



## **Avaron Emerging Europe Fund**

**ANNUAL REPORT FOR THE FINANCIAL YEAR 2020**

**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 mnt 7d, 10117 Tallinn, Estonia Phone: +372 664 4200 Facsimile: +372 664 4201 E-mail: <a href="mailto:avaron@avaron.com">avaron@avaron.com</a> <a href="http://www.avaron.com">www.avaron.com</a>
Depository & Custody Bank	Swedbank AS (reg. no. 10060701)
Fund Administration (NAV calculation) & Transfer Agent services	Swedbank AS (reg. no. 10060701)
Auditor	KPMG Baltics OÜ (reg. no. 10096082)
Supervisor	Estonian Financial Supervision Authority
Investment Managers	Valdur Jaht, Peter Priisalm, Rain Leesi
Fund established	3 April 2007
Start of the Fund's activities	23 April 2007
Reporting period	1 January 2020–31 December 2020

## INVESTMENT MANAGERS' REPORT

### General Information

**Avaron Emerging Europe Fund (hereinafter: "the Fund") invests actively in listed equities of Emerging Europe ex-Russia region.** 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 Score, in-house ESG Score, liquidity and FX outlook.** By implementing our investment process we aim to outperform the market with lower volatility. The Fund typically invests in 30-45 regional companies, who generally demonstrate a competitive advantage or attractive risk/return features. It adheres to the UN Principles for Responsible Investment.

**The Fund is managed by AS Avaron Asset Management (hereinafter: "Avaron"), an independent investment management company established in 2007 and fully owned by employees.** Avaron's core activity involves investing the assets of our mutual funds and institutional investor managed accounts into Emerging Europe listed equities. We create additional value to our clients by applying active value investing principles while also adhering to the UN Principles of Responsible Investment. As at the end of 2020 Avaron managed 303 million euros of investor assets. The firm employs 18 investment and finance specialists. Avaron holds a licence from the Estonian Financial Supervision Authority to manage investment portfolios and funds.

The Fund is a UCITS-V fund and registered for public sale in Estonia, France, Germany, United Kingdom, Finland, Sweden, Norway, Latvia and Lithuania. The Fund's fund administration, custody services and transfer agent services are outsourced to Swedbank AS.

### Investment Philosophy: Value Investing, Stock-Picking and Responsible Investing

**Our investment philosophy is based on value investing principles.** Over time stock prices tend to over or underreact to market news and thus deviate from fundamental value of a company. In order to take advantage of such occurrences our portfolio construction is fully bottom-up, assessing every investment case on a standalone basis. Our idea generation is proprietary, driven predominantly by upside to internally set fair value targets. We tend to have long term holding periods but our upside oriented investment process also allows us to take advantage of short-term market volatility without losing focus of the underlying fundamental value of the company. We search for well managed companies with leading market positions, identifiable competitive advantage(s) and strong recurring revenue based business models that we understand and are able to model ourselves.

Within our investment process **we put strong emphasis on company quality that is assessed by using an internal Quality Score** focusing on management team and business model quality, and financial strength of the company. Besides conventional financial and non-financial aspects **we have integrated in-house ESG Score (environmental, social, governance) into our investment process leveraging upon our bottom-up regional expertise with an aim to identify material ESG risks and value creation opportunities.** Our investment team has been following vast majority of our current listed equity universe over a decade, which serves as an important strength in assessing the companies' future potential. In order to have an extensive knowledge base of the companies in our universe we have taken a strategic decision not to outsource ESG analysis to third party providers but rather to educate our research team and develop the knowhow in-house.

## Sustainability at Avaron

**Avaron as a company is committed to sustainable business practices, which are embedded into our corporate identity.** We review sustainability under the categories of People, Community, Environment and Investing. **Avaron as a company can leave the most significant footprint of its activities by investing into companies that follow ESG principles, i.e. care for the environment, pay attention to social aspects and follow corporate governance principles in their activities.** From our website's section [Responsible Investment](#) you can download our Responsible Investment Policy, Sustainability Report, UN PRI Transparency and Assessment Report, Voting Policy and Voting Records.

Since 2011 Avaron is signatory of the UN PRI ([www.unpri.org](http://www.unpri.org)) and we have implemented environmental, social and governance (ESG) factors into our quantitative and qualitative investment analysis and decision-making processes. We take an active approach to communicating our views to the companies we invest in and seek improvements where there are shortcomings in performance, or a company has failed to apply appropriate standards, or to provide adequate disclosure.

Since 2017 Avaron is a member of the Responsible Business Forum in Estonia, a non-profit organization with an aim to inspire and support furthering corporate social responsibility (CSR) in Estonian society through being the centre of competence building and communication on CSR. During 2019 we successfully completed the Estonian Responsible Business Index assessment and retained our gold level quality label for the following 2 years. This quality label is given to organizations that show high performance and systematic approach in responsible activities towards local community, environment, workplace and marketplace.

During 2021 as an UN PRI signatory **we continue to be committed to the responsible investment principles as we believe that these accompanied with our bottom-up stock picking approach will deliver solid risk adjusted returns.**

**We also continue to support the Carbon Disclosure Project (CDP) as a signatory.** CDP is one of the largest investor collaborations globally with combined \$106tr in assets, aiming to improve climate change, water usage and deforestation related disclosure, and risk management of publicly traded companies. Also, **our participation in Climate Action 100+ will continue.** It is a 5-year investor initiative launched in 2018 to engage with the world's largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change. Within the scope of the engagement we will focus on the companies that operate in Emerging Europe and we also participate as supporting investors in the UN PRI launched oil and gas specific working group.

During 2020 Christmas we made our annual donation, this time to the Estonian foundation [Kiusamisvaba Kool](#) Antbullying Program which educates and gives teachers materials and tools to create a bullying free school environment for kids in Estonia.

## Main Developments of 2020

In 2020 Emerging Europe equities (MSCI EFM EUROPE + CIS (E+C) ex Russia) lost 18.0% in €, having strongly underperformed Emerging Markets (+6.3% in €), Europe (-3.2% in €) and the global equity market index MSCI ACWI (+4.9% in €). Partially this can be explained by the high share of financials (35% in Emerging Europe vs. 13% in MSCI ACWI) and the poor performance of the latter amid fundamental uncertainties related to potential credit losses and low interest rate environment. Some of it has to do with the fact that investors perceive the region as a leveraged play on broader

Europe. Weak European economy has not done any favours to Emerging Europe either in attracting fund flows.

We maintain that such underperformance is unwarranted given the solid regional macroeconomic fundamentals of Emerging Europe. More so, the valuation of Emerging Europe is quite compelling compared to MSCI World. Our region is >2x cheaper on 2021-22 P/E and P/B basis, while delivering similar ROE and offering 60% higher dividend yield on expected 2021 payouts. We do not see any specific risks that would make Emerging Europe more vulnerable vis-à-vis the rest of emerging countries while Emerging Europe trades at nearly 80% higher dividend yield compared to global emerging markets, offering 33% discount on P/E and 51% discount on P/B basis while running similar ROEs.

