

Investment Objectives & Approach

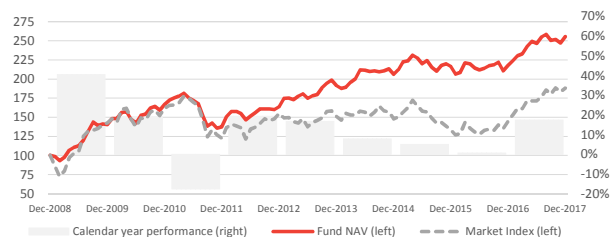
The Fund invests actively in listed equities of European Union new member states and accession countries (Emerging Europe, ex Russia). Benchmark agnostic, it emphasizes bottom-up, value oriented stock picking with a strong small and mid-cap bias. The Fund's investment objective is to maximise upside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

Top 10 positions	Country	Sector	Market Cap MEUR	% of assets	Perf EUR 1 mo	Contr to return
Immofinanz	AT	Real Estate	2396	5.9%	6.5%	0.4%
Komercni Banka	CZ	Financials	6804	5.3%	1.6%	0.1%
PKO Bank Polski	PL	Financials	13259	4.9%	5.5%	0.3%
SC Fondul Proprietatea	RO	Utilities	1723	4.3%	1.8%	0.1%
OMV Petrom	RO	Energy	3460	4.0%	-0.8%	-0.1%
Turkiye Garanti Bankasi	TR	Financials	9893	3.5%	14.4%	0.5%
BRD-Groupe Societe Generale	RO	Financials	1920	3.4%	-0.8%	0.0%
Bank Pekao	PL	Financials	8136	3.0%	1.9%	0.1%
KRKA	SI	Health Care	1886	2.9%	5.9%	0.2%
Atrium European Real Estate	AT	Real Estate	1565	2.7%	3.1%	0.1%
10 largest positions total				39.9%		1.5%

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.

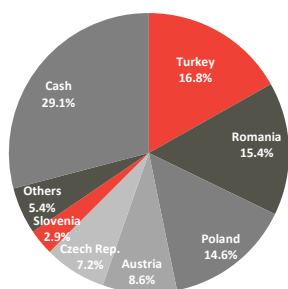
* Calendar year return is based on the calendar year ending on the date of the fund's last cap date.						
Perf overview	Fund net return	Index return*	Year	Gross	Net	Index*
1 month	3.5%	2.9%	2017	19.2%	17.3%	30.1%
YTD	17.3%	30.1%	2016	2.1%	0.6%	8.2%
3 months	2.1%	4.5%	2015	6.7%	5.0%	-9.6%
6 months	3.7%	9.8%	2014	9.4%	7.8%	-2.1%
1 year	17.3%	30.1%	2013	18.5%	16.7%	-2.4%
3 years	24.0%	27.3%	2012	21.1%	19.2%	26.5%
5 years	56.0%	21.6%	2011	-16.3%	-17.6%	-24.3%
7 years	53.2%	16.4%	2010	20.8%	18.9%	13.4%
10 years	-8.0%	-12.5%				

