



## **Avaron Emerging Europe Fund**

**ANNUAL REPORT FOR THE FINANCIAL YEAR 2018**

**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
Fund established	3 April 2007
Start of the Fund's activities	23 April 2007
Reporting period	1 January 2018–31 December 2018

## 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, 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 30-40 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 Central and Eastern European 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 2018 Avaron managed 386 million euros of investor assets. The firm employs 20 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, Switzerland, Germany, United Kingdom, Finland, Sweden and Latvia. 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 ESG (environmental, social, governance) analysis 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 for 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. Details of these topics are available in [Avaron Sustainability Report 2018](#) publicly available at our website.

**In 2018 we put significant efforts on further developing Responsible Investing area in-house by launching ESG Score and new Responsible Investment and Voting Policies.** We developed in-house ESG Score that became part of our company quality analysis tool to enable to assess the ESG performance of companies in our investment universe. Although third-party service providers are available for ESG analysis, we decided to internalise the ESG research processes as in order to be successful in constructing bottom-up portfolios our investment team needs to have a comprehensive understanding of the business models including ESG issues, i.e. environmental aspects, social and supply chain related aspects and corporate governance related aspects. We introduced new Responsible Investment and Voting Policies that came into force in February 2019. New policies are in more detail specifying responsible investing processes at the Company.

**One way Avaron manages and protects the value of its clients' investments is via being an active owner, exercising the shareholder rights and engaging with managements of the listed companies.** In 2018 we significantly increased communication with company managements, including one-on-one meetings and calls and group conference calls, which totalled 632 (558 in 2017). We also boosted our voting activity at shareholders' meetings by participating in 67 shareholder meetings in 2018 and voting on 656 resolutions (16 and 158 in 2017). We also engaged with several companies of our investment universe to improve corporate governance and company transparency. Detailed overview of these activities is found in [Avaron Sustainability Report 2018](#) available on our website.

In 2018 we decided to participate in several collaborative engagements to address the issue of limited carbon emission data disclosure among Emerging European listed companies. Namely we joined: Climate Action 100+, PRI-coordinated engagement on climate change transition for oil and gas, and 2018 Carbon Disclosure Project Non-Discloser Campaign.

## Main Developments in 2018

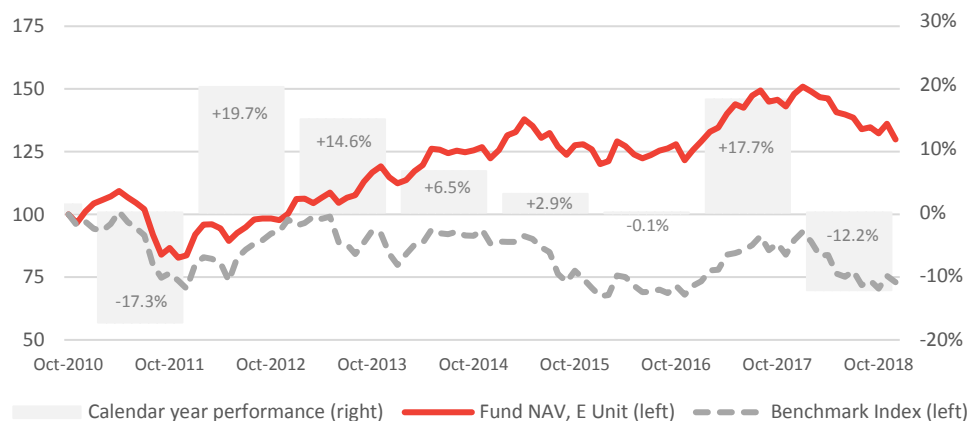
Rising worries over global growth, tightening monetary policy in the US and Europe, increased protectionism and political uncertainty together with the implied peak of the global economic cycle pressured the markets throughout 2018. MSCI World ended the year down 10.4% in \$ terms (-6.2% in €), while MSCI Emerging Markets lost 16.6% in \$ (-12.7% in €). Emerging Europe equities (MSCI EFM EUROPE + CIS (E+C) ex Russia) declined 18.6% in 2018 driven by top down outflows on risk-off sentiment from all major regional markets and by the currency crisis in Turkey (equity index down 41% in 2018).

Avaron Emerging Europe Fund lost 12.2-13.0% (depending upon a share class) in 2018 outperforming the benchmark MSCI EFM Central and Eastern Europe & CIS ex Russia Index (down 18.6%) mainly due to relatively cautious positioning. In 5 years, the Fund has delivered 13.1% return vs. -13.5% for the index, with lower volatility (9.5% vs. 17.3% for the index), resulting in 3.9% alpha for our investors. Total net assets of the Fund decreased from €80.6 million to €60.7 million during 2018.

**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>	-12.8%	1.8%	14.1%	57.1%	112.8%
<b>B unit</b>	-12.3%	3.5%	17.2%	63.0%	124.2%
<b>C unit</b>	-12.4%	2.1%	13.8%	57.3%	
<b>D unit</b>	-13.0%	0.9%	12.5%	54.2%	
<b>E unit</b>	-12.2%	3.2%	13.1%	55.2%	
<b>Index*</b>	-18.6%	3.3%	-13.5%	3.8%	40.4%

\* 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.



**Graph 1.** Performance of Fund’s NAV vs. the market (2010-2018, E unit)

At the beginning of 2018 the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and the amending Directive came into force which main aim was to make the financial services sector more transparent. Among the topics was also separation of brokerage fees asset managers paid to brokerage houses into separate fees for execution and for research. As investment decision-making at Avaron has always been based on in-house proprietary research conducted by our 11 member investment team and not based on third party research, we think this had a positive effect on Avaron Emerging Europe Fund costs as brokerage fees declined significantly in more liquid Emerging Europe equity markets. Although the Directive enables fund management companies to use Research Payment Account, we do not use such account and bear all research related costs, both in-house and external, by Avaron.

### Fund Positioning and Portfolio Valuation

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. While valuation on benchmark basis does not look expensive with MSCI EFM EUROPE + CIS (E+C) ex Russia trading at 9.4x 1YR FWD P/E, we are cautious on the earnings outlook as the profitability is getting squeezed amid input cost pressure, while demand outlook is softening. In order to become more constructive on regional valuation we would like to see additional 10-15% correction in the equity prices post December weakness.

Our portfolio construction process is benchmark agnostic and fully bottom-up. In comparison to the regional index (MSCI EFM EUROPE + CIS (E+C) ex Russia) the Fund is currently strongly overweight in Romania, and underweight in Poland, Turkey, Greece and Hungary. In the Czech Republic the positioning is almost in line with the benchmark in terms of country weight. Besides

the large cash position the majority of the difference is partially balanced by off-benchmark exposure in Vienna-listed regional real estate companies.

Romanian stocks are in our view attractively valued with MSCI Romania trading at 6.2x 1YR FWD P/E albeit corporate profits are expected to contract in 2019. Limited relative exposure to Poland compared to the index is a combination of somewhat demanding valuations as MSCI Poland is trading at 11.5x 1YR FWD P/E. In Turkey we are underweight compared to the benchmark. Following the currency collapse in August the macro risks have significantly increased and the operating environment has become very challenging for local corporates. Our Turkish exposure is primarily in export or foreign oriented manufacturing companies and defensive domestic pension insurance and food retail names.

