minister of Finance Regulation no 8 of 18/01/2017 “Requirements for the reports of investment funds to be published” and no 11 of 31/01/2017 “Procedure for Determination of Net Asset Value of Investment Funds” as established on the basis of the Investment Funds Act.

It gives a true and fair view of the assets, liabilities, net asset value and performance results of Avaron Emerging Europe Fund. The Management Board considers Avaron Emerging Europe Fund to carry its activities as a going concern.

The annual Financial Statements of Avaron Emerging Europe Fund have been approved by the Fund Management Company and the investment managers.

| Name | Date | Signature |
|---|-------------|--------------------|
| Kristel Kivinurm-Priisalm Member of the Management Board of the Fund Management Company / Investment manager | 06/04/2018 | /Signed digitally/ |
| Valdur Jaht Member of the Management Board of the Fund Management Company / Investment manager | 06/04/2018 | /Signed digitally/ |
| Peter Priisalm Investment manager | 06/04/2018 | /Signed digitally/ |

FINANCIAL STATEMENTS**BALANCE SHEET**

In EUR

| ASSETS | Note | 31/12/2017 | 31/12/2016 |
|--|-------------|-------------------|-------------------|
| Cash and cash equivalents | 3 | 23,515,538 | 12,019,662 |
| Financial assets at fair value through profit or loss: | 4 | | |
| Shares and units | | 57,170,202 | 48,539,737 |
| Bonds | | - | 2,608,603 |
| Receivables and prepayments | 4; 6 | 42,066 | 26,223 |
| TOTAL ASSETS | | 80,727,806 | 63,194,225 |
| LIABILITIES | | | |
| Financial assets at fair value through profit or loss: | | | |
| Derivatives | 7 | 18,228 | - |
| Other financial liabilities | 4 | | |
| Payables to the management company | 8 | 63,790 | 53,471 |
| Payables to the depository | | 41,132 | 26,879 |
| Other liabilities | | 13,917 | 1,416 |
| TOTAL LIABILITIES | | 137,067 | 81,766 |
| NET ASSETS ATTRIBUTABLE TO HOLDERS | | 80,590,739 | 63,112,459 |

STATEMENT OF INCOME AND EXPENSES

In EUR

| | Note | 01/01/2017- 31/12/2017 | 01/01/2016- 31/12/2016 |
|---|------|---------------------------|---------------------------|
| INCOME | | | |
| Interest income | | 155,218 | 149,011 |
| From bonds | | 153,126 | 148,275 |
| From deposits | | 2,092 | 736 |
| Dividend income | | 2,594,114 | 1,817,574 |
| From shares and units | | 2,594,114 | 1,817,574 |
| Net gain/loss from financial assets at fair value through profit or loss | | 11,212,175 | 749,355 |
| From shares and units | 5 | 10,986,711 | 503,711 |
| From bonds | 5 | 243,692 | 245,644 |
| From derivative instruments | 5 | -18,228 | - |
| Net gain/loss from foreign exchange | | -2,152,779 | -1,878,768 |
| TOTAL INCOME | | <hr/> 11,808,728 | <hr/> 837,172 |
| OPERATING EXPENSES | | | |
| Management fees | 8 | 726,165 | 572,329 |
| Performance fees | 8 | 4,854 | 385,355 |
| Custodian fees | | 230,871 | 135,487 |
| Transaction fees | | 5,302 | 6,900 |
| Other operating expenses | | 38,502 | 14,436 |
| TOTAL OPERATING EXPENSES | | <hr/> 1,005,694 | <hr/> 1,114,507 |
| NET INCOME | | 10,803,034 | -277,335 |

STATEMENT OF CHANGES IN NET ASSETS

In EUR

| | 01/01/2017- 31/12/2017 | 01/01/2016- 31/12/2016 | 01/01/2015- 31/12/2015 |
|--|---------------------------|---------------------------|---------------------------|
| NET ASSET VALUE AT THE BEGINNING OF THE PERIOD | 63,112,459 | 44,190,431 | 39,174,466 |
| Cash received for fund units issued | 14,777,040 | 30,076,125 | 18,174,454 |
| Cash paid for fund units redeemed | -8,101,794 | -10,876,762 | -14,167,587 |
| Net result of the Fund | 10,803,034 | -277,335 | 1,009,097 |
| NET ASSET VALUE AT THE END OF THE PERIOD | 80,590,739 | 63,112,459 | 44,190,431 |
| NUMBER OF A UNITS IN CIRCULATION AT THE END OF REPORTING PERIOD | | | |
| Number of A units in circulation: | 142,433.692 | 202,045.274 | 214,577.983 |
| Number of B units in circulation: | 485,510.950 | 524,315.749 | 749,350.911 |
| Number of C units in circulation: | 17,876.270 | 40,819.818 | 95,063.214 |
| Number of D units in circulation: | 686,309.828 | 688,844.104 | 693,423.275 |
| Number of E units in circulation: | 4,515,395.987 | 4,016,966.241 | 2,353,961.560 |
| NET ASSET VALUE OF A UNIT AT THE END OF REPORTING PERIOD | | | |
| Net asset value of an A unit: | 4.9270 | 4.2209 | 4.2242 |
| Net asset value of an B unit: | 5.2226 | 4.4518 | 4.4256 |
| Net asset value of an C unit: | 17.6853 | 15.2343 | 15.1698 |
| Net asset value of an D unit: | 14.8690 | 12.7733 | 12.8153 |
| Net asset value of an E unit: | 14.8010 | 12.5729 | 12.5912 |
| TOTAL NET ASSET VALUE OF THE FUND UNITS | | | |
| Total net asset value of the A units: | 701,770 | 852,807 | 906,414 |
| Total net asset value of the B units: | 2,535,620 | 2,334,144 | 3,316,331 |
| Total net asset value of the C units: | 316,147 | 621,862 | 1,442,091 |
| Total net asset value of the D units: | 10,204,729 | 8,798,778 | 8,886,434 |
| Total net asset value of the E units: | 66,832,473 | 50,504,868 | 29,639,161 |
| TOTAL NET ASSET VALUE | 80,590,739 | 63,112,459 | 44,190,431 |

STATEMENT OF CASH FLOWS

In EUR

| | 01/01/2017- 31/12/2017 | 01/01/2016- 31/12/2016 |
|---|-----------------------------------|-----------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Interest received | 107,493 | 148,735 |
| Dividends received | 2,592,343 | 1,811,060 |
| Net result from foreign exchange | -70,892 | -27,825 |
| Sale of investments | 21,431,315 | 9,525,535 |
| Purchase of investments | -18,242,709 | -24,571,343 |
| Operating expenses paid | -973,407 | -1,741,737 |
| | 4,844,143 | -14,855,575 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from issue of unit | 14,765,155 | 30,081,949 |
| Payments on redemption of units | -8,097,008 | -10,880,199 |
| | 6,668,147 | 19,201,750 |
| TOTAL CASH FLOWS | 11,512,290 | 4,346,175 |
| CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents at the beginning of the period | 12,019,662 | 7,687,081 |
| Effect of exchange rate fluctuations on cash and cash equivalents | -16,414 | -13,594 |
| Cash and cash equivalents at the end of the period | 23,515,538 | 12,019,662 |

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED

The annual financial statements of Avaron Emerging Europe Fund for 2017 have been prepared in compliance with the valid Investment Funds Act as supplemented by the regulations of the Minister of Finance. The financial statements have been prepared, as stipulated in the Minister of Finance Regulation 8 of 18/01/2017 “Requirements for the reports of investment funds to be published“ in accordance with the accounting policies and information presentation principles of the International Financial Reporting Standards (hereafter: “IFRS”) as approved by the European Commission while 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:

- 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).

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),
- 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),
- IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019).

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, except for IFRS 9, which implementation will not have significant impact on the Fund, since the Fund’s assets are recognized in the balance sheet at fair value, and the use of this principle will continue in the future.