* MSCI EFM Central and Eastern Europe & CIS ex Russia

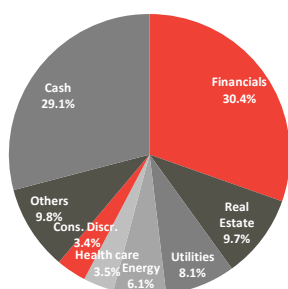
CAGR of calendar years

Years	Fund	Index*
2016-2017	8.6%	18.6%
2015-2017	7.4%	8.4%
2013-2017	9.3%	4.0%

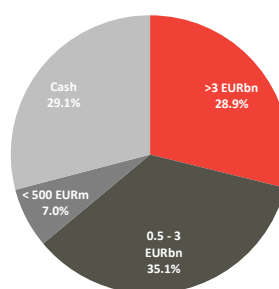
Geographic breakdown



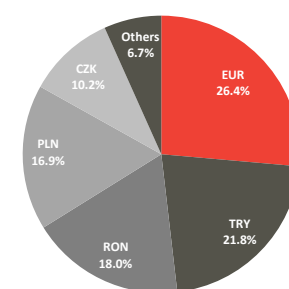
Sector breakdown



Market Cap breakdown



Net currency breakdown



Country allocation

	Dec-17	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Turkey	16.8%	-1.0%	-5.1%	-2.1%	5.6%	12.4%	1.8%	-0.1%	3.3%	3.3%	1.3%	10.6%
Romania	15.4%	-0.5%	-1.2%	-1.2%	0.3%	-4.3%	0.0%	0.3%	4.3%	4.3%	5.2%	17.6%
Poland	14.6%	0.3%	-1.6%	4.1%	4.6%	12.2%	0.8%	2.0%	5.4%	5.4%	6.2%	7.8%
Austria	8.6%	0.1%	-1.0%	-7.9%	-7.1%	-1.9%	0.5%	0.1%	2.8%	2.8%	10.0%	9.2%
Czech Rep.	7.2%	-0.1%	-0.8%	-2.8%	1.0%	-8.7%	0.1%	0.1%	2.3%	2.3%	2.7%	2.5%
Slovenia	2.9%	0.1%	-0.2%	-0.5%	-0.4%	-1.6%	0.2%	0.1%	0.4%	0.4%	0.1%	1.7%
Baltics	1.8%	0.1%	0.1%	0.1%	-2.7%	-3.2%	0.2%	0.3%	0.6%	0.6%	2.0%	3.0%
Croatia	1.6%	-0.1%	-0.3%	0.8%	1.6%	-4.1%	0.0%	-0.1%	0.1%	0.1%	0.3%	0.6%
Bulgaria	1.1%	0.0%	-0.2%	-0.3%	-0.7%	-12.2%	0.0%	0.0%	0.1%	0.1%	0.4%	5.9%
Others	0.9%	1.6%	1.4%	1.7%	4.3%	10.2%	0.1%	-0.1%	0.1%	0.1%	1.9%	10.2%

Risk metrics

	3Y risk*
Alpha	4%
Volatility & stand. deviation	9.7%
Beta	0.42
Sharpe ratio	0.80
Information ratio	-0.08
Tracking error	11.5%

* MSCI EFM Central and Eastern Europe & CIS ex Russia

Sector allocation

	Dec-17	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Financials	30.4%	-1.4%	-1.3%	-4.2%	7.9%	7.7%	2.0%	1.8%	8.5%	8.5%	11.8%	27.6%
Real Estate	9.7%	0.1%	-2.9%	-2.2%	-5.0%	-7.0%	0.5%	0.0%	1.4%	1.4%	3.5%	6.2%
Utilities	8.1%	-0.2%	-0.7%	-2.7%	-6.5%	-9.6%	0.1%	0.3%	2.8%	2.8%	0.9%	9.9%
Energy	6.1%	-0.3%	-0.8%	1.2%	-1.1%	1.8%	-0.1%	0.0%	1.3%	1.3%	3.5%	3.5%
Health care	3.5%	0.1%	-0.3%	-1.3%	-1.1%	-3.3%	0.2%	0.1%	0.9%	0.9%	1.4%	3.8%
Cons. Discr.	3.4%	0.1%	0.6%	-2.3%	-0.5%	-4.7%	0.2%	0.4%	2.5%	2.5%	4.8%	9.6%
Consumer Staples	2.7%	0.0%	-4.5%	0.3%	-1.1%	-0.2%	0.1%	-0.2%	1.7%	1.7%	3.4%	3.7%
Industrial	2.5%	0.3%	0.1%	-0.1%	2.5%	-0.6%	0.4%	0.3%	0.7%	0.7%	0.9%	2.9%
Others	4.6%	4.8%	5.0%	6.0%	4.1%	-5.9%	0.2%	-0.3%	-0.3%	-0.3%	0.1%	1.7%

Fund statistics

Number of positions	36
Top10	39.9%
Top20	59.5%
Gross exposure	70.9%
Net exposure	70.9%
Concentration coefficient	46
Median market cap MEUR	1854
Average market cap MEUR	2901

Style allocation

	Dec-17	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Cyclical	44.9%	1.2%	0.9%	-1.1%	15.2%	24.3%	2.7%	2.6%	10.4%	10.4%	16.5%	28.6%
Non-cyclical	12.1%	-0.2%	-5.1%	-2.8%	-9.2%	-21.1%	0.2%	0.1%	5.9%	5.9%	6.6%	13.7%
Asset play	13.9%	0.0%	-3.1%	-2.1%	-4.2%	-10.7%	0.5%	0.0%	2.6%	2.6%	4.2%	17.3%
Convertible bonds	0.0%	0.0%	0.0%	0.0%	-2.6%	-10.1%	0.0%	0.0%	0.0%	0.0%	0.4%	6.0%
High yield bonds	0.0%	-2.3%	-2.7%	-4.1%	0.0%	-4.0%	0.0%	0.0%	0.4%	0.4%	2.5%	2.8%
FX Derivatives	0.0%	0.1%	-0.2%	0.0%	0.0%	0.0%	0.1%	-0.2%	0.0%	0.0%	0.1%	0.8%
Cash	29.1%	1.2%	10.4%	10.1%	0.8%	21.7%	0.0%	0.0%	-0.2%	-0.2%	-0.2%	-0.2%