The selection of companies in the Fund portfolio trade at 9.6x 1YR FWD P/E compared to 9.4x of the benchmark index and 9.9x of the 8-year historical average. In the current environment we favour companies with strong balance sheets and solid sustainable free cash flow generation. The aggregate net gearing of our portfolio companies stands at 22%, free cash flow yield at 8%, and dividend yield at 6% on an average pay-out rate of 64%.

22 February 2019

Kristel Kivinurm-Priisalm  
Member of the Management Board

## CONFIRMATION OF ANNUAL FINANCIAL STATEMENTS OF 2018

The Management Board of the Fund Management Company has prepared the annual Financial Statements of Avaron Emerging Europe Fund on 3 April 2019.

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	03/04/2019	/Signed digitally/
<b>Valdur Jaht</b> Member of the Management Board of the Fund Management Company / Investment manager	03/04/2019	/Signed digitally/
<b>Peter Priisalm</b> Investment manager	03/04/2019	/Signed digitally/



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

In EUR


<b>ASSETS</b>	<b>Note</b>	<b>31/12/2018</b>	<b>31/12/2017</b>
Cash and cash equivalents	3	10,522,718	23,515,538
Term deposits	3	1,001,197	-
Financial assets at fair value through profit or loss:	4		
Shares and units		49,062,202	57,170,202
Receivables and prepayments	4; 6	214,555	42,066
<b>TOTAL ASSETS</b>		<b>60,800,672</b>	<b>80,727,806</b>
<b>LIABILITIES</b>			
Financial assets at fair value through profit or loss:			
Derivatives	7	-	18,228
Other financial liabilities	4		
Payables to the management company	8	49,287	63,790
Payables to the depository		19,520	41,132
Other liabilities		14,652	13,917
<b>TOTAL LIABILITIES</b>		<b>83,459</b>	<b>137,067</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS</b>		<b>60,717,213</b>	<b>80,590,739</b>

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## STATEMENT OF INCOME AND EXPENSES

In EUR


	Note	01/01/2018- 31/12/2018	01/01/2017- 31/12/2017
<b>INCOME</b>			
<b>Interest income</b>		<b>20,865</b>	<b>155,218</b>
From bonds		-	153,126
From deposits		20,865	2,092
<b>Dividend income</b>		<b>2,834,190</b>	<b>2,594,114</b>
From shares and units		2,834,190	2,594,114
<b>Net gain/loss from financial assets at fair value through profit or loss</b>		<b>-6,782,568</b>	<b>11,212,175</b>
From shares and units	5	-6,786,840	10,986,711
From bonds	5	-	243,692
From derivative instruments	5	4,272	-18,228
<b>Net gain/loss from foreign exchange</b>		<b>-4,488,556</b>	<b>-2,152,779</b>
<b>TOTAL INCOME</b>		<b>-8,416,069</b>	<b>11,808,728</b>
<b>OPERATING EXPENSES</b>			
Management fees	8	729,424	726,165
Performance fees	8	154,978	4,854
Custodian fees		232,019	230,871
Transaction fees		3,602	5,302
Other operating expenses		36,389	38,502
<b>TOTAL OPERATING EXPENSES</b>		<b>1,156,412</b>	<b>1,005,694</b>
<b>NET INCOME</b>		<b>-9,572,481</b>	<b>10,803,034</b>

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## STATEMENT OF CHANGES IN NET ASSETS

In EUR

	01/01/2018- 31/12/2018	01/01/2017- 31/12/2017	01/01/2016- 31/12/2016
<b>NET ASSET VALUE AT THE BEGINNING OF THE PERIOD</b>	<b>80,590,739</b>	<b>63,112,459</b>	<b>44,190,431</b>
Cash received for fund units issued	10,168,535	14,777,040	30,076,125
Cash paid for fund units redeemed	-20,469,580	-8,101,794	-10,876,762
Net result of the Fund	-9,572,481	10,803,034	-277,335
<b>NET ASSET VALUE AT THE END OF THE PERIOD</b>	<b>60,717,213</b>	<b>80,590,739</b>	<b>63,112,459</b>
<b>NUMBER OF THE UNITS IN CIRCULATION AT THE END OF REPORTING PERIOD</b>			
Number of A units in circulation:	129,724.290	142,433.692	202,045.274
Number of B units in circulation:	392,152.280	485,510.950	524,315.749
Number of C units in circulation:	73,821.470	17,876.270	40,819.818
Number of D units in circulation:	266,875.410	686,309.828	688,844.104
Number of E units in circulation:	4,137,796.120	4,515,395.987	4,016,966.241
<b>NET ASSET VALUE OF AN UNIT AT THE END OF REPORTING PERIOD</b>			
Net asset value of the A unit:	4.2984	4.9270	4.2209
Net asset value of the B unit:	4.5794	5.2226	4.4518
Net asset value of the C unit:	15.4949	17.6853	15.2343
Net asset value of the D unit:	12.9359	14.8690	12.7733
Net asset value of the E unit:	12.9943	14.8010	12.5729
<b>TOTAL NET ASSET VALUE OF THE FUND UNITS</b>			
Total net asset value of the A units:	557,602	701,770	852,807
Total net asset value of the B units:	1,795,812	2,535,620	2,334,144
Total net asset value of the C units:	1,143,860	316,147	621,862
Total net asset value of the D units:	3,452,279	10,204,729	8,798,778
Total net asset value of the E units:	53,767,660	66,832,473	50,504,868
<b>TOTAL NET ASSET VALUE</b>	<b>60,717,213</b>	<b>80,590,739</b>	<b>63,112,459</b>

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## STATEMENT OF CASH FLOWS

In EUR

	<b>01/01/2018- 31/12/2018</b>	<b>01/01/2017- 31/12/2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received	13,777	107,493
Dividends received	2,826,725	2,592,343
Net result from foreign exchange	-319,470	-70,892
Sale of investments	14,946,037	21,431,315
Purchase of investments	-18,999,811	-18,242,709
Operating expenses paid	-1,194,323	-973,407
	<b>-2,727,065</b>	<b>4,844,143</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issue of units	10,185,322	14,765,155
Payments on redemption of units	-20,473,749	-8,097,008
	<b>-10,288,427</b>	<b>6,668,147</b>
<b>TOTAL CASH FLOWS</b>	<b>-13,015,492</b>	<b>11,512,290</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Cash and cash equivalents at the beginning of the period	23,515,538	12,019,662
Effect of exchange rate fluctuations on cash and cash equivalents	22,672	-16,414
<b>Cash and cash equivalents at the end of the period</b>	<b>10,522,718</b>	<b>23,515,538</b>

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## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1. ACCOUNTING POLICIES AND ASSESSMENTS USED

The annual financial statements of Avaron Emerging Europe Fund for 2018 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:

- IFRS 9 “Financial Instruments” (2014) (effective for annual periods beginning on or after 1 January 2018),
- IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018),
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018),
- IAS 40 “Transfers of Investment Property” (effective for annual periods beginning on or after 1 January 2018),
- IFRS 2 “Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018),
- Amendments to various standards “Improvements to IFRSs (cycle 2014-2016)” resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording (amendments in IFRS 12 are to be applied for annual periods beginning on or after 1 January 2017 and for IFRS 1 and IAS 28 on or after 1 January 2018),
- Amendments to IFRS 4 “Insurance Contracts”, applying IFRS 9 “Financial Instruments” with IFRS 4 (effective for annual periods beginning on or after 1 January 2018).

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

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 implementation had no significant impact on the Fund, since the Fund’s assets were recognized in the balance sheet at fair value, and the use of this principle will continue in the future. For an explanation of how the Fund classifies and measures financial instruments and accounts for related gains and losses under IFRS 9, see Note 10.

