

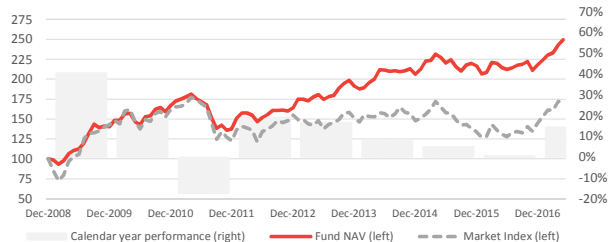
## Investment Objectives & Approach

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.

## Performance



Past performance is not a guarantee or indicative of future results. The Fund was launched in 2007 as a small cap fund. From 2009 it operates as an all cap fund with small and mid-cap bias.

Top 10 positions	Country	Sector	Market Cap MEUR	% of assets	Perf EUR 1 mo	Contr to return
Immofinanz AG	AT	Real Estate	1951	6.3%	4.7%	0.3%
Komercni Banka AS	CZ	Financials	6736	6.2%	-0.3%	0.0%
SC Fondul Proprietatea SA	RO	Utilities	2011	5.4%	0.7%	0.0%
OMV Petrom SA	RO	Energy	4085	5.1%	6.4%	0.3%
PKO Bank Polski SA	PL	Financials	10915	4.8%	4.6%	0.2%
BRD-Groupe Societe Generale	RO	Financials	1980	4.3%	13.4%	0.5%
Turkiye Garanti Bankasi	TR	Financials	10159	3.7%	-2.2%	-0.1%
Yapi Ve Kredi Bankasi	TR	Financials	4819	3.6%	-0.2%	0.0%
Bank Pekao SA	PL	Financials	8663	3.4%	-0.8%	0.0%
KRKA	SI	Health Care	1771	3.2%	3.3%	0.1%
10 largest positions total				45.9%		1.4%

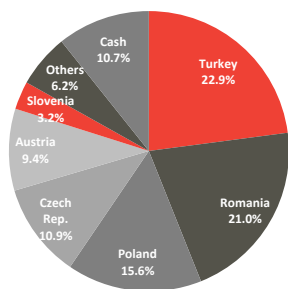
Perf overview	Fund net return	Index return*
1 month	2.7%	-0.2%
YTD	14.4%	18.5%
3 months	8.1%	6.4%
6 months	18.2%	27.3%
1 year	16.2%	31.1%
2 years	9.6%	3.8%
3 years	17.6%	8.6%
4 years	38.0%	16.0%
5 years	69.9%	41.2%
7 years	69.7%	16.6%

Calendar year return	Gross	Net	Index*
2016	2.1%	0.6%	8.2%
2015	6.7%	5.0%	-9.6%
2014	9.4%	7.8%	-2.1%
2013	18.5%	16.7%	-2.4%
2012	21.1%	19.2%	26.5%
2011	-16.3%	-17.6%	-24.3%
2010	20.8%	18.9%	13.4%
2009	42.6%	40.4%	42.6%

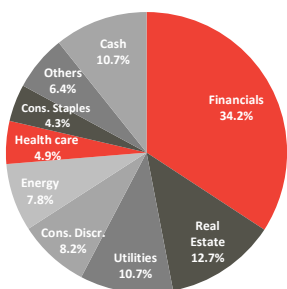
CAGR of calendar years	Fund	Index*
2015-2016	2.8%	-1.1%
2014-2016	4.4%	-1.4%
2012-2016	9.7%	3.4%