Turnover

	Adj*
FY 2017	19.6%
FY 2016	17.7%
FY 2015	22.2%

*Adjusted for fund flows

Liquidity analysis*

	20%	50%
3 days	67.0%	80.1%
2 weeks	83.7%	93.9%
4 weeks	91.9%	97.7%

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

Fund Facts - Avaron Emerging Europe Fund

Investment Manager	AS Avaron Asset Management
Fund type	Open-ended, UCITS-IV
Launch date	April 23, 2007
Domicile	Estonia
Currency	EUR
Dividends	reinvested
Fund size, MEUR	80.6
Total AUM, MEUR	487.9
Strategy size, MEUR	474.8

TER 2017 0.22% (excluding management and performance fees)

	ISIN Code	NAV 31-Dec 2017
A unit	EE3600090049	4.9270 EUR
B unit	EE3600090056	5.2226 EUR
C unit	EE3600102901	17.6853 EUR
D unit	EE3600108866	14.8690 EUR
E unit	EE3600108874	14.8010 EUR

A & B units only for investors who owned units as of May 30, 2009
C, D & E units for all investors

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

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

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

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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 11 investment professionals, in Estonia and Poland, focus on active investment management. In total 17 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.



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Short overview of the month

Global equities ended the year on a positive note as MSCI World gained 1.3% in \$ (+0.4% in €) in December. US and Emerging Markets continued to rally while European equities lagged. Stocks globally had a stellar year with major indices making new record highs as economic activity and earnings surprised on the upside while central banks remained fairly market friendly. On the FX side US dollar finished the month in red against the euro, rounding out a strongly negative year (-12% vs. the euro) for the greenback.

Emerging Europe stocks (MSCI EFM CEEC ex-RU) gained 2.9% in € in December amid the prevailing risk-on mood in Emerging Markets. Turkish equities and currency strongly outperformed on increased flows. At the end of the month the US Embassy in Turkey announced the end to the visa restrictions that were in effect since October.

Equity returns	1 mo local FX	1 mo €	2017 €	3 years €	5 years €
US	1.0%	0.1%	4.6%	30.9%	106.0%
Europe	-1.7%	-1.7%	9.2%	20.5%	52.2%
Emerging Markets	3.4%	2.5%	17.7%	22.1%	20.6%
Emerging Europe*	2.9%	2.9%	30.1%	27.3%	21.6%
Poland	2.1%	2.7%	29.9%	27.2%	31.1%
Czech Republic	1.8%	1.8%	23.9%	23.5%	2.1%
Hungary	1.8%	2.6%	22.5%	141.1%	103.1%
Baltics	-1.1%	-1.1%	13.0%	44.8%	47.8%
Romania	-0.5%	-1.1%	6.4%	5.2%	43.4%
Bulgaria	1.9%	1.9%	15.5%	29.8%	96.1%
Croatia	-1.7%	-0.1%	-6.1%	8.8%	7.7%
Slovenia	3.2%	3.2%	12.4%	2.9%	26.9%
Serbia	2.1%	2.9%	10.6%	17.0%	37.9%
Macedonia	-0.2%	-0.1%	18.9%	37.0%	48.3%
Bosnia & Herzeg.	-8.2%	-8.2%	-18.5%	-21.3%	-26.1%
Turkey	10.9%	13.9%	20.3%	-16.4%	-23.7%
Austria	2.2%	2.2%	30.6%	58.3%	42.4%

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

Currencies to €	Last month	2017	1 year	3 years	5 years
Poland	0.6%	5.4%	5.4%	2.8%	-2.1%
Hungary	0.8%	-0.4%	-0.4%	1.9%	-6.0%
Czech	-0.2%	5.7%	5.7%	8.3%	-1.8%
Romania	-0.5%	-2.7%	-2.7%	-3.9%	-4.8%
Croatia	1.7%	1.5%	1.5%	3.1%	1.6%
Serbia	1.1%	4.3%	4.3%	2.7%	-4.9%
Turkey	2.6%	-18.4%	-18.4%	-37.9%	-48.3%

Source: Thomson Reuters

Avaron Emerging Europe Fund gained 3.5% in December slightly outperforming the benchmark thanks to the stellar performance of the off-benchmark exposure in Turkey. 2017 as a whole was a disappointing year in terms of performance as the Fund underperformed the benchmark due to high average cash level and limited exposure to CE3, especially Poland. In 5 years the Fund has delivered +56.0% return vs. +21.6% for the index with lower volatility (9.1% vs. 15.4% for the index), resulting in 6.9% alpha.