### 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 9 “Prepayment Features With Negative Compensation” (effective for annual periods beginning on or after 1 January 2019),
- IFRS 16 “Leases” (2017) (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019).

The Fund has not applied the new standards or amendments before deadline. Even though the new standards and amendments listed above may have an impact on Fund’s effective accounting principles, the Fund has not yet measured the potential impact on its financial reports.

### 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 2021,
- Amendments to IAS 28 “Investments in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2019),
- Amendments to various standards “Improvements to IFRSs (cycle 2015-2017)” resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- Amendments to IAS 19 „Plan Amendment, Curtailment or Settlement“ (effective for annual periods beginning on or after 1 January 2019),
- Amendments to References to the Conceptual Framework in IFRS Standards (effective for annual periods beginning on or after 1 January 2020),
- Amendment to IFRS 3 „Business Combinations“ (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IAS 1 „Presentation of Financial Statements“ and IAS 8 „Accounting Policies, Changes in Accounting Estimates and Errors“: Definition of Material (effective for annual periods beginning on or after 1 January 2020).

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 terminated 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. Initial acquisition cost of financial assets at fair value through profit or loss includes direct expenses related to financial asset or liability (commission). According to IFRS 13 these commissions should be recognized directly in the statement of income and expenses. Commissions recognized as acquisition cost are insignificant and have no impact on Fund's assets or net income. Commissions are shown in the annual report under "Net gain/loss from financial assets at fair value through profit and loss" through revaluation. If the commissions were directly expensed, they would have been reported under operating expenses.

After initial recognition 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.
- In Avaron's opinion the market price of bonds may not reflect the fair value of the securities even when the market price is available. The value of bonds not traded on a regulated market is determined based on the average of the bid and ask quotes as provided by the price feed service provider being used. If the quotes are not available or if the quotes do not reflect the



fair value of the bond in the opinion of the Fund Management Company, the price is determined based on the yield curve.

- The value of options not traded on a regulated market is determined based on the Black & Scholes valuation model. The inputs that are necessary for the calculation are determined by the Fund Management Company after consulting with the counterparty of the option.

### **Derecognition**

Securities are removed from the balance sheet when the Fund has lost control over the corresponding financial assets either as a result of selling them or expiry of their term. FIFO method is used in accounting for the realised gains/ (losses) from securities transactions. The line "Sales profit/ (loss)" in the statement of income and expenses indicates the difference between the sales amount of an instrument and the corresponding acquisition cost. The sales amount of securities includes the commissions related to the transaction.

### **Offsetting**

Financial assets and liabilities at fair value through profit and loss are offset only when the Fund has a legal right to offset the amounts and it intends to use the right.

### **Cash and cash equivalents and cash flows**

Cash and cash equivalents comprise of the Fund's current accounts and over-night deposits that are subject to an insignificant risk of changes in their fair value.

Cash flows from operating activities are reported using the direct method.

### **Deposits**

Deposits comprise term deposits of credit institutions given that their maturity is less than 12 months. Deposits are initially recognised at acquisition cost and subsequently measured at amortized cost using the effective interest rate method.

### **Receivables**

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

Receivables are initially recognised at fair value and subsequently recorded at amortized cost using the effective interest rate method from which any possible impairment loss has been deducted.

### **Other financial liabilities**

Other financial liabilities include management fee and performance fee payables to the Fund Management Company; depository fee, 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. Commissions which arose and were paid in acquisition of securities, but are not clearly identifiable are included within the acquisition cost of securities.

### Related parties

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

## NOTE 2. RISK MANAGEMENT

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

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 analysis 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 for 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 restrictions.

### Credit risk

Credit risk refers to the risk that the issuer of a security where the Fund has invested or the counterparty to a transaction on account of the Fund fails to perform its obligations either fully or partially (e.g. an issuer fails to redeem the issued debt obligations, a counterparty to a trade does not deliver the securities or cash during the settlement, a counterparty defaults on a loan granted by the Fund), causing damage to the Fund.

Maximum exposure to credit risk as of the end of the period in EUR (detailed overview regarding cash and cash equivalents and term deposits presented in Note 3):

	<b>31/12/2018</b>	<b>% of NAV</b>	<b>31/12/2017</b>	<b>% of NAV</b>
Cash and cash equivalents	10,522,718	17.34%	23,515,538	29.18%
Term deposits	1,001,197	1.65%	-	-
Receivables and prepayments	214,555	0.35%	42,066	0.05%
<b>TOTAL</b>	<b>11,738,470</b>	<b>19.34%</b>	<b>23,557,604</b>	<b>29.23%</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 2018 nor 31 December 2017.

The Fund's cash and cash equivalents are held with Fund's depository Swedbank AS, which parent company Swedbank AB is rated AA- as of 27/06/2018 by Standard & Poor's, with AS SEB Bank, which parent company Skandinaviska Enskilda Banken AB is rated A+ as of 30/10/2018 (Standard & Poor's) and with Luminor Bank AS, which is rated A- as of 13/09/2018 (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 share capital/ free float ownership.

The Fund maintains a credit line of 3,000,000 EUR that can be accessed to meet short-term liquidity needs. These resources have not been used as of 31/12/2018.

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

	<b>Up to 3 days</b>		<b>Up to 1 month</b>		<b>Over 1 month</b>	
	<b>31/12/2018</b>	<b>31/12/2017</b>	<b>31/12/2018</b>	<b>31/12/2017</b>	<b>31/12/2018</b>	<b>31/12/2017</b>
Payables to the management company	-	-	49,287	63,790	-	-
Payables to the depository	-	-	19,520	41,132	-	-
Payables for redeemed units	617	4,786	-	-	-	-
Trade settlement payable	6,854	-	-	-	-	-
Derivatives	-	-	-	18,228	-	-
Other liabilities	-	-	-	-	7,181	9,131
Assets attributable to holders	-	-	-	-	60,717,213	80,590,739
<b>TOTAL</b>	<b>7,471</b>	<b>4,786</b>	<b>68,807</b>	<b>123,150</b>	<b>60,724,394</b>	<b>80,599,870</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	
			31/12/2018	31/12/2017
OMV PETROM SA	Romania	Energy	5.52%	3.95%
SC FONDUL PROPRIETATEA SA	Romania	Utilities	5.33%	-
KRKA	Slovenia	Health Care	3.93%	2.94%
ATRIUM EUROPEAN REAL ESTATE	Jersey	Real Estate	2.83%	2.74%
TALLINK GRUPP AS	Estonia	Consumer Discretionary	1.93%	1.79%
ANADOLU HAYAT EMEKLILIK	Turkey	Financials	1.85%	2.55%
WIRTUALNA POLSKA HOLDING SA	Poland	IT	1.49%	1.06%
BULGARIA REAL ESTATE FUND	Bulgaria	Real Estate	1.16%	0.51%
TALLINNA SADAM AS	Estonia	Industrial	1.10%	-
ARENA HOSPITALITY GROUP DD	Croatia	Consumer Discretionary	1.04%	1.00%
HRVATSKI TELEKOM DD	Croatia	Telecom	0.77%	-
SPHERA FRANCHISE GROUP SA	Romania	Consumer Discretionary	0.56%	-
TELEKOM SPRSKE AD BANJA LUKA	Bosnia & Herzegovina	Telecom	0.04%	0.16%
NUCLEARELECTRICA SA	Romania	Utilities	-	1.07%
ADVANCE TERRAFUND SHARE	Bulgaria	Real Estate	-	0.56%
BRD GR SOCIETE GENERALE SA	Romania	Financials	-	3.37%
PRIME CAR MANAGEMENT SA	Poland	Industrial	-	0.36%
KOMERCIJALNA BANKA AD SKOPJE S	Macedonia	Financials	-	0.18%
<b>TOTAL</b>			<b>27.55%</b>	<b>22.24%</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	
			31/12/2018	31/12/2017
KRKA	Slovenia	Health Care	3.93%	-
ATRIUM EUROPEAN REAL ESTATE	Jersey	Real Estate	2.83%	-
TALLINK GRUPP AS	Estonia	Consumer Discretionary	1.93%	-
ANADOLU HAYAT EMEKLILIK	Turkey	Financials	1.85%	2.55%
BULGARIA REAL ESTATE FUND	Bulgaria	Real Estate	1.16%	0.51%
ARENA HOSPITALITY GROUP DD	Croatia	Consumer Discretionary	1.04%	1.00%
ADVANCE TERRAFUND SHARE	Bulgaria	Real Estate	-	0.56%
TELEKOM SPRSKE AD BANJA LUKA	Bosnia & Herzegovina	Telecom	-	0.16%
OMV PETROM SA	Romania	Energy	-	3.95%
NUCLEARELECTRICA SA	Romania	Utilities	-	1.07%
<b>TOTAL</b>			<b>12.74%</b>	<b>9.80%</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:

	<b>% of Fund's</b>		<b>% of Fund's</b>	
	<b>31/12/2018</b>	<b>assets</b>	<b>31/12/2017</b>	<b>assets</b>
EUR	13,288,849	21.86%	23,917,224	29.63%
RON	13,077,059	21.51%	14,501,428	17.96%
PLN	12,038,557	19.80%	13,654,635	16.91%
CZK	7,684,190	12.64%	8,223,711	10.19%
TRY	7,292,337	11.99%	15,040,758	18.63%
HUF	3,164,865	5.20%	898,633	1.11%
USD	2,031,373	3.34%	1,923,431	2.38%
HRK	1,097,556	1.81%	1,319,996	1.64%
BGN	1,102,357	1.81%	946,516	1.17%
BAM	23,529	0.04%	125,414	0.16%
MKD	-	-	147,330	0.18%
RSD	-	-	28,730	0.04%
<b>TOTAL</b>	<b>60,800,672</b>	<b>100.00%</b>	<b>80,727,806</b>	<b>100.00%</b>

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

	<b>% of Fund's</b>		<b>% of Fund's</b>	
	<b>31/12/2018</b>	<b>assets</b>	<b>31/12/2017</b>	<b>assets</b>
RON	13,077,059	21.51%	14,501,428	17.96%
PLN	12,038,557	19.80%	13,654,635	16.91%
CZK	7,684,190	12.64%	8,223,711	10.19%
TRY	7,292,337	11.99%	12,558,986	15.56%
HUF	3,164,865	5.20%	898,633	1.11%
USD	2,031,373	3.34%	1,923,431	2.38%
HRK	1,097,556	1.81%	1,319,996	1.64%
BGN	1,102,357	1.81%	946,516	1.17%
BAM	23,529	0.04%	125,414	0.16%
MKD	-	-	147,330	0.18%
RSD	-	-	28,730	0.04%
<b>TOTAL</b>	<b>47,511,823</b>	<b>78.14%</b>	<b>54,328,810</b>	<b>67.30%</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 2018. The sensitivity analysis assumes the weakening of foreign currency rates against EUR in the magnitude of the change from the higher to to lower valaue during the last ten years. The analysis assumes that all the other variables remain constant. Analysis for 31 December 2017 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:

	31/12/2018			31/12/2017		
	Currency wakening	Possible impact	Currency's % of Fund's assets	Currency wakening	Possible impact	Currency's % of Fund's assets
TRY	-77%	-5,620,605	11.99%	-65%	-3,298,506	15.56%
PLN	-23%	-2,751,307	19.80%	-35%	-1,394,626	16.91%
RON	-15%	-1,928,366	21.51%	-26%	-1,109,280	17.96%
CZK	-19%	-1,489,042	12.64%	-23%	-542,109	10.19%
HUF	-21%	-670,760	5.20%	-30%	-79,003	1.11%
USD	-32%	-644,140	3.34%	-36%	-198,262	2.38%
HRK	-12%	-128,296	1.81%	-13%	-49,786	1.64%
BGN	-5%	-59,187	1.81%	-7%	-19,598	1.17%
BAM	-6%	-1,414	0.04%	-10%	-3,704	0.16%
MKD	-11%	-	-	-14%	-6,046	0.18%
RSD	-29%	-	-	-40%	-3,373	0.04%
<b>TOTAL</b>		<b>-13,293,117</b>	<b>78.14%</b>		<b>-6,704,293</b>	<b>67.30%</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:

	31/12/2018	% of NAV	31/12/2017	% of NAV
Financials	15,295,465	25.20%	24,484,229	30.38%
Health Care	5,548,190	9.14%	2,856,120	3.54%
Real Estate	5,130,251	8.45%	7,783,540	9.66%
Energy	4,860,185	8.01%	4,877,888	6.05%
Utilities	4,830,552	7.96%	6,494,732	8.06%
Consumer Discretionary	4,217,080	6.94%	2,760,028	3.42%
Industrial	3,805,826	6.26%	2,043,622	2.54%
Consumer Staples	3,145,283	5.17%	2,167,261	2.69%
Telecom	1,115,604	1.84%	1,683,072	2.09%
IT	1,113,766	1.83%	1,452,262	1.80%
Materials	-	-	567,448	0.71%
<b>TOTAL</b>	<b>49,062,202</b>	<b>80.80%</b>	<b>57,170,202</b>	<b>70.94%</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>31/12/2018</b>	<b>% of NAV</b>	<b>31/12/2017</b>	<b>% of NAV</b>
Romania	10,516,402	17.33%	12,388,714	15.37%
Poland	10,426,826	17.17%	10,720,433	13.30%
Turkey	7,292,337	12.00%	13,539,950	16.81%
Czech Rep.	4,537,715	7.48%	5,798,161	7.19%
Slovenia	3,308,985	5.45%	2,370,955	2.94%
Hungary	3,164,865	5.21%	485,165	0.60%
Austria	2,709,163	4.46%	4,715,363	5.85%
Estonia	1,841,597	3.03%	1,445,279	1.79%
Jersey	1,716,519	2.83%	2,205,435	2.74%
Croatia	1,097,556	1.81%	1,319,996	1.64%
Portugal	1,096,040	1.80%	-	-
Bulgaria	704,569	1.16%	862,742	1.07%
Luxembourg	626,099	1.03%	1,045,265	1.30%
Bosnia & Herzegovina	23,529	0.04%	125,414	0.16%
Macedonia	-	-	147,330	0.18%
<b>TOTAL</b>	<b>49,062,202</b>	<b>80.80%</b>	<b>57,170,202</b>	<b>70.94%</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 2017 has been made with using the same assumptions.

	probability	+/- possible change of Fund's NAV during year	
		2018	2017
$\sigma$	68.27%	13.06%	13.45%
$2\sigma$	95.45%	26.12%	26.90%
$3\sigma$	99.73%	39.19%	40.35%



**NOTE 3. CASH AND CASH EQUIVALENTS**

Deposits in EUR

	<b>31/12/2018</b>	<b>% of NAV</b>	<b>31/12/2017</b>	<b>% of NAV</b>
Overnight deposit, Swedbank	2,031,308	3.35%	1 923 381	2.39%
Deposits, Luminor Bank AS	999,999	1.65%	-	-
<b>TOTAL</b>	<b>3,031,307</b>	<b>5.00%</b>	<b>1,923,381</b>	<b>2.39%</b>

\* "Term deposits" in balance sheet include also accrued interest in the amount of 1,197.79 EUR in 2018. "Receivables and prepayments" in balance sheet include accrued interest from overnight deposit in the amount of 65.53 EUR in 2018 (31.12.2017: 49.71 EUR).

