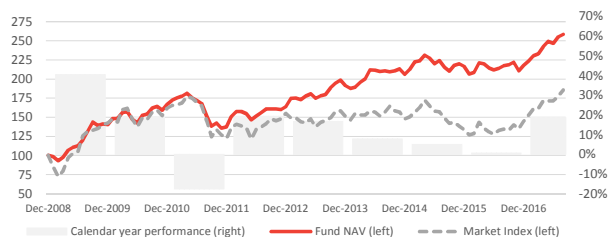


Investment Objectives & Approach

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.

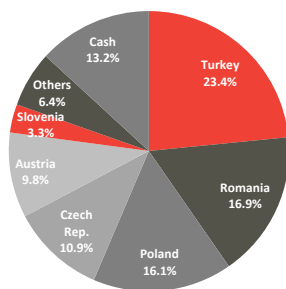
| Top 10 positions | Country | Sector | Market Cap MEUR | % of assets | Perf EUR 1 mo | Contr to return |
|-----------------------------|---------|---------------|-----------------|-------------|---------------|-----------------|
| Immofinanz AG | AT | Real Estate | 2342 | 6.9% | 8.2% | 0.5% |
| Komercni Banka AS | CZ | Financials | 7033 | 6.3% | 1.6% | 0.1% |
| SC Fondul Proprietatea SA | RO | Utilities | 1905 | 4.9% | -0.9% | -0.1% |
| PKO Bank Polski SA | PL | Financials | 10792 | 4.5% | -0.2% | 0.0% |
| OMV Petrom SA | RO | Energy | 3694 | 4.4% | -5.5% | -0.3% |
| BRD-Groupe Societe Generale | RO | Financials | 1979 | 3.9% | -7.8% | -0.4% |
| Turkiye Garanti Bankasi | TR | Financials | 10966 | 3.8% | 3.2% | 0.1% |
| Yapi Ve Kredi Bankasi | TR | Financials | 5136 | 3.7% | 8.5% | 0.3% |
| KRKA | SI | Health Care | 1863 | 3.3% | 3.3% | 0.1% |
| Bim Birlesik Magazalar | TR | Cons. Staples | 5646 | 3.0% | 13.0% | 0.4% |
| 10 largest positions total | | | | 44.7% | | 0.8% |

| Perf overview | Fund net return | Index return* | Calendar year return |
|---------------|-----------------|---------------|----------------------|
| 1 month | 1.3% | 4.8% | Year |
| YTD | 18.6% | 28.3% | Gross |
| 3 months | 3.7% | 8.3% | Net |
| 6 months | 12.1% | 15.2% | Index* |
| 1 year | 18.9% | 38.2% | 2016 |
| 3 years | 22.7% | 18.7% | 2015 |
| 5 years | 60.8% | 31.2% | 2014 |
| 7 years | 67.8% | 26.2% | 2013 |
| | | | 2012 |
| | | | 2011 |
| | | | 2010 |
| | | | 2009 |

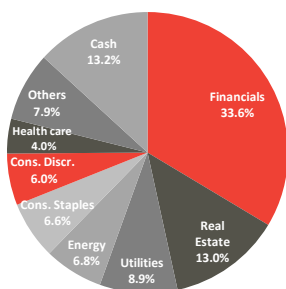
* MSCI EFM Central and Eastern Europe & CIS ex Russia

| Years | Fund | Index* |
|-----------|------|--------|
| 2015-2016 | 2.8% | -1.1% |
| 2014-2016 | 4.4% | -1.4% |
| 2012-2016 | 9.7% | 3.4% |