Key changes in the portfolio

In December we sold out Turkish Vakifbank 2027 8% \$-denominated subordinated bonds. Since the initiation of the position in January we clocked in a 9% capital gain in \$ on top of the accrued coupon. We decided to exit the position as Vakifbank is state-owned and thus more prone to potential risks related to the government's interventionist policies and the ongoing Zarrab case. Also, our initial capital gain target had been delivered.

Outlook

Eurozone leading indicators signal continuing high momentum in economic activity. Recent high frequency data points towards 2.5% yoy GDP growth for 2017, while similar expansion is expected for 2018. It is worth to mention that this is roughly twice as high as the long-term average. On the back of rising demand and job creation we should see core inflation picking up over the course of 2018. ECB is expected to remain committed to its expansive bias until autumn 2018 when the bond purchase programme will be terminated. We do not expect any rate hikes from the ECB in 2018. Given that the Fed will continue towards steady normalisation of interest rates, currently signalling three hikes in 2018, we would expect slight rebound in the dollar, at least in short-term, as interest rate differential will widen.

GDP growth, % yoy	2015	2016	2017f	2018f	2019f
Bulgaria	3.0	3.9	3.9	3.8	3.6
Croatia	1.6	3.0	3.2	2.8	2.7
Czech Republic	4.5	2.6	4.3	3.0	2.9
Estonia	1.2	2.1	4.4	3.2	2.8
Hungary	3.1	1.9	3.9	3.6	3.7
Latvia	2.7	2.1	4.2	3.5	3.2
Lithuania	1.6	2.3	3.8	2.9	2.6
Poland	3.9	2.7	4.4	4.0	3.5
Romania	3.7	4.8	6.6	4.0	4.1
Russia	-3.7	-0.2	1.7	1.9	1.6
Serbia	0.8	2.8	2.0	3.0	3.5
Slovenia	2.3	3.1	4.7	4.0	3.3
Turkey	4.0	3.0	5.0	3.5	3.9
Greece	-0.2	-0.2	1.6	2.5	2.5
Emerging Europe ex-RUS	3.3	2.7	4.4	3.5	3.5
Emerging Europe	0.7	1.6	3.4	2.9	2.8

Sources: Reuters, Eurostat, European Commission, World Bank, IMF

Macro environment in Emerging Europe remains strong as business sentiment is robust and regional consumer continues to be supported by tightening labour markets. Economic growth in 2017 definitely surprised us and the markets on the upside, shooting over 4% compared to the end-2016 expectations of around 3% expansion. For 2018 the wider consensus pencils in a moderation in growth momentum as fiscal support in some countries should fade. On the other hand private investments that have lagged should continue to pick up amid robust demand conditions. Inflationary pressures in the region will become more

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evident driven by vigorous wage growth and should push yearly average CPI figures to 2-3% with a few exceptions. In terms of labour market conditions several countries are seeing high nominal wage growth and unemployment rates at multi-year or even historic lows. Thus, the challenge will be to match rising wages with productivity gains to avoid the erosion of competitiveness.

CE3 – Poland, Hungary and the Czech Republic

Growth momentum in CE3 might falter in 2018, yet just marginally versus the exceptionally strong 2017. Polish GDP should expand at close to 4% level this year as strong labour market continues to fuel consumption. Rebound in investments might accelerate from pretty lukewarm performance in 2017 when private investment activity was stagnant. Local governments already increased spending in 2H17 and this used to be the leading indicator for the private sector. At this stage appointment of Mateusz Morawiecki (former CEO in local Santander Bank unit) for the prime minister could bring more amicable approach towards relations with the European Commission, still both sides look distant from reaching consensus over the burning issues. In December European Commission took an unprecedented step recommending political sanctions against Poland, essentially to strip its voting rights at the EU level, to counter the recent judicial reforms that will outright politicize the court system.

Ahead of the spring 2018 parliamentary elections Hungary proved to be the forerunner of EU funds' disbursement within the new perspective (70%+ allocation vs. 40%+ in peer countries) that sparked a dynamic rise of investments already in 2017. Consequently the higher base suggests GDP pace cooling more towards 3.5% from sub-4% seen in 2017 with election period fiscal manoeuvring constituting an upside risk.

Macro landscape in the Czech Republic entails the tightest labour market in the region, central bank warnings over buoyant property market and accelerating inflation to above the central bank target. Local authorities reacted in 2H17 with rate hikes as well as further increase in minimum capital thresholds for the local banks, yet at least in the first half of 2018 this should not derail robust 3% growth trajectory.

