

Investment Objectives & Approach

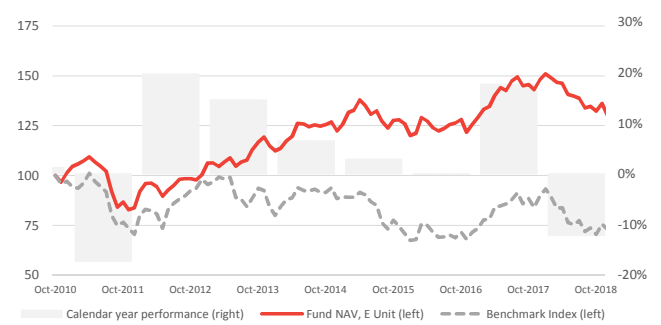
The Fund invests actively in listed equities of European Union new member states and accession countries (Emerging Europe, ex Russia). Benchmark agnostic, it emphasizes bottom-up, value oriented stock picking with a strong small and mid-cap bias. The Fund's investment objective is to maximise upside 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, December 2018

Rising worries over global growth, tightening monetary policy in the US and Europe, increased protectionism and political uncertainty together with the implied peak of the global economic cycle pressured the markets throughout 2018. December delivered another bout of volatility in global equities, reflective of the general nervousness in markets during the past year. MSCI World lost 7.7% in \$ terms (-8.9% in €) amid a sharp sell-off in the US (-10.4%) and Japan (-8.6%), while Emerging Markets (-4.2%) fared marginally better. Emerging Europe (MSCI EFM EUROPE + CIS (E+C) ex Russia) lost 3.3% in December and 18.6% in 2018 in € terms. Romania was the large negative outlier last month as on December 18 the government published a draft ordinance imposing severe tax burden on several sectors and effectively dismantling the Pillar 2 pension system. This led to a 17.3% slump in local equity market index in 3 days prior to Christmas. We enter 2019 with a conservative positioning amid cyclical slowdown in Emerging Europe. Cash level in the Fund stands at 19.2%, high in historical terms as the number of attractively valued companies within our investment universe is limited. We aim to put the cash to work in case share prices plummet further. The selection of companies in the Fund portfolio trades at 9.6x 1YR FWD P/E, providing free cash flow yield of 8% and dividend yield of 6% on an average pay-out rate of 64%.

To receive detailed fund manager comment please send a request to info@avaron.com.

Performance, E Unit

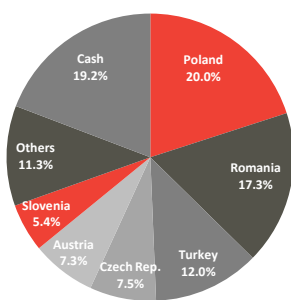


Past performance is not a guarantee or indicative of future results.

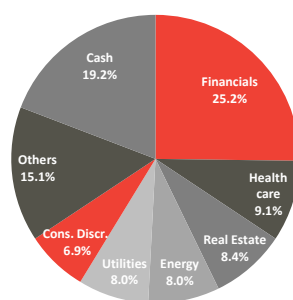
Perf overview	Net return		Index return*	Calendar year return, E Unit			
	E Unit			Year	Gross	Net	Index*
1 month	-4.6%		-3.3%	2018	-10.9%	-12.2%	-18.6%
YTD	-12.2%		-18.6%	2017	19.2%	17.7%	25.3%
3 months	-3.5%		-0.8%	2016	2.1%	-0.1%	1.2%
6 months	-7.1%		-2.9%	2015	6.7%	2.9%	-20.0%
1 year	-12.2%		-18.6%	2014	9.4%	6.5%	4.7%
3 years	3.2%		3.3%	2013	18.5%	14.6%	-13.9%
5 years	13.1%		-13.5%	2012	21.1%	19.7%	39.3%
7 years	55.2%		3.8%	2011	-16.3%	-17.3%	-27.5%
8 years	28.4%		40.4%				

