

## Investment Objectives & Approach

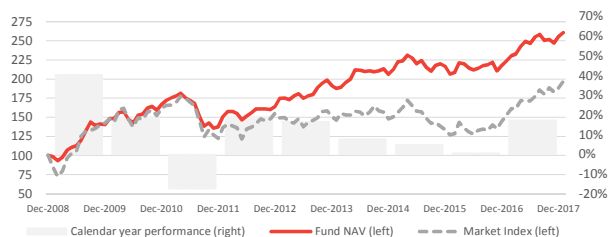
The Fund invests actively in listed equities of European Union new member states and accession countries (Emerging Europe, ex Russia). Benchmark agnostic, it emphasizes bottom-up, value oriented stock picking with a strong small and mid-cap bias. The Fund's investment objective is to maximise upside 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	2302	5.2%	-4.0%	-0.2%
SC Fondul Proprietatea	RO	Utilities	1845	5.1%	6.8%	0.3%
Komerční Banka	CZ	Financials	7027	5.1%	3.3%	0.2%
PKO Bank Polski	PL	Financials	13741	4.7%	3.6%	0.2%
Bank Pekao	PL	Financials	8588	4.1%	5.5%	0.2%
OMV Petrom	RO	Energy	3731	3.9%	7.5%	0.3%
Türkiye Garanti Bankası	TR	Financials	11068	3.7%	11.8%	0.4%
BRD-Groupe Societe Generale	RO	Financials	2022	3.3%	5.0%	0.2%
KRKA	SI	Health Care	1922	2.8%	1.9%	0.0%
Atrium European Real Estate	AT	Real Estate	1591	2.6%	1.7%	0.1%
10 largest positions total				40.5%		1.6%

## 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.

Perf overview	Fund net return	Index return*	Calendar year return			
			Year	Gross	Net	Index*
1 month	1.9%	4.8%	2017	19.2%	17.3%	30.1%
YTD	1.9%	4.8%	2016	2.1%	0.6%	8.2%
3 months	3.5%	4.7%	2015	6.7%	5.0%	-9.6%
6 months	2.2%	11.4%	2014	9.4%	7.8%	-2.1%
1 year	16.5%	28.8%	2013	18.5%	16.7%	-2.4%
3 years	22.8%	31.0%	2012	21.1%	19.2%	26.5%
5 years	49.2%	32.2%	2011	-16.3%	-17.6%	-24.3%
7 years	51.3%	19.3%	2010	20.8%	18.9%	13.4%
10 years	7.0%	5.9%				

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

CAGR of calendar years

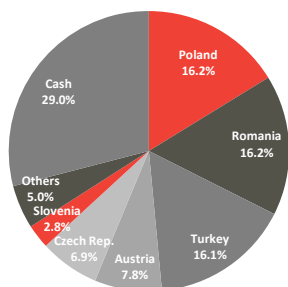
Years	Fund	Index*
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\* MSCI EFM Central and Eastern Europe & CIS ex Russia