Standards and Interpretations issued by IASB that are adopted by the EU but have not yet been implemented

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),
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (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),
- IFRS 17 "Insurance Contracts" was issued on May 2017 and will replace IFRS 4 "Insurance Contracts" and is effective for annual periods beginning on or after 1 January 2021,
- Amendments to IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019),
- 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).
- Amendments to IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2019),
- Amendments to various standards "Improvements to IFRSs (cycle 2015-2017)" resulting from the annual improvement project of IFRS (IFRS 3, IFRS 12 and IFRS 23) primarily with a view to removing inconsistencies and clarifying wording.

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.

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 the circumstances. The 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. The fair value of financial instruments quoted on actively traded markets is determined by the quoted prices. 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 based on valuation models that use unobservable inputs

Foreign currency transactions

Foreign currency transactions are recorded using the last bid rate established by the depositary for the funds managed by AS Avaron Asset Management on the transaction date (hereinafter referred to as the depositary bid rate). This rate is based on market inputs. The assets and liabilities quoted 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 a 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 another 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 or 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 at fair value 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, that is, recorded at fair value through profit and loss upon initial recognition. The performance of these investments is evaluated based on the fair value according to the Fund's investment strategy.

Recognition

In the course of normal business activities investments into shares or units of funds, bonds and derivative instruments are recognised using the trade date accounting principles. Trade date is defined as the date when the Fund takes the obligation to buy or sell the financial instrument. 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 the statement of income and expenses. Commissions recognized as acquisition cost are insignificant and have no impact on Fund's assets or net income. Commissions are shown in the annual report under "Net gain/loss from financial assets at fair value through profit and loss" through revaluation. If the commissions were directly expensed, they would have been reported under operating expenses.

After initial recognition all the 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 the 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) (i.e. exit price) between market participants at the measurement date, irrespective if the price is easily traceable or shall be determined using other valuation techniques. According to the fair value hierarchy stipulated in IFRS 13 the financial instruments at fair value shall be divided into three levels depending on the rate of observable inputs used:

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

Observable inputs are inputs that are determined based on the market data (such as publicly available information about actual events or transactions) and that reflect assumptions which market participants would use when pricing an asset or a 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, based on professional judgement, the one that is most liquid and most representative 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 the 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.

- 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 them or expiry of their term. FIFO method is used in accounting for the realised gains/ (losses) from securities transactions. The line "Sales profit/ (loss)" in the statement of income and expenses indicates the difference between the sales amount of an instrument and the corresponding acquisition cost. The sales amount of securities includes the 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 it intends to use the right.

Cash and cash equivalents and cash flows

Cash and cash equivalents comprise of the 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 maturity is less than 12 months. Deposits are initially recognised at acquisition cost and subsequently measured at amortized cost using the effective interest rate method.

Receivables

Receivables include revenues calculated on the accrual basis but not yet collected, including dividend receivables and other accrued income. Miscellaneous receivables include receivables from unsettled sales 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.

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 five classes of units which are redeemable at demand of the unit-holder. Different rights are attached to different unit classes. All the unit classes are reported as financial liabilities. Units shall be issued, redeemed and switched on every banking day according to the Fund rules.

The redemption price of a unit is equal to the net asset value of the unit as of the trade date from which the redemption fee and penalty charge may be deducted.

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

Interest and dividend income

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

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

Operating expenses

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

Related parties

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

NOTE 2. RISK MANAGEMENT

Short Overview of the Investment and Risk Management Techniques

The Fund Management Company deploys value investing and stock-picking investment approach with focus on bottom up analysis. Company analysis comprises 3 phases: quantitative screening, qualitative analysis and valuation work. During the quantitative phase we analyze the liquidity of the stock and conduct a basic financial analyses. Should a company comply with our criteria, we will interview the management during the qualitative analysis phase. In this 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, we develop a financial model on the company and determine its target price. Companies with the highest upside to target price adjusted for liquidity, transparency, business model cyclicity and other risk parameters are invested in.

Portfolio liquidity analysis and diversification among sectors, countries, currencies and instruments are the main risk management tools used. In addition, the Fund Management Company may use derivatives to hedge or take directional exposure in currencies. The Fund Management Company actively follows financial results of companies and makes relevant changes in the Fund's portfolio based on the fundmanagers' views of the economy and attractiveness of each financial instrument.

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

Credit risk

Credit risk refers to the risk that the issuer of a security 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 the issued debt obligations, a counterparty to a trade does not deliver the securities or cash during the settlement, a counterparty defaults on a loan granted by the Fund), causing damage to the Fund.

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

| | 31/12/2017 | % of NAV | 31/12/2016 | % of NAV |
|-----------------------------|-------------------|-----------------|-------------------|-----------------|
| Cash and cash equivalents | 23,515,538 | 29.18% | 12,019,662 | 19.04% |
| Corporate bonds | - | - | 2,608,603 | 4.13% |
| Receivables and prepayments | 42,066 | 0.05% | 26,223 | 0.04% |
| TOTAL | 23,557,604 | 29.23% | 14,654,488 | 23.21% |

The Fund's assets can be invested in bonds that are liquid and transferable. In case of debt securities with investment grade rating by S&P (or Moody's equivalent) of BBB- or higher a basic financial analysis and a study of terms of the issue (prospectus) is conducted. In case of debt securities with no rating / non-investment grade rating, higher due diligence requirements apply.

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

| | 31/12/2017 | % of NAV | 31/12/2016 | % of NAV |
|--------------|-------------------|-----------------|-------------------|-----------------|
| BB | - | - | 2,608,603 | 4.13% |
| TOTAL | - | - | 2,608,603 | 4.13% |

The Fund's cash and cash equivalents are held with Fund's depository Swedbank, which parent company Swedbank AB is rated AA- as of 24/11/2017 by Standard & Poor's and with Luminor Bank AS, which parent company DNB Bank ASA is rated A+ as of 27/04/2017 by Standard & Poor's.

Liquidity risk

Liquidity risk refers to the risk that due to low liquidity a financial instrument cannot be sold at the desired time, at the desired price or there is no market (buyer) at all. Liquidity risk is particularly relevant in case of investing into small cap companies and 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 a credit line of 3,000,000 EUR that can be accessed to meet short-term liquidity needs. These resources have not been used as of 31/12/2017.

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

| | Up to 3 days | | Up to 1 month | | Over 1 month | |
|------------------------------------|---------------------|-------------------|----------------------|-------------------|---------------------|-------------------|
| | 31/12/2017 | 31/12/2016 | 31/12/2017 | 31/12/2016 | 31/12/2017 | 31/12/2016 |
| Payables to the management company | - | - | 63,790 | 53,471 | - | - |
| Payables to the depository | - | - | 41,132 | 26,879 | - | - |
| Payables for redeemed units | 4,786 | - | - | - | - | - |
| Derivatives | - | - | 18,228 | - | - | - |
| Other liabilities | - | - | - | - | 9,131 | 1,416 |
| Assets attributable to holders | - | - | - | - | 80,590,739 | 63,112,459 |
| TOTAL | 4,786 | - | 123,150 | 80,350 | 80,599,870 | 63,113,875 |

Positions that may take more than 10 business days to liquidate based on the six months average trading volume (30% of trading volume).