\* MSCI EFM Central and Eastern Europe & CIS ex Russia

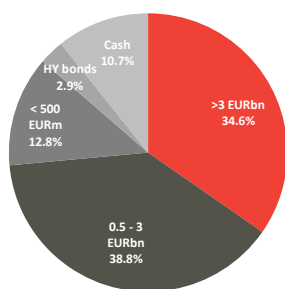
## Geographic breakdown



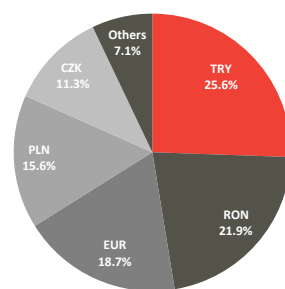
## Sector breakdown



## Market Cap breakdown



## Net currency breakdown



## Country allocation

	May-17	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Turkey	22.9%	-0.5%	-0.1%	7.1%	-0.4%	18.1%	0.2%	2.1%	0.0%	3.6%	1.9%	13.3%
Romania	21.0%	0.5%	0.7%	7.8%	5.4%	4.8%	1.4%	2.4%	7.4%	4.7%	7.1%	20.9%
Poland	15.6%	0.9%	3.9%	5.2%	11.7%	6.4%	0.2%	0.9%	3.7%	2.9%	3.9%	5.5%
Czech Rep.	10.9%	0.1%	0.3%	2.2%	4.1%	-8.2%	0.5%	1.0%	1.3%	1.6%	2.4%	5.9%
Austria	9.4%	0.1%	-3.2%	-7.2%	-3.9%	3.8%	0.4%	1.8%	4.4%	1.6%	5.4%	10.3%
Slovenia	3.2%	0.0%	0.0%	-0.3%	-0.7%	-0.5%	0.1%	0.1%	-0.2%	0.1%	-0.7%	2.6%
Croatia	1.9%	1.1%	1.0%	1.9%	1.9%	0.0%	0.1%	0.1%	0.3%	0.2%	0.3%	0.3%
Baltics	1.6%	-0.1%	-0.1%	-0.6%	-3.5%	-0.7%	0.0%	0.0%	0.0%	0.1%	1.0%	2.6%
Bulgaria	1.3%	0.0%	0.0%	-0.2%	-0.7%	-9.9%	0.1%	0.0%	0.3%	0.1%	0.3%	8.3%
Others	1.4%	2.1%	2.0%	2.6%	7.0%	13.0%	0.0%	0.0%	0.6%	0.4%	1.9%	13.7%

## Risk metrics

	3Y risk*
Alpha	4%
Volatility & stand. deviation	9.8%
Beta	0.43
Sharpe ratio	0.58
Information ratio	0.24
Tracking error	11.5%

\* MSCI EFM Central and Eastern Europe & CIS ex Russia

## Sector allocation

	May-17	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Financials	34.2%	0.1%	-1.9%	5.2%	11.9%	9.1%	0.3%	3.7%	8.2%	6.9%	8.0%	35.0%
Real Estate	12.7%	0.1%	0.4%	-0.6%	0.5%	2.6%	0.5%	1.0%	0.1%	0.5%	1.7%	8.7%
Utilities	10.7%	-0.1%	-1.0%	0.3%	-3.5%	-1.0%	0.2%	0.4%	3.0%	2.1%	2.6%	11.1%
Cons. Discr.	8.2%	1.3%	1.5%	3.4%	-2.6%	-3.7%	0.5%	0.8%	1.2%	1.5%	4.3%	11.0%
Energy	7.8%	0.7%	1.5%	0.6%	0.1%	3.7%	0.5%	1.1%	3.6%	1.8%	2.8%	5.1%
Health care	4.9%	-0.2%	0.0%	0.5%	-1.4%	1.2%	0.3%	0.5%	0.4%	0.6%	0.1%	4.6%
Consumer Staples	4.3%	0.1%	2.0%	4.3%	2.7%	2.6%	0.3%	0.7%	0.3%	0.8%	2.5%	2.9%
Industrial	2.8%	0.3%	0.2%	-1.2%	2.8%	1.0%	0.3%	0.4%	0.3%	0.5%	0.6%	2.3%
Others	3.6%	4.9%	4.9%	3.5%	-1.0%	-5.0%	0.0%	0.0%	0.7%	0.5%	1.0%	2.9%

## Fund statistics

Number of positions	38
Top10	45.9%
Top20	71.2%
Gross exposure	89.3%
Net exposure	89.0%
Concentration coefficient	32
Median market cap MEUR	1541
Average market cap MEUR	2467