For the CE3 equity markets the past year brought a visible underperformance of the regional small and mid-cap stocks, best portrayed by Polish sWIG80 index delivering 2% yoy return in local currency vs. +26% rise in the blue chip WIG20. Export-oriented medium sized companies, despite healthy top line volumes, witnessed serious margin erosion driven by labour cost inflation, stronger zloty (+18.5% vs. euro in 2017) and/or rising energy and material costs that were impossible to pass through to the product recipients in automotive,

furniture or aluminium industries in Western Europe. Spiking subcontractors' costs squeezed the profitability of construction companies. On the opposite side of the spectrum were large corporates driven by robust domestic consumption as well as banks with investors pricing-in lower probability of Swiss franc mortgage losses and potential rate hikes.

For 2018 we do not assume a sudden reversal in those two major trends. We believe both in Hungary and Poland monetary policy leaders strongly prefer late embarking on the new tightening cycle rather than making any pre-emptive moves. Consequently, in banking further NIM growth might be realistically the topic for 2019 only, while this year the sector might present opportunities in bank specific factors such as consolidation moves, better exposure to investment loans, unwinding of risk premium for State's engagement or outlook on regulatory requirement for particular entity. Labour market constraints are here to stay at least for a few more quarters, hence potential recovery in medium sized stocks' profitability might not be broad-based but rather limited to cases where efficiency and/or repricing of the products can be delivered faster. In terms of consumption, strong like-for-like sales might remain, but it is clear that current dynamics are not sustainable. Partial Sunday trading ban (effective from March 2017) in Poland will magnify transition to e-commerce, thus business models that already adopted online sales business models shall become even more successful. Poland will introduce full Sunday trading ban from 2020.

Turkey

Turkey has undergone a strong rebound from the coup attempt related halt in the economy in 2H16 driven by interventionist economic, fiscal and covertly monetary policy mix. 2018 will most likely reflect the continuation of neither structural nor institutional reform environment as upcoming elections, municipal, parliamentary and presidential, in 2019 amid unstable political landscape will shape the short-term priorities of the government. Populism hand in hand with nationalism will soar as this is one side of the Erdogan's winning formula. Socio-economic services, mainly to lower-income groups, will gain traction via different subsidy forms as this is the other side of the formula. The technical absence of rule of law will provide the gateway of suppressing the ones who have the courage to speak out with the help of religion (political Islam) and masterful usage of media management. Social polarization will show its teeth, but opposition without a voice cannot derail the one-man rule in place. Controversy will probably lift its head among voters as criminalization, which ensures the survival of the regime, cannot co-exist with the illusion of a democratic state.

Turkish GDP growth should reach 6-7% in 2017, higher than the current consensus, driven by the positive impulse coming

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from the Credit Guarantee Fund (CGF). 3-4% GDP expansion is foreseen for 2018 but reliable sources of this growth are more difficult to point out and a lot depends on further government incentives. Recently it was announced that CGF intends to offer a total of TRY 140bn (€31bn, 4.7% of GDP) state guarantee in 2018. Of this amount TRY 50bn would be provided from the unutilized portion of TRY 250bn fund scheme put in place in 2017 while the rest will be provided from the collected part of the existing fund utilizations. Separately the government is planning a TRY 70bn project-based direct incentives program for investments and lower VAT on new machinery and equipment (as part of the general VAT reform), which could possibly uplift private sector investments that have been stagnant. Considering the 2019 elections, the government has strong incentives to support the growth and as well the capacity to do it, given a 2% budget deficit and low government debt. However, if growth remains credit driven, it might lead to undesirable effects as growing external financing needs (current account deficit expected at 5.5% in 2017) will force the interest rates even higher.

Romania

Romania has been one of our long-term convictions due to the country's underlying potential given its low starting point, the market's relative size in the region and the dynamic drive in the corporate sector. Over the past 10 years we have witnessed the implementation of several reforms that facilitate the rule of law. Important for us, the corporate governance standards have improved significantly. Unfortunately, following the general elections in December 2016 that resulted in a socialist government, we have seen a huge increase in the unpredictability in policy making. Similarly to a few other Emerging Europe countries the socialist government is trying/has tried to decriminalize corruption, apply political control over judicial power and have taken a step back in the corporate governance practices of state-owned enterprises (SOEs).

Alongside the government has taken a populist pro-cyclical fiscal policy stance, which has notably deteriorated the budget performance. However, the exceptional growth environment, pumped up by the fiscal measures together with one-off measures, will keep the deficit below the 3% limit set in European Union's Stability and Growth Pact. In order to keep the deficit within the limit sharp cuts were made in public investments and special dividends were paid by the SOEs. However, growth is expected to come down from above 6% in 2017 to around 4% on cooling consumption. Thus, in the absence of one-off remedies, the government faces tough decisions to keep the deficit at bay.