| Instrument | Country | Sector | % of NAV | |
|--------------------------------|----------------------|------------------------|---------------|---------------|
| | | | 31/12/2017 | 31/12/2016 |
| OMV PETROM SA | Romania | Energy | 3.95% | - |
| BRD GR SOCIETE GENERALE SA | Romania | Financials | 3.37% | 3.19% |
| KRKA | Slovenia | Health Care | 2.94% | 3.46% |
| ATRIUM EUROPEAN REAL ESTATE | Austria | Real Estate | 2.74% | 3.31% |
| ANADOLU HAYAT EMEKLILIK SHARE | Turkey | Financials | 2.55% | 2.40% |
| TALLINK GRUPP | Estonia | Consumer Discretionary | 1.79% | 1.67% |
| NUCLEARELECTRICA SA | Romania | Utilities | 1.07% | 0.94% |
| WIRTUALNA POLSKA HOLDING SA | Poland | IT | 1.06% | 1.38% |
| ARENA HOSPITALITY GROUP DD | Croatia | Consumer Discretionary | 1.00% | - |
| ADVANCE TERRAFUND SHARE | Bulgaria | Real Estate | 0.56% | 0.68% |
| BULGARIA REAL ESTATE FUND | Bulgaria | Real Estate | 0.51% | 0.67% |
| PRIME CAR MANAGEMENT SA | Poland | Industrial | 0.36% | 0.51% |
| KOMERCIJALNA BANKA AD SKOPJE S | Macedonia | Financials | 0.18% | 0.24% |
| TELEKOM SPRSKE AD BANJA LUKA | Bosnia & Herzegovina | Telecom | 0.16% | 0.19% |
| PEGAS NONWOVENS | Luxembourg | Consumer Discretionary | - | 1.70% |
| TRANSELECTRICA SA | Romania | Utilities | - | 1.33% |
| TOTAL | | | 22.24% | 21.66% |

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

| Instrument | Country | Sector | % of NAV | |
|-------------------------------|----------------------|------------------------|--------------|--------------|
| | | | 31/12/2017 | 31/12/2016 |
| OMV PETROM SA | Romania | Energy | 3.95% | - |
| ANADOLU HAYAT EMEKLILIK SHARE | Turkey | Financials | 2.55% | - |
| NUCLEARELECTRICA SA | Romania | Utilities | 1.07% | 0.94% |
| ARENA HOSPITALITY GROUP DD | Croatia | Consumer Discretionary | 1.00% | - |
| ADVANCE TERRAFUND SHARE | Bulgaria | Real Estate | 0.56% | 0.68% |
| BULGARIA REAL ESTATE FUND | Bulgaria | Real Estate | 0.51% | 0.67% |
| TELEKOM SPRSKE AD BANJA LUKA | Bosnia & Herzegovina | Telecom | 0.16% | 0.19% |
| TALLINK GRUPP | Estonia | Consumer Discretionary | - | 1.67% |
| WIRTUALNA POLSKA HOLDING SA | Poland | IT | - | 1.38% |
| TOTAL | | | 9.80% | 5.53% |

Market risk

Market risk refers to the risk of suffering losses due to adverse price movements at a specific securities market or a market for other assets. Adverse price movements may be caused by a country's weak economic indicators, poor financial results of an business sector, volatile securities market, investors' behaviour and psychology and other factors. Diversification among sectors, countries, currencies and instruments are the main risk management tools used by the Fund to address market risk.

Currency risk

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

| | % of Fund's | | % of Fund's | |
|--------------|--------------------|----------------|--------------------|----------------|
| | 31/12/2017 | assets | 31/12/2016 | assets |
| EUR | 23,917,224 | 29.63% | 24,208,367 | 38.31% |
| TRY | 15,040,758 | 18.63% | 11,938,418 | 18.89% |
| RON | 14,501,428 | 17.96% | 10,463,420 | 16.56% |
| PLN | 13,654,635 | 16.91% | 7,581,768 | 12.00% |
| CZK | 8,223,711 | 10.19% | 6,302,729 | 9.97% |
| USD | 1,923,431 | 2.38% | - | - |
| HRK | 1,319,996 | 1.64% | 537,597 | 0.85% |
| BGN | 946,516 | 1.17% | 883,663 | 1.40% |
| HUF | 898,633 | 1.11% | 975,785 | 1.54% |
| MKD | 147,330 | 0.18% | 152,472 | 0.24% |
| BAM | 125,414 | 0.16% | 122,428 | 0.19% |
| RSD | 28,730 | 0.04% | 27,578 | 0.04% |
| TOTAL | 80,727,806 | 100.00% | 63,194,225 | 100.00% |

Taking into account the derivatives contracts, the net open positions as per foreign currency were following:

| | % of Fund's | | % of Fund's | |
|--------------|--------------------|---------------|--------------------|---------------|
| | 31/12/2017 | assets | 31/12/2016 | assets |
| RON | 14,501,428 | 17.96% | 10,463,420 | 16.56% |
| PLN | 13,654,635 | 16.91% | 7,581,768 | 12.00% |
| TRY | 12,558,986 | 15.56% | 11,938,418 | 18.89% |
| CZK | 8,223,711 | 10.19% | 6,302,729 | 9.97% |
| USD | 1,923,431 | 2.38% | - | - |
| HRK | 1,319,996 | 1.64% | 537,597 | 0.85% |
| BGN | 946,516 | 1.17% | 883,663 | 1.40% |
| HUF | 898,633 | 1.11% | 975,785 | 1.54% |
| MKD | 147,330 | 0.18% | 152,472 | 0.24% |
| BAM | 125,414 | 0.16% | 122,428 | 0.19% |
| RSD | 28,730 | 0.04% | 27,578 | 0.04% |
| TOTAL | 54,328,810 | 67.30% | 38,985,858 | 61.68% |

Currency risk sensitivity analysis

Fund's net asset value would have been affected by the weakening of foreign currencies against EUR on 31 December 2017. The sensitivity analysis assumes the weakening of foreign currency rates against EUR in the magnitude of the change from the higher to to lower valaue during the last ten years. The analysis assumes that all the other variables remain constant. Analysis for 31 December 2016 has been made using the same assumptions.

Derivatives contracts have been taken into account and net open positions as per foreign currency were used. The impact on net assets attributable to holders and net income:

| | 31/12/2017 | | | 31/12/2016 | | |
|--------------|-------------------|-------------------|-------------------------------|-------------------|-------------------|-------------------------------|
| | Currency wakening | Possible impact | Currency's % of Fund's assets | Currency wakening | Possible impact | Currency's % of Fund's assets |
| TRY | -65% | -3,298,506 | 15.56% | -50% | -6,012,434 | 18.89% |
| PLN | -35% | -1,394,626 | 16.91% | -17% | -1,282,846 | 12.00% |
| RON | -26% | -1,109,280 | 17.96% | -13% | -1,352,992 | 16.56% |
| CZK | -23% | -542,109 | 10.19% | -16% | -1,010,246 | 9.97% |
| USD | -36% | -198,262 | 2.38% | - | - | - |
| HUF | -30% | -79,003 | 1.11% | -20% | -196,887 | 1.54% |
| HRK | -13% | -49,786 | 1.64% | -11% | -61,143 | 0.85% |
| BGN | -7% | -19,598 | 1.17% | -5% | -43,255 | 1.40% |
| MKD | -14% | -6,046 | 0.18% | -11% | -16,169 | 0.24% |
| BAM | -10% | -3,704 | 0.16% | -5% | -5,925 | 0.19% |
| RSD | -40% | -3,373 | 0.04% | -23% | -6,421 | 0.04% |
| TOTAL | | -6,704,293 | 67.30% | | -9,988,316 | 61.68% |

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

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

| | 31/12/2017 | % of NAV | 31/12/2016 | % of NAV |
|------------------------|-------------------|---------------|-------------------|---------------|
| Financials | 24,484,229 | 30.38% | 21,354,276 | 33.83% |
| Real estate | 7,783,540 | 9.66% | 6,467,320 | 10.25% |
| Utilities | 6,494,732 | 8.06% | 6,762,706 | 10.71% |
| Energy | 4,877,888 | 6.05% | 3,041,049 | 4.82% |
| Health Care | 2,856,120 | 3.54% | 3,063,179 | 4.85% |
| Consumer Discretionary | 2,760,028 | 3.42% | 3,595,997 | 5.70% |
| Consumer Staples | 2,167,261 | 2.69% | 1,508,778 | 2.39% |
| Industrial | 2,043,622 | 2.54% | 1,660,651 | 2.63% |
| Telecom | 1,683,072 | 2.09% | 637,269 | 1.01% |
| IT | 1,452,262 | 1.80% | 1,544,068 | 2.45% |
| Materials | 567,448 | 0.71% | - | - |
| Insurance | - | - | 1,513,047 | 2.40% |
| TOTAL | 57,170,202 | 70.94% | 51,148,340 | 81.04% |