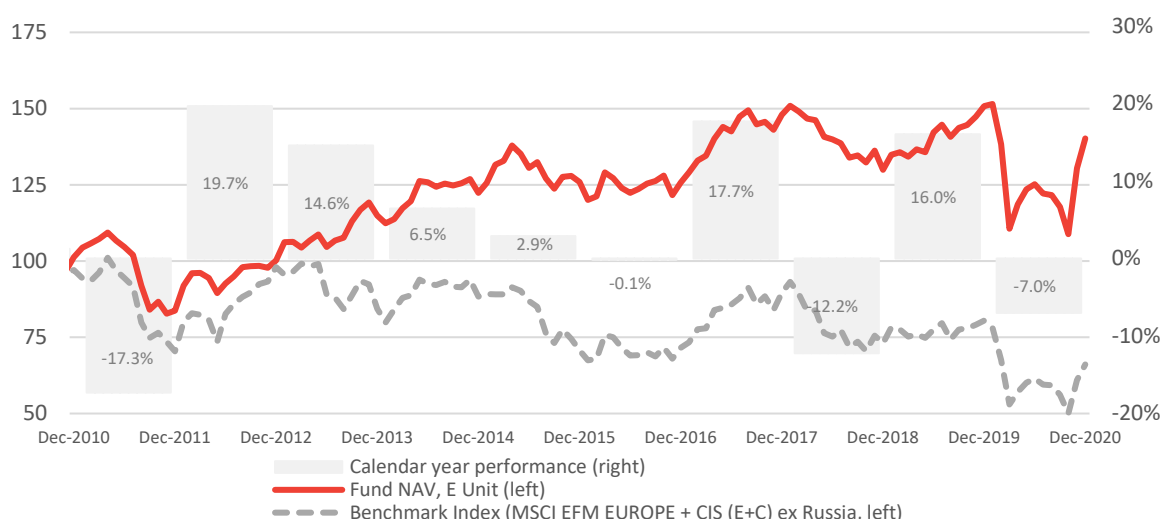
**In 2020 Avaron Emerging Europe Fund lost 5.5-7.0% (depending upon a share class), strongly outperforming the benchmark MSCI EFM Europe & CIS ex Russia Index (down 18.0%).** In 5 years, the Fund has delivered +11.4% return vs. -6.6% for the index, with lower volatility. The Fund’s five year alpha is 3.0%. Total net assets of the Fund decreased from €62.1 million to €49.6 million over the year.

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

	1 year	3 years	5 years	7 years	10 years
<b>A unit</b>	-6.1%	-5.4%	10.3%	23.7%	39.7%
<b>B unit</b>	-5.6%	-4.0%	13.3%	28.3%	47.2%
<b>C unit</b>	-5.5%	-3.8%	12.1%	24.9%	41.1%
<b>D unit</b>	-6.3%	-6.1%	8.9%	21.4%	35.0%
<b>E unit</b>	-7.0%	-5.2%	11.4%	22.1%	38.5%
<b>Index*</b>	-18.0%	-26.3%	-6.6%	-21.7%	-32.0%

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

**Graph 1.** Performance of Fund’s NAV vs. the market (2010-2020, E unit)

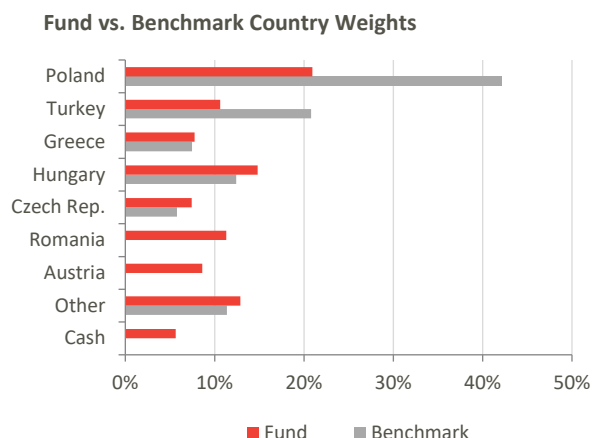


### Fund Positioning and Portfolio Valuation

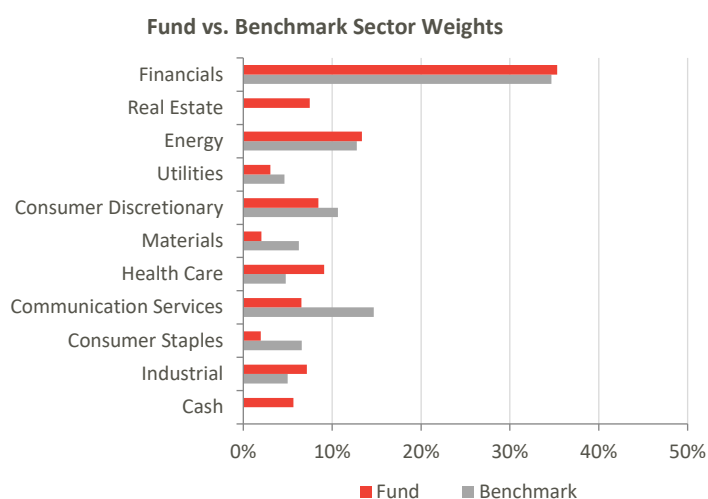
**As of end-2020 almost 75% of the Fund portfolio is invested in cyclical companies that are geared towards rebound following the pandemic recession.** We feel comfortable with this exposure despite uncertainties related to earnings’ outlook as the valuations of these companies are attractive in long-term perspective. Also, true to our investment style we have selected names with

strong balance sheets that should weather the storm in case the operating environment gets tougher. As company valuations in Emerging Europe have become compelling, the Fund’s cash level decreased from 12.3% to 5.6% in 2020. Fund’s assets are mainly invested in Polish, Hungarian and Romanian companies. Our portfolio construction process is benchmark agnostic and fully bottom-up. In comparison to the benchmark the Fund is currently overweight in Hungary and the Czech Republic and strongly underweight in Poland and Turkey, and has off-benchmark positions in Romania and Austria.

**Graph 2. Fund vs. Benchmark Country Weights**



**Graph 3. Fund vs. Benchmark Sector Weights**



**The aggregated Fund portfolio trades at 12.1x 1YR FWD P/E** compared to the historical median of 10.2. Our benchmark trades at 10.4x 1YR FWD P/E, some 14% below the Fund. This is driven by our lower exposure to Turkey that is trading at low multiples (1YR FWD P/E of 7.6) and rather optimistic consensus earnings outlook for 2021 in general. Our investment style favours companies with strong balance sheets and solid free cash flow generation. The aggregate net gearing of our portfolio companies stands at 30%, up 13ppt since end-February as companies have shored up available credit lines to assure adequate liquidity during the downturn. **We expect our portfolio companies to deliver 4%+ dividend yield based on 2021 earnings. Trailing P/B of the portfolio stands at 0.97.**

**Table 2.** Style Allocation of the Fund

	% of the Fund	P/E adj			EPS adj growth		EV/EBITDA		Div yield	P/NA	P/B
		12M	2020	2021	2020	2021	2020	2021	2019	12M	12M
Cyclical	67.1%	16.7	29.0	12.4	-73.8%	133.8%	8.4	5.0	2.0%	-	0.94
Non-cyclical	19.8%	10.9	11.4	11.0	3.4%	3.1%	5.5	5.5	3.9%	-	1.31
Asset play	7.5%	-	-	-	-	-	-	-	4.3%	0.63	0.68
Total equity	94.4%	14.9	21.4	12.1	-61.5%	77.7%	7.1	5.2	2.6%	-	0.97

**Coronavirus outbreak in 2020**

2020 will be remembered as the year of the Coronavirus (COVID-19). Almost catastrophic outbreak around the world, including Estonia, required governments to take drastic measures to keep the population healthy and the situation as under control as possible. This had a negative impact on the financial markets, which caused a decrease in the Fund's net asset value. In the second half of the year financial markets have rebounded from spring lows and the year ended on optimistic outlook on the future. Avaron took a cautious approach from day one to protect our people and mitigate risk to the Fund and our business. Avaron's Risk Committee has actively monitored the situation and set guidelines depending on the overall virus situation. Apart from some key investment team members and trading desk most of our employees have been working at home during peak periods of the pandemic (March-mid-May and from December till February) and contacts have been reduced to a minimum. All our systems have worked flawlessly, and our collective effort has ensured that Avaron continues to service our clients at the highest level.

31 March 2021

Kristel Kivinurm-Priisalm  
Member of the Management Board



## CONFIRMATION OF ANNUAL FINANCIAL STATEMENTS OF 2020

The Management Board of the Fund Management Company has prepared the annual Financial Statements of Avaron Emerging Europe Fund on 31 March 2021.

The Financial Statements have been prepared in compliance with the requirements stipulated in the the Regulation (EC) No 1606/2002 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.