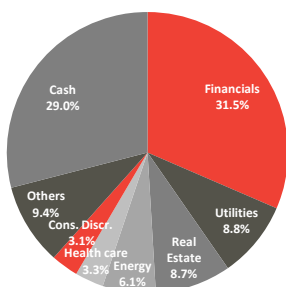
## CAGR of calendar years

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

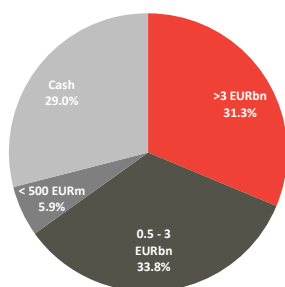
## Geographic breakdown



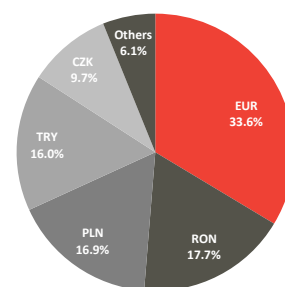
## Sector breakdown



## Market Cap breakdown



## Net currency breakdown



## Country allocation

	Jan-18	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Poland	16.2%	1.6%	0.3%	4.8%	6.0%	12.4%	0.6%	2.1%	4.8%	0.6%	6.6%	8.4%
Romania	16.2%	0.8%	0.3%	-2.0%	1.1%	-3.7%	1.1%	1.4%	3.6%	1.1%	6.2%	15.6%
Turkey	16.1%	-0.7%	-5.9%	-5.3%	2.7%	12.9%	0.2%	0.2%	3.6%	0.2%	-1.5%	9.7%
Austria	7.8%	-0.8%	-1.4%	-8.2%	-11.1%	-0.4%	-0.2%	-0.1%	2.8%	-0.2%	11.0%	8.6%
Czech Rep.	6.9%	-0.3%	-0.9%	-3.7%	-1.3%	-7.3%	0.3%	0.2%	2.4%	0.3%	2.7%	3.7%
Slovenia	2.8%	-0.2%	-0.2%	-0.5%	-0.5%	-1.7%	0.0%	0.2%	0.5%	0.0%	0.3%	1.2%
Baltics	1.6%	-0.1%	0.0%	-0.1%	-3.3%	-4.6%	0.0%	0.3%	0.5%	0.0%	1.4%	2.6%
Croatia	1.5%	-0.1%	-0.3%	0.7%	1.5%	-4.3%	0.0%	-0.1%	0.1%	0.0%	0.3%	-0.3%
Bulgaria	1.0%	-0.1%	-0.2%	-0.3%	-0.8%	-12.6%	0.0%	0.0%	0.1%	0.0%	0.4%	3.8%
Others	0.9%	1.5%	1.5%	1.6%	4.3%	10.4%	0.0%	0.0%	0.2%	0.0%	1.9%	8.4%

## Sector allocation

	Jan-18	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Financials	31.5%	1.1%	-2.4%	-4.8%	2.4%	9.6%	1.3%	2.5%	8.4%	1.3%	12.1%	24.3%
Utilities	8.8%	0.8%	0.3%	-2.8%	-5.4%	-6.7%	0.5%	0.6%	1.8%	0.5%	1.7%	9.9%
Real Estate	8.7%	-0.9%	-1.7%	-3.9%	-7.1%	-7.2%	-0.2%	-0.2%	1.9%	-0.2%	1.8%	5.1%
Energy	6.1%	0.0%	-0.6%	0.9%	-1.1%	1.7%	0.5%	0.5%	1.3%	0.5%	4.0%	3.2%
Health care	3.3%	-0.2%	-0.4%	-1.8%	-1.3%	-3.4%	0.0%	0.2%	1.0%	0.0%	1.4%	3.3%
Cons. Discr.	3.1%	-0.3%	0.4%	-3.4%	-1.2%	-6.0%	0.0%	0.4%	2.1%	0.0%	4.4%	9.4%
Consumer Staples	2.5%	-0.2%	-3.7%	0.1%	-1.8%	-0.3%	0.0%	-0.3%	1.7%	0.0%	2.8%	3.7%
Industrial	2.3%	-0.3%	-0.1%	-0.4%	2.3%	-2.1%	-0.1%	0.3%	0.6%	-0.1%	0.8%	2.0%
Others	4.7%	5.1%	4.9%	6.1%	4.2%	-5.6%	0.1%	0.0%	-0.2%	0.1%	0.2%	0.7%

## Style allocation

	Jan-18	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Cyclical	45.7%	0.8%	0.0%	-1.1%	12.6%	23.3%	1.8%	3.9%	10.4%	1.8%	16.3%	25.8%
Non-cyclical	11.4%	-0.7%	-4.8%	-4.9%	-10.6%	-19.1%	0.2%	0.0%	5.3%	0.2%	5.9%	12.8%
Asset play	13.9%	0.0%	-1.1%	-1.9%	-5.0%	-10.2%	0.1%	0.2%	2.6%	0.1%	3.3%	14.8%
Convertible bonds	0.0%	0.0%	0.0%	0.0%	-2.6%	-10.2%	0.0%	0.0%	0.0%	0.0%	0.4%	4.6%
High yield bonds	0.0%	0.0%	-2.6%	-7.0%	-3.4%	-3.7%	0.0%	-0.1%	0.3%	0.0%	3.3%	2.8%
FX Derivatives	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.8%
Cash	29.0%	-0.1%	8.5%	15.0%	9.0%	19.9%	0.0%	-0.1%	-0.2%	0.0%	-0.2%	-0.2%

## Risk metrics

	3Y risk*
Alpha	3%
Volatility & stand. deviation	9.6%
Beta	0.43
Sharpe ratio	0.76
Information ratio	-0.21
Tracking error	11.3%

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

## Fund statistics

Number of positions	37
Top10	40.5%
Top20	59.0%
Gross exposure	71.0%
Net exposure	71.0%
Concentration coefficient	46
Median market cap MEUR	1922
Average market cap MEUR	3196