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

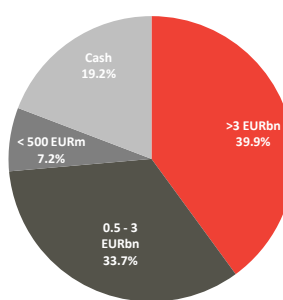
Geographic breakdown



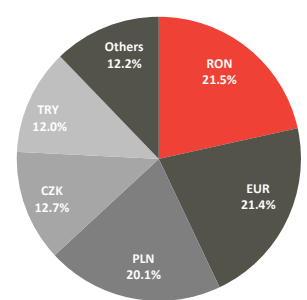
Sector breakdown



Market Cap breakdown



Net currency breakdown



Country allocation

	Change						Contribution analysis					
	Dec-18	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Poland	20.0%	0.0%	0.3%	5.4%	5.8%	15.3%	0.1%	-0.4%	-2.6%	-2.6%	2.8%	3.9%
Romania	17.3%	-2.6%	-2.8%	1.9%	-0.7%	-0.3%	-3.0%	-2.4%	0.5%	0.5%	4.6%	6.8%
Turkey	12.0%	0.0%	1.6%	-4.8%	0.8%	-5.9%	-0.9%	0.2%	-8.3%	-8.3%	-6.9%	2.5%
Czech Rep.	7.5%	0.0%	0.0%	0.3%	-2.9%	-0.8%	-0.3%	-0.5%	0.0%	0.0%	2.0%	3.0%
Austria	7.3%	-0.1%	-0.3%	-1.3%	-11.4%	-3.3%	-0.3%	-0.7%	-0.2%	-0.2%	4.8%	5.6%
Slovenia	5.4%	0.4%	2.0%	2.5%	2.0%	0.6%	0.3%	0.4%	0.4%	0.4%	0.1%	0.6%
Hungary	5.2%	0.0%	0.6%	4.6%	2.1%	-3.4%	-0.1%	0.2%	0.0%	0.0%	0.3%	1.0%
Baltics	3.0%	-0.2%	-0.1%	1.2%	0.5%	-4.0%	-0.2%	0.0%	0.0%	0.0%	0.9%	1.3%
Croatia	1.8%	0.0%	0.0%	0.2%	1.8%	1.8%	0.0%	-0.1%	-0.3%	-0.3%	-0.1%	-0.1%
Others	1.2%	3.0%	3.1%	2.3%	3.1%	7.6%	0.0%	0.0%	0.0%	0.0%	0.5%	2.7%

Risk metrics

Alpha	4%
Volatility & stand. deviation	9.5%
Beta	0.46
Sharpe ratio	0.29
Information ratio	0.51
Tracking error	10.5%

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

Sector allocation

	Change						Contribution analysis					
	Dec-18	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Financials	25.2%	-0.3%	2.2%	-5.2%	-13.1%	-5.0%	-1.1%	-0.8%	-6.8%	-6.8%	1.9%	9.3%
Health care	9.1%	0.3%	1.0%	5.6%	4.4%	5.7%	0.0%	0.4%	0.2%	0.2%	0.4%	1.3%
Real Estate	8.4%	-0.7%	-0.9%	-1.2%	-3.3%	-2.9%	-0.3%	-0.8%	-0.3%	-0.3%	1.1%	2.6%
Energy	8.0%	-1.8%	-1.0%	2.0%	-1.4%	1.7%	-1.8%	-1.5%	0.3%	0.3%	2.7%	2.3%
Utilities	8.0%	-0.9%	-1.9%	-0.1%	-5.4%	-8.7%	-0.4%	-0.2%	0.6%	0.6%	2.6%	4.7%
Cons. Discr.	6.9%	-0.3%	0.2%	3.5%	2.6%	-2.5%	-0.5%	-0.3%	-2.0%	-2.0%	0.8%	5.6%
Industrial	6.3%	0.2%	0.5%	3.7%	4.4%	6.3%	-0.6%	-0.2%	-0.4%	-0.4%	0.5%	0.4%
Consumer Staples	5.2%	0.2%	0.4%	2.5%	5.2%	2.8%	0.0%	0.1%	-0.8%	-0.8%	0.2%	2.1%
Others	3.7%	3.9%	3.6%	4.1%	3.2%	-1.0%	0.2%	0.0%	-1.3%	-1.3%	-1.4%	-0.8%

Fund statistics

Number of positions	35
Top10	46.0%
Top20	67.7%
Gross exposure	80.8%
Net exposure	80.8%
Concentration coefficient	36
Median market cap MEUR	1653
Average market cap MEUR	2750

