

**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.

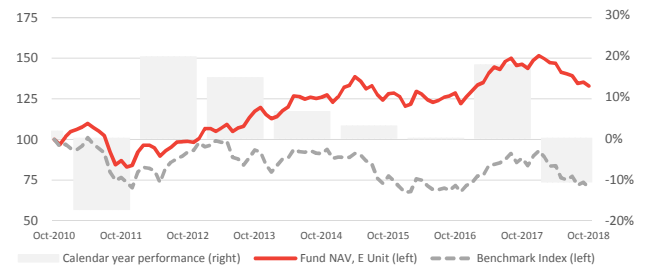
**Fund Manager's Comment, October 2018**

Global equities took another sharp hit in October following the February sell-off and the subsequent recovery. MSCI World lost 7.4% in \$ terms (-5.0% in €) on re-emerging concern over Fed's tightening path and the escalation of US-China trade war that threatens to undermine global growth. Emerging Markets had the worst month since August 2015, down 8.8% in \$ (-6.4% in €). Emerging Markets' currencies were also under pressure. Emerging Europe (MSCI EFM EUROPE + CIS (E+C) ex Russia) lost 4.3% in € in October outperforming the GEM on the back of stronger lira and relative strength of several frontier countries. Poland on the other hand sold off in line with GEM amid negative regional fund flows.

Avaron Emerging Europe Fund lost 1.8% in September, outperforming the benchmark due to UW in Poland and high cash position. YTD the Fund is down 10.6% compared to -21.4% of the benchmark. Over the month the Fund's cash position dropped to 16%. We are overweight in Romania as in our view the Romanian stocks are attractively valued while corporate profit growth is supported by a cyclically strong and healthy macro environment. The portfolio companies trade at 10x 1YR FWD P/E, have 9% cash flow yield and 5% dividend yield.

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

**Performance, E Unit**



Past performance is not a guarantee or indicative of future results.

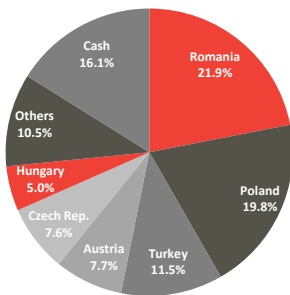
The benchmark of the Fund (E Unit) was changed from MSCI EFM CEEC ex Russia (net return) to MSCI EFM EUROPE + CIS (E+C) ex Russia (net return) as of July 2018 to better reflect our internal coverage universe. All historical comparisons refer to the new benchmark.

Perf overview	Net return E Unit	Index return*
1 month	-1.8%	-4.3%
YTD	-10.6%	-21.4%
3 months	-4.5%	-9.0%
6 months	-9.5%	-15.9%
1 year	-9.2%	-20.4%
3 years	3.7%	-9.1%
5 years	13.3%	-24.7%
7 years	52.6%	-7.9%
8 years	32.9%	16.2%

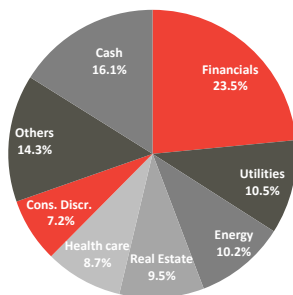
\* MSCI EFM EUROPE + CIS (E+C) ex Russia

Year	Calendar year return, E Unit		
	Gross	Net	Index*
2017	19.2%	17.7%	25.3%
2016	2.1%	-0.1%	1.2%
2015	6.7%	2.9%	-20.0%
2014	9.4%	6.5%	4.7%
2013	18.5%	14.6%	-13.9%
2012	21.1%	19.7%	39.3%
2011	-16.3%	-17.3%	-27.5%

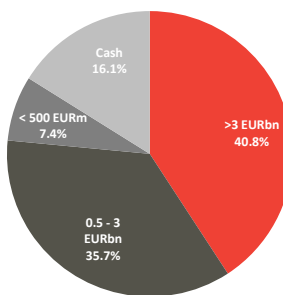
**Geographic breakdown**



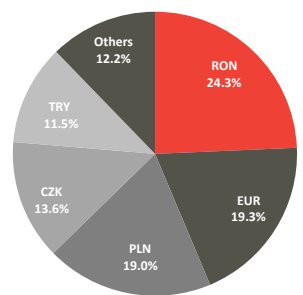
**Sector breakdown**



**Market Cap breakdown**



**Net currency breakdown**



**Country allocation**

	Change						Contribution analysis					
	Oct-18	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Romania	21.9%	1.8%	3.5%	6.0%	3.4%	0.0%	0.3%	1.4%	3.5%	3.3%	7.2%	11.3%
Poland	19.8%	0.1%	3.5%	3.9%	10.2%	19.8%	-1.3%	-1.9%	-2.3%	-3.6%	1.9%	3.1%
Turkey	11.5%	1.0%	-5.8%	-10.5%	0.4%	1.0%	0.3%	-2.1%	-8.5%	-8.5%	-6.7%	-2.5%
Austria	7.7%	0.1%	-2.3%	-1.5%	-12.3%	-3.5%	-0.4%	-0.4%	0.2%	0.1%	4.8%	6.0%
Czech Rep.	7.6%	0.1%	0.3%	-0.3%	-1.8%	1.9%	-0.4%	-0.6%	0.0%	0.1%	1.6%	2.6%
Hungary	5.0%	0.4%	1.9%	4.4%	1.3%	-5.9%	0.1%	0.2%	-0.1%	-0.1%	0.5%	2.2%
Slovenia	3.7%	0.2%	0.2%	0.7%	0.2%	-1.8%	0.0%	-0.2%	0.0%	-0.1%	-0.3%	0.5%
Baltics	2.9%	-0.2%	-0.3%	1.3%	0.5%	-4.5%	0.0%	-0.1%	0.1%	-0.1%	1.0%	1.0%
Croatia	1.9%	0.1%	0.1%	0.0%	1.9%	1.9%	0.0%	-0.2%	-0.3%	-0.3%	0.0%	0.0%
Others	2.0%	3.9%	3.2%	3.1%	3.9%	8.5%	0.0%	0.0%	0.0%	0.1%	0.7%	3.7%