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

| | 31/12/2017 | % of NAV | 31/12/2016 | % of NAV |
|----------------------|-------------------|-----------------|-------------------|-----------------|
| Turkey | 13,539,950 | 16.81% | 11,935,925 | 18.91% |
| Romania | 12,388,714 | 15.37% | 10,463,420 | 16.58% |
| Poland | 10,720,433 | 13.30% | 6,651,296 | 10.54% |
| Austria | 6,920,798 | 8.59% | 10,390,145 | 16.47% |
| Czech Rep. | 5,798,161 | 7.19% | 5,226,977 | 8.28% |
| Slovenia | 2,370,955 | 2.94% | 2,181,279 | 3.46% |
| Estonia | 1,445,279 | 1.79% | 1,055,632 | 1.67% |
| Croatia | 1,319,996 | 1.64% | 514,842 | 0.82% |
| Luxembourg | 1,045,265 | 1.30% | 1,075,752 | 1.70% |
| Bulgaria | 862,742 | 1.07% | 848,390 | 1.34% |
| Hungary | 485,165 | 0.60% | 529,782 | 0.84% |
| Macedonia | 147,330 | 0.18% | 152,472 | 0.24% |
| Bosnia & Herzegovina | 125,414 | 0.16% | 122,428 | 0.19% |
| TOTAL | 57,170,202 | 70.94% | 51,148,340 | 81.04% |

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 2016 has been made with using the same assumptions.

| | probability | +/- possible change of Fund's NAV during year | |
|-----------|--------------------|--|-------------|
| | | 2017 | 2016 |
| σ | 68.27% | 13.45% | 13.95% |
| 2σ | 95.45% | 26.90% | 27.90% |
| 3σ | 99.73% | 40.35% | 41.85% |

NOTE 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents (incl. overnight deposits) by credit institution and currency

| | 31/12/2017 | % of NAV, converted into EUR | 31/12/2016 | % of NAV, converted into EUR |
|------------------------|-------------------|---|-------------------|---|
| Luminor Bank AS | | 15.33% | | - |
| EUR | 12,357,587 | 15.33% | - | - |
| Swedbank AS | | 13.85% | | 19.04% |
| CZK | 61,989,794 | 3.01% | - | - |
| RON | 9,892,147 | 2.62% | - | - |
| USD | 2,308,057 | 2.39% | - | - |
| PLN | 7,891,035 | 2.34% | 4,099,563 | 1.47% |
| TRY | 6,830,175 | 1.87% | 9,260 | 0.00% |
| EUR | 780,589 | 0.97% | 10,555,077 | 16.72% |
| HUF | 128,538,788 | 0.51% | 138,091,096 | 0.71% |
| BGN | 163,854 | 0.10% | 68,990 | 0.06% |
| RSD | 3,407,310 | 0.04% | 3,407,310 | 0.04% |
| HRK | - | - | 172,033 | 0.04% |
| AS SEB Pank | | - | | 0.00% |
| EUR | - | - | 12 | 0.00% |
| TOTAL | | 29.18% | | 19.04% |

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

In EUR
31/12/2017

| | 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 | - | - | - | 23,515,538 | - | - | - | - | - |
| Shares and units | 57,170,202 | - | - | - | - | - | - | - | - |
| Dividend receivable | - | - | - | - | 5,562 | - | - | - | - |
| Dividend tax reclaims | - | - | - | - | 19,668 | - | - | - | - |
| Receivables for units subscribed | - | - | - | - | 16,786 | - | - | - | - |
| Interest receivable | - | - | - | - | 50 | - | - | - | - |
| LIABILITIES | | | | | | | | | |
| Payables to the management company | - | - | - | - | - | - | - | 63,790 | - |
| Payables to the depository | - | - | - | - | - | - | - | 41,132 | - |
| Payments on redemption of units* | - | - | - | - | - | - | - | 4,786 | - |
| Derivative instruments | - | 18,228 | - | - | - | - | - | - | - |
| Other liabilities | - | - | - | - | - | - | - | 9,131 | - |
| Net assets attributable to holders | - | - | - | - | - | - | 80,590,739 | - | - |
| TOTAL | 57,170,202 | 18,228 | - | 23,515,538 | 42,066 | - | 80,590,739 | 118,839 | - |

* Liabilities are carried in the balance sheet under "Other liabilities"

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
31/12/2016

| | 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 |
| ASSETS | | | | | | | | | |
| Cash and cash equivalents | - | - | - | 12,019,662 | - | - | - | - | - |
| Shares and units | 48,539,737 | - | - | - | - | - | - | - | - |
| Bonds | 2,608,603 | - | - | - | - | - | - | - | - |
| Dividend receivable | - | - | - | - | 7,209 | - | - | - | - |
| Dividend tax reclaims | - | - | - | - | 14,112 | - | - | - | - |
| Receivables for units subscribed | - | - | - | - | 4,902 | - | - | - | - |
| LIABILITIES | | | | | | | | | |
| Payables to the management company | - | - | - | - | - | - | - | 53,471 | - |
| Payables to the depository | - | - | - | - | - | - | - | 26,879 | - |
| Other liabilities | - | - | - | - | - | - | - | 1,416 | - |
| Net assets attributable to holders | - | - | - | - | - | - | 63,112,459 | - | - |
| TOTAL | 51,148,340 | - | - | 12,019,662 | 26,223 | - | 63,112,459 | 81,766 | - |

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

| | 01/01/2017- 31/12/2017 | 01/01/2016- 31/12/2016 |
|---|---------------------------|---------------------------|
| Net gain/loss from financial assets at fair value through profit or loss | | |
| From shares and units | | |
| Sales profit/(-loss) | 5,056,733 | 1,226,391 |
| Unrealised profit /(-loss) | 5,929,978 | -722,680 |
| From bonds | | |
| Sales profit/(-loss) | 698,032 | 4,042 |
| Unrealised profit /(-loss) | -454,340 | 241,602 |
| From derivative instruments | | |
| Sales profit/(-loss) | - | - |
| Unrealised profit /(-loss) | -18,228 | - |
| Total net gain/loss | 11,212,175 | 749,355 |

Sales profit/loss and unrealised profit/loss include commissions paid to brokers on the acquisition and disposal of the 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 the net gain/loss from financial assets is not significant.

NOTE 6. RECEIVABLES AND PREPAYMENTS

In EUR

| | 31/12/2017 | 31/12/2016 |
|----------------------------------|---------------|---------------|
| Dividend tax reclaims | 19,668 | 14,112 |
| Receivables for units subscribed | 16,786 | 4,902 |
| Dividend receivable | 5,562 | 7,209 |
| Interest receivable | 50 | - |
| TOTAL | 42,066 | 26,223 |

NOTE 7. DERIVATIVE INSTRUMENTS

in EUR

31/12/2017

| Type of Instrument | Issuer of Instrument | Quantity of underlying | The underlying currency | Exercise date | Price of Instrument / premium | Exercise price | | Market value | | Equity of the issuer of the instrument |
|--------------------|----------------------|------------------------|-------------------------|---------------|-------------------------------|----------------|-----------|--------------|----------------|--|
| | | | | | | Per unit | Total | Date | Total | |
| Forward | Swedbank AS | 11,356,250 | TRY | 12/01/2018 | 0.2185 | 0.2201 | 2,500,000 | 29/12/2017 | - 18,228 | EUR 1,658,718,000 |
| | | 2,500,000 | EUR | 12/01/2018 | 1.0000 | 1.0000 | 2,500,000 | 29/12/2017 | - | EUR 1,658,718,000 |
| TOTAL | | | | | | | | | -18,228 | |

There were no derivative instruments at the end of 31/12/2016.