<b>Name</b>	<b>Date</b>	<b>Signature</b>
<b>Kristel Kivinurm-Priisalm</b> Member of the Management Board of the Fund Management Company	31/03/2021	/Signed digitally/
<b>Valdur Jaht</b> Member of the Management Board of the Fund Management Company / Investment manager	31/03/2021	/Signed digitally/
<b>Peter Priisalm</b> Investment manager	31/03/2021	/Signed digitally/
<b>Rain Leesi</b> Investment manager	31/03/2021	/Signed digitally/

**FINANCIAL STATEMENTS****BALANCE SHEET**

In EUR

<b>ASSETS</b>	<b>Note</b>	<b>31/12/2020</b>	<b>31/12/2019</b>
Cash and cash equivalents	3	3,138,707	5,614,186
Term deposits	3	-	2,353,249
Financial assets at fair value through profit or loss:	4		
Shares and units		46,788,278	54,445,487
Receivables and prepayments	4; 6	41,717	-
<b>TOTAL ASSETS</b>		<b>49,968,702</b>	<b>62,412,922</b>
<b>LIABILITIES</b>			
Other financial liabilities			
Payables to the management company	4	355,754	244,316
Payables to the depository	4	25,588	18,807
Other liabilities	4	1,543	6,508
<b>TOTAL LIABILITIES</b>		<b>382,885</b>	<b>269,631</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS</b>		<b>49,585,817</b>	<b>62,143,291</b>

## STATEMENT OF INCOME AND EXPENSES

In EUR

	Note	01/01/2020- 31/12/2020	01/01/2019- 31/12/2019
<b>INCOME</b>			
<b>Interest income</b>		<b>4,381</b>	<b>10,031</b>
From deposits		4,381	10,031
 <b>Dividend income</b>		 <b>1,206,864</b>	 <b>2,694,327</b>
From shares and units		1,206,864	2,694,327
 <b>Net gain/loss from financial assets at fair value through profit or loss</b>		 <b>-1,708,174</b>	 <b>8,427,519</b>
From shares and units	5	-1,708,174	8,427,519
 <b>Net gain/loss from foreign exchange</b>		 <b>-3,373,188</b>	 <b>-1,116,347</b>
 <b>TOTAL INCOME</b>		<b>-3,870,117</b>	<b>10,015,530</b>
 <b>OPERATING EXPENSES</b>			
Management fees	7	458,775	575,806
Performance fees	7	905,715	199,265
Custodian fees		162,250	200,174
Transaction fees		3,962	2,689
Other operating expenses		57,394	31,968
 <b>TOTAL OPERATING EXPENSES</b>		<b>1,588,096</b>	<b>1,009,902</b>
 <b>NET INCOME</b>		 <b>-5,458,213</b>	 <b>9,005,628</b>

## STATEMENT OF CHANGES IN NET ASSETS

In EUR

	01/01/2020- 31/12/2020	01/01/2019- 31/12/2019	01/01/2018- 31/12/2018
<b>NET ASSET VALUE AT THE BEGINNING OF THE PERIOD</b>	<b>62,143,291</b>	<b>60,717,213</b>	<b>80,590,739</b>
Cash received for fund units issued	1,628,622	2,740,991	10,168,535
Cash paid for fund units redeemed	-8,727,883	-10,320,541	-20,469,580
Net result of the Fund	-5,458,213	9,005,628	-9,572,481
<b>NET ASSET VALUE AT THE END OF THE PERIOD</b>	<b>49,585,817</b>	<b>62,143,291</b>	<b>60,717,213</b>
<b>NUMBER OF THE UNITS IN CIRCULATION AT THE END OF REPORTING PERIOD</b>			
Number of A units in circulation:	105,574.204	111,057.906	129,724.290
Number of B units in circulation:	382,007.878	380,407.243	392,152.280
Number of C units in circulation:	87,219.871	186,783.533	73,821.470
Number of D units in circulation:	90,986.275	240,339.311	266,875.410
Number of E units in circulation:	3,167,682.019	3,490,404.384	4,137,796.120
<b>NET ASSET VALUE OF AN UNIT AT THE END OF REPORTING PERIOD</b>			
Net asset value of the A unit:	4.6612	4.9625	4.2984
Net asset value of the B unit:	5.0162	5.3135	4.5794
Net asset value of the C unit:	17.0075	17.9968	15.4949
Net asset value of the D unit:	13.9583	14.8972	12.9359
Net asset value of the E unit:	14.0242	15.0782	12.9943
<b>TOTAL NET ASSET VALUE OF THE FUND UNITS</b>			
Total net asset value of the A units:	492,104	551,126	557,602
Total net asset value of the B units:	1,916,220	2,021,299	1,795,812
Total net asset value of the C units:	1,483,396	3,361,506	1,143,860
Total net asset value of the D units:	1,270,016	3,580,380	3,452,279
Total net asset value of the E units:	44,424,081	52,628,980	53,767,660
<b>TOTAL NET ASSET VALUE</b>	<b>49,585,817</b>	<b>62,143,291</b>	<b>60,717,213</b>

**STATEMENT OF CASH FLOWS**

In EUR

	<b>01/01/2020- 31/12/2020</b>	<b>01/01/2019- 31/12/2019</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received	107	3,305
Dividends received	1,159,035	2,722,595
Net result from foreign exchange	-162,490	-40,594
Sale of investments	22,518,907	14,346,715
Purchase of investments	-17,421,620	-13,524,462
Operating expenses paid	-1,469,383	-821,718
	<b>4,624,556</b>	<b>2,685,841</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of units	1,628,622	2,740,991
Payments on redemption of units	-8,733,342	-10,315,700
	<b>-7,104,720</b>	<b>-7,574,709</b>
<b>TOTAL CASH FLOWS</b>	<b>-2,480,164</b>	<b>-4,888,868</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at the beginning of the period	5,614,186	10,522,718
Effect of exchange rate fluctuations on cash and cash equivalents	4,685	-19,664
<b>Cash and cash equivalents at the end of the period</b>	<b>3,138,707</b>	<b>5,614,186</b>

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED

The annual financial statements of Avaron Emerging Europe Fund for 2020 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 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:

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 3 "Business Combinations" (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IAS 1 and IAS 8: Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 16 Leases Covid-19 Related Rent Concessions (effective for annual periods beginning on or after 1 June 2020).

The adoption of these amendments to the existing standards has not led to any significant changes in the Fund's accounting policies.

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

At present EU has approved the following standards, amendments to the existing standards and interpretations, which were not yet applicable:

- Amendments to IFRS 4 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021),
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2021).

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

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

At present, the IFRS' as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except the following standards, amendments

to the existing standards and interpretations, which were not endorsed for use as at date of publication of the financial statements:

- IFRS 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 2023,
- Amendment to IFRS 3 “Business Combinations” (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 16 “Property, Plant and Equipment” (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” (effective for annual periods beginning on or after 1 January 2022),
- Annual Improvements 2018-2020 (effective for annual periods beginning on or after 1 January 2022),
- Amendments to IAS 1 “Presentation of Financial Statements” (effective for annual periods beginning on or after 1 January 2023),
- Amendments to IAS 8 “Accounting policies, Changes in Accounting Estimates and Errors” (effective for annual periods beginning on or after 1 January 2023).

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

### 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 depository for the funds managed by AS Avaron Asset Management on the transaction date (hereinafter referred to as the depository bid rate). This rate is based on market inputs. The assets and liabilities quoted in foreign currency are translated into EUR based on the depository bid rate applicable on the reporting 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 three categories in accordance to the principles of IFRS 9 taking into account the measurement:

1. amortised cost (AC);
2. fair value through other comprehensive income (FVOCI);
3. fair value through profit or loss (FVTPL).

The Fund does not hold financial assets measured at fair value through other comprehensive income.

### *Classification*

On initial recognition, the Fund classifies financial instruments at amortised cost or fair value through profit or loss. A financial instrument is measured at amortised cost if it is not designated as at FVTPL, it is held within a business model whose objective is to hold assets to collect contractual cash flows, and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI). The classification and subsequent measurement depend on the business model for managing the financial assets and the contractual cash flow characteristics. The classification of financial assets is determined at initial recognition. The Fund has determined the following business models for managing financial assets:

- Held-to-collect business model, which includes financial assets that are held to collect contractual cash flows.
- Other business model, where financial assets are not held within a business model whose objective is to hold assets to collect contractual cash flows. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent purchases and sales taking place.