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

	<b>31/12/2018</b>	<b>% of NAV, converted into EUR</b>	<b>31/12/2017</b>	<b>% of NAV, converted into EUR</b>
<b>Swedbank AS</b>		<b>15.77%</b>		<b>13.85%</b>
CZK	80,917,898	5.18%	61,989,794	3.01%
RON	11,923,701	4.22%	9,892,147	2.62%
USD	2,330,317	3.35%	2,308,057	2.39%
PLN	4,228,953	1.62%	7,891,035	2.34%
EUR	450,845	0.74%	780,589	0.97%
BGN	778,034	0.66%	163,854	0.10%
RSD	-	-	3,407,310	0.04%
HUF	-	-	128,538,788	0.51%
TRY	-	-	6,830,175	1.87%
<b>Luminor Bank AS</b>		<b>1.40%</b>		<b>15.33%</b>
EUR	850,025	1.40%	12,357,587	15.33%
<b>AS SEB Pank</b>		<b>0.17%</b>		<b>-</b>
EUR	99,989	0.17%	-	-
<b>TOTAL</b>		<b>17.34%</b>		<b>29.18%</b>

The Fund's cash and cash equivalents are held with Fund's depository Swedbank AS, which parent company Swedbank AB is rated AA- as of 27/06/2018 by Standard & Poor's, with AS SEB Bank, which parent company Skandinaviska Enskilda Banken AB is rated A+ as of 30/10/2018 (Standard & Poor's) and with Luminor Bank AS, which is rated A- as of 13/09/2018 (Moody's).

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

In EUR

31/12/2018

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	-	-	-	10,522,718	-	-	-	-	-
Term deposits	-	-	-	1,001,197	-	-	-	-	-
Shares and units	49,062,202	-	-	-	-	-	-	-	-
Dividend receivable	-	-	-	-	1,172	-	-	-	-
Dividend tax reclaims	-	-	-	-	31,626	-	-	-	-
Interest receivable	-	-	-	-	66	-	-	-	-
Receivables for securities transactions	-	-	-	-	181,691	-	-	-	-
<b>LIABILITIES</b>									
Payables to the management company	-	-	-	-	-	-	-	49,287	-
Payables to the depository	-	-	-	-	-	-	-	19,520	-
Payments on redemption of units*	-	-	-	-	-	-	-	617	-
Trade settlement payable*	-	-	-	-	-	-	-	6,854	-
Other liabilities*	-	-	-	-	-	-	-	7,181	-
Net assets attributable to holders	-	-	-	-	-	-	60,717,213	-	-
<b>TOTAL</b>	<b>49,062,202</b>	<b>-</b>	<b>-</b>	<b>11,523,915</b>	<b>214,555</b>	<b>-</b>	<b>60,717,213</b>	<b>83,459</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.

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In EUR

31/12/2017

	Designated as at fair value			Amortised cost			Other financial liabilities		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>ASSETS</b>									
Cash and cash equivalents	-	-	-	23,515,538	-	-	-	-	-
Shares and units	57,170,202	-	-	-	-	-	-	-	-
Dividend receivable	-	-	-	-	5,562	-	-	-	-
Dividend tax reclaims	-	-	-	-	19,668	-	-	-	-
Receivables for units subscribed	-	-	-	-	16,786	-	-	-	-
Interest receivable	-	-	-	-	50	-	-	-	-
<b>LIABILITIES</b>									
Payables to the management company	-	-	-	-	-	-	-	63,790	-
Payables to the depository	-	-	-	-	-	-	-	41,132	-
Payments on redemption of units*	-	-	-	-	-	-	-	4,786	-
Derivative instruments	-	18,228	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	-	-	9,131	-
Net assets attributable to holders	-	-	-	-	-	-	80,590,739	-	-
<b>TOTAL</b>	<b>57,170,202</b>	<b>18,228</b>	<b>-</b>	<b>23,515,538</b>	<b>42,066</b>	<b>-</b>	<b>80,590,739</b>	<b>118,839</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 instruments "Loans and receivables" and other financial liabilities amounts approximate fair value.

There have been no transfers of the assets designated as at fair value from one level to another as of the end of the period.

## NOTE 5. NET GAIN/LOSS FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In EUR

	01/01/2018- 31/12/2018	01/01/2017- 31/12/2017
<b>Net gain/loss from financial assets at fair value through profit or loss</b>		
<b>From shares and units</b>		
Sales profit/(-loss)	247,661	5,056,733
Unrealised profit /(-loss)	-7,034,501	5,929,978
<b>From bonds</b>		
Sales profit/(-loss)	-	698,032
Unrealised profit /(-loss)	-	-454,340
<b>From derivative instruments</b>		
Sales profit/(-loss)	-13,956	-
Unrealised profit /(-loss)	18,228	-18,228
<b>Total net gain/(-loss )</b>	<b>-6,782,568</b>	<b>11,212,175</b>

Sales profit/loss and unrealised profit/loss include commissions paid to brokers on the acquisition and disposal of the securities. According to the principles of IAS 39 and IFRS 9 the commissions should be reflected in the statement of income and expenses under transaction costs. According to the estimates of the Fund Management Company the effect of commissions to the net gain/loss from financial assets is not significant.

## NOTE 6. RECEIVABLES AND PREPAYMENTS

In EUR

	31/12/2018	31/12/2017
Receivables for securities transactions	181,691	-
Dividend tax reclaims	31,626	19,668
Dividend receivable	1,172	5,562
Interest receivable	66	50
Receivables for units subscribed	-	16,786
<b>TOTAL</b>	<b>214,555</b>	<b>42,066</b>

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**NOTE 7. DERIVATIVE INSTRUMENTS**

There were no derivative instruments at the end of 31/12/2018.

in EUR  
31/12/2017

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

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## NOTE 8. TRANSACTIONS WITH RELATED PARTIES

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

The transactions with related parties were in EUR as follows:

	01/01/2018- 31/12/2018	01/01/2017- 31/12/2017
<b>Fund Management Company</b>		
Paid management and performance fees	884,402	731,018
Units bought	5,915	28,715
Units sold	5,915	28,715
<b>TOTAL</b>	<b>896,232</b>	<b>788,449</b>

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

	31/12/2018	31/12/2017
<b>Fund Management Company</b>		
Management and performance fee payable	49,287	63,790

The market value of Avaron Emerging Europe Fund units owned by the shareholders of the Fund Management Company amounted to 44,957 EUR as of 31/12/2018 (31/12/2017: 51,271 EUR).

## NOTE 9. OTHER INFORMATION

### Total expense ratio (TER)

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

	TER without performance fees	TER with performance fees
A units	2.12%	2.12%
B units	1.62%	1.62%
C units	1.58%	1.67%
D units	2.37%	2.37%
E units	1.22%	1.46%

### 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 20.7% in 2018 (19.6% in 2017).

Adjusted to the Fund's inflows and outflows the Fund's portfolio turnover rate amounted to 2.6% in 2018 (32.9% in 2017).