NOTE 8. TRANSACTIONS WITH RELATED PARTIES

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

The transactions with related parties were in EUR as follows:

| | 01/01/2017- 31/12/2017 | 01/01/2016- 31/12/2016 |
|--------------------------------------|-----------------------------------|-----------------------------------|
| Fund Management Company | | |
| Paid management and performance fees | 731,018 | 957,685 |
| Units bought | 28,715 | 28,100 |
| Units sold | 28,715 | 28,100 |
| TOTAL | 788,448 | 1,013,885 |

The balances outstanding with related parties were as follows:

| | 31/12/2017 | 31/12/2016 |
|--|-------------------|-------------------|
| Fund Management Company | | |
| Management and performance fee payable | 63,790 | 53,471 |

The market value of Avaron Emerging Europe Fund units owned by the shareholders of the Fund Management Company amounted to 51,271EUR as of 31/12/2017 (31/12/2016: 43,704 EUR).

NOTE 9. OTHER INFORMATION

Total expense ratio (TER)

The total expense ratios (including management fees, performance fees, depository fees and other fees) of different unit classes are set out below. Total expense ratios are calculated on annual basis.

| | TER without performance fees | TER with performance fees |
|---------|---|--------------------------------------|
| A units | 1.97% | 1.97% |
| B units | 1.47% | 1.47% |
| C units | 1.47% | 2.57% |
| D units | 2.22% | 2.22% |
| E units | 1.07% | 1.07% |

Portfolio turnover rate

The Fund's portfolio turnover ratio, which is calculated by taking the lesser of purchases or sales and dividing it by the average value of monthly net assets, amounted to 19.6% in 2017 (17.7% in 2016).

Adjusted to the Fund's inflows and outflows the Fund's portfolio turnover rate amounted to 32.9% in 2017 (-10.2% in 2016).

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

Where

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

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

STATEMENT OF INVESTMENTS

In EUR as of 31/12/2017

| Name | ISIN | Emitent country | Rating agency | Rating | FX | 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: | | | | | | | | | | |
| IMMOFINANZ AG | AT0000809058 | AT | | | EUR | 2 | 4,385,819 | 2.15 | 4,715,364 | 5.85% |
| KOMERCNI BANKA | CZ0008019106 | CZ | S&P | A | CZK | 33.46 | 4,026,534 | 35.80 | 4,308,272 | 5.35% |
| PKO BANK POLSKI | PLPKO0000016 | PL | | | PLN | 8.85 | 3,310,680 | 10.61 | 3,968,797 | 4.92% |
| SC FONDUL PROPRIETATEA SA | ROFPTAACNOR5 | RO | | | RON | 0.17 | 3,220,369 | 0.18 | 3,425,664 | 4.25% |
| OMV PETROM SA | ROSNPPACNOR9 | RO | | | RON | 0.06 | 2,977,090 | 0.06 | 3,185,942 | 3.95% |
| TURKIYE GARANTI BANKASI | TRAGARAN91N1 | TR | S&P | BB | TRY | 2.26 | 2,734,813 | 2.36 | 2,845,806 | 3.53% |
| BRD Gr Societe Generale SA | ROBRDBACNOR2 | RO | Fitch | BBB+ | RON | 2.26 | 2,230,078 | 2.76 | 2,715,191 | 3.37% |
| BANK PEKAO SA | PLPEKAO00016 | PL | S&P | BBB+ | PLN | 29.98 | 2,363,765 | 31.00 | 2,444,396 | 3.03% |
| KRKA | SI0031102120 | SI | | | EUR | 59.27 | 2,443,758 | 57.50 | 2,370,955 | 2.94% |
| ATRIUM EUROPEAN REAL ESTATE | JE00B3DCF752 | AT | S&P | BBB- | EUR | 3.85 | 2,043,639 | 4.15 | 2,205,435 | 2.74% |
| YAPI VE KREDI BANKASI SHARE | TRAYKBNK91N6 | TR | S&P | BB | TRY | 1.09 | 2,437,985 | 0.95 | 2,127,592 | 2.64% |
| ANADOLU HAYAT EMEKLILIK SHARE | TRAANHYT91O3 | TR | | | TRY | 1.51 | 1,705,335 | 1.81 | 2,050,227 | 2.55% |
| TAV HAVALIMANLARI HOLDING | TRETAVH00018 | TR | | | TRY | 4.33 | 1,537,909 | 4.94 | 1,750,932 | 2.17% |
| SNGN ROMGAZ SA | ROSNNGNACNOR3 | RO | | | RON | 7.42 | 1,877,269 | 6.68 | 1,691,946 | 2.10% |
| BANK HANDLOWY W WARSZAWIE | PLBH00000012 | PL | Fitch | A- | PLN | 17.6 | 1,391,113 | 19.60 | 1,549,517 | 1.92% |
| CESKE ENERGETICKE ZAVODY AS | CZ0005112300 | CZ | S&P | A- | CZK | 22.29 | 1,709,505 | 19.43 | 1,489,888 | 1.85% |
| TALLINK GRUPP | EE3100004466 | EE | | | EUR | 0.95 | 1,100,526 | 1.25 | 1,445,279 | 1.79% |
| AKBANKS T.A.S | TRAAKBNK91N6 | TR | Fitch | BB+ | TRY | 2.26 | 1,495,376 | 2.16 | 1,434,018 | 1.78% |
| COCA-COLA ICECEK AS | TRECOLA00011 | TR | Fitch | BBB | TRY | 9.86 | 1,554,872 | 7.52 | 1,185,820 | 1.47% |
| PLAY COMMUNICATIONS SA | LU1642887738 | LU | S&P | BB | PLN | 8.52 | 1,100,706 | 8.09 | 1,045,265 | 1.30% |
| BIM BIRLESIK MAGAZALAR AS | TREBIMM00018 | TR | | | TRY | 15.45 | 883,467 | 17.16 | 981,441 | 1.22% |
| ALIOR BANK SA | PLALIOR00045 | PL | Fitch | BB | PLN | 11.75 | 551,278 | 19.03 | 893,083 | 1.11% |
| NUCLEARELECTRICA SA | ROSNNEACNOR8 | RO | | | RON | 2.04 | 1,145,179 | 1.54 | 862,825 | 1.07% |
| WIRTUALNA POLSKA HOLDING SA | PLWRTPL00027 | PL | | | PLN | 11.27 | 830,460 | 11.61 | 855,597 | 1.06% |
| ARENA HOSPITALITY GROUP DD | HRARNTRA0004 | HR | | | HRK | 57.9 | 772,424 | 60.54 | 807,604 | 1.00% |
| ENERGA SA | PLENERG00022 | PL | Fitch | BBB | PLN | 3.09 | 726,709 | 3.05 | 716,354 | 0.89% |
| LOGO YAZILIM SANAYI VE TICAR | TRALOGOW91U2 | TR | | | TRY | 14.25 | 658,464 | 12.91 | 596,666 | 0.74% |
| AKCANSI CIMENTO SANAYI VE TICA | TRAAKNS91F3 | TR | | | TRY | 2.89 | 685,232 | 2.39 | 567,448 | 0.71% |
| HRVATSKI TELEKOM DD | HRHT00RA0005 | HR | | | HRK | 18.79 | 432,588 | 22.25 | 512,393 | 0.64% |
| SPHERA FRANCHISE GROUP SA | ROSGFPACNOR4 | RO | | | RON | 6.55 | 382,125 | 8.69 | 507,146 | 0.63% |
| RICHTER GEDEON NYRT | HU0000123096 | HU | | | HUF | 12.06 | 268,193 | 21.81 | 485,165 | 0.60% |
| PRIME CAR MANAGEMENT SA | PLPRMCM00048 | PL | | | PLN | 10.44 | 446,972 | 6.83 | 292,690 | 0.36% |
| KOMERCIJALNA BANKA AD SKOPJE S | MKKMBS101019 | MK | | | MKD | 62.23 | 204,491 | 44.84 | 147,330 | 0.18% |
| TELEKOM SPRSKE AD BANJA LUKA | BA100TLKMRA2 | BA | | | BAM | 0.74 | 172,174 | 0.54 | 125,414 | 0.16% |
| SHARES TOTAL | | | | | | | 53,806,898 | | 56,307,462 | 69.87% |