### *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.

After initial recognition the financial assets and liabilities are measured at fair value in the category "At fair value through profit or loss" or at amortised cost. 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 reporting 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.
- The value of a listed debt security shall be determined on the basis of the last known market quote. Avaron will determine which of the following reflects best the last known market quote representing the fair value of a debt security on the valuation date: last traded price on the regulated market or multilateral trading facility; last reported traded price based on the source of the financial data vendor currently used; mid-market price on the regulated market or multilateral trading facility; bid price on the regulated market or multilateral trading facility; mid-market price provided by sources of the financial data vendor currently used; bid price provided by sources of the financial data vendor currently used. Should market quotes for an instrument not be available or in the opinion of Avaron do not represent the actual value of a listed debt security, its value will be determined on the basis of the yield curve method. If yield curve method cannot be used due to the absence of reliable data or its low sample size, the amortized cost method shall be used.
- 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.

### *Offsetting*

Financial assets and liabilities 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, safekeeping 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.

### 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.

## NOTE 2. RISK MANAGEMENT

### Short Overview of the Investment and Risk Management Techniques

Avaron focuses on Emerging Europe listed equity asset class with an objective to deliver positive risk adjusted return to our clients over the market cycle. This is achieved by constructing a portfolio of companies that maximises the aggregate upside to internally set target prices of individual companies in our investment universe taking into account the quality and ESG profile of a company, liquidity of an instrument and where relevant also FX outlook.

Our investment philosophy is based on value investing principles. Over time stock prices tend to over or underreact to market news and thus deviate from fundamental value of a company. In order to take advantage of such occurrences our portfolio construction is fully bottom-up, assessing every investment case on a standalone basis. Our idea generation is proprietary, driven predominantly by upside to internally set fair value targets. We tend to have long term holding periods but our upside oriented investment process also allows us to take advantage of short-term market volatility without losing focus of the underlying fundamental value of the company. We search for well managed companies with leading market positions, identifiable competitive advantage(s) and strong recurring revenue based business models that we understand and are able to model ourselves.

Within our investment process we put strong emphasis on company quality that is assessed by using an internal Quality Score focusing on management team and business model quality, and financial strength of the company. Besides conventional financial and non-financial aspects we have integrated ESG Score into our investment process leveraging upon our bottom-up regional expertise with an aim to identify material ESG risks and value creation opportunities. Our investment team has been following vast majority of our current listed equity universe over a decade, which serves as an important strength in assessing the companies' future potential. In order to have an extensive knowledge base of the companies in our universe we have taken a strategic decision not to outsource ESG analysis to third party providers but rather to educate our research team and add an ESG specific layer within our investment process.

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 Fund Manager's 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

### 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 (detailed overview regarding cash and cash equivalents and term deposits presented in Note 3):

	<b>31/12/2020</b>	<b>% of NAV</b>	<b>31/12/2019</b>	<b>% of NAV</b>
Cash and cash equivalents	3,138,707	6.33%	5,614,186	9.03%
Term deposits	-	-	2,353,249	3.79%
Receivables and prepayments	41,717	0.08%	-	-
<b>TOTAL</b>	<b>3,180,424</b>	<b>6.41%</b>	<b>7,967,435</b>	<b>12.82%</b>

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.

The Fund had no investments in bonds as at 31 December 2020 nor 31 December 2019.

The Fund's cash and cash equivalents are held with Fund's depository Swedbank AS, which parent company Swedbank AB is rated A+ as of 15/10/2020 by Standard & Poor's, with AS SEB Bank, which parent company Skandinaviska Enskilda Banken AB is rated A+ as of 03/09/2020 (Standard & Poor's) and with Luminor Bank AS, which is rated A- as of 25/09/2020 (Moody'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 analysis of aggregate ownership in share capital and free float. Regular liquidity stress tests are performed to assess the adequacy of the Fund's liquidity profile.

The Fund maintains a credit line of 6,000,000 EUR that can be accessed to meet short-term liquidity needs. These resources have not been used as of 31/12/2020.

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	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Payables to the management company	-	-	355,754	244,316	-	-
Payables to the depository	-	-	25,588	18,807	-	-
Payables for redeemed units	-	5,459	-	-	-	-
Other liabilities	-	-	-	-	1,543	1,049
<b>TOTAL</b>	-	<b>5,459</b>	<b>381,342</b>	<b>263,123</b>	<b>1,543</b>	<b>1,049</b>

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

Instrument	Country	Sector	% of NAV	
			31/12/2020	31/12/2019
OMV PETROM SA	Romania	Energy	7.27%	7.83%
KRKA	Slovenia	Health Care	5.57%	4.86%
ATRIUM EUROPEAN REAL ESTATE	Jersey	Real Estate	1.78%	-
TITAN CEMENT INTERNATIONAL SA	Belgium	Materials	1.55%	-
NOVA LJUBLJANSKA BANKA DD	Slovenia	Financials	1.47%	1.59%
TALLINK GRUPP AS	Estonia	Industrial	1.28%	1.34%
ARENA HOSPITALITY GROUP DD	Croatia	Consumer Discretionary	1.18%	1.04%
HRVATSKI TELEKOM DD	Croatia	Communication Services	1.12%	0.87%
TALLINNA SADAM AS	Estonia	Industrial	0.99%	1.05%
BULGARIA REAL ESTATE FUND	Bulgaria	Real Estate	0.97%	0.90%
SPHERA FRANCHISE GROUP SA	Romania	Consumer Discretionary	0.49%	0.50%
BRD-GROUPE SOCIETE GENERALE	Romania	Financials	-	4.53%
ANADOLU HAYAT EMEKLILIK	Turkey	Financials	-	1.87%
WIRTUALNA POLSKA HOLDING SA	Poland	Communication Services	-	1.05%
<b>TOTAL</b>			<b>23.67%</b>	<b>27.43%</b>

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

Instrument	Country	Sector	% of NAV	
			31/12/2020	31/12/2019
ARENA HOSPITALITY GROUP DD	Croatia	Consumer Discretionary	1.18%	1.04%
BULGARIA REAL ESTATE FUND	Bulgaria	Real Estate	0.97%	0.90%
OMV PETROM SA	Romania	Energy	-	7.83%
KRKA	Slovenia	Health Care	-	4.86%
ANADOLU HAYAT EMEKLILIK	Turkey	Financials	-	1.87%
NOVA LJUBLJANSKA BANKA DD	Slovenia	Financials	-	1.59%
TALLINK GRUPP AS	Estonia	Industrial	-	1.34%
SPHERA FRANCHISE GROUP SA	Romania	Consumer Discretionary	-	0.50%
<b>TOTAL</b>			<b>2.15%</b>	<b>19.93%</b>

**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**

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

	% of Fund's		% of Fund's	
	31/12/2020	assets	31/12/2019	assets
EUR	13,221,781	26.46%	17,606,598	28.21%
PLN	11,863,572	23.74%	12,797,731	20.50%
HUF	7,620,626	15.25%	3,646,216	5.84%
TRY	5,789,239	11.59%	9,473,773	15.18%
RON	5,603,561	11.21%	12,081,292	19.36%
CZK	3,686,559	7.38%	4,378,874	7.02%
HRK	1,136,848	2.28%	1,258,721	2.02%
GBP	531,648	1.06%	-	-
BGN	514,868	1.03%	1,169,717	1.87%
<b>TOTAL</b>	<b>49,968,702</b>	<b>100.00%</b>	<b>62,412,922</b>	<b>100.00%</b>

**Currency risk sensitivity analysis**

Fund's net asset value would have been affected by the weakening of foreign currencies against EUR on 31 December 2020. The sensitivity analysis assumes the weakening of foreign currency rates against EUR in the magnitude of the change from the higher to lower value from 2007 onwards. The analysis assumes that all the other variables remain constant. Analysis for 31 December 2019 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:

	31/12/2020			31/12/2019		
	Currency wakening	Possible impact	Currency's % of NAV	Currency wakening	Possible impact	Currency's % of NAV
TRY	-84%	-4,845,197	11.68%	-80%	-7,563,168	15.25%
PLN	-35%	-4,180,045	23.96%	-35%	-4,502,360	20.59%
HUF	-38%	-2,925,404	15.37%	-32%	-1,183,028	5.87%
RON	-36%	-2,031,792	11.30%	-35%	-4,260,225	19.44%
CZK	-23%	-837,086	7.43%	-23%	-994,286	7.05%
GBP	-33%	-177,216	1.07%	-	-	-
HRK	-13%	-147,694	2.29%	-13%	-163,528	2.03%
BGN	-8%	-42,674	1.04%	-8%	-96,951	1.88%
<b>TOTAL</b>		<b>-15,187,108</b>	<b>74.14%</b>		<b>-18,763,546</b>	<b>72.11%</b>

**Instrument's price risk**

Price risk is closely related to market risk but mainly affects a specific security or investment. Price risk is the risk of suffering losses due to adverse price movements of a specific stock or another

investment. The price of 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:

	<b>31/12/2020</b>	<b>% of NAV</b>	<b>31/12/2019</b>	<b>% of NAV</b>
Financials	17,506,136	35.29%	19,031,851	30.63%
Energy	6,610,274	13.33%	5,531,619	8.90%
Health Care	4,503,019	9.08%	6,237,932	10.04%
Consumer Discretionary	4,191,898	8.46%	4,725,454	7.60%
Real Estate	3,702,571	7.47%	4,943,912	7.95%
Industrial	3,549,992	7.16%	2,928,521	4.71%
Communication Services	3,246,716	6.55%	3,710,535	5.97%
Utilities	1,504,375	3.04%	2,827,109	4.55%
Materials	1,001,493	2.02%	-	-
Consumer Staples	971,804	1.96%	4,087,428	6.58%
IT	-	-	421,126	0.68%
<b>TOTAL</b>	<b>46,788,278</b>	<b>94.36%</b>	<b>54,445,487</b>	<b>87.61%</b>

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

	<b>31/12/2020</b>	<b>% of NAV</b>	<b>31/12/2019</b>	<b>% of NAV</b>
Poland	10,389,184	20.95%	11,687,433	18.80%
Hungary	7,353,517	14.82%	3,219,603	5.18%
Romania	5,603,561	11.31%	9,283,463	14.94%
Turkey	5,267,864	10.62%	9,472,992	15.26%
Czech Rep.	3,686,559	7.44%	4,378,874	7.05%
Slovenia	3,637,806	7.33%	4,200,065	6.76%
Austria	3,390,085	6.83%	3,253,098	5.23%
Greece	2,837,648	5.72%	1,264,138	2.03%
Croatia	1,136,848	2.30%	1,188,315	1.91%
Estonia	1,123,747	2.27%	1,485,694	2.39%
Belgium	1,001,493	2.02%	-	-
Jersey	880,332	1.78%	1,833,434	2.95%
Bulgaria	479,634	0.97%	562,140	0.90%
Luxembourg	-	-	1,061,748	1.71%
Portugal	-	-	1,554,490	2.50%
<b>TOTAL</b>	<b>46,788,278</b>	<b>94.36%</b>	<b>54,445,487</b>	<b>87.61%</b>

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

Sensitivity analysis is based on standard deviation of the Fund since launch, whereas the Fund's risk profile has been calculated based on normal distribution. The analysis assumes that all the other variables remain constant. Analysis as per 31 December 2019 has been made with using the same assumptions.

	<b>probability</b>	<b>+/- possible change of Fund's NAV during year</b>	
		<b>2020</b>	<b>2019</b>
$\sigma$	68.27%	13.70%	12.72%
$2\sigma$	95.45%	27.40%	25.43%
$3\sigma$	99.73%	41.10%	38.15%

**NOTE 3. CASH AND CASH EQUIVALENTS**

Deposits in EUR

	<b>31/12/2020</b>	<b>% of NAV</b>	<b>31/12/2019</b>	<b>% of NAV</b>
Deposits, Luminor Bank AS	-	-	2,350,000	3.79%
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>2,350,000</b>	<b>3.79%</b>

\* "Term deposits" in balance sheet include also accrued interest (2019: 3,249.18 EUR). Previous period deposits' maturity is 6-12 months and interest rates vary from 0.25-0.60%.

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

	<b>31/12/2020</b>	<b>% of NAV, converted into EUR</b>	<b>31/12/2019</b>	<b>% of NAV, converted into EUR</b>
<b>Swedbank AS</b>		<b>5.91%</b>		<b>7.26%</b>
PLN	6,729,107	2.97%	206,696	0.08%
EUR	635,899	1.28%	557,249	0.90%
TRY	4,737,372	1.05%	5,211	0.00%
HUF	96,912,208	0.54%	141,302,746	0.69%
BGN	68,915	0.07%	1,188,360	0.98%
RON	-	-	13,403,838	4.50%
HRK	-	-	524,374	0.11%
<b>AS SEB Pank</b>		<b>0.41%</b>		<b>0.47%</b>
EUR	201,043	0.41%	294,997	0.47%
<b>Luminor Bank AS</b>		<b>0.01%</b>		<b>1.30%</b>
EUR	3,659	0.01%	810,184	1.30%
<b>TOTAL</b>		<b>6.33%</b>		<b>9.03%</b>

The Fund's cash and cash equivalents are held with Fund's depository Swedbank AS, which parent company Swedbank AB is rated A+ as of 15/10/2020 by Standard & Poor's, with AS SEB Bank, which parent company Skandinaviska Enskilda Banken AB is rated A+ as of 03/09/2020 (Standard & Poor's) and with Luminor Bank AS, which is rated A- as of 25/09/2020 (Moody's).



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

In EUR  
31/12/2020

ASSETS	Measured at fair value through profit or loss			Financial assets at amortised cost			Financial liabilities at amortised cost		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and cash equivalents	-	-	-	3,138,707	-	-	-	-	-
Shares and units	46,788,278	-	-	-	-	-	-	-	-
Dividend receivable	-	-	-	-	41,717	-	-	-	-
<b>LIABILITIES</b>									
Payables to the management company	-	-	-	-	-	-	-	355,754	-
Payables to the depository	-	-	-	-	-	-	-	25,588	-
Other liabilities*	-	-	-	-	-	-	-	1,543	-
<b>TOTAL</b>	<b>46,788,278</b>	<b>-</b>	<b>-</b>	<b>3,138,707</b>	<b>41,717</b>	<b>-</b>	<b>-</b>	<b>382,885</b>	<b>-</b>

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

According to the estimates of the Fund Management Company the carrying value of financial assets and liabilities at amortised cost 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  
31/12/2019

ASSETS	Measured at fair value through profit or loss			Financial assets at amortised cost			Financial liabilities at amortised cost		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Cash and cash equivalents	-	-	-	5,614,186	-	-	-	-	-
Term deposits	-	-	-	2,353,249	-	-	-	-	-
Shares and units	54,445,487	-	-	-	-	-	-	-	-
<b>LIABILITIES</b>									
Payables to the management company	-	-	-	-	-	-	-	244,316	-
Payables to the depository	-	-	-	-	-	-	-	18,807	-
Payments on redemption of units*	-	-	-	-	-	-	-	5,459	-
Other liabilities*	-	-	-	-	-	-	-	1,049	-
<b>TOTAL</b>	<b>54,445,487</b>	-	-	<b>7,967,435</b>	-	-	-	<b>269,631</b>	-

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

According to the estimates of the Fund Management Company the carrying value of financial assets and liabilities at amortised cost 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

	01/01/2020- 31/12/2020	01/01/2019- 31/12/2019
<b>Net gain/loss from financial assets at fair value through profit or loss</b>		
<b>From shares and units</b>		
Sales profit/(-loss)	3,903,011	1,255,582
Unrealised profit /(-loss)	-5,611,185	7,171,937
<b>Total net gain/(-loss )</b>	<b>-1,708,174</b>	<b>8,427,519</b>

## NOTE 6. RECEIVABLES AND PREPAYMENTS

In EUR

	31/12/2020	31/12/2019
Dividend receivable	41,717	-
<b>TOTAL</b>	<b>41,717</b>	<b>-</b>

## NOTE 7. 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:

	01/01/2020- 31/12/2020	01/01/2019- 31/12/2019
<b>Fund Management Company</b>		
Paid management and performance fees	1,364,490	775,071
<b>TOTAL</b>	<b>1,364,490</b>	<b>775,071</b>

The balances outstanding with related parties were as follows in EUR:

	31/12/2020	31/12/2019
<b>Fund Management Company</b>		
Management and performance fee payable	355,754	244,316

The market value of Avaron Emerging Europe Fund units owned by the shareholders of the Fund Management Company amounted to 49,245 EUR as of 31/12/2020 (31/12/2019: 52,164 EUR).