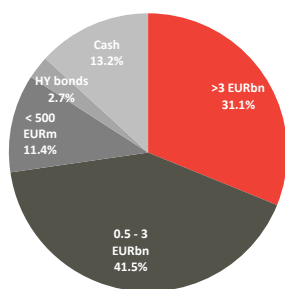
Geographic breakdown



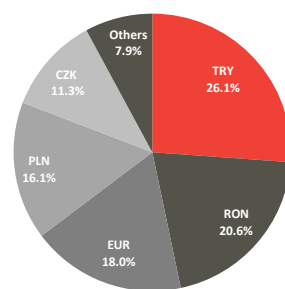
Sector breakdown



Market Cap breakdown



Net currency breakdown



Country allocation

| | Aug-17 | 1 mo | 3 mo | 12 mo | 3 years | 5 years | 1 mo | 3 mo | 12 mo | YTD | 3 years | 5 years |
|------------|--------|-------|-------|-------|---------|---------|-------|-------|-------|------|---------|---------|
| Turkey | 23.4% | 1.3% | 0.5% | 3.4% | 10.5% | 20.4% | 0.8% | 1.7% | 2.9% | 5.4% | 3.3% | 12.6% |
| Romania | 16.9% | -1.0% | -4.2% | 4.9% | -1.3% | 0.7% | -0.5% | -0.5% | 4.9% | 4.4% | 5.7% | 19.5% |
| Poland | 16.1% | 0.0% | 0.5% | 7.3% | 8.5% | 8.1% | 0.2% | 0.6% | 3.9% | 3.6% | 4.5% | 3.9% |
| Czech Rep. | 10.9% | 0.0% | -0.1% | 1.2% | 6.8% | -11.6% | 0.1% | 0.5% | 2.7% | 2.1% | 2.6% | 2.2% |
| Austria | 9.8% | 0.4% | 0.4% | -8.5% | -1.9% | 4.1% | 0.5% | 1.1% | 4.6% | 2.8% | 8.1% | 10.8% |
| Slovenia | 3.3% | 0.1% | 0.0% | -0.6% | -0.2% | -0.3% | 0.1% | 0.3% | 0.0% | 0.4% | -0.2% | 2.7% |
| Croatia | 2.0% | 0.0% | 0.1% | 1.3% | 2.0% | -0.3% | 0.0% | 0.1% | 0.4% | 0.2% | 0.4% | 0.3% |
| Baltics | 1.9% | 0.1% | 0.3% | 0.2% | -2.0% | 0.2% | 0.1% | 0.4% | 0.5% | 0.4% | 1.8% | 3.0% |
| Bulgaria | 1.3% | 0.0% | 0.0% | 0.0% | -0.5% | -9.2% | 0.0% | 0.1% | 0.3% | 0.2% | 0.5% | 6.9% |
| Others | 1.3% | 2.0% | 2.0% | 2.3% | 6.3% | 10.8% | 0.1% | 0.0% | 0.5% | 0.4% | 2.4% | 12.3% |

Risk metrics

| | 3Y risk* |
|-------------------------------|----------|
| Alpha | 5% |
| Volatility & stand. deviation | 9.7% |
| Beta | 0.43 |
| Sharpe ratio | 0.75 |
| Information ratio | 0.10 |
| Tracking error | 11.5% |

* MSCI EFM Central and Eastern Europe & CIS ex Russia

Sector allocation

| | Aug-17 | 1 mo | 3 mo | 12 mo | 3 years | 5 years | 1 mo | 3 mo | 12 mo | YTD | 3 years | 5 years |
|------------------|--------|-------|-------|-------|---------|---------|-------|-------|-------|------|---------|---------|
| Financials | 33.6% | -0.2% | -0.6% | 4.2% | 14.1% | 9.1% | 0.3% | 1.1% | 8.6% | 8.2% | 10.4% | 30.0% |
| Real Estate | 13.0% | 0.4% | 0.2% | -3.4% | 0.8% | 3.6% | 0.5% | 1.1% | 1.3% | 1.7% | 3.2% | 8.5% |
| Utilities | 8.9% | 0.0% | -1.8% | -0.6% | -7.2% | -3.0% | 0.1% | 0.3% | 2.4% | 2.5% | 1.7% | 9.7% |
| Energy | 6.8% | -0.2% | -1.0% | 1.5% | -1.6% | 3.1% | -0.1% | -0.5% | 2.9% | 1.4% | 2.3% | 4.0% |
| Consumer Staples | 6.6% | 0.9% | 2.3% | 3.8% | 6.2% | 5.0% | 0.5% | 1.1% | 1.5% | 1.9% | 3.9% | 4.1% |
| Cons. Discr. | 6.0% | 0.0% | -2.2% | 0.2% | -0.6% | -5.3% | 0.1% | 0.7% | 2.0% | 2.2% | 5.0% | 10.4% |
| Health care | 4.0% | -0.1% | -1.0% | -0.7% | -1.5% | 0.4% | 0.1% | 0.3% | 0.5% | 0.9% | 0.8% | 4.8% |
| Industrial | 3.0% | 0.0% | 0.3% | 0.3% | 3.0% | 2.0% | 0.0% | 0.4% | 1.0% | 0.9% | 1.1% | 3.3% |
| Others | 4.9% | 6.1% | 6.3% | 4.2% | 4.6% | -9.1% | -0.1% | -0.3% | 0.5% | 0.2% | 0.6% | -0.4% |