Statement of investments as of 31/12/2017 (continued)

| Name | ISIN | Fund country | Fund Management Company | FX | 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 | KAROLL FINANCE | BGN | 0.66 | 265,179 | 1.12 | 450,384 | 0.56% |
| BULGARIA REAL ESTATE FUND | BG1100001053 | BG | BULGARIA REAL ESTATE FUND | BGN | 0.52 | 189,792 | 1.14 | 412,358 | 0.51% |
| CLOSED-END FUNDS TOTAL | | | | | | 454,971 | | 862,742 | 1.07% |
| SHARES AND FUNDS TOTAL | | | | | | 54,261,869 | | 57,170,202 | 70.94% |

| Name | ISIN | Emitent country | Rating agency | Rating | FX | Maturity | Average acquisition cost | Market value per unit | Total market value | Share of market value of fund's net assets |
|------|------|-----------------|---------------|--------|----|----------|--------------------------|-----------------------|--------------------|--|
|------|------|-----------------|---------------|--------|----|----------|--------------------------|-----------------------|--------------------|--|

DERIVATIVES

| | | | | | | | | | | |
|--------------------------------------|--|----|-----|-------------------|-----|------------|--|--|----------------|---------------|
| Currency Forward TRY/EUR Swedbank AS | | EE | S&P | AA- (Swedbank AB) | TRY | 12/01/2018 | | | -18,228 | -0.02% |
| DERIVATIVES TOTAL | | | | | | | | | -18,228 | -0.02% |

| Credit Institution | Deposit Type | Credit Institution's country | Rating agency | Rating | FX | Interest rate | Start date | Maturity | Average acquisition cost | Total market value | Share of market value of fund's net assets |
|--------------------|--------------|------------------------------|---------------|--------|----|---------------|------------|----------|--------------------------|--------------------|--|
|--------------------|--------------|------------------------------|---------------|--------|----|---------------|------------|----------|--------------------------|--------------------|--|

DEPOSITS*

| | | | | | | | | | | | |
|-----------------------|-------------------|----|-----|-----|-----|---------|------------|------------|--|------------------|--------------|
| Swedbank AB | Overnight deposit | EE | S&P | AA- | USD | 0.9304% | 29/12/2017 | 30/12/2017 | | 1,923,431 | 2.39% |
| DEPOSITS TOTAL | | | | | | | | | | 1,923,431 | 2.39% |

*Accrued interest in the amount of 49.71 EUR has been added to the value of deposits.

Statement of investments as of 31/12/2017 (continued)

| Name | ISIN | Credit Institution's country | Credit institution | FX | Interest rate | Average acquisition cost per unit | Average acquisition cost | Market value per unit | Total market value | Share of market value of fund's net assets |
|----------------------------------|------|------------------------------|--------------------|-----|---------------|-----------------------------------|--------------------------|-----------------------|--------------------|--|
| CASH | | | | | | | | | | |
| CURRENT ACCOUNT | | EE | Luminor | EUR | | | 12,357,587 | | 12,357,587 | 15.33% |
| CURRENT ACCOUNT | | EE | Swedbank | CZK | | | 2,425,550 | | 2,425,550 | 3.01% |
| CURRENT ACCOUNT | | EE | Swedbank | RON | | | 2,112,714 | | 2,112,714 | 2.62% |
| CURRENT ACCOUNT | | EE | Swedbank | PLN | | | 1,888,937 | | 1,888,937 | 2.34% |
| CURRENT ACCOUNT | | EE | Swedbank | TRY | | | 1,500,808 | | 1,500,808 | 1.87% |
| CURRENT ACCOUNT | | EE | Swedbank | EUR | | | 780,589 | | 780,589 | 0.97% |
| CURRENT ACCOUNT | | EE | Swedbank | HUF | | | 413,468 | | 413,468 | 0.51% |
| CURRENT ACCOUNT | | EE | Swedbank | BGN | | | 83,774 | | 83,774 | 0.10% |
| CURRENT ACCOUNT | | EE | Swedbank | RSD | | | 28,730 | | 28,730 | 0.04% |
| CURRENT ACCOUNT TOTAL | | | | | | | 21,592,157 | | 21,592,157 | 26.79% |
| INVESTMENTS TOTAL | | | | | | | 77,777,407 | | 80,667,562 | 100.10% |
| OTHER ASSETS | | | | | | | | | | |
| DIVIDEND TAX RECLAIMS | | | | EUR | | | | | 19,668 | 0.02% |
| RECEIVABLES FOR UNITS SUBSCRIBED | | | | EUR | | | | | 16,786 | 0.02% |
| DIVIDEND RECEIVABLE | | | | EUR | | | | | 5,562 | 0.01% |
| OTHER ASSETS TOTAL | | | | | | | | | 42,016 | 0.05% |
| TOTAL ASSETS OF THE FUND | | | | | | | 77,777,407 | | 80,709,578 | 100.15% |
| LIABILITIES | | | | | | | | | -118,839 | -0.15% |
| NET ASSETS OF THE FUND | | | | | | | | | 80,590,739 | 100.00% |