## NOTE 8. 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	2.21%	2.21%
B units	1.71%	1.71%
C units	1.61%	1.61%
D units	2.46%	2.46%
E units	1.31%	3.18%

### 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 33.8% in 2020 (12.4% in 2019).

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

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 31/12/2020

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
<b>SHARES</b>										
<b>SHARES LISTED ON STOCK EXCHANGE:</b>										
OMV PETROM SA	ROSPPACNOR9	RO			RON	0.06	2,873,453	0.07	3,605,289	7.27%
BANK PEKAO SA	PLPEKAO00016	PL	S&P	BBB+	PLN	23.29	5,247,432	13.39	3,016,886	6.08%
POWSZECHNY ZAKLAD UBEZP SHARE KRKA	PLPZU0000011	PL	S&P	A-	PLN	8.44	3,570,753	7.09	2,999,185	6.05%
MOL HUNGARIAN OIL AND GAS PLC	SI0031102120	SI			EUR	58.17	1,758,802	91.40	2,763,388	5.57%
KOMERCNI BANKA	HU0000153937	HU	S&P	BBB-	HUF	6.33	2,340,842	6.04	2,232,393	4.50%
OTP BANK SHARE	CZ0008019106	CZ	S&P	A	CZK	33.34	2,907,658	25.02	2,182,184	4.40%
BRD-GROUPE SOCIETE GENERALE	HU0000061726	HU	S&P	BBB	HUF	27.52	1,588,019	36.82	2,124,670	4.28%
RICHTER GEDEON NYRT	ROBRDBACNOR2	RO	Fitch	BBB+	RON	2.25	1,293,732	3.05	1,756,972	3.55%
CESKE ENERGETICKE ZAVODY AS	HU0000123096	HU			HUF	15.63	1,325,954	20.51	1,739,631	3.51%
IMMOFINANZ AG	CZ0005112300	CZ	S&P	A-	CZK	22.29	1,709,505	19.62	1,504,375	3.04%
PKO BANK POLSKI	AT0000A21KS2	AT	S&P	BBB-	EUR	18.58	1,516,782	16.97	1,385,176	2.79%
MAGYAR TELEKOM RT	PLPKO0000016	PL	Moody's	A	PLN	8.61	1,844,729	6.29	1,347,738	2.72%
TOFAS TURK OTOMOBIL FABRIKA	HU0000073507	HU			HUF	1.07	1,280,057	1.05	1,256,823	2.53%
TAV HAVALIMANLARI HOLDING	TRATOASO91H3	TR			TRY	4.08	1,355,256	3.73	1,239,387	2.50%
ERSTE GROUP BANK AG	TRETAVH00018	TR			TRY	2.18	1,056,232	2.34	1,137,653	2.29%
CYFROWY POLSAT SA	AT0000652011	AT	S&P	A	EUR	24.83	1,042,716	24.94	1,047,480	2.11%
JUMBO SA	PLCFRPT00013	PL	S&P	BB+	PLN	5.68	886,315	6.63	1,034,987	2.09%
MYTILINEOS SA	GRS282183003	GR			EUR	14.73	1,054,351	14.21	1,017,408	2.05%
CA IMMOBILIEN ANLAGEN AG	GRS393503008	GR	S&P	BB-	EUR	5.72	463,387	11.90	963,900	1.95%
ATRIUM EUROPEAN REAL ESTATE	AT0000641352	AT			EUR	28.69	876,105	31.35	957,429	1.93%
TUPRAS-TURKIYE PETROL RAFINIER	JE00B3DCF752	JE			EUR	3.88	1,363,396	2.51	880,332	1.78%
TITAN CEMENT INTERNATIONAL SA	TRATUPRS91E8	TR	Fitch	B+	TRY	15.45	1,004,355	11.89	772,592	1.56%
NOVA LJUBLJANSKA BANKA DD	BE0974338700	BE	S&P	BB	EUR	11.25	623,222	13.86	767,913	1.55%
TALLINK GRUPP AS	SI0021117344	SI	S&P	BBB-	EUR	52.49	837,125	45.80	730,418	1.47%
ARENA HOSPITALITY GROUP DD	EE3100004466	EE			EUR	0.97	828,579	0.74	631,892	1.28%
WARSAW STOCK EXCHANGE	HRARNTRA0004	HR			HRK	57.97	755,350	44.77	583,285	1.18%
HACI OMER SABANCI HOLDING AS	PLGPW0000017	PL			PLN	9.33	540,816	10.01	580,562	1.17%
KORDSA GLOBAL ENDUSTRIYEL IP	TRASAHOL91Q5	TR			TRY	0.88	398,043	1.26	567,558	1.14%
HRVATSKI TELEKOM DD	TRAKORDS91B2	TR			TRY	1.84	605,665	1.71	564,751	1.14%
MAVI GIYIM SANAYI VE TICARET A	HRHT00RA0005	HR			HRK	18.79	432,588	24.04	553,563	1.12%
COCA-COLA HBC AG	TREMAVI00037	TR			TRY	4.97	472,166	5.74	545,767	1.10%
	CH0198251305	GR	S&P	BBB+	GBP	19.68	393,574	26.58	531,648	1.07%

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31. 03. 2021

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**Statement of investments as of 31/12/2020 (continued)**

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
TALLINNA SADAM AS	EE3100021635	EE			EUR	1.7	464,530	1.80	491,855	0.99%
BANK HANDLOWY W WARSZAWIE	PLBH00000012	PL	Fitch	A-	PLN	16.14	1,007,848	7.70	481,010	0.97%
BIM BIRLESIK MAGAZALAR AS	TREBIMM00018	TR			TRY	6.08	322,185	8.31	440,156	0.89%
WIRTUALNA POLSKA HOLDING SA	PLWRTPL00027	PL			PLN	11.53	227,023	20.38	401,343	0.81%
SANTANDER BANK POLSKA SA	PLBZ00000044	PL	Fitch	BBB+	PLN	72.37	689,912	40.69	387,879	0.78%
AEGEAN AIRLINES S.A.	GRS495003006	GR			EUR	7.92	499,195	5.15	324,692	0.65%
SPHERA FRANCHISE GROUP SA	ROSFGPACNOR4	RO			RON	6.64	530,420	3.02	241,300	0.49%
TITAN CEMENT INTERNATIONAL GRE	BE0974338700	BE	S&P	BB	EUR	11.69	198,761	13.74	233,580	0.47%
NOVA LJUBLJANSKA BANKA GDR	US66980N2036	SI	S&P	BBB-	EUR	12.17	194,678	9.00	144,000	0.29%
ALIOR BANK SA	PLALIOR00045	PL	S&P	BB	PLN	11.78	442,158	3.72	139,594	0.28%
<b>SHARES TOTAL</b>							<b>48,823,667</b>		<b>46,308,644</b>	<b>93.39%</b>

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
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**FUNDS:**

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

BULGARIA REAL ESTATE FUND	BG1100001053	BG	REAL ESTATE MANAGEMENT LTD	BGN	0.82	454,009	0.86	479,634	0.97%	
<b>CLOSED-END FUNDS TOTAL</b>							<b>454,009</b>		<b>479,634</b>	<b>0.97%</b>