## Style allocation

	May-17	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Cyclical	49.7%	2.1%	-0.6%	9.2%	12.3%	22.7%	1.2%	5.0%	11.0%	8.6%	10.9%	33.2%
Non-cyclical	18.3%	0.2%	2.0%	4.6%	-5.1%	-6.9%	1.3%	2.2%	3.7%	3.9%	6.0%	14.7%
Asset play	18.1%	0.0%	2.5%	3.5%	6.9%	-2.5%	0.5%	1.3%	2.0%	1.8%	4.5%	22.4%
Convertible bonds	0.0%	0.0%	0.0%	0.0%	-7.9%	-4.8%	0.0%	0.0%	0.0%	0.0%	-0.7%	8.4%
High yield bonds	2.9%	-0.2%	-1.3%	-1.8%	2.9%	-7.4%	0.0%	0.1%	0.9%	0.5%	2.5%	3.8%
FX Derivatives	0.2%	-0.1%	0.0%	0.2%	0.2%	0.2%	-0.1%	0.0%	0.3%	0.3%	0.3%	1.0%
Cash	10.7%	-2.2%	-2.5%	-15.8%	-9.3%	-1.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

## Turnover

	Adj*
FY 2016	17.7%
FY 2015	22.2%
FY 2014	47.9%

\* Adjusted for fund flows

## Liquidity analysis\*

	20%	50%
3 days	63.5%	77.3%
2 weeks	82.4%	95.6%
4 weeks	93.6%	98.1%

\* 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>	Open-ended, UCITS-IV
<b>Launch date</b>	April 23, 2007
<b>Domicile</b>	Estonia
<b>Currency</b>	EUR
<b>Dividends</b>	reinvested
<b>Fund size, MEUR</b>	68.6
<b>Total AUM, MEUR</b>	501.8
<b>Strategy size, MEUR</b>	482.3

**TER 2016** 0.28% (excluding management and performance fees)

	<b>ISIN Code</b>	<b>NAV 31-May 2017</b>
<b>A unit</b>	EE3600090049	4.8165 EUR
<b>B unit</b>	EE3600090056	5.0907 EUR
<b>C unit</b>	EE3600102901	17.3115 EUR
<b>D unit</b>	EE3600108866	14.5588 EUR
<b>E unit</b>	EE3600108874	14.3981 EUR

**A & B units** only for investors who owned units as of May 30, 2009

**C, D & E units** for all investors

<b>Cut-off</b>	10am CET
<b>NAV frequency</b>	Daily dealing, T+3
<b>Public offering</b>	France, Switzerland, Germany, Finland, Sweden, Estonia, Latvia
<b>Morningstar rating</b>	Yes, five stars (3 years & 5 years)
<b>Tax transparency</b>	Germany
<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>	Deloitte
<b>Internal auditor</b>	PWC
<b>Fund documents &amp; prospectus</b>	<a href="http://www.avaron.com/documents">www.avaron.com/documents</a>

Unit class	D (Retail)	C (Institutional)	E (Institutional)
<b>Min. initial investment</b>	-	125,000 EUR	1M EUR
<b>Front-end load</b>	2%	-	-
<b>Management fee</b>	2%	1.25%	0.85%
<b>Performance fee (unit based)</b>	-	10% over 12-month EURIBOR, HWM	15% over MSCI EFM CEEC ex-Russia Index, annual reset (June 30)
<b>Back-end load</b>	-	-	-

#### Bloomberg tickers

A unit: AVAEESA  
 B unit: AVAEESB  
 C unit: AVAEESC  
 D unit: AVEMEUD  
 E unit: AVEMEUE

See Lipper, TK Valoren tickers:  
[www.avaron.com/fundfacts\\_aef](http://www.avaron.com/fundfacts_aef)

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#### About Avaron Asset Management

Avaron Asset Management is an independent management-owned asset manager with a clear focus on Emerging Europe listed equities and fixed income. Our 8 investment professionals, in Estonia and Poland, focus on active investment management. In total 14 professionals are employed by Avaron.

We combine top down macroeconomic and sector analysis with bottom-up research. We source investment ideas through in-house proprietary research on approximately 300 companies, backed by regular visits and meetings. We seek inefficiencies in the valuation of companies' equity and debt with the aim to invest in well managed companies with leading market positions, highly motivated and dynamic management teams and competitive edge. Our preference goes to investments with attractive risk/return.