Fund statistics

| | |
|---------------------------|-------|
| Number of positions | 38 |
| Top10 | 44.7% |
| Top20 | 69.8% |
| Gross exposure | 86.8% |
| Net exposure | 86.6% |
| Concentration coefficient | 34 |
| Median market cap MEUR | 1868 |
| Average market cap MEUR | 2532 |

Style allocation

| | Aug-17 | 1 mo | 3 mo | 12 mo | 3 years | 5 years | 1 mo | 3 mo | 12 mo | YTD | 3 years | 5 years |
|-------------------|--------|-------|-------|-------|---------|---------|------|-------|-------|-------|---------|---------|
| Cyclical | 46.8% | -0.2% | -2.8% | 2.7% | 16.0% | 23.6% | 0.2% | 1.4% | 12.4% | 10.4% | 13.9% | 30.1% |
| Non-cyclical | 19.2% | 0.8% | 0.9% | 3.8% | 0.2% | -9.4% | 0.7% | 1.9% | 4.9% | 5.9% | 7.7% | 12.1% |
| Asset play | 17.9% | 0.3% | -0.3% | 3.9% | 5.8% | -2.7% | 0.5% | 1.1% | 2.6% | 3.0% | 4.9% | 20.4% |
| Convertible bonds | 0.0% | 0.0% | 0.0% | 0.0% | -7.2% | -5.1% | 0.0% | 0.0% | 0.0% | 0.0% | -0.3% | 7.5% |
| High yield bonds | 2.7% | 0.0% | -0.2% | -1.4% | 2.7% | -5.0% | 0.0% | -0.1% | 0.7% | 0.4% | 2.5% | 3.2% |
| FX Derivatives | 0.2% | 0.1% | 0.0% | 0.2% | 0.2% | 0.2% | 0.1% | 0.0% | 0.2% | 0.2% | 0.3% | 1.0% |
| Cash | 13.2% | -1.0% | 2.5% | -9.2% | -17.7% | -1.8% | 0.0% | -0.1% | -0.2% | -0.1% | -0.1% | -0.1% |

Turnover

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

*Adjusted for fund flows

Liquidity analysis*

| | 20% | 50% |
|---------|-------|-------|
| 3 days | 63.6% | 77.9% |
| 2 weeks | 82.0% | 93.5% |
| 4 weeks | 91.3% | 98.7% |

*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 | 71.2 |
| Total AUM, MEUR | 502.3 |
| Strategy size, MEUR | 481.0 |

TER 2016 0.28% (excluding management and performance fees)

| | ISIN Code | NAV 31-Aug 2017 |
|---------------|------------------|------------------------|
| A unit | EE3600090049 | 4.9884 EUR |
| B unit | EE3600090056 | 5.2790 EUR |
| C unit | EE3600102901 | 17.8795 EUR |
| D unit | EE3600108866 | 15.0679 EUR |
| E unit | EE3600108874 | 14.9433 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 (5 years) |
| Tax transparency | Germany |
| Supervised by | Estonian FSA |
| Custodian | Swedbank AS |
| Transfer agent | Swedbank AS |
| NAV calculation | Swedbank AS |
| External auditor | Deloitte |
| 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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 Fax: +372 66 44 201
 E-mail: info@avaron.com
www.avaron.com

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,
 Investment Manager

Important Legal Information

This material has been drawn up by AS Avaron Asset Management (hereafter: Avaron), a fund management company registered in Estonia which is authorised and supervised by the Estonian Financial Supervision Authority. The contact details of Avaron are as follows: address Narva mnt 7D, 10117 Tallinn, Estonia; phone +372 6644 205; fax +372 6644 201; e-mail info@avaron.com. This material is the copyright property of Avaron, unless noted otherwise, and all rights are reserved.