<b>SHARES AND FUNDS TOTAL</b>							<b>49,277,676</b>		<b>46,788,278</b>	<b>94.36%</b>
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**Statement of investments as of 31/12/2020 (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
<b>CASH</b>										
CURRENT ACCOUNT		EE	Swedbank	PLN			1,474,388		1,474,388	2.97%
CURRENT ACCOUNT		EE	Swedbank	EUR			635,899		635,899	1.28%
CURRENT ACCOUNT		EE	Swedbank	TRY			521,375		521,375	1.05%
CURRENT ACCOUNT		EE	Swedbank	HUF			267,109		267,109	0.54%
CURRENT ACCOUNT		EE	SEB	EUR			201,043		201,043	0.41%
CURRENT ACCOUNT		EE	Swedbank	BGN			35,234		35,234	0.07%
CURRENT ACCOUNT		EE	Luminor	EUR			3,659		3,659	0.01%
<b>CURRENT ACCOUNT TOTAL</b>							<b>3,138,707</b>		<b>3,138,707</b>	<b>6.33%</b>
<b>INVESTMENTS TOTAL</b>							<b>53,616,383</b>		<b>49,926,985</b>	<b>100.69%</b>
<b>OTHER ASSETS</b>										
DIVIDEND RECEIVABLE				EUR					41,717	0.08%
<b>OTHER ASSETS TOTAL</b>									<b>41,717</b>	<b>0.08%</b>
<b>TOTAL ASSETS OF THE FUND</b>							<b>53,616,383</b>		<b>49,968,702</b>	<b>100.77%</b>
LIABILITIES									-382,885	-0.77%
<b>NET ASSETS OF THE FUND</b>									<b>49,585,817</b>	<b>100.00%</b>

31.03.2021

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Avaron Emerging Europe Fund

In EUR as of 31/12/2019

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
<b>SHARES</b>										
<b>SHARES LISTED ON STOCK EXCHANGE:</b>										
OMV PETROM SA	ROSNPPACNOR9	RO			RON	0.06	2,977,090	0.09	4,866,551	7.83%
RICHTER GEDEON NYRT	HU0000123096	HU			HUF	16.61	2,761,218	19.37	3,219,603	5.18%
BANK PEKAO SA	PLPEKAO00016	PL	S&P	BBB+	PLN	30.00	4,000,809	23.59	3,146,359	5.06%
KRKA	SI0031102120	SI			EUR	59.27	2,443,758	73.20	3,018,329	4.86%
KOMERCNI BANKA	CZ0008019106	CZ	S&P	A	CZK	33.34	2,907,658	32.60	2,843,064	4.58%
BRD-GROUPE SOCIETE GENERALE	ROBRDBACNOR2	RO	Fitch	BBB+	RON	2.17	1,847,113	3.31	2,812,070	4.53%
IMMOFINANZ AG	AT0000A21KS2	AT	S&P	BBB-	EUR	18.39	1,961,233	23.90	2,548,338	4.10%
POWSZECHNY ZAKLAD UBEZP SHARE	PLPZU0000011	PL	S&P	A-	PLN	10.02	2,625,850	9.40	2,463,442	3.96%
ATRIUM EUROPEAN REAL ESTATE	JE00B3DCF752	JE	S&P	BBB-	EUR	3.85	2,043,639	3.45	1,833,434	2.95%
TOFAS TURK OTOMOBIL FABRIKA	TRATOASO91H3	TR			TRY	4.43	2,016,161	4.03	1,831,455	2.95%
PKO BANK POLSKI	PLPKO0000016	PL			PLN	8.61	1,844,729	8.09	1,733,555	2.79%
JERONIMO MARTINS SGPS SA	PTJMT0AE0001	PT			EUR	13.07	1,385,925	14.67	1,554,490	2.50%
CESKE ENERGETICKE ZAVODY AS	CZ0005112300	CZ	S&P	A-	CZK	22.29	1,709,505	20.03	1,535,810	2.47%
CYFROWY POLSAT SA	PLCFRPT00013	PL	S&P	BB+	PLN	5.68	1,261,028	6.56	1,456,917	2.34%
COCA-COLA ICECEK AS	TRECOLA00011	TR	Fitch	BB	TRY	8.47	1,924,317	5.80	1,318,282	2.12%
SC FONDUL PROPRIETATEA SA	ROFPTAACNOR5	RO			RON	0.19	983,832	0.25	1,291,299	2.08%
BIM BIRLESIK MAGAZALAR AS	TREBIMM00018	TR			TRY	7.16	1,244,334	6.99	1,214,656	1.96%
ANADOLU HAYAT EMEKLILIK	TRAANHYT91O3	TR			TRY	1.51	1,705,335	1.03	1,159,284	1.87%
PLAY COMMUNICATIONS SA	LU1642887738	LU			PLN	8.52	1,100,706	8.22	1,061,748	1.71%
NOVA LJUBLJANSKA BANKA DD	SI0021117344	SI	S&P	BBB-	EUR	52.49	837,125	62.00	988,776	1.59%
TURK TRAKTOR VE ZIRAAT MAKIN	TRETRRK00010	TR			TRY	6.20	681,945	8.30	913,232	1.47%
TALLINK GRUPP AS	EE3100004466	EE			EUR	0.97	828,579	0.98	835,674	1.34%
BANK HANDLOWY W WARSZAWIE	PLBH00000012	PL	Fitch	A-	PLN	16.14	1,007,848	12.17	759,905	1.22%
TURKIYE GARANTI BANKASI	TRAGARAN91N1	TR	Fitch	B+	TRY	1.31	591,250	1.67	751,236	1.21%
JUMBO SA	GRS282183003	GR			EUR	14.82	586,704	18.55	734,543	1.18%
ERSTE GROUP BANK AG	AT0000652011	AT	S&P	A	EUR	28.44	597,206	33.56	704,760	1.13%
SANTANDER BANK POLSKA SA	PLBZ00000044	PL	Fitch	BBB+	PLN	72.37	689,912	72.20	688,318	1.11%
TUPRAS-TURKIYE PETROL RAFINIER	TRATUPRS91E8	TR	Fitch	BB-	TRY	18.99	664,534	19.00	665,068	1.07%
WIRTUALNA POLSKA HOLDING SA	PLWRTPL00027	PL			PLN	11.37	451,442	16.40	650,815	1.05%
TALLINNA SADAM AS	EE3100021635	EE			EUR	1.70	556,692	1.99	650,020	1.05%
ARENA HOSPITALITY GROUP DD	HRARNTRA0004	HR			HRK	57.97	755,350	49.68	647,260	1.04%
KORDSA GLOBAL ENDUSTRIYEL IP	TRAKORDS91B2	TR			TRY	1.84	605,665	1.96	646,845	1.04%
HRVATSKI TELEKOM DD	HRHT00RA0005	HR			HRK	18.79	432,588	23.50	541,055	0.87%
WARSAW STOCK EXCHANGE	PLGPW0000017	PL			PLN	9.33	540,816	9.23	535,213	0.86%
AEGEAN AIRLINES S.A.	GRS495003006	GR			EUR	7.92	499,195	8.40	529,595	0.85%
LOGO YAZILIM SANAYI VE TICAR	TRALOGOW91U2	TR			TRY	14.25	658,464	9.11	421,126	0.68%
SPHERA FRANCHISE GROUP SA	ROSGFPACNOR4	RO			RON	6.64	530,420	3.92	313,543	0.50%
BRISA BRIDGESTONE SABANCI	TRABRISA91E3	TR			TRY	0.96	191,712	1.43	285,183	0.46%
FORD OTOMOTIV SANAYI AS	TRAOTOSN91H6	TR			TRY	7.83	196,693	10.62	266,625	0.43%
ALIOR BANK SA	PLALIOR00045	PL	S&P	BB	PLN	11.78	442,158	6.74	252,909	0.41%
NOVA LJUBLJANSKA BANKA GDR	US66980N2036	SI	S&P	BBB-	EUR	12.17	194,678	12.06	192,960	0.31%
<b>SHARES TOTAL</b>						<b>51,285,214</b>	<b>53,883,347</b>	<b>86.71%</b>		