Another side effect of the boom-like growth is rapidly rising inflation that reached 3.2% back in November. To some extent the quick bounce can be attributed to a few supply-

side factors like an increase in administered prices, hike of excise duties on fuels, increase in oil price and leu depreciation. However, given the strong economic activity and dissipation of the favourable statistical base effect fuelled by tax cuts in the beginning of 2017 we could see inflation peaking at 5% mid-2018. Given the policy unpredictability and spike in inflation it is not surprising that the local central bank has become outright hawkish - even more so than the market anticipated. We would not be surprised to see the policy rate moving up over the course of the year to 3% from the current 1.75%.

Western Balkans

2017 brought diverging trends to our core Western Balkan markets. Slovenia is due to report stellar 4.7% economic growth driven by net exports and pick up in domestic demand. Croatia on the other hand was somewhat held back by the failure of a systemic conglomerate Agrokor, though is expected to reach similar 3% growth level as in 2016. Serbia has been a laggard in terms of growth (2017f: 2.0%) as the government continued to restrain public spending in order to tackle the fiscal deficit and high external debt level. Reforming the fiscal side has enabled Serbia to bring down the fiscal deficit from 6.6% of GDP to only 0.5%, while foreign debt burden has been reduced to 67% of GDP from 82%.

For 2018 our expectation is that we will start seeing some convergence in the growth rate of the 3 countries. Serbian pick-up should be underpinned by the planned pension and public sector wage increases that will boost household consumption. Additionally, Serbia should continue to see an increased FDI as investors find the low wage environment and steady process towards EU accession attractive (at best accession to the European Union in 2023), thus we assume that in 2018 Serbia's GDP growth should accelerate to 3%.

In Croatia we expect the main growth drivers, net exports and household consumption, to remain intact also in 2018 supported by the robust Eurozone outlook and rising wages. Investments should also start to contribute positively on the back of better EU funds' utilization as well as primarily tourism related private-sector investments. Orderly restructuring of Agrokor would also be a tailwind for investments.

Slovenian economy remains dynamic though we do expect some moderation in growth momentum to below 4%, while the main drivers of the economy should remain the same. Good economic conditions should result in the further fall in unemployment (2017f: 6.6%) and increasing wage pressure supporting consumption.

Greece

Going into 2017 the outlook for Greece looked rather optimistic. Greek primary surplus was running at the highest

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in the EU and it was expected that the 2nd review of the bailout program will be completed in January or February the latest. Fiscal performance indeed was and continues to be strong while the delivery on the prescribed reform agenda has been poor. In reality the evaluation was concluded only in July which hampered economic recovery and overall sentiment as businesses delayed investments.

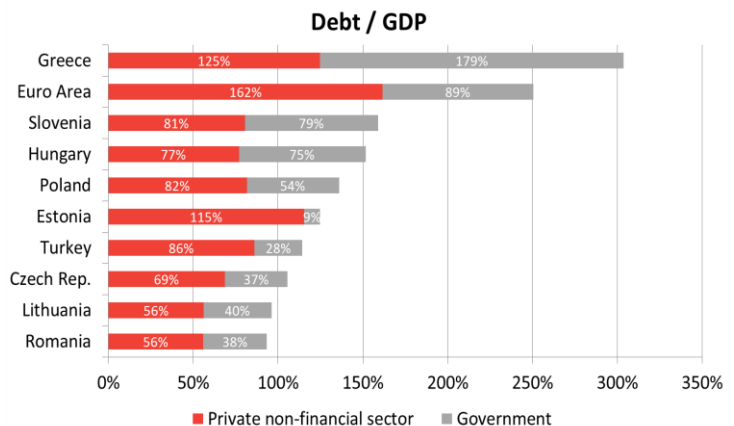
Following the completion of the review local business environment improved which should result in 1.6% GDP growth for 2017. Greek economy is driven by strong corporate activity as year-end manufacturing sector surveys indicate record high business confidence. In 2018-19 we should see economic growth accelerating to 2.5% on the back of improving consumer confidence and already visible uptick in investment spending.

On January 16th the Greek Parliament should vote on the legislative changes needed to comply with the prior actions of the 3rd review which in the best case means that it could be concluded at the January 22nd Eurogroup meeting. The 4th and final review is currently expected to be completed in May or June and the current Greek assistance program, which is the third one, will come to an end. Given the strong fiscal performance it is very likely that no such program will be set up. Syriza government is targeting a clean exit while the central bank has advised for some kind of standby agreement that would give assurance to the investors.