We adhere to the *UN Principles for Responsible Investment* (PRI) and are supervised by the Estonian Financial Supervision Authority.



**Kristel Kivimurm-Priisalm**  
 Managing Partner,  
 CEO & COO



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



**Valdur Jaht**  
 Partner, co-CIO,  
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### Short overview of the month

**Global equities delivered solid returns in May** as MSCI World was up 1.8% in \$. In euro terms the performance was negative (-1.4%) as the euro gained on the dollar for the second month in row amid increasing inflationary pressures in the Eurozone. During the month the dollar lost 3.1% against the euro. Emerging Market equities continued to head north, up 2.8% in May and 16.6% YTD in \$ (-0.4% and +9.1% in €, respectively).

**Emerging Europe (MSCI EFM CEEC ex-RU) delivered -0.2% return in May** as Polish equity market pared losses after the strong performance in the first four months of 2017. Emerging Europe currencies moved in sync with the historical correlation to the euro-dollar changes with the exception of Romanian leu that lost 0.8% against the euro.

Country / Returns	in local FX	in euros	in euros	in euros	in euros	in euros
US	1.2%	-2.0%	0.8%	13.9%	52.0%	106.5%
Europe	1.0%	1.0%	10.0%	19.2%	18.7%	91.0%
Emerging Markets	2.8%	-0.4%	9.1%	23.3%	18.6%	22.5%
Emerging Europe*	-0.2%	-0.2%	18.5%	31.1%	8.6%	41.2%
Poland	-2.5%	-1.5%	22.3%	37.4%	14.4%	69.4%
Czech Republic	-0.5%	1.3%	11.5%	15.0%	1.8%	11.6%
Hungary	4.8%	6.4%	8.4%	32.5%	76.1%	96.8%
Baltics	-0.5%	-0.5%	3.2%	9.2%	25.1%	48.9%
Romania	6.5%	5.9%	23.0%	36.4%	25.2%	77.9%
Bulgaria	0.6%	0.6%	12.8%	49.8%	9.3%	123.6%
Croatia	-2.0%	-1.3%	-4.8%	10.5%	12.1%	15.5%
Slovenia	2.0%	2.0%	11.2%	13.1%	-1.9%	46.4%
Serbia	0.7%	1.2%	2.0%	18.4%	16.9%	53.4%
Macedonia	3.9%	3.9%	5.7%	32.0%	28.7%	8.4%
Bosnia & Herzeg.	-0.1%	-0.1%	-10.3%	-11.5%	-13.4%	-14.1%
Turkey	3.0%	0.5%	16.5%	3.7%	-11.4%	2.5%
Austria	3.8%	3.8%	19.3%	38.2%	23.5%	58.7%

Source: Thomson Reuters. \* MSCI EFM Central and Eastern Europe & CIS (CEEC) ex Russia

Local currencies to euro	Last month	Year to date	1 year	2 years	3 years	5 years
Poland	1.2%	5.3%	5.0%	-1.6%	-0.9%	5.1%
Hungary	1.5%	0.4%	1.8%	0.4%	-1.5%	-2.4%
Czech	1.9%	2.5%	2.6%	4.0%	4.2%	-2.4%
Romania	-0.8%	-0.7%	-1.1%	-2.8%	-4.0%	-1.8%
Croatia	0.7%	1.7%	1.0%	2.0%	2.0%	1.8%
Serbia	0.5%	0.6%	0.4%	-1.7%	-5.6%	-3.6%
Turkey	-2.4%	-6.5%	-17.2%	-26.2%	-27.9%	-41.8%

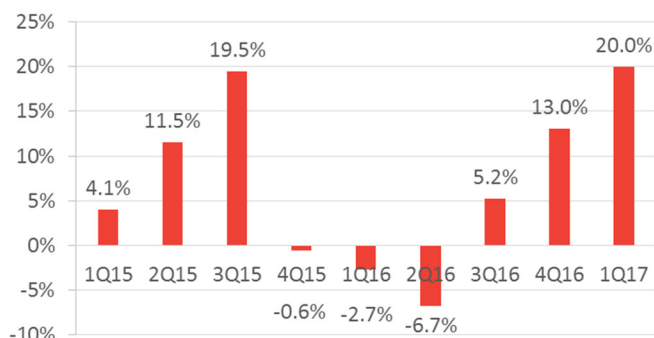
Source: Thomson Reuters

**Avaron Emerging Europe Fund gained 2.7% in May**, outperforming the regional index due to heavy OW in Romania. In 5 years the Fund has delivered +69.9% return vs. +41.2% for the index with lower volatility (9.3% vs. 16.0% for the index), resulting in 6.5% alpha.