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Subscription of Avaron funds should be made on the basis on the funds' prospectus and key investor information, the relevant fund rules and the latest available annual or semi-annual reports. These documents can be obtained from Avaron. Past performance is not indicative of future results. The value of investments and any income derived from the funds may fall as well as rise and investors may not get back the amount invested. An investment in the funds entails risks, some of which are described in the prospectuses of the funds. Investors should be aware of the high risks associated with investments in emerging markets such as Central and Eastern Europe. This material may include forward looking statements which are based on Avaron's current opinions, expectations and projections. We undertake no obligation to update or revise any forward looking statements. Actual results could differ materially from those anticipated in the forward looking statements. Any dispute, controversy or claim arising out of or in connection with the information provided in this material shall be settled in accordance with Estonian law exclusively in Estonian courts.

Short overview of the month

Global equities were almost flat in August. MSCI World lost 0.1% in \$. US dollar continued to weaken (-0.6% vs. the euro) due to remaining uncertainty related to the policy implementation of Trump administration, while economic uptick in Eurozone continues. YTD the dollar is down 11.7% against the euro. Positive global consumer sentiment, at new highs since the 2007-08 crisis alongside with growing business confidence continues to underpin the rally in Emerging Markets. MSCI EM was up 2.0% in \$ (+1.4% in €) in August extending the YTD performance to +26.1% in \$ (+11.4% in €). **Emerging Europe stocks (MSCI EFM CEEC ex-RU) staged a spectacular rally in August delivering a return of 4.8% in € terms** on the back of strong flows into blue-chip index heavyweights in Poland and Hungary. Romanian equities and currency underperformed driven by speculations on banking tax introduction and cutting state contributions to 2nd pillar pension funds.

| Country / Returns | 1 month in local FX | 1 month in euros | YTD in euros | 1 year in euros | 3 years in euros | 5 years in euros |
|-------------------|------------------------|---------------------|-----------------|--------------------|---------------------|---------------------|
| US | 0.1% | -0.5% | -2.5% | 6.7% | 36.0% | 86.6% |
| Europe | -0.7% | -0.7% | 6.3% | 16.1% | 16.9% | 62.0% |
| Emerging Markets | 2.0% | 1.4% | 11.4% | 14.0% | 10.2% | 19.6% |
| Emerging Europe* | 4.8% | 4.8% | 28.3% | 38.2% | 18.7% | 31.2% |
| Poland | 3.8% | 4.0% | 30.2% | 39.1% | 24.1% | 47.6% |
| Czech Republic | 1.3% | 1.2% | 14.8% | 23.2% | 10.8% | 1.0% |
| Hungary | 6.5% | 6.0% | 20.5% | 38.0% | 120.7% | 90.8% |
| Baltics | 3.6% | 3.6% | 15.3% | 23.3% | 43.7% | 52.2% |
| Romania | -2.7% | -3.5% | 12.2% | 10.8% | 7.8% | 68.9% |
| Bulgaria | -1.4% | -1.4% | 20.3% | 51.8% | 28.4% | 121.9% |
| Croatia | 0.4% | 0.3% | -3.3% | 5.0% | 5.1% | 13.2% |
| Slovenia | 0.0% | 0.0% | 13.3% | 12.8% | -0.8% | 60.9% |
| Serbia | 0.4% | 1.3% | 4.8% | 19.7% | 14.1% | 62.2% |
| Macedonia | 5.9% | 6.4% | 23.9% | 34.6% | 53.6% | 34.2% |
| Bosnia & Herzeg. | 1.5% | 1.5% | -8.7% | -9.0% | -10.2% | -8.9% |
| Turkey | 2.3% | 3.7% | 26.8% | 16.2% | -5.4% | -12.5% |
| Austria | 0.5% | 0.5% | 23.5% | 39.7% | 40.5% | 59.6% |