Following the approval of the 2018 budget, which foresees a primary surplus of 3.8% (higher than 3.5% targeted in the program), the government stated that this will be the last budget constructed under the constraints of the program. Given the diminished support in opinion polls over the past 2 years Syriza is currently highly motivated to deliver a clean exit from the program, since it would give more freedom in constructing the 2019 budget and would allow to increase public spending ahead of October 2019 elections. Based on the recent polls Syriza is trailing its main competitor New Democracy by almost 10ppt with 21-24% public support.

The end of the 3rd bailout program is looming but the harsh reality is that Greek debt burden (175% of GDP) remains unsustainable and unless some debt relief measures are implemented by the creditors Greece might need a new program regardless of what the domestic politicians fancy. In 2016 the Eurogroup agreed to a package of short-term relief measures that reduced interest rate risk and eased the repayment profile. These were adopted in early 2017 but due the busy European election agenda last year more meaningful negotiations were a political impossibility. In 2018 we should see renewed attempts to agree on the potential measures. Central bank of Greece has proposed a combination of extending maturities, smoothing out interest payments over time, which are bound to increase

substantially after 2021, and lowering the primary surplus target to 2% of GDP from 3.5% after 2020.



Sources: Reuters, Eurostat, BIS

The Baltics

Outlook for the Estonian economy is positive – a projected 3.2% GDP growth in 2018 will be driven primarily by strong domestic demand, supported by increases in tax-free allowance and continued investment growth. Following the tax reform, an estimated €180m increase in disposable income will benefit low and middle income brackets, and support activity in the retail, services and hospitality sectors. The labour market is expected to tighten further as employment approaches 70% (last 20 year high) and skills mismatch continues to exacerbate, leading to investment in productivity improvements and wage pressure, particularly in manufacturing and retail sectors. Inflation will remain notably above the ECB target level of 2%, due to wage growth, strong demand and continued rise in excise duties. Construction activity will inch closer towards 2008 levels (last cycle high), supported by rising investment and favourable borrowing conditions.

The outlook for Lithuanian economy is broadly similar, with GDP growth expected at roughly 3% in 2018, mostly due to continued trade growth and investments, especially in manufacturing and transport sectors. Domestic demand growth will moderate compared to 2017 as net labour outflow will decrease the total amount of labour force but will be to some extent counterbalanced by continuing wage increases. Unemployment is expected to decrease to 6.8% reaching historically low levels. Moderating domestic demand should help to abate inflation to around 2.5% in 2018.

Positioning

At the end of 2017 the **cash position in the Fund stood at 29%** vs. 2017 average of 16% as the markets offer limited value opportunities amid almost euphoric sentiment. Given such market set-up we deem prudent to maintain higher than average cash buffer in order to take advantage of potential market correction once the sentiment turns.

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We have maintained high weight in Romania (15.4% in the portfolio vs. 4.2% in the index) on attractive valuations (MSCI Romania at 8.4x 2018f P/E) and strong macro environment but highlight the overheating risks stemming from pro-cyclical fiscal policy. In mid-term the upgrade to Emerging Market status (from frontier market status) should serve as a trigger for re-rating. We expect the announcement to take place over 2018, resulting in additional inflows to the Romanian equities from global emerging market funds as GEM funds are much larger compared to frontier market funds.

Compared to the benchmark index the portfolio is significantly UW (14.6% vs. 63.9%) **in Poland** as largely local equities seem fairly valued, especially small and mid-caps. Poland (WIG Index) trades at 11.9x 2018f P/E. In the **Czech Republic and Hungary** we find only a few attractive names in banking, utility and pharma sectors. On an index basis Hungary is trading at 11.0x, the Czech market at 13.7x 2018f P/E. Compared to the benchmark the Fund is UW in Hungary (0.6% vs. 16.2%) and almost neutral in the Czech Republic (7.2% vs. 9.0%).

Off-benchmark Turkish companies (16.8% of the Fund) remain **core part of the portfolio** on valuation grounds and growth potential. We think that Turkish lira is slightly undervalued and should get some support from moderating inflation in 2H18. Local central bank is likely to keep the current policy mix in place till inflationary pressures start to subside. Turkish stocks seem rather attractively priced with Istanbul equity index (BIST 100) currently trading at 8.5x 2018f P/E, almost 1 StDev below the long term average. The banking sector index is trading at 5.5x 2018f P/E and 0.8x P/B, both more than 1 StDev below the long term average. 8.0% of the portfolio is invested in Turkish banks.

Among **Austrian-listed companies** (off-benchmark, 8.6% of the portfolio) we hold Emerging Europe real estate companies, which **offer attractive valuations on unjustified discounts to NAV and solid dividend streams**.