### Review of Q1 earnings

Q1 earnings of Emerging Europe listed names were strong on the back of stellar macro environment. **Excluding the revaluation affected asset driven companies** (real estate investments and Romanian restitution fund Fondul Proprietatea that account for 18.1% of the portfolio) **the aggregate adjusted earnings of our portfolio companies grew 20.0% yoy in €**. Financials in our portfolio (29.6% of the Fund) delivered another strong quarter posting 28.5% yoy earnings growth in €. Non-financials (38.5% of the portfolio) reported 11.0% yoy earnings growth in € terms on the back of continuing cyclical upswing in the region.

Adj. YoY EPS growth of the portfolio companies



**Our equity holdings in Turkey (20.0% of the portfolio) posted 17.2% aggregate earnings growth in local currency (lc)**, while lower Turkish lira pushed the bottom line into red in € terms (-17.5% yoy). Banks we hold (7.3% of the portfolio) delivered a very strong quarter with aggregate net earnings up 44% yoy in lc, while non-financials excluding the real estate company IS REIT (2.0% of the portfolio) posted +20.0% yoy in lc. IS REIT Q1 figures were slightly weaker than expected on higher vacancy rate due to the renovation of one of the office buildings in Ankara and one anchor tenant leaving Istanbul Is Tower. Thus, rental income was down 5% in lc yoy, while 6x higher revenue from housing sales pushed the top line up 19% yoy. However, the cost of sold residential units was slightly higher than expected resulting 8% yoy drop in EBITDA. High FX and interest costs on increased FX leverage pushed the bottom line down 59% yoy. For 2017 we expect IS REIT to post almost 2x higher net profit on revaluation adjusted basis. The company trades at 0.4x P/NAV and offers 6% DY.

Our largest banking sector holding in Turkey, Garanti (3.7% of the portfolio), posted better than expected net earnings (+46% yoy in lc) on very strong NPL collection performance and despite booking TL200mil additional general provisions. Net interest income was up 25% yoy on the back of 19% yoy loan growth and strong contribution from CPI linkers. Net fees were up 12%, while OPEX grew 13% yoy. For 2017 we expect the bank to deliver high single-digit operating income and net earnings growth. Garanti trades at 7.1x 2018f P/E, 0.9x P/B with 13-14% expected ROE.

**Romanian companies excluding Fondul (21.0% of the portfolio) posted very strong aggregate earnings growth, up 69% yoy in lc**. Main contributors to the stellar performance were bank BRD-GSG (4.3% of the portfolio) and integrated oil and gas company Petrom (5.1% of the portfolio). The net earnings of BRD were up 4.5x yoy on strong provision reversals as risk costs continue to normalize. Net interest income of the bank was up 5% yoy, while fee generation disappointed, down 7% yoy. On the back of continuing efficiency improvements OPEX was down 5% yoy. With loan-deposit ratio at 0.76 and a strong retail franchise, the bank is poised to show solid growth going forward in the robust Romanian macro environment (GDP growth outlook of 4%+ for 2017). For 2017-18 period we expect the net earnings to grow 26%. BRD-GSG is trading at 9.5x 2018f P/E, 1.2x P/B with expected ROE of 13% and DY of 7%.

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Signatory of:



Petrom delivered a strong quarter on higher crude and gas prices and favourably cold weather that boosted demand in Q1. EBITDA grew 36% yoy, while net earnings were up 2.1x beating consensus by a wide margin. Based on our expectation of \$55/bbl crude price for 2017-18 the company should be able to deliver 44% higher EBITDA after considerable efficiency improvements over the past few years. Pencilling in 38% higher CAPEX over the same period Petrom should still deliver double-digit free cash flow yield resulting in 6-7% DY. The company trades at 6.2x 2018f P/E and 2.2x EV/EBITDA with zero net debt in the balance sheet.