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 |
|---|--------------|---------|---------------|-----|------------|-----------------------------------|--------------------------|-----------------------|--------------------|--|
| SHARES | | | | | | | | | | |
| SHARES LISTED ON STOCK EXCHANGE: | | | | | | | | | | |
| KOMERCNI BANKA | CZ0008019106 | CZ | 100.00 | CZK | 120,335 | 33.46 | 4,026,534 | 32.73 | 3,938,916 | 6.24% |
| ERSTE GROUP BANK AG | AT0000652011 | AT | 0.00 | EUR | 131,437 | 21.15 | 2,780,334 | 27.83 | 3,657,235 | 5.79% |
| SC FONDUL PROPRIETATEA SA | ROFPTAACNOR5 | RO | 0.85 | RON | 20,728,396 | 0.17 | 3,495,702 | 0.18 | 3,627,595 | 5.75% |
| PKO BANK POLSKI | PLPKO0000016 | PL | 1.00 | PLN | 374,174 | 8.85 | 3,310,680 | 6.39 | 2,389,808 | 3.79% |
| KRKA | SI0031102120 | SI | 0.00 | EUR | 41,234 | 59.27 | 2,443,758 | 52.90 | 2,181,279 | 3.46% |
| ATRIUM EUROPEAN REAL ESTATE | JE00B3DCF752 | AT | 0.00 | EUR | 531,430 | 3.85 | 2,043,639 | 3.93 | 2,088,520 | 3.31% |
| YAPI VE KREDI BANKASI SHARE | TRAYKBNK91N6 | TR | 1.00 | TRY | 2,231,030 | 1.09 | 2,437,985 | 0.92 | 2,059,874 | 3.26% |
| IMMOFINANZ AG | AT0000809058 | AT | 0.00 | EUR | 1,098,644 | 2.17 | 2,384,724 | 1.85 | 2,035,787 | 3.23% |
| BRD GR SOCIETE GENERALE SA | ROBRDBACNOR2 | RO | 1.00 | RON | 769,654 | 2.16 | 1,662,027 | 2.62 | 2,012,787 | 3.19% |
| BANK PEKAO SA | PLPEKAO00016 | PL | 1.00 | PLN | 70,400 | 30.24 | 2,128,841 | 28.55 | 2,010,105 | 3.18% |
| TURKIYE HALK BANKASI | TRETHAL00019 | TR | 1.00 | TRY | 747,343 | 3.20 | 2,392,749 | 2.51 | 1,878,919 | 2.98% |
| OMV PETROM SA | ROSNPPACNOR9 | RO | 0.10 | RON | 28,686,098 | 0.05 | 1,393,856 | 0.06 | 1,648,155 | 2.61% |
| ANADOLU HAYAT EMEKLILIK SHARE | TRAANHYT91O3 | TR | 1.00 | TRY | 1,130,980 | 1.51 | 1,705,335 | 1.34 | 1,513,047 | 2.40% |
| BIM BIRLESIK MAGAZALAR AS | TREBIMM00018 | TR | 1.00 | TRY | 114,390 | 15.59 | 1,782,999 | 13.19 | 1,508,778 | 2.39% |
| IS GAYRIMENKUL YATIRIM ORTAK | TRAISGYO91Q3 | TR | 1.00 | TRY | 3,559,310 | 0.37 | 1,330,867 | 0.42 | 1,494,623 | 2.37% |
| FORD OTOMOTIV SANAYI AS | TRAOTOSN91H6 | TR | 1.00 | TRY | 177,928 | 8.62 | 1,534,474 | 8.23 | 1,464,613 | 2.32% |
| SNGN ROMGAZ SA | ROSNGNACNOR3 | RO | 1.00 | RON | 253,100 | 7.42 | 1,877,269 | 5.50 | 1,392,894 | 2.21% |
| TAV HAVALIMANLARI HOLDING | TRETAVH00018 | TR | 1.00 | TRY | 354,786 | 4.33 | 1,537,909 | 3.78 | 1,339,878 | 2.12% |
| CESKE ENERGETICKE ZAVODY AS | CZ0005112300 | CZ | 100.00 | CZK | 76,691 | 22.29 | 1,709,505 | 15.90 | 1,219,704 | 1.93% |
| PEGAS NONWOVENS | LU0275164910 | LU | 1.24 | CZK | 37,822 | 24.96 | 944,096 | 28.44 | 1,075,752 | 1.70% |
| TALLINK GRUPP | EE3100004466 | EE | 0.54 | EUR | 1,156,223 | 0.95 | 1,100,526 | 0.91 | 1,055,632 | 1.67% |
| WIRTUALNA POLSKA HOLDING SA | PLWRTPLO0027 | PL | 0.05 | PLN | 71,339 | 11.23 | 801,099 | 12.17 | 867,875 | 1.38% |
| TRANSELECTRICA SA | ROTSELACNOR9 | RO | 10.00 | RON | 130,116 | 5.45 | 709,183 | 6.43 | 836,372 | 1.33% |
| LOGO YAZILIM SANAYI VE TICAR | TRALOGOW91U2 | TR | 1.00 | TRY | 46,220 | 14.25 | 658,464 | 14.63 | 676,193 | 1.07% |
| NUCLEARELECTRICA SA | ROSNNEACNOR8 | RO | 10.00 | RON | 561,100 | 2.04 | 1,145,179 | 1.06 | 593,499 | 0.94% |
| ALIOR BANK SA | PLALIOR00045 | PL | 10.00 | PLN | 46,929 | 11.75 | 551,278 | 12.30 | 577,199 | 0.91% |
| RICHTER GEDEON NYRT | HU0000123096 | HU | 100.00 | HUF | 26,414 | 12.20 | 322,157 | 20.06 | 529,782 | 0.84% |
| HRVATSKI TELEKOM DD | HRHTOORA0005 | HR | 0.00 | HRK | 23,027 | 18.79 | 432,588 | 22.36 | 514,842 | 0.82% |
| ENERGA SA | PLENERG00022 | PL | 10.92 | PLN | 235,080 | 3.09 | 726,709 | 2.07 | 485,537 | 0.77% |
| MED LIFE SA | ROMEDLACNOR6 | RO | 0.00 | RON | 60,820 | 5.76 | 350,090 | 5.79 | 352,118 | 0.56% |
| PRIME CAR MANAGEMENT SA | PLPRMCM00048 | PL | 2.00 | PLN | 42,827 | 10.44 | 446,972 | 7.49 | 320,772 | 0.51% |
| KOMERCIJALNA BANKA AD SKOPJE S | MKKMBS101019 | MK | 1,000.00 | MKD | 3,286 | 62.23 | 204,491 | 46.40 | 152,472 | 0.24% |
| TELEKOM SPRSKE AD BANJA LUKA | BA100TLKMRA2 | BA | 1.00 | BAM | 233,608 | 0.74 | 172,174 | 0.52 | 122,428 | 0.19% |
| MONETA MONEY BANK AS | CZ0008040318 | CZ | 1.00 | CZK | 22,321 | 2.78 | 61,991 | 3.06 | 68,357 | 0.11% |
| SHARES TOTAL | | | | | | | 50,606,184 | | 47,691,347 | 75.57% |

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

| Name | ISIN | Country | Nominal value | Fund Management Company | FX | Quantity | Average acquisition cost per unit | Average acquisition cost | Market value per unit | Total market value | Share of market value of fund's net assets |
|------|------|---------|---------------|-------------------------|----|----------|-----------------------------------|--------------------------|-----------------------|--------------------|--|
|------|------|---------|---------------|-------------------------|----|----------|-----------------------------------|--------------------------|-----------------------|--------------------|--|

FUNDS:

CLOSED-END FUNDS LISTED ON STOCK EXCHANGE:

| | | | | | | | | | | | |
|-------------------------------|--------------|----|------|---------------------------|-----|---------|------|-------------------|------|-------------------|---------------|
| ADVANCE TERRAFUND SHARE | BG1100025052 | BG | 1.00 | KAROLL FINANCE | BGN | 400,594 | 0.66 | 265,179 | 1.07 | 428,059 | 0.68% |
| BULGARIA REAL ESTATE FUND | BG1100001053 | BG | 1.00 | BULGARIA REAL ESTATE FUND | BGN | 362,649 | 0.52 | 189,792 | 1.16 | 420,331 | 0.67% |
| CLOSED-END FUNDS TOTAL | | | | | | | | 454,971 | | 848,390 | 1.35% |
| SHARES AND FUNDS TOTAL | | | | | | | | 51,061,155 | | 48,539,737 | 76.91% |

| 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*

| | | | | | | | | | | | | | |
|-------------------------------|--------------|----|------------|----------|--------|-----|-----|-----------|-------|------------------|--------|------------------|--------------|
| RAIFFEISEN BK 6.625% 18.05.21 | XS0619437147 | AT | 100,000.00 | 18/05/21 | 6.625% | Ba2 | EUR | 1,600,000 | 93.95 | 1,503,200 | 111.27 | 1,845,961 | 2.92% |
| RAIFFEISEN BK 6.000% 16.10.23 | XS0981632804 | AT | 100,000.00 | 16/10/23 | 6.000% | Ba2 | EUR | 700,000 | 82.40 | 576,800 | 107.72 | 762,642 | 1.21% |
| BONDS TOTAL | | | | | | | | | | 2,080,000 | | 2,608,603 | 4.13% |

* Accrued interest in the amount of 74,263.02 EUR has been added to the value of bonds

| Name | ISIN | Country | Credit Institution | 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 |
|------|------|---------|--------------------|----------|--------|----|----------|-----------------------------------|--------------------------|-----------------------|--------------------|--|
|------|------|---------|--------------------|----------|--------|----|----------|-----------------------------------|--------------------------|-----------------------|--------------------|--|

CASH

| | | | | | | | | | | | | |
|------------------------------|--|----|----------|--|--|-----|--|--|-------------------|--|-------------------|----------------|
| CURRENT ACCOUNT | | EE | Swedbank | | | EUR | | | 10,555,077 | | 10,555,077 | 16.72% |
| CURRENT ACCOUNT | | EE | Swedbank | | | PLN | | | 930,471 | | 930,471 | 1.47% |
| CURRENT ACCOUNT | | EE | Swedbank | | | HUF | | | 446,003 | | 446,003 | 0.71% |
| CURRENT ACCOUNT | | EE | Swedbank | | | BGN | | | 35,273 | | 35,273 | 0.06% |
| CURRENT ACCOUNT | | EE | Swedbank | | | RSD | | | 27,578 | | 27,578 | 0.04% |
| CURRENT ACCOUNT | | EE | Swedbank | | | HRK | | | 22,755 | | 22,755 | 0.04% |
| CURRENT ACCOUNT | | EE | Swedbank | | | TRY | | | 2,493 | | 2,493 | 0.00% |
| CURRENT ACCOUNT | | EE | SEB | | | EUR | | | 12 | | 12 | 0.00% |
| CURRENT ACCOUNT TOTAL | | | | | | | | | 12,019,662 | | 12,019,662 | 19.04% |
| INVESTMENTS TOTAL | | | | | | | | | 65,160,817 | | 63,168,002 | 100.09% |