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

| Local currencies to euro | Last month | YTD | 1 year | 2 years | 3 years | 5 years |
|-----------------------------|---------------|-------|--------|---------|---------|---------|
| Poland | 0.2% | 3.7% | 2.7% | -0.2% | -0.7% | -1.0% |
| Hungary | -0.5% | 1.2% | 1.3% | 2.6% | 3.0% | -6.8% |
| Czech | -0.1% | 3.5% | 3.5% | 3.6% | 6.2% | -4.7% |
| Romania | -0.8% | -1.3% | -3.1% | -3.6% | -4.4% | -2.9% |
| Croatia | -0.1% | 1.7% | 0.9% | 2.0% | 2.7% | 0.7% |
| Serbia | 1.0% | 3.6% | 3.5% | 1.1% | -0.8% | -0.5% |
| Turkey | 1.4% | -9.8% | -19.7% | -20.5% | -30.9% | -44.4% |

Source: Thomson Reuters

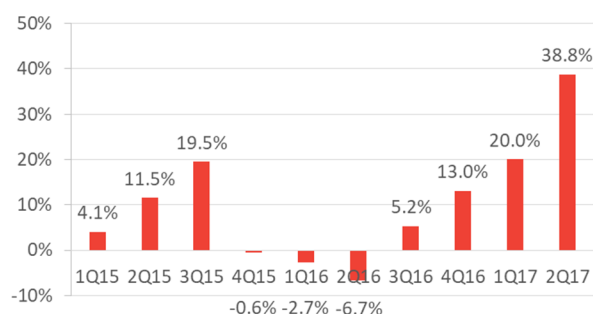
Avaron Emerging Europe Fund added 1.3% in August, underperforming the regional index due to UW in Poland and notable OW in Romania. In 5 years the Fund has delivered +60.8% return vs. +31.2% for the index with lower volatility (9.1% vs. 15.5% for the index), resulting in 7.8% alpha.

Review of Q2 earnings

Strong economic environment in Emerging Europe continues to drive corporate earnings. **Excluding the revaluation affected asset driven companies** (real estate investments and Romanian restitution fund Fondul Proprietatea that account for 17.9% of the portfolio) **the aggregate adjusted earnings of our portfolio companies grew 39% yoy in €**. Financials in our portfolio (31.4%

of the Fund) delivered another solid quarter posting 18% yoy earnings growth in €. Non-financials (34.7% of the portfolio) reported 87% yoy earnings growth in € terms on the back of strong earnings recovery in Romanian energy names.

Adj. YoY EPS growth of the portfolio companies



Romanian companies excluding Fondul (12.0% of the portfolio) posted very strong aggregate earnings growth, up more than 3x yoy in local currency (lc). Main contributor to the stellar performance was integrated oil and gas company Petrom (4.4% of the portfolio) on higher crude and gas prices, improving operational efficiency in upstream, and strong refining macro and retail demand. EBITDA grew 48% yoy, while net earnings were up 5x in line with the consensus. Based on our expectation of \$53-57/bbl crude price for 2017-19 the company should be able to deliver 32% higher EBITDA after efficiency improvements over the past 2 years. Petrom is expected to deliver high single-digit free cash flow yield in upcoming years resulting in 6-7% DY. The company trades at 6.9x 2018f P/E and 2.2x EV/EBITDA with zero net debt in the balance sheet.

Our equity holdings in Turkey (23.4% of the portfolio) posted 31% aggregate earnings growth in lc, while lower Turkish lira pushed the bottom line growth down to 9% in € terms. In Q2 the earnings growth of our banking sector holdings (7.5% of the portfolio) matched the non-financials' one. Our largest holding in Turkey, Garanti bank (3.8% of the portfolio), posted 18% yoy higher adjusted net earnings in lc despite setting aside TL220mil additional general provisions. Net interest income was up 24% yoy on the back of 20% yoy loan growth and strong contribution from CPI linkers. Net fees were up 15%, while OPEX grew 10% yoy. For 2017 we expect the bank to deliver high single-digit operating income and 21% adjusted net earnings growth. Garanti trades at 7.5x 2018f P/E, 1.0x P/B with 14-15% expected ROE.