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

Where

$$\begin{aligned} \text{Total 1} &= \sum \text{securities purchases} + \sum \text{securities sales} \\ \text{Total 2} &= \sum \text{units issued} + \sum \text{units redeemed} \end{aligned}$$

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## NOTE 10. CHANGES IN ACCOUNTING POLICIES

The following table below explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Fund's financial assets and financial liabilities as of 1 January 2018.

In EUR

	Total assets		Measurement category	Impact due to changes	Expected Credit Loss	Total assets
	according to IAS 39					according to IFRS 9
ASSETS	31/12/2017	IAS 39	IFRS 9			31/12/2017
Cash and cash equivalents	23,515,538	loans and receivables	amortised cost	-		23,515,538
Financial assets at fair value through profit or loss:						
Shares and units	57,170,202	FVTPL <sup>1</sup>	FVTPL <sup>1</sup>	-		57,170,202
Receivables and prepayments	42,066	loans and receivables	amortised cost	-		42,066
<b>TOTAL ASSETS</b>	<b>80,727,806</b>			-		<b>80,727,806</b>
<b>LIABILITIES</b>						
Financial assets at fair value through profit or loss:						
Derivatives	18,228	FVTPL <sup>1</sup>	FVTPL <sup>1</sup>	-		18,228
Other financial liabilities						
Payables to the management company	63,790	Other financial liabilities	amortised cost	-		63,790
Payables to the depository	41,132	Other financial liabilities	amortised cost	-		41,132
Other liabilities	13,917	Other financial liabilities	amortised cost	-		13,917
<b>TOTAL LIABILITIES</b>	<b>137,067</b>			-		<b>137,067</b>
<b>NET ASSETS ATTRIBUTABLE TO HOLDERS</b>	<b>80,590,739</b>					<b>80,590,739</b>

<sup>1</sup>FVTPL - Fair value through profit or loss

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## STATEMENT OF INVESTMENTS

In EUR as of 31/12/2018

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>										
BANK PEKAO SA	PLPEKAO00016	PL	S&P	BBB+	PLN	30.00	4,000,809	25.40	3,387,749	5.58%
OMV PETROM SA	ROSNPPACNOR9	RO			RON	0.06	2,977,090	0.06	3,349,140	5.52%
SC FONDUL PROPRIETATEA SA	ROFPTAACNOR5	RO			RON	0.18	3,115,211	0.19	3,235,122	5.33%
RICHTER GEDEON NYRT	HU0000123096	HU			HUF	16.10	3,015,169	16.90	3,164,865	5.21%
KOMERCNI BANKA	CZ0008019106	CZ	S&P	A	CZK	33.34	2,978,395	32.94	2,942,285	4.85%
IMMOFINANZ AG	AT0000A21KS2	AT	S&P	BBB-	EUR	18.81	2,438,073	20.90	2,709,163	4.46%
KOC HOLDING AS	TRAKCHOL91Q8	TR	S&P	BB-	TRY	2.70	3,102,825	2.34	2,692,986	4.43%
KRKA	SI0031102120	SI			EUR	59.27	2,443,758	57.80	2,383,325	3.93%
BRD GR SOCIETE GENERALE SA RON	ROBRDBACNOR2	RO	Fitch	BBB+	RON	2.17	1,847,113	2.45	2,082,208	3.43%
PKO BANK POLSKI	PLPKO0000016	PL			PLN	8.61	1,844,729	9.20	1,970,225	3.24%
ATRIUM EUROPEAN REAL ESTATE	JE00B3DCF752	JE	S&P	BBB-	EUR	3.85	2,043,639	3.23	1,716,519	2.83%
POWSZECHNY ZAKLAD UBEZP SHARE	PLPZU0000011	PL	S&P	A-	PLN	10.82	1,730,882	10.23	1,637,067	2.70%
CESKE ENERGETICKE ZAVODY AS	CZ0005112300	CZ	S&P	A-	CZK	22.29	1,709,505	20.80	1,595,430	2.63%
SNGN ROMGAZ SA	ROSNGNACNOR3	RO			RON	7.42	1,877,269	5.97	1,511,045	2.49%
BIM BIRLESIK MAGAZALAR AS	TREBIMM00018	TR			TRY	14.33	1,244,334	14.35	1,246,141	2.05%
TALLINK GRUPP AS	EE3100004466	EE			EUR	0.95	1,100,526	1.02	1,173,566	1.93%
CYFROWY POLSAT SA	PLCFRPT00013	PL	S&P	BB+	PLN	5.68	1,261,028	5.26	1,167,277	1.92%
ANADOLU HAYAT EMEKLILIK	TRAANHYT91O3	TR			TRY	1.51	1,705,335	0.99	1,120,927	1.85%
JERONIMO MARTINS SGPS SA	PTJMT0AE0001	PT			EUR	13.07	1,385,925	10.34	1,096,040	1.80%
NOVA LJUBLJANSKA BANKA DD	SI0021117344	SI	S&P	BB+	EUR	52.33	781,278	62.00	925,660	1.52%
WIRTUALNA POLSKA HOLDING SA	PLWRTPLO0027	PL			PLN	11.27	830,460	12.31	906,901	1.49%
TOFAS TURK OTOMOBIL FABRIKA	TRATOASO91H3	TR			TRY	5.04	1,639,505	2.79	905,770	1.49%
COCA-COLA ICECEK AS	TRECOLA00011	TR	Fitch	BBB-	TRY	9.86	1,554,872	5.09	803,102	1.32%
BANK HANDLOWY W WARSZAWIE	PLBH00000012	PL	Fitch	A-	PLN	17.56	833,243	16.11	764,278	1.26%
TALLINNA SADAM AS	EE3100021635	EE			EUR	1.70	556,692	2.04	668,031	1.10%
ARENA HOSPITALITY GROUP DD	HRARNTRA0004	HR			HRK	57.94	795,457	46.00	631,580	1.04%
PLAY COMMUNICATIONS SA	LU1642887738	LU			PLN	8.52	1,100,706	4.85	626,099	1.03%
HRVATSKI TELEKOM DD	HRHT00RA0005	HR			HRK	18.79	432,588	20.24	465,976	0.77%
ALIOR BANK SA	PLALIOR00045	PL	S&P	BB	PLN	11.78	442,158	12.39	465,066	0.77%
SPHERA FRANCHISE GROUP SA	ROSFGPACNOR4	RO			RON	6.64	530,420	4.24	338,887	0.56%
TURK TRAKTOR VE ZIRAAT MAKIN	TRETRK00010	TR			TRY	6.32	347,772	5.76	316,546	0.52%
LOGO YAZILIM SANAYI VE TICAR	TRALOGOW91U2	TR			TRY	14.25	658,464	4.48	206,865	0.34%
PRIME CAR MANAGEMENT SA	PLPRMCM00048	PL			PLN	10.44	446,972	2.99	128,263	0.21%
TELEKOM SPRSKE AD BANJA LUKA	BA100TLKMR2	BA			BAM	0.75	41,390	0.42	23,529	0.04%
<b>SHARES TOTAL</b>							<b>52,813,592</b>		<b>48,357,633</b>	<b>79.64%</b>