OTHER ASSETS

| | | | | | | | | | | | | |
|----------------------------------|--|--|--|--|--|-----|--|--|--|--|--------|-------|
| DIVIDEND TAX RECLAIMS | | | | | | EUR | | | | | 14,112 | 0.02% |
| DIVIDEND RECEIVABLES | | | | | | EUR | | | | | 7,209 | 0.01% |
| RECEIVABLES FOR UNITS SUBSCRIBED | | | | | | EUR | | | | | 4,902 | 0.01% |

OTHER ASSETS TOTAL

| | | | | | | | | | | | | |
|---------------------------------|--|--|--|--|--|--|--|--|-------------------|--|-------------------|----------------|
| OTHER ASSETS TOTAL | | | | | | | | | | | 26,223 | 0.04% |
| TOTAL ASSETS OF THE FUND | | | | | | | | | 65,160,817 | | 63,194,225 | 100.13% |
| LIABILITIES | | | | | | | | | | | -81,766 | -0.13% |
| NET ASSETS OF THE FUND | | | | | | | | | | | 63,112,459 | 100.00% |

STATEMENT OF COMMISSIONS

In EUR

01/01/2017-31/12/2017

| | Number of transactions | Volume of transactions | Total commissions paid | Weighted average fee |
|---|---------------------------|---------------------------|------------------------------|----------------------------|
| Regulated securities market transactions* | | | | |
| Shares | | | | |
| Erste Group Bank AG | 11 | 6,812,662 | 6,988 | 0.10% |
| Raiffeisen Centrobank AG | 23 | 3,694,652 | 8,540 | 0.23% |
| PKO Bank Polski | 14 | 3,057,143 | 5,276 | 0.17% |
| Dom Maklerski mBanku | 13 | 2,126,236 | 2,126 | 0.10% |
| Wood and Company Financial Services a.s. | 18 | 1,823,983 | 4,637 | 0.25% |
| Interkapital vrijednosni papiri d.o.o. | 2 | 772,424 | 852 | 0.11% |
| Third country securities market transactions | | | | |
| Shares | | | | |
| BGC Partners Turkey | 28 | 7,857,989 | 9,432 | 0.12% |
| TEB Yatirim Menkul Degerler A.S. | 31 | 4,981,200 | 6,472 | 0.13% |
| OTC trades | | | | |
| Stock dividend | 2 | - | - | - |
| Corporate Action | 1 | - | - | - |
| Derivatives | | | | |
| Swedbank AS | 1 | 2,500,000 | - | - |
| Exchange offer | 3 | 5,856,210 | - | - |
| Bonds | | | | |
| AS SEB Pank | 3 | 4,540,231 | - | - |
| Citigroup Global Markets Ltd | 1 | 1,862,940 | - | - |
| TOTAL | 151 | 45,885,670 | 44,324 | 0.10% |

* Contracting Party to the EEA Agreement (European Economic Area countries)

In EUR

01/01/2016-31/12/2016

| | Number of transactions | Volume of transactions | Total commissions paid | Weighted average fee |
|---|------------------------|------------------------|------------------------|----------------------|
| Regulated securities market transactions* | | | | |
| Shares | | | | |
| Dom Maklerski mBanku | 6 | 1,471,677 | 1,734 | 0.12% |
| Erste Group Bank AG | 27 | 7,467,492 | 7,499 | 0.10% |
| ING Securities S.A. | 4 | 792,435 | 792 | 0.10% |
| Interkapital vrijednosni papiri d.o.o. | 27 | 1,172,387 | 2,340 | 0.20% |
| Kepler Cheuvreux | 6 | 1,450,309 | 1,452 | 0.10% |
| PKO Bank Polski | 9 | 2,228,632 | 2,227 | 0.10% |
| Raiffeisen Centrobank AG | 39 | 4,966,498 | 11,000 | 0.22% |
| Wood and Company Financial Services, a.s. | 10 | 2,103,632 | 3,127 | 0.15% |
| Fund units | | | | |
| Karoll AD | 2 | 85,253 | 340 | 0.40% |
| Third country securities market transactions | | | | |
| Shares | | | | |
| BGC Partners Turkey | 11 | 1,435,249 | 1,720 | 0.12% |
| TEB Yatirim Menkul Degerler A.S. | 76 | 10,518,898 | 13,663 | 0.13% |
| OTC trades | | | | |
| Stock dividend | 1 | - | - | - |
| Stock split | 2 | - | - | - |
| Avaron clients | 1 | 8,812 | - | - |
| Bonus issue | 1 | - | - | - |
| Tender offer | 1 | 159,757 | - | - |
| Bonds | | | | |
| AS SEB Pank | 4 | 129,907 | - | - |
| TOTAL | 227 | 33,990,939 | 45,895 | 0.14% |

* Contracting Party to the EEA Agreement (European Economic Area countries)

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

REPORT ON REMUNERATION OF THE FUND MANAGEMENT COMPANY

The remuneration principles of the Management Board members, investment managers and risk-takers are set in the Company's Remuneration Policy. The remuneration of the identified staff consists of fixed and variable remuneration. The total remuneration is based on local labour market conditions, and is designed so as to achieve a reasonable balance between the fixed and variable components of the salary.

Avaron's investment managers and risk-takers receive a fixed salary. Bonuses depend on Avaron's long-term goals, the Company's sustainability and employees' personal contribution. Bonuses are not linked to managed funds' hurdle return rates. For staff whose professional activities have a material impact on the risk profile of the Company, the variable component shall not exceed the fixed component of the remuneration. After awarding a bonus to the Management Board members or employees the Company has a three-year period during which it has the right to reduce the bonus, stop the payments of the announced bonus or even require partial or full repayment. Avaron's investment managers and risk-takers can be paid a severance which cannot exceed 6-month salary.

Significant amendments were enforced in the Remuneration Policy of the Fund Management Company at the end of 2016 according to the changes in UCITS V principles. The full Remuneration Policy of AS Avaron Asset Management can be downloaded here www.avaron.com/documents.

The Fund Management Company employed 17 specialists as at the end of 2017 (end-2016: 14 specialists). Total remuneration amounted to:

In EUR

| | 2017 | 2016 |
|---|----------------|----------------|
| Wages and salaries | 372,108 | 316,538 |
| Social tax and unemployment insurance contributions | 122,145 | 110,459 |
| Total | 494,253 | 426,997 |
| incl. bonus program cost with applicable taxes | 26,225 | 40,140 |

The Members of the Management Board did not receive extra remuneration for participating in the work of the managing bodies. Independent member of the Supervisory Board was paid, in total with applicable social tax, EUR 4,788 in the financial year 2017 (2016: EUR 4,788).

No remuneration has been paid by the Fund.



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Independent Auditors' Report

(Translation of the Estonian original)

To the Unitholders and the Fund Management Company of Avaron Emerging Europe Fund

Opinion

We have audited the financial statements of Avaron Emerging Europe Fund (the Fund), which comprise the balance sheet as at 31 December 2017, the statements of income and expenses, statement of cash flows and statement of changes in net assets for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements presented on pages 6 to 28, present fairly, in all material respects, the financial position of the Fund as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in 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

Management is responsible for the other information. The other information comprises the Management report, statement of investments, statement of commissions and report on remuneration of the Fund Management Company, but does not include the financial statements and our auditors' report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management 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.



Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing (Estonia) 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 these financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 management'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 auditors' report to the related disclosures in the financial statements 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 auditors' 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 financial statements, including the disclosures, and whether the financial statements 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.

Tallinn, 9 April 2018

/Signature/

Eero Kaup

Certified Public Accountant, Licence No 459

KPMG Baltics OÜ

Licence No 17