	% of the Fund	P/E adj 12M	P/E adj 2017	P/E adj 2018	EPS adj growth 2017	EPS adj growth 2018	EV/EBITDA 2017	EV/EBITDA 2018	Div yield 2016	P/NAV 12M	P/B 12M
Cyclical	44.9%	11.1	10.5	10.2	16.8%	3.5%	4.7	4.3	4.1%	-	1.25
Non-cyclical	12.1%	15.0	13.4	11.8	27.1%	13.7%	6.2	5.6	3.8%	-	1.08
Asset play	13.9%	-	-	-	-	-	-	-	7.1%	0.75	0.80
Total equity	70.9%	11.8	11.0	10.5	18.5%	5.3%	5.3	4.9	4.7%	-	1.10

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

The selection of companies in the Fund portfolio trade at 10.5x 2018f P/E, below 11.9x of the benchmark index. 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 at 16%, free cash flow yield at 8% and dividend yield at 4%+ on average pay-out rate of 77%.

Responsible investment activities in 2017

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

A key part of being an active owner of listed equities is using voting rights in an informed way at company meetings. According to our existing [Voting Policy](#) we do not exercise the voting rights at general assemblies with routine affairs and uncontested agenda points. Should however, a motion conflict with the long-term interests of investors, Avaron will actively exert its influence and disregard the recommendation of the Board of Directors. In 2017 we voted in 16 shareholders' meetings of 5 companies in the Fund portfolio out of 96 meetings held. On 12% of agenda points we voted against the management proposals and on 13% we abstained. Starting from 2018 we have committed to systematically exercise our voting rights on all shareholder meetings. Another important pillar of our investment research is direct dialogue with the companies in our investment universe. During 2017 we held 176 face-to-face meetings and participated in 382 conference calls with the representatives of investee companies.

During the year Avaron supported the Global Witness (www.globalwitness.org) led investor initiative via UN PRI collaboration platform on increased transparency on corporate ownership. Avaron signed the letter that will be sent to the European Council and the European Commission expressing support to amend the fourth Anti-Money Laundering Directive to enable public access to beneficial ownership information. Such transparency is critical for investors like us as it enhances our ability to identify and manage ownership related risks in the companies we invest in.

In addition, we lent our support to a statement that was sent to the representatives of the World Health Organization (WHO) and national health ministers supporting the tobacco control measures already taken by governments and encouraging them to continue their efforts. According to the WHO, tobacco is a primary driver in recent sharp rise in chronic non-communicable disease, killing 6 million people per year. Smoking costs the global economy more than \$1 trillion a year, according to a 2017 joint study by the WHO and the U.S. National Cancer Institute, far outweighing global revenues from tobacco taxes. Since 2011 Avaron has decided to limit financing business models reliant on tobacco and cigarette production.

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In 2017 Avaron participated for the first time in Estonian Responsible Business Index and received the highest gold level quality label. The Index aims at assisting Estonian companies to define, evaluate and monitor their economic, social and environmental impact. The quality label is given to organizations that show high performance and systematic approach in responsible activities towards local community, environment, workplace and marketplace. We are proud to have scored the highest among the small enterprises, proving that our efforts in adopting responsible business and investment practices are bearing fruit.

Going into 2018 as an UN PRI signatory we continue to be committed to the responsible investment principles as we believe that these accompanied with our bottom-up stock picking approach will deliver solid risk adjusted returns. We aim to revamp our [Responsible Investment Policy](#) to improve the quality and detail of our ESG approach. We also continue to support the Carbon Disclosure Project (CDP) as a signatory. CDP is one of the largest investor collaborations globally with combined \$95tr in assets, aiming to improve climate change, water usage and deforestation related disclosure, and risk management of publicly traded companies. In addition, we have decided to participate in Climate Action 100+ that is a new 5-year investor initiative to engage with the world's largest corporate greenhouse gas emitters to curb emissions, strengthen climate-related financial disclosures and improve governance on climate change. Within the scope of the engagement we will focus on the companies that operate in Emerging Europe.

The Swiss representative is Carnegie Fund Services S.A., 11, rue du Général-Dufour, 1204 Geneva. The Swiss paying agent is Banque Cantonale de Genève, 17, quai de l'Île, 1204 Geneva, Switzerland. The Prospectus, the Fund Rules, the Key Investor Information Documents (KIIDs), the financial reports and further information can be obtained free of charge from the Swiss representative. The last share prices can be found on www.fundeye.com. For the shares of the Fund distributed to non-qualified investors in and from Switzerland and for the of the Fund distributed to qualified investors in Switzerland, the place of jurisdiction is Geneva. Each time performance data is published, it should be noted that the past performance is no indication of current or future performance, and that it does not take account of the commissions and costs incurred on the issue and redemption of shares.

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