Largest non-financial exposure in Turkey we have is hard discounter BIM (3.0% of the portfolio). BIM's Q2 was operationally and bottom line wise almost 10% ahead of consensus as the company enjoys the support of high food inflation and improved consumer sentiment. Top line growth in Q2 reached 25% yoy as like-for-like growth jumped to 16% yoy on the back of double-digit inflation. EBITDA margin improved to 5.3% from 4.8% a year earlier as the company was able to reflect price increases fully forward to the customers. Net earnings of BIM were up 50% yoy in lc. For 2017 we expect 22% sales and 27% earnings growth. BIM trades at 23.9x 2018f P/E, 15.3x EV/EBITDA and enjoys negative cash conversion cycle.

Investor Contact

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Authorised and regulated by Estonian Financial Supervision Authority

Signatory of:



Our Polish holdings (16.1% of the portfolio) recorded 12% yoy earnings growth in 1c terms driven by 14% increase in the EPS of our banking sector holdings (10.4% of the portfolio), particularly bank PKO. PKO (4.5% of the portfolio) delivered 50% yoy net profit growth adjusted for the one-off VISA gain that recurred in 2016. Net interest income of the bank was up 11% yoy, fee income 10% yoy, while OPEX and risk costs declined 2%. For 2017 we expect the bank to deliver 17% earnings growth on adjusted basis. PKO trades at 16.2x 2018f P/E (12.2x excluding the banking tax burden), 1.2x P/B with 8% expected ROE and 3% DY.

Among our largest holdings in the Fund the regional real estate company Immofinanz (6.9% of the portfolio) reported operationally solid quarter. Rental income was flat yoy driven by disposals (7% lower rentable space compared to 2Q16). Performance in Russia was slightly weaker than expected as occupancy declined 1.2pp to 87.1% but is up 6.1pp yoy, and average rent per sqm was down 3.4% qoq (+7.4% yoy). Development activities remain to be a drag, notably the Gerling Quartier residential project in Cologne, where the company booked further write-offs. NAV of Immofinanz increased 5.2% qoq (flat yoy), whereas on per share basis it declined 7.5% qoq as the dilution from the convertible that moved into money was taken into account. We expect the company to finalise the sale of its Russian assets this year, which should pave the way for the merger with CA Immo, and thus narrow the discount to NAV that currently stands at 23%.

Czech bank Komerční (6.3% of the portfolio) posted better than expected adjusted net earnings (+21% yoy adjusting for the one-off VISA deal gain in 2016) on abnormally low cost of risk. Core net interest income and fee development was stagnant, both down yoy basis, 1.2% and 2.8%, respectively. The bank continued to struggle to maintain profitability as NIM contracted and OPEX increased 1.1% yoy. For 2017 we expect low single-digit adjusted earnings growth for the bank. Komerční trades at 15.5x 2018f P/E, 1.6x P/B with expected ROE of 10-11% and DY of 4%.

The quarterly figures of the Romanian restitution fund Fondul Proprietatea (4.9% of the portfolio) revealed a solid jump in dividend income (+56% yoy). Given that main dividend paying holdings in the portfolio have delivered strong 1H17 results and assuming 2H17 will not bring any major surprises, dividend inflows should improve going into 2018 and easily cover the minimum 0.05 ROM payment the fund manager has committed to. The NAV per share as of end-Q2 amounted to RON 1.195, up 4.4% yoy but down 6.6% qoq due to negative mark-to-market changes in the value of their holding in Petrom. Fondul trades at 28% 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 August we **finished the exit from Romanian private healthcare provider Medlife** on limited upside following strong stock price performance. At the same time we continued to **add to the recently initiated positions in Turkey**, bottling company Coca-Cola Icecek and cement producer Akansa.

Outlook

Eurozone leading indicators continue to signal that the economy is in a boom phase. August flash composite PMI edged slightly higher reflecting strong growth in private sector. The index points towards the continuation of 0.6% quarterly GDP growth like we saw in Q2 (+2.2% yoy). Inflationary pressures picked up for the first time since February visible in both, input and output prices.

Growth in Emerging Europe remains similarly strong as business sentiment is robust and labour markets consumer supportive.

August manufacturing PMI figures in CE3 were mixed as data from the Czech Republic indicated slight softening, while economic activity in Hungary and Poland picked up. All three countries are on track to deliver 4% GDP growth this year. In 2016 GDP grew in the Czech Republic 2.4%, in Hungary 2.0% and in Poland 2.7%.