**Risk metrics**

Alpha	3%
Volatility & stand. deviation	9.3%
Beta	0.46
Sharpe ratio	0.17
Information ratio	0.42
Tracking error	10.3%

\* MSCI EFM EUROPE + CIS (E+C) ex Russia

**Sector allocation**

	Change						Contribution analysis					
Financials	23.5%	0.4%	-4.4%	-10.4%	-8.4%	-11.2%	-1.1%	-3.5%	-6.1%	-7.2%	1.7%	7.5%
Utilities	10.5%	0.7%	1.4%	2.0%	-2.4%	-3.9%	0.0%	0.1%	0.9%	0.8%	2.3%	5.4%
Energy	10.2%	1.1%	2.6%	3.5%	0.8%	7.2%	0.5%	1.4%	2.3%	2.3%	4.9%	4.2%
Real Estate	9.5%	0.2%	-1.6%	-0.9%	-3.1%	-0.1%	-0.4%	-0.4%	0.1%	0.1%	1.4%	2.8%
Health care	8.7%	0.6%	2.1%	5.1%	4.1%	0.9%	0.0%	0.0%	-0.1%	-0.2%	0.3%	1.5%
Cons. Discr.	7.2%	0.5%	0.1%	4.4%	2.8%	0.5%	0.0%	-0.8%	-1.4%	-1.8%	1.1%	4.7%
Industrial	5.9%	0.1%	0.2%	3.5%	4.0%	5.9%	0.1%	0.2%	0.1%	-0.2%	0.7%	0.6%
Consumer Staples	4.8%	0.0%	2.1%	-1.4%	2.6%	3.1%	-0.3%	-0.5%	-1.4%	-1.2%	-0.2%	1.8%
Others	3.5%	3.4%	4.2%	3.8%	3.1%	4.2%	-0.2%	-0.4%	-1.6%	-1.5%	-1.6%	-0.4%

**Fund statistics**

Number of positions	36
Top10	48.0%
Top20	70.1%
Gross exposure	83.9%
Net exposure	83.9%
Concentration coefficient	33
Median market cap MEUR	1708
Average market cap MEUR	2688

**Style allocation**

	Change						Contribution analysis					
Cyclical	46.7%	2.2%	-2.2%	1.0%	7.9%	20.1%	-0.6%	-2.7%	-5.7%	-7.6%	5.4%	9.2%
Non-cyclical	22.0%	0.9%	4.7%	5.7%	3.9%	0.6%	-0.5%	-1.1%	-2.3%	-2.2%	1.1%	7.4%
Asset play	15.2%	0.6%	-0.7%	0.2%	-2.5%	-1.8%	-0.4%	-0.1%	0.8%	0.7%	3.2%	7.7%
Convertible bonds	0.0%	0.0%	0.0%	0.0%	0.0%	-13.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.8%
High yield bonds	0.0%	0.0%	0.0%	-2.6%	-5.8%	-1.6%	0.0%	0.0%	-0.1%	0.0%	1.1%	2.4%
FX Derivatives	0.0%	0.0%	0.0%	0.0%	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%
Cash	16.1%	-3.7%	-1.8%	-4.4%	-3.4%	-3.5%	0.0%	-0.2%	-0.4%	-0.3%	-0.5%	-0.5%

**Turnover**

		Adj*
FY 2017	28.5%	29.1%
FY 2016	17.7%	-13.0%
FY 2015	22.2%	-10.5%

\* Adjusted for fund flows

Liquidity analysis:		20%	50%
3 days	62.8%	72.4%	
2 weeks	76.7%	91.4%	
4 weeks	88.4%	96.0%	

\* 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>	UCITS V, public common investment fund
<b>Launch date</b>	April 23, 2007
<b>Domicile</b>	Estonia
<b>Currency</b>	EUR
<b>Dividends</b>	reinvested
<b>Fund size, MEUR</b>	60.9
<b>Total AUM, MEUR</b>	400+

**TER 2017** 0.39% (excluding management and performance fees)

	ISIN Code	WKN code	NAV 31-Oct 2018
A unit	EE3600090049	-	4.3911 EUR
B unit	EE3600090056	-	4.6743 EUR
C unit	EE3600102901	AOPEFO	15.8144 EUR
D unit	EE3600108866	A1W7PO	13.2216 EUR
E unit	EE3600108874	A113GN	13.2330 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, three stars (5 years)
<b>Tax transparency</b>	Germany, Switzerland
<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>	KPMG
<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>	-	500,000 EUR	500,000 EUR
<b>Front-end load</b>	2%	-	-
<b>Management fee</b>	2%	1.15%	0.85%
<b>Performance fee (unit based)</b>	-	-	15% over MSCI EFM EUROPE + CIS (E+C) ex RU 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 11 investment professionals, in Estonia and Poland, focus on active investment management. In total 17 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

Signatory of:



**RESPONSIBLE  
BUSINESS INDEX  
GOLD LEVEL 2019**

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