**Our Polish holdings (15.6% of the portfolio) recorded 5.8% yoy earnings contraction in 1c terms** as results were mixed across the board. Local banks we own posted 5.4% decline in aggregate net earnings, while the largest position in Poland, bank PKO (4.8% of the portfolio) delivered 7% yoy net profit growth. Net interest income of the bank was up 10% yoy, fee income 12% yoy but the OPEX growth outpaced the top line advancing 15% yoy. Risk costs were only slightly higher, up 2% yoy. PKO trades at 16.2x 2018f P/E (12.1x excluding the banking tax burden), 1.2x P/B with 8% expected ROE and 3% DY. For 2017-18 we expect mid to high single-digit p.a. earnings growth for the bank.

**Among our largest holdings in the Fund the regional real estate company Immofinanz (6.3% of the portfolio) reported operationally solid quarter.** Rental income was slightly down yoy driven by disposals, while like-for-like figure was up 3.7%. Rental income from Russia improved 16.6% yoy, largely currency related. Occupancy ratio of the portfolio was up to 91.9% from 89.2% end-Q4 (Moscow at 88.3% from 87.7%). On the flipside the result from development activities was negative as the company booked further additional costs related to Gerling Quartier residential project in Cologne. In the absence of revaluation losses and hefty mark-to-market gains from the 26.5% CA Immo stake net earnings from continuing operations jumped to €102mil vs. -€139mil a year earlier. We expect Immofinanz to finalise the sale of its Russian assets this year, which would pave the way for the merger with CA Immo, and should significantly narrow the discount to NAV that currently stands at 36%.

**Czech bank Komerční (6.2% of the portfolio) posted robust headline net earnings** (+41% yoy, +10% on adjusted basis) on low cost of risk and strong trading income as the local central bank lifted the floor of the EURCZK exchange rate. Core net interest income and fee development was weak, down 1% and 8% yoy, respectively. For 2017-18 we maintain roughly flattish earnings expectations on stable core operating performance. The bank trades at 14.7x 2018f P/E, 1.5x P/B with expected ROE of 11% and DY of 5%.

**The results of the Romanian restitution fund Fondul Proprietatea (5.4% of the portfolio) in Q1 were driven by the mark-to-market gains** of the listed part of their portfolio (RON 296mil vs. a loss of RON 536mil in 1Q16). During the quarter Fondul exited Oil Terminal shares and reduced its ownership in

Banca Transilvania from 0.23% to 0.18%, booking RON 6.3mil gain from these transactions. No changes were made in the valuation of unlisted companies Fondul owns. NAV as of end-April stood at RON 1.216 per share, up 12.4% yoy and 2.5% since end-Q4. Fondul trades at 25% discount to NAV and in the form of capital reduction pays 5-6% yield on the current share price.

### Key changes in the portfolio

In May we **exited the marginal position we had in the Czech Moneta bank** on limited upside. At the same time we **added Croatian hotel operator Arena Hospitality Group to the portfolio**. Arena raised HRK 788mil (€106mil) via SPO of 1.9mil new shares at HRK 425. Arena operates full-service hotels and self-catering holiday apartment resorts in select holiday destinations in Croatia and in major gateway cities in Germany and Hungary. It has an ownership and/or operational interest in 15 hotels and four resorts offering a total of 3,974 accommodation units. Most of the hotels and one resort operate under the Park Plaza and art'otel brands. The company also co-owns and operates 8 campsites on the southern coast of the Istrian peninsula in Croatia, offering a total of 6,075 units, including pitches, mobile homes, and apartments. Arena raised money to accelerate its CAPEX plan aimed at upgrading a number of properties in Croatia and to fund further expansion in the central European region. Arena trades at 22.0x 2018f P/E and 9.7x EBITDA but should only start to benefit from the current CAPEX cycle starting from 2019-2020. We expect the company to deliver strong double-digit EBITDA CAGR in 2016-20 period.