Greek manufacturing PMI recorded the highest level since August 2008 on the back of pick-up in domestic and foreign demand. Worth to mention is the sharp jump in job creation, last witnessed 17.5 years ago. Growth in Greece is expected to reach 1.5% in 2017 (2016 +0.0%). Going into 2018 the austerity measures that the country has agreed to will restrict the level of economic expansion.

Romania remains one of the fastest growing economies in the region with +5.9% yoy GDP expansion recorded in Q2. European Commission economic sentiment index for Romania was flat in August. The change in government that we witnessed in June has brought a lot of noise on possible tax changes, which has increased the volatility on the market. However, consumers and business seem unfazed so far. The recent rate of expansion points towards 5.5% GDP growth for 2017 (2016 +4.8%).

Business confidence in Turkey remains strong and consumption level solid, thus GDP growth should stay strong in the near term. Given the strong growth bias of the government/AKP/Mr. Erdogan, positive global backdrop, improvements in consumer confidence and labour market we expect growth to remain around 5% in 2017 (2016 +2.9%).

Positioning

At the end of August the cash position in the Fund stood at 13%, slightly down mom. **We remain relatively constructive on Turkey** (off-benchmark) despite strong YTD market performance and somewhat uncertain currency outlook. On a selective basis we find companies of high quality in Turkey that offer decent value and growth. On an index basis (MSCI Turkey) local equities trade at 9.2x 2017f P/E with 30% expected EPS growth, while the banks are valued at 6.6x P/E (24% expected EPS growth).

We hold our conviction towards Romanian investments (16.9% in the portfolio vs. 4.7% in the index) on reasonable valuations (MSCI Romania at 10.0x 2017f P/E) and strong macro environment but highlight the uncertainty related to potential tax changes. In mid-term the upgrade to Emerging Market status should serve as a trigger for re-rating.

In Poland we have roughly 2/3rd of the exposure in banks with additional selective picks from the non-financial space.

Compared to the benchmark index the portfolio is significantly UW (16.1% vs. 63.8%) in Poland as the valuations are somewhat demanding, especially among small and mid-caps. On an index basis Poland (WIG Index) trades at 13.2x 2017f P/E but reflects somewhat subdued valuations of blue-chips that are in the state ownership, which we are not really fond of. The political environment in Poland remains unsupportive as the government continues on the path of power consolidation and the final version of FX mortgage resolution is still to be decided.

Among **Austrian-listed companies** (off-benchmark) we hold Emerging Europe real estate companies, which **offer attractive valuations and high liquidity**.

In the Czech Republic and Hungary we find only a select list of attractive names in banking, energy, pharma and manufacturing. On an index basis Hungary is trading at 12.0x and the Czech market at 12.4x 2017f P/E. Compared to the benchmark the Fund is UW in Hungary (0.7% vs. 16.2%) and OW in the Czech Republic (10.9% vs. 8.7%).

The selection of companies in the Fund portfolio trade at 12.2x 2017f P/E, slightly below the 12.4x 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 20%, free cash flow yield at 7% and dividend yield between 4-5% on average pay-out rate of 77%.

| | % of the Fund | P/E adj | | | | EPS adj growth | | EV/EBITDA | | Div yield | P/NAV | P/B |
|--------------|---------------|---------|------|-------|-------|----------------|------|-----------|------|-----------|-------|-----|
| | | 12M | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2016 | 12M | 12M | |
| Cyclical | 46.8% | 11.7 | 11.1 | 10.6 | 15.4% | 5.4% | 4.9 | 4.5 | 4.0% | - | 1.26 | |
| Non-cyclical | 19.2% | 17.9 | 16.1 | 14.8 | 19.2% | 9.1% | 7.8 | 7.2 | 3.1% | - | 1.33 | |
| Asset play | 17.9% | - | - | - | - | - | - | - | 6.8% | 0.69 | 0.71 | |
| Total equity | 84.0% | 13.0 | 12.2 | 11.5 | 16.2% | 6.2% | 6.2 | 5.7 | 4.4% | - | 1.09 | |
| | | CY* | | YTM** | | | | | | | | |
| Bonds | 2.7% | 7.6% | 7.3% | | | | | | | | | |

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

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