

## Investment Objectives & Approach

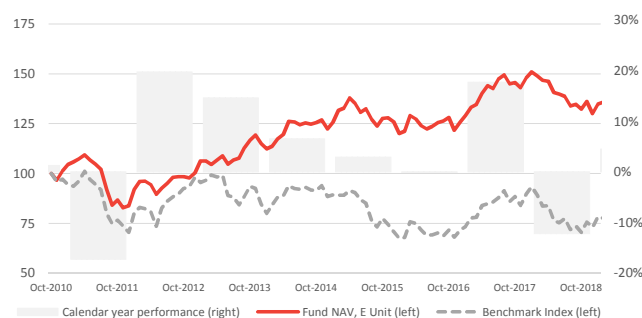
The Fund invests actively in listed equities of European Union new member states and accession countries (Emerging Europe, ex Russia). Benchmark agnostic, it emphasizes bottom-up, value oriented stock picking with a strong small and mid-cap bias. The Fund's investment objective is to maximise upside 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, February 2019

Strong performance of global equities continued in February (MSCI World +2.8% in \$, +3.5% in €), while Emerging Markets underperformed (+0.1% in \$, +0.8% in €). Emerging Europe ex-Russia lost 0.9% in € terms amid weak performance of Poland (-1.7%) and Hungary (-1.2%). Romania (+10.2%) and Greece (+11.5%) both staged a relief rally after having underperformed the rest of the region. Greek asset prices rose amid the expectation of Moody's upgrade in the sovereign rating to B1 that should support the government's plans to tap the markets with a 10-year bond in March. Romania rebounded as the comments from officials imply a slightly more accommodative stance towards the banking sector asset tax compared to the initial scheme. Avaron Emerging Europe Fund gained 0.7% in February, outperforming the benchmark due to underweight in Poland and overweight in Romania. Earnings season in Emerging Europe is in full swing. 23 companies out of the 35 in the portfolio published their Q4 results posting 21% YoY aggregate earnings growth on FX adjusted basis (+13% in € terms). Positioning of the Fund is conservative with 17% of cash in the portfolio and underweight in the high beta Turkish equities. Such stance is a reflection of our modest bottom-up estimates for corporate earnings growth amid maturing economic cycle and slowing growth. As a result of our bottom-up process the Fund is currently strongly overweight in Romania, and underweight in Poland, Turkey, Greece and Hungary. Romanian stocks are in our view attractively valued with MSCI Romania trading at 8.0x 1YR FWD P/E albeit corporate profits are expected to contract in 2019.

To receive detailed fund manager comment please send a request to [info@avaron.com](mailto:info@avaron.com).

## Performance, E Unit



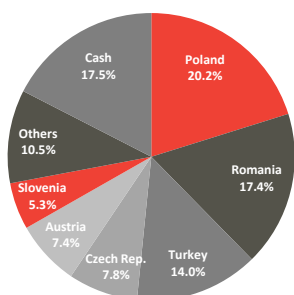
Past performance is not a guarantee or indicative of future results.

Perf overview	Net return E Unit	Index return*
1 month	0.7%	-0.9%
YTD	4.5%	6.2%
3 months	-0.3%	2.7%
6 months	1.3%	8.0%
1 year	-8.9%	-13.0%
3 years	12.0%	14.2%
5 years	19.4%	-7.9%
7 years	41.4%	-6.5%
8 years	28.4%	93.7%

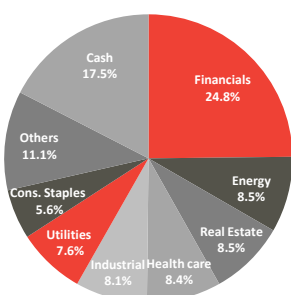
\* MSCI EFM EUROPE + CIS (E+C) ex Russia

Calendar year return, E Unit			
Year	Gross	Net	Index*
2018	-10.9%	-12.2%	-18.6%
2017	19.2%	17.7%	25.3%
2016	2.1%	-0.1%	1.2%
2015	6.7%	2.9%	-20.0%
2014	9.4%	6.5%	4.7%
2013	18.5%	14.6%	-13.9%
2012	21.1%	19.7%	39.3%
2011	-16.3%	-17.3%	-27.5%