### Outlook

**Economic expansion in the Eurozone economy continued at the fastest pace for 6 years in May** according to the flash composite PMI that stayed unchanged at 56.8. The recent robust data indicates quarterly GDP growth level of 0.6-0.7%. Job creation picked up to the strongest in a decade amid optimistic business outlook. Inflationary pressures remain elevated as average selling prices for goods and services in Eurozone rose at the second-fastest since mid-2011. However, going forward we might see some moderation as input prices eased somewhat in May.

**Manufacturing PMI figures of Emerging Europe point towards a continuation of the impressive economic growth we saw in Q1.** In CE3 the May PMIs were somewhat weaker than in April but were strong by the standards of recent years. Hungary's PMI jumped to the highest in its 22-year history as manufacturers were supported by the recent sharp cut in corporate tax rate from 19% to 9%. In Turkey the PMI surged to a 3-year high of 53.5 driven by a sharp rise in the new orders and output. Downturn in Greek manufacturing sector softened a bit in May as the PMI edged up to 49.6 from 48.2 a month earlier. The general weakness in the economy is due to still unfinished bailout negotiations that push businesses to postpone the

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investment decisions. **Looking forward the upside risks to our regional growth expectation of 3% continue to grow** driven by increasing demand, investments and tightening labour market conditions.

### Positioning

At the end of May the cash position in the Fund stood at 11%, marginally lower vs. the previous month. **We remain rather constructive on Turkey** despite strong YTD market performance and somewhat uncertain economic and currency outlook. On an index basis (MSCI Turkey) local equities trade at 9.0x 2017f P/E with 19% expected EPS growth, while the banks are valued at 6.6x P/E (12% expected EPS growth). **We hold our conviction towards Romanian investments** on reasonable valuations (MSCI Romania at 11.1x 2017f P/E) and strong macro environment, but remain constrained by the relative illiquidity.

**In Poland we are invested predominantly in financials with additional selective picks from the non-financial space.** Overall the valuations in Poland are somewhat demanding (WIG Index at 12.6x 2017f P/E) and we dislike the state ownership that large part of blue chips are subject to. Among **Austrian-listed companies** we hold Emerging Europe real estate companies, which **offer attractive valuations and high liquidity**. In the Czech Republic and Hungary we find only a very select list of attractive names in banking, energy, pharma and manufacturing. On an index basis Hungary is trading at 11.6x and the Czech market at 12.8x 2017f P/E.

The selection of companies in the Fund portfolio trade at 12.4x 2017f P/E, slightly above the 12.0x of the benchmark index. Over the past 3 months we have seen a notable upward revision for the consensus EPS figure of the benchmark (+12% for 2017 and +10% for 2018) reflecting the upbeat macro sentiment. Similarly, the aggregate EPS growth estimate of our portfolio companies has risen to 10% for 2017 from 4% three months ago, while our 2018 estimates have stayed almost unchanged.

Despite the cyclical upturn in the markets we hold true to our value driven bottom-up approach favouring companies with strong balance sheets and solid sustainable free cash flow generation. The aggregate net gearing of our portfolio companies stands below 20% and cash flow yield at 7%. At the current market prices the aggregate DY of the portfolio is between 4-5% on average pay-out rate of 77%.

	% of the Fund	12M	P/E adj			EPS adj growth		EV/EBITDA		Div yield	P/NAV	P/B
		2017	2017	2018	2017	2018	2017	2018	2016	12M	12M	
Cyclical	49.7%	12.5	11.7	10.4	9.7%	12.6%	5.2	4.6	4.0%	-	1.27	
Non-cyclical	18.3%	16.2	14.7	14.4	9.4%	2.4%	6.9	6.6	3.7%	-	1.12	
Asset play	18.1%	-	-	-	-	-	-	-	7.0%	0.65	0.68	
Total equity	86.2%	13.3	12.4	11.2	9.6%	10.3%	5.9	5.5	4.6%	-	1.05	
		CY*		YTM**								
Bonds	2.9%	7.6%	7.2%									

\* CY - Current yield, \*\* YTM - Yield to maturity

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