**Statement of investments as of 31/12/2018 (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	0.75	542,077	0.97	704,569	1.16%
<b>CLOSED-END FUNDS TOTAL</b>						<b>542,077</b>		<b>704,569</b>	<b>1.16%</b>
<b>SHARES AND FUNDS TOTAL</b>						<b>53,355,669</b>		<b>49,062,202</b>	<b>80.80%</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>											
	Overnight										
Swedbank AS	deposit	EE	S&P	AA- (Swedbank AB)	USD	1.1614%	31/01/2018	01/01/2019	2,031,307	2,031,373	3.35%
Luminor Bank AS	Deposit	EE	Moody's	A- (Luminor Bank AS)	EUR	0.5000%	05/10/2018	07/10/2019	900,000	901,100	1.48%
Luminor Bank AS	Deposit	EE	Moody's	A- (Luminor Bank AS)	EUR	0.4000%	05/10/2018	05/04/2019	99,999	100,097	0.17%
<b>DEPOSITS TOTAL</b>									<b>3,031,306</b>	<b>3,032,570</b>	<b>5.00%</b>

\*Accrued interest in the amount of 1,263.32 EUR has been added to the value of deposits

**Statement of investments as of 31/12/2018 (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	CZK			3,146,475		3,146,475	5.18%
CURRENT ACCOUNT		EE	Swedbank	RON			2,560,657		2,560,657	4.22%
CURRENT ACCOUNT		EE	Swedbank	PLN			985,632		985,632	1.62%
CURRENT ACCOUNT		EE	Luminor	EUR			850,025		850,025	1.40%
CURRENT ACCOUNT		EE	Swedbank	EUR			450,845		450,845	0.74%
CURRENT ACCOUNT		EE	Swedbank	BGN			397,788		397,788	0.66%
CURRENT ACCOUNT		EE	SEB	EUR			99,989		99,989	0.17%
<b>CURRENT ACCOUNT TOTAL</b>							<b>8,491,411</b>		<b>8,491,411</b>	<b>13.99%</b>
<b>DEPOSITS AND CASH TOTAL</b>							<b>11,522,717</b>		<b>11,523,981</b>	<b>18.99%</b>
<b>INVESTMENTS TOTAL</b>							<b>64,878,386</b>		<b>60,586,183</b>	<b>99.79%</b>
<b>OTHER ASSETS</b>										
RECEIVABLES FOR SECURITIES TRANSACTIONS				EUR					181,691	0.30%
DIVIDEND TAX RECLAIMS				EUR					31,626	0.05%
DIVIDEND RECEIVABLE				EUR					1,172	0.00%
<b>OTHER ASSETS TOTAL</b>									<b>214,489</b>	<b>0.35%</b>
<b>TOTAL ASSETS OF THE FUND</b>							<b>64,878,386</b>		<b>60,800,672</b>	<b>100.14%</b>
LIABILITIES									-83,459	-0.14%
<b>NET ASSETS OF THE FUND</b>									<b>60,717,213</b>	<b>100.00%</b>

## In EUR as of 31/12/2017

Name	ISIN	Emitent country	Rating agency	Rating	FX	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
<b>SHARES</b>										
<b>SHARES LISTED ON STOCK EXCHANGE:</b>										
IMMOFINANZ AG	AT0000809058	AT			EUR	2.00	4,385,819	2.15	4,715,364	5.85%
KOMERCNI BANKA	CZ0008019106	CZ	S&P	A	CZK	33.46	4,026,534	35.80	4,308,272	5.35%
PKO BANK POLSKI	PLPKO0000016	PL			PLN	8.85	3,310,680	10.61	3,968,797	4.92%
SC FONDUL PROPRIETATEA SA	ROFPTAACNOR5	RO			RON	0.17	3,220,369	0.18	3,425,664	4.25%
OMV PETROM SA	ROSNPPACNOR9	RO			RON	0.06	2,977,090	0.06	3,185,942	3.95%
TURKIYE GARANTI BANKASI	TRAGARAN91N1	TR	S&P	BB	TRY	2.26	2,734,813	2.36	2,845,806	3.53%
BRD GR SOCIETE GENERALE SA	ROBRDBACNOR2	RO	Fitch	BBB+	RON	2.26	2,230,078	2.76	2,715,191	3.37%
BANK PEKAO SA	PLPEKAO00016	PL	S&P	BBB+	PLN	29.98	2,363,765	31.00	2,444,396	3.03%
KRKA	SI0031102120	SI			EUR	59.27	2,443,758	57.50	2,370,955	2.94%
ATRIUM EUROPEAN REAL ESTATE	JE00B3DCF752	JE	S&P	BBB-	EUR	3.85	2,043,639	4.15	2,205,435	2.74%
YAPI VE KREDI BANKASI SHARE	TRAYKBNK91N6	TR	S&P	BB	TRY	1.09	2,437,985	0.95	2,127,592	2.64%
ANADOLU HAYAT EMEKLILIK SHARE	TRAANHYT91O3	TR			TRY	1.51	1,705,335	1.81	2,050,227	2.55%
TAV HAVALIMANLARI HOLDING	TRETAVH00018	TR			TRY	4.33	1,537,909	4.94	1,750,932	2.17%
SNGN ROMGAZ SA	ROSNNGNACNOR3	RO			RON	7.42	1,877,269	6.68	1,691,946	2.10%
BANK HANDLOWY W WARSZAWIE	PLBH00000012	PL	Fitch	A-	PLN	17.60	1,391,113	19.60	1,549,517	1.92%
CESKE ENERGETICKE ZAVODY AS	CZ0005112300	CZ	S&P	A-	CZK	22.29	1,709,505	19.43	1,489,888	1.85%
TALLINK GRUPP	EE3100004466	EE			EUR	0.95	1,100,526	1.25	1,445,279	1.79%
AKBANKS T.A.S	TRAAKBNK91N6	TR	Fitch	BB+	TRY	2.26	1,495,376	2.16	1,434,018	1.78%
COCA-COLA ICECEK AS	TRECOLA00011	TR	Fitch	BBB	TRY	9.86	1,554,872	7.52	1,185,820	1.47%
PLAY COMMUNICATIONS SA	LU1642887738	LU	S&P	BB	PLN	8.52	1,100,706	8.09	1,045,265	1.30%
BIM BIRLESIK MAGAZALAR AS	TREBIMM00018	TR			TRY	15.45	883,467	17.16	981,441	1.22%
ALIOR BANK SA	PLALIOR00045	PL	Fitch	BB	PLN	11.75	551,278	19.03	893,083	1.11%
NUCLEARELECTRICA SA	ROSNNEACNOR8	RO			RON	2.04	1,145,179	1.54	862,825	1.07%
WIRTUALNA POLSKA HOLDING SA	PLWRTPL00027	PL			PLN	11.27	830,460	11.61	855,597	1.06%
ARENA HOSPITALITY GROUP DD	HRARNTRA0004	HR			HRK	57.90	772,424	60.54	807,604	1.00%
ENERGA SA	PLENERG00022	PL	Fitch	BBB	PLN	3.09	726,709	3.05	716,354	0.89%
LOGO YAZILIM SANAYI VE TICAR	TRALOGOW91U2	TR			TRY	14.25	658,464	12.91	596,666	0.74%
AKCANSI CIMENTO SANAYI VE TICA	TRAAKNS91F3	TR			TRY	2.89	685,232	2.39	567,448	0.71%
HRVATSKI TELEKOM DD	HRHT00RA0005	HR			HRK	18.79	432,588	22.25	512,393	0.64%
SPHERA FRANCHISE GROUP SA	ROSFGPACNOR4	RO			RON	6.55	382,125	8.69	507,146	0.63%
RICHTER GEDEON NYRT	HU0000123096	HU			HUF	12.06	268,193	21.81	485,165	0.60%
PRIME CAR MANAGEMENT SA	PLPRMCM00048	PL			PLN	10.44	446,972	6.83	292,690	0.36%
KOMERCIJALNA BANKA AD SKOPJE S	MKKMBS101019	MK			MKD	62.23	204,491	44.84	147,330	0.18%
TELEKOM SPRSKE AD BANJA LUKA	BA100TLKMRA2	BA			BAM	0.74	172,174	0.54	125,414	0.16%
<b>SHARES TOTAL</b>							<b>53,806,898</b>		<b>56,307,462</b>	<b>69.87%</b>