Statement of investments as of 31/12/2019 (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
<b>FUNDS:</b>									
<b>CLOSED-END FUNDS LISTED ON STOCK EXCHANGE:</b>									
BULGARIA REAL ESTATE FUND	BG1100001053	BG	REAL ESTATE MANAGEMENT LTD	BGN	0.82	454,113	1.01	562,140	0.90%
<b>CLOSED-END FUNDS TOTAL</b>						<b>454,113</b>		<b>562,140</b>	<b>0.90%</b>
<b>SHARES AND FUNDS TOTAL</b>						<b>51,739,327</b>		<b>54,445,487</b>	<b>87.61%</b>

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
<b>DEPOSITS*</b>											
Luminor Bank AS	Deposit	EE	Moody's	A- (Luminor Bank AS)	EUR	0.4000%	07/10/2019	07/10/2020	900,000	900,860	1.45%
Luminor Bank AS	Deposit	EE	Moody's	A- (Luminor Bank AS)	EUR	0.2500%	07/10/2019	07/04/2020	900,000	900,537	1.45%
Luminor Bank AS	Deposit	EE	Moody's	A- (Luminor Bank AS)	EUR	0.6000%	12/08/2019	12/08/2020	300,000	300,710	0.48%
Luminor Bank AS	Deposit	EE	Moody's	A- (Luminor Bank AS)	EUR	0.6000%	02/04/2019	02/04/2020	250,000	251,142	0.41%
<b>DEPOSITS TOTAL</b>									<b>2,350,000</b>	<b>2,353,249</b>	<b>3.79%</b>

\*Accrued interest in the amount of 3,249.18 EUR has been added to the value of deposits

**Statement of investments as of 31/12/2019 (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
<b>CASH</b>										
CURRENT ACCOUNT		EE	Swedbank	RON			2,797,829		2,797,829	4.50%
CURRENT ACCOUNT		EE	Luminor	EUR			810,184		810,184	1.30%
CURRENT ACCOUNT		EE	Swedbank	BGN			607,577		607,577	0.98%
CURRENT ACCOUNT		EE	Swedbank	EUR			557,249		557,249	0.90%
CURRENT ACCOUNT		EE	Swedbank	HUF			426,613		426,613	0.69%
CURRENT ACCOUNT		EE	SEB	EUR			294,997		294,997	0.47%
CURRENT ACCOUNT		EE	Swedbank	HRK			70,406		70,406	0.11%
CURRENT ACCOUNT		EE	Swedbank	PLN			48,550		48,550	0.08%
CURRENT ACCOUNT		EE	Swedbank	TRY			781		781	0.00%
<b>CURRENT ACCOUNT TOTAL</b>							<b>5,614,186</b>		<b>5,614,186</b>	<b>9.03%</b>
<b>DEPOSITS AND CASH TOTAL</b>							<b>7,964,186</b>		<b>7,967,435</b>	<b>12.82%</b>
<b>INVESTMENTS TOTAL</b>							<b>59,703,513</b>		<b>62,412,922</b>	<b>100.43%</b>
<b>TOTAL ASSETS OF THE FUND</b>							<b>59,703,513</b>		<b>62,412,922</b>	<b>100.43%</b>
LIABILITIES									-269,631	-0.43%
<b>NET ASSETS OF THE FUND</b>									<b>62,143,291</b>	<b>100.00%</b>

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31. 03. 2021

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**STATEMENT OF COMMISSIONS**

In EUR

01/01/2020-31/12/2020

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
<b>Regulated securities market transactions*</b>				
<b>Shares</b>				
Patria Finance A.S.	24	7,163,367	3,939	0.05%
Santander Biuro Maklerskie	14	6,252,764	3,940	0.06%
Erste Group Bank AG	23	4,951,372	5,375	0.11%
Wood and Company Financial Services a.s.	16	2,802,971	2,594	0.09%
Raiffeisen Centrobank AG	4	866,988	1,302	0.15%
Eurobank Equities Investment Firm S.A	4	651,251	651	0.10%
Interkapital vrijednosni papiri d.o.o. (BT Capital)	1	561,349	900	0.16%
Swiss Capital S.A.	1	86,873	200	0.23%
AS SEB Pank	1	53,510	80	0.15%
<b>Third country securities market transactions</b>				
<b>Shares</b>				
OYAK Yatirim Menkul Degerler A.S.	25	5,548,371	2,778	0.05%
TEB Yatirim Menkul Degerler A.S.	34	4,969,626	3,736	0.08%
<b>OTC trades</b>				
<b>Shares</b>				
Avaron Flexible Strategies Fund	1	48,803	-	-
<b>Tender offer</b>	1	390,599	704	0.18%
<b>TOTAL</b>	<b>149</b>	<b>34,347,844</b>	<b>26,199</b>	<b>0.08%</b>

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

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
<b>Regulated securities market transactions*</b>				
<b>Shares</b>				
Erste Group Bank AG	10	4,638,815	7,705	0.17%
Santander Biuro Maklerskie	9	2,298,934	1,379	0.06%
Wood and Company Financial Services a.s.	16	1,942,008	1,723	0.09%
Swiss Capital S.A.	2	709,705	1,464	0.21%
Patria Finance A.S.	10	637,435	356	0.06%
PKO Bank Polski	1	489,634	489	0.10%
AS SEB Pank	4	252,165	379	0.15%
AS LHV PANK	2	32,473	33	0.10%
Raiffeisen CAPITAL a.d. Banjaluka	1	24,351	172	0.70%
<b>Funds</b>				
First Financial Brokerage House	3	172,851	695	0.40%
<b>Third country securities market transactions</b>				
<b>Shares</b>				
BGC Partners Turkey	15	3,440,179	2,065	0.06%
OYAK Yatirim Menkul Degerler A.S.	8	1,639,510	819	0.05%
Is Yatirim Menkul Degerler A.S.	4	782,961	391	0.05%
<b>OTC trades</b>				
<b>Stock dividend</b>	1	-	-	-
<b>TOTAL</b>	<b>86</b>	<b>17,061,021</b>	<b>17,670</b>	<b>0.10%</b>

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

## REPORT ON REMUNERATION OF THE FUND MANAGEMENT COMPANY

The remuneration principles of all Avaron employees including investment managers and risk-takers are set in the Company's Remuneration Policy. The remuneration of Avaron employees 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 employees receive a fixed salary, which reflects relevant professional experience and organisational responsibility as set out in the employee's job description. Variable remuneration depends on the performance of the employee, the business unit concerned and Avaron's overall results. The assessment of the performance is set in a three-year framework, to ensure, that the assessment process is based on longer-term performance taking into account the business cycle of the Company and its business risks. After awarding a bonus to the 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. The full Remuneration Policy of AS Avaron Asset Management can be downloaded here [www.avaron.com/documents](http://www.avaron.com/documents).

The Fund Management Company employed 18 specialists as at the end of 2020 (end-2019: 18 specialists). Total remuneration amounted to:

In EUR

	<b>2020</b>	<b>2019</b>
Wages and salaries	445,265	413,659
Social tax and unemployment insurance contributions	152,933	145,136
<b>Total</b>	<b>598,198</b>	<b>558,795</b>
incl. bonus program cost with applicable taxes	44,226	40,848

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 7,980 in the financial year 2020 (2019: 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 Fund Management Company and Unitholders of Avaron Emerging Europe Fund

### Opinion

We have audited the financial statements of Avaron Emerging Europe Fund (the Fund), which comprise balance sheet as at 31 December 2020, the statement of income and expenses, statement of changes in net assets and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the financial statements presented on pages 10 to 28, present fairly, in all material respects, the financial position of the Fund as at 31 December 2020, 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 contained in the annual report in addition to the financial statements and our auditor's 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 of Fund Management Company 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 scepticism 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, 31 March 2021

*/digitally signed/*

Eero Kaup  
Certified Public Accountant, Licence No 459

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