Style allocation

	Change						Contribution analysis					
	Dec-18	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Cyclical	46.3%	-2.2%	1.8%	1.4%	1.0%	14.3%	-4.0%	-2.7%	-9.6%	-9.6%	2.5%	11.6%
Non-cyclical	20.7%	0.0%	-0.4%	8.6%	4.1%	-3.8%	0.1%	0.6%	-1.0%	-1.0%	2.6%	8.2%
Asset play	13.8%	-0.9%	-0.8%	-0.1%	-2.8%	-2.7%	-0.6%	-1.1%	0.0%	0.0%	2.7%	5.7%
Convertible bonds	0.0%	0.0%	0.0%	0.0%	0.0%	-12.6%	0.0%	0.0%	0.0%	0.0%	0.0%	-0.3%
High yield bonds	0.0%	0.0%	0.0%	0.0%	0.0%	-1.5%	0.0%	0.0%	0.0%	0.0%	1.1%	2.2%
FX Derivatives	0.0%	0.0%	0.0%	0.0%	0.0%	-0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Cash	19.2%	3.1%	-0.6%	-9.9%	3.4%	6.6%	0.0%	0.0%	-0.3%	-0.3%	-0.5%	-0.5%

Turnover

	FY	Adj*
FY 2018	20.7%	2.6%
FY 2017	28.5%	29.1%
FY 2016	17.7%	-13.0%

* Adjusted for fund flows

Liquidity analysis*	20%	50%
3 days	66.3%	76.0%
2 weeks	79.9%	93.1%
4 weeks	90.8%	97.0%

* 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

Investment Manager	AS Avaron Asset Management
Fund type	UCITS V, public common investment fund
Launch date	April 23, 2007
Domicile	Estonia
Currency	EUR
Dividends	reinvested
Fund size, MEUR	60.7
Total AUM, MEUR	385.0

	NAV	TER 2018	TER 2018
	31-Dec-18	excl. perf fee	incl. perf fee
C unit	15.4949 EUR	1.58%*	1.67%*
D unit	12.9359 EUR	2.37%	2.37%
E unit	12.9943 EUR	1.22%	1.46%

* C unit management fee lowered to 1.15% and performance fee cancelled as of 06.09.2018

Cut-off	10am CET
NAV frequency	Daily dealing, T+3
Public offering	France, Switzerland, Germany, UK, Finland, Sweden, Estonia, Latvia
Morningstar rating	Yes, three stars (5 years)
Tax transparency	Germany, Switzerland
Supervised by	Estonian FSA
Custodian	Swedbank AS
Transfer agent	Swedbank AS
NAV calculation	Swedbank AS
External auditor	KPMG
Internal auditor	PWC
Fund documents & prospectus	www.avaron.com/documents

	ISIN code	WKN code	Bloomberg ticker	Reuters RIC	Telekurs ID
C unit	EE3600102901	A0PEFO	AVAEESC ET	LP68063797	CH10799792
D unit	EE3600108866	A1W7P0	AVEMEUD ET	LP68083763	CH12407332
E unit	EE3600108874	A113GN	AVEMEUE ET	LP68083764	CH12414216

Unit class	D (Retail)	C (Institutional)	E (Institutional)
Min. initial investment	-	500,000 EUR	500,000 EUR
Front-end load	2%	-	-
Management fee	2%	1.15%	0.85%
Performance fee (unit based)	-	-	15% over MSCI EFM EUROPE + CIS (E+C) ex RU index, annual reset (June 30)
Back-end load	-	-	-

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About Avaron Asset Management

Avaron Asset Management (founded in 2007) is an independent management-owned investment manager with a clear focus on stock-picking (bottom-up) and value investing in Emerging Europe region. We aim to deliver positive risk-adjusted return to our clients over the market cycle. Our portfolios are long-only and invest in listed stocks.

Investment ideas are generated through in-house proprietary research of approximately 250 Emerging Europe companies, backed by regular on the ground visits and meetings. Our stock selection is primarily driven by the upside to internally set target prices on single company level. We invest only in business models that we understand and can model ourselves focusing on companies with leading market positions and strong recurring revenue streams. In addition, we have integrated ESG analysis into our investment process and adhere to the UN Principles for Responsible Investment (UN PRI). Our team of 19 professionals (including 10 in the investment team), based in Estonia and Poland, takes care of around 400 million euros of mainly professional investor assets.

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



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 Partner, co-CIO,
 Investment Manager

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