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

Name	ISIN	Fund country	Fund Management Company	FX	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
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**FUNDS:**

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

ADVANCE TERRAFUND SHARE	BG1100025052	BG	KAROLL FINANCE	BGN	0.66	265,179	1.12	450,384	0.56%
BULGARIA REAL ESTATE FUND	BG1100001053	BG	REAL ESTATE MANAGEMENT LTD	BGN	0.52	189,792	1.14	412,358	0.51%

<b>CLOSED-END FUNDS TOTAL</b>						<b>454,971</b>		<b>862,742</b>	<b>1.07%</b>
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<b>SHARES AND FUNDS TOTAL</b>						<b>54,261,869</b>		<b>57,170,202</b>	<b>70.94%</b>
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Name	ISIN	Emitent country	Rating agency	Rating	FX	Maturity	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
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**DERIVATIVES**

Currency Forward TRY/EUR Swedbank AS		EE	S&P	AA- (Swedbank AB)	TRY	12/01/2018			-18,228	-0.02%
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<b>DERIVATIVES TOTAL</b>									<b>-18,228</b>	<b>-0.02%</b>
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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
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**DEPOSITS\***

Swedbank AS	Overnight deposit	EE	S&P	AA-	USD	0.9304%	29/12/2017	30/12/2017	1,923,381	1,923,431	2.39%
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<b>DEPOSITS TOTAL</b>									<b>1 923 381</b>	<b>1,923,431</b>	<b>2.39%</b>
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\*Accrued interest in the amount of 49.71 EUR has been added to the value of deposits

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

Name	ISIN	Credit Institution's country	Credit institution	FX	Interest rate	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's net assets
<b>CASH</b>										
CURRENT ACCOUNT		EE	Luminor	EUR			12,357,587		12,357,587	15.33%
CURRENT ACCOUNT		EE	Swedbank	CZK			2,425,550		2,425,550	3.01%
CURRENT ACCOUNT		EE	Swedbank	RON			2,112,714		2,112,714	2.62%
CURRENT ACCOUNT		EE	Swedbank	PLN			1,888,937		1,888,937	2.34%
CURRENT ACCOUNT		EE	Swedbank	TRY			1,500,808		1,500,808	1.87%
CURRENT ACCOUNT		EE	Swedbank	EUR			780,589		780,589	0.97%
CURRENT ACCOUNT		EE	Swedbank	HUF			413,468		413,468	0.51%
CURRENT ACCOUNT		EE	Swedbank	BGN			83,774		83,774	0.10%
CURRENT ACCOUNT		EE	Swedbank	RSD			28,730		28,730	0.04%
<b>CURRENT ACCOUNT TOTAL</b>							<b>21,592,157</b>		<b>21,592,157</b>	<b>26.79%</b>
<b>DEPOSITS AND CASH TOTAL</b>							<b>23,515,538</b>		<b>23,515,588</b>	<b>26.79%</b>
<b>INVESTMENTS TOTAL</b>							<b>77,777,407</b>		<b>80,667,562</b>	<b>100.10%</b>
<b>OTHER ASSETS</b>										
DIVIDEND TAX RECLAIMS				EUR					19,668	0.02%
RECEIVABLES FOR UNITS SUBSCRIBED				EUR					16,786	0.02%
DIVIDEND RECEIVABLE				EUR					5,562	0.01%
<b>OTHER ASSETS TOTAL</b>									<b>42,016</b>	<b>0.05%</b>
<b>TOTAL ASSETS OF THE FUND</b>							<b>77,777,407</b>		<b>80,709,578</b>	<b>100.15%</b>
LIABILITIES									-118,839	-0.15%
<b>NET ASSETS OF THE FUND</b>									<b>80,590,739</b>	<b>100.00%</b>

## STATEMENT OF COMMISSIONS

In EUR

01/01/2018-31/12/2018

	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.	10	4,971,140	2,753	0.06%
Dom Maklerski mBanku	13	4,478,802	3,582	0.08%
Erste Group Bank AG	18	4,295,504	4,362	0.10%
Raiffeisen Centrobank AG	7	1,432,475	2,283	0.16%
Dom Maklerski BZ WBK	2	670,632	402	0.06%
Wood and Company Financial Services a.s.	9	597,361	656	0.11%
Swiss Capital S.A.	1	406,609	815	0.20%
AS SEB Pank	2	405,341	609	0.15%
Karoll AD	1	397,788	1,598	0.40%
Santander Biuro Maklerskie	2	307,383	185	0.06%
ILIRIKA Investments AD Skopje	1	275,605	5,140	1.87%
Raiffeisen CAPITAL a.d. Banjaluka	4	81,898	577	0.70%
Intercapital	1	60,999	140	0.23%
<b>Third country securities market transactions</b>				
<b>Shares</b>				
BGC Partners Turkey	31	9,851,446	5,910	0.06%
TEB Yatirim Menkul Degerler A.S.	3	1,068,873	802	0.08%
<b>OTC trades</b>				
<b>IPO</b>	2	1,545,850	-	-
<b>Corporate Action</b>	4	736,374	-	-
<b>Exchange offer</b>	1	1,121,578	2,586	0.23%
<b>TOTAL</b>	<b>112</b>	<b>32,705,658</b>	<b>32,400</b>	<b>0.10%</b>

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

Fund executes all securities transactions at net price. In acquisition, the commission fee is included in the acquisition cost and in disposal, the commission is deducted from the sale amount.

In EUR

01/01/2017-31/12/2017

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

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

Fund executes all securities transactions at net price. In acquisition, the commission fee is included in the acquisition cost and in disposal, the commission is deducted from the sale amount.



## REPORT ON REMUNERATION OF THE FUND MANAGEMENT COMPANY

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

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

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

The Fund Management Company employed 20 specialists as at the end of 2018 (end-2017: 17 specialists). Total remuneration amounted to:

In EUR

	<b>2018</b>	<b>2017</b>
Wages and salaries	434,144	372,108
Social tax and unemployment insurance contributions	142,481	122,145
<b>Total</b>	<b>576,625</b>	<b>494,253</b>
incl. bonus program cost with applicable taxes	26,492	26,225

The Members of the Management Board did not receive extra remuneration for participating in the work of the managing bodies. Independent member of the Supervisory Board was paid, in total with applicable social tax, EUR 4,788 in the financial year 2018 (2017: 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 Shareholders 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 2018, 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 9 to 32, present fairly, in all material respects, the financial position of the Fund as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Estonia, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Management 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, 04 April 2019

/signature/

Eero Kaup  
Certified Public Accountant, Licence No 459

KPMG Baltics OÜ  
Licence No 17