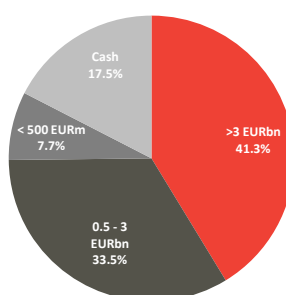
## Geographic breakdown



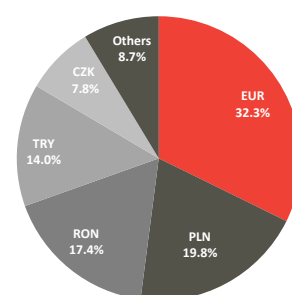
## Sector breakdown



## Market Cap breakdown



## Net currency breakdown



## Country allocation

	Feb-19	Change					Contribution analysis					
		1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Poland	20.2%	-0.1%	0.2%	4.9%	2.8%	15.7%	-0.2%	1.2%	-1.7%	0.9%	4.1%	4.5%
Romania	17.4%	1.4%	-2.5%	1.9%	-0.5%	2.4%	1.4%	-2.3%	0.0%	0.7%	7.2%	8.8%
Turkey	14.0%	0.6%	1.9%	-2.4%	-6.2%	-7.8%	0.0%	1.5%	-7.1%	1.9%	-5.9%	7.5%
Czech Rep.	7.8%	0.2%	0.3%	0.9%	-2.5%	0.6%	0.2%	0.3%	0.5%	0.6%	3.8%	3.5%
Austria	7.4%	-0.2%	-0.1%	-0.1%	-11.5%	-4.0%	-0.2%	0.2%	0.7%	0.4%	7.1%	5.9%
Slovenia	5.3%	0.0%	0.3%	2.5%	1.8%	1.2%	0.0%	0.3%	0.4%	0.0%	0.3%	0.4%
Hungary	4.6%	-0.4%	-0.6%	2.6%	3.3%	1.2%	-0.4%	0.2%	0.2%	0.1%	0.4%	1.1%
Baltics	3.0%	-0.1%	-0.2%	1.3%	0.4%	-3.1%	-0.1%	-0.1%	0.0%	0.0%	0.8%	1.2%
Croatia	1.8%	0.0%	0.0%	0.2%	1.8%	1.8%	0.0%	0.0%	-0.3%	0.0%	0.0%	0.0%
Others	1.2%	2.3%	3.0%	2.0%	3.5%	5.7%	0.0%	0.0%	0.0%	0.0%	0.5%	1.5%

## Sector allocation

		Change					Contribution analysis					
		1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Financials	24.8%	0.4%	-0.7%	-4.6%	-19.0%	4.5%	0.4%	-0.4%	-7.2%	0.5%	4.2%	10.5%
Energy	8.5%	0.5%	-1.2%	2.2%	-1.2%	3.4%	0.5%	-1.0%	0.5%	0.8%	4.3%	3.6%
Real Estate	8.5%	-0.2%	-0.7%	0.1%	-3.7%	-3.5%	-0.2%	0.2%	0.6%	0.3%	2.4%	2.9%
Health care	8.4%	-0.4%	-0.5%	3.5%	3.5%	2.3%	-0.4%	0.4%	0.3%	0.1%	0.8%	1.3%
Industrial	8.1%	0.8%	2.0%	5.7%	3.5%	8.1%	0.3%	1.2%	1.1%	1.5%	1.8%	1.9%
Utilities	7.6%	0.3%	-1.2%	0.1%	-5.7%	-7.6%	0.3%	-0.5%	0.2%	-0.1%	3.9%	5.0%
Consumer Staples	5.6%	0.0%	0.6%	3.0%	5.6%	3.5%	0.0%	0.7%	-0.3%	0.6%	0.8%	2.8%
Communication	5.5%	0.0%	0.7%	1.0%	5.0%	-0.2%	0.0%	0.7%	-0.2%	0.4%	0.0%	0.4%
Others	5.7%	0.7%	0.6%	4.0%	-0.6%	-6.5%	-0.1%	0.1%	-2.2%	0.5%	-0.1%	6.1%

## Style allocation

		Change					Contribution analysis					
		1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Cyclical	48.6%	1.6%	0.1%	4.5%	-6.8%	14.9%	1.0%	0.1%	-7.7%	3.4%	7.5%	17.3%
Non-cyclical	20.5%	-0.4%	-0.2%	6.0%	3.7%	-4.6%	-0.4%	1.6%	0.0%	1.1%	5.0%	9.1%
Asset play	13.5%	0.2%	-1.2%	1.1%	-3.5%	1.1%	0.2%	-0.3%	0.5%	0.2%	4.4%	6.8%
Convertible bonds	0.0%	0.0%	0.0%	0.0%	0.0%	-7.4%	0.0%	0.0%	0.0%	0.0%	0.0%	-1.2%
High yield bonds	0.0%	0.0%	0.0%	0.0%	-5.9%	0.0%	0.0%	0.0%	0.0%	0.0%	1.2%	2.3%
FX Derivatives	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
Cash	17.5%	-1.3%	1.3%	-11.6%	12.5%	-4.0%	0.0%	0.0%	-0.3%	-0.1%	-0.5%	-0.5%

## Risk metrics

	5Y risk*
Alpha	4%
Volatility & stand. deviation	9.4%
Beta	0.46
Sharpe ratio	0.41
Information ratio	0.50
Tracking error	10.5%

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

## Fund statistics

Number of positions	35
Top10	46.7%
Top20	68.8%
Gross exposure	82.5%
Net exposure	82.5%
Concentration coefficient	34
Median market cap MEUR	1746
Average market cap MEUR	2913

## Turnover

	Adj*
FY 2018	20.7%
FY 2017	28.5%
FY 2016	17.7%

\*Adjusted for fund flows

Liquidity analysis*		
	20%	50%
3 days	67.0%	76.7%
2 weeks	80.9%	93.7%
4 weeks	91.4%	97.1%

\*Proportion of portfolio that can be turned into cash based on past 6 month average trading volume if Fund accounted for 20% & 50% of trading volume

## Fund Facts - Avaron Emerging Europe Fund

<b>Investment Manager</b>	AS Avaron Asset Management
<b>Fund type</b>	UCITS V, public common investment fund
<b>Launch date</b>	April 23, 2007
<b>Domicile</b>	Estonia
<b>Currency</b>	EUR
<b>Dividends</b>	reinvested
<b>Fund size, MEUR</b>	62.9
<b>Total AUM, MEUR</b>	400+

**TER 2018** 0.37% (excluding management and performance fees)

	NAV	TER 2018	TER 2018
	28-Feb-2019	excl. perf fee	incl. perf fee
<b>B unit</b>	4.7810 EUR		
<b>C unit</b>	16.1797 EUR	1.58%*	1.67%*
<b>D unit</b>	13.4890 EUR	2.37%	2.37%
<b>E unit</b>	13.5751 EUR	1.22%	1.46%

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

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

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

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

### Contact Information

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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 20 professionals (including 11 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 Kivunurm-Priisalm**  
Managing Partner,  
CEO & COO



**Peter Priisalm**  
Partner, co-CIO,  
Investment Manager



**Valdur Jaht**  
Partner, co-CIO,  
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