## Turnover

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

\* Adjusted for fund flows

## Liquidity analysis\*

	20%	50%
3 days	68.4%	80.4%
2 weeks	83.9%	94.6%
4 weeks	92.6%	97.9%

\*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>	87.1
<b>Total AUM, MEUR</b>	490.4
<b>Strategy size, MEUR</b>	477.2

**TER 2017** 0.22% (excluding management and performance fees)

	<b>ISIN Code</b>	<b>NAV 31-Jan 2018</b>
<b>A unit</b>	EE3600090049	5.0206 EUR
<b>B unit</b>	EE3600090056	5.3242 EUR
<b>C unit</b>	EE3600102901	18.0133 EUR
<b>D unit</b>	EE3600108866	15.1479 EUR
<b>E unit</b>	EE3600108874	15.0943 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, four stars (3 & 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>	KPMG
<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 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.



**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](mailto: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 had one of the best starts to a year in decades as MSCI World gained 5.3% in \$ (+1.6% in €) in January. A wide array of different investor sentiment indicators are at multi-year and multi-decade extremes amid goldilocks economic setting and the fear of missing the further surge upwards. On the FX side US dollar finished another month in red against the euro, down 3.5% vs. the euro.

**Emerging Europe stocks (MSCI EFM CEEC ex-RU) gained 4.8% in € in January** amid the prevailing risk-on mood in Emerging Markets. The upward move in the region was broad-based supported by positive fund flows. Emerging Europe currencies were largely stable, only Turkish lira saw noteworthy weakness against the euro. The drop in lira can be attributed to increased geopolitical tensions as Turkey launched second half of January a military operation against a U.S.-backed Kurdish militia in Syria's Afrin region.

Equity returns	1 mo LC	1 mo €	YTD €	1 year €	3 years €	5 years €
US	5.6%	2.1%	2.1%	7.8%	28.7%	106.2%
Europe	3.1%	3.1%	3.1%	14.5%	16.4%	52.7%
Emerging Markets	8.3%	4.7%	4.7%	20.0%	18.7%	28.4%
Emerging Europe*	4.8%	4.8%	4.8%	28.8%	31.0%	32.2%
Poland	3.6%	4.3%	4.3%	24.5%	27.8%	42.5%
Czech Republic	4.9%	5.9%	5.9%	29.7%	29.9%	12.5%
Hungary	2.1%	2.3%	2.3%	23.7%	143.7%	95.7%
Baltics	4.0%	4.0%	4.0%	16.0%	43.7%	47.1%
Romania	8.0%	8.3%	8.3%	7.6%	13.5%	43.9%
Bulgaria	5.2%	5.2%	5.2%	18.3%	42.4%	78.4%
Croatia	2.3%	2.3%	2.3%	-11.4%	10.6%	2.0%
Slovenia	3.1%	3.1%	3.1%	12.2%	5.2%	30.3%
Serbia	1.8%	1.4%	1.4%	15.6%	20.9%	27.1%
Macedonia	11.3%	11.2%	11.2%	26.6%	50.1%	51.2%
Bosnia & Herzeg.	9.4%	9.4%	9.4%	-6.4%	-12.9%	-22.3%
Turkey	3.6%	1.1%	1.1%	21.0%	-20.5%	-22.3%
Austria	5.1%	5.1%	5.1%	34.3%	64.0%	46.9%
Greece	9.5%	9.5%	9.5%	43.7%	21.7%	-10.9%

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

Currencies to €	1 month	YTD	1 year	2 years	3 years	5 years
Poland	0.5%	0.5%	4.1%	6.5%	0.7%	1.1%
Hungary	0.2%	0.2%	0.0%	0.5%	0.1%	-5.7%
Czech	1.0%	1.0%	6.8%	6.9%	9.6%	1.5%
Romania	0.2%	0.2%	-3.2%	-2.5%	-4.8%	-5.8%
Croatia	0.0%	0.0%	0.5%	3.1%	3.5%	2.0%
Serbia	-0.6%	-0.6%	4.5%	3.2%	3.6%	-6.4%
Turkey	-2.5%	-2.5%	-12.6%	-31.3%	-40.8%	-48.7%

Source: Thomson Reuters

In Romania we witnessed a political mini-crisis that left the equity market undeterred. Mid-month the Prime Minister Mihai Tudose stepped down after losing support of his Social Democratic Party (PSD). He took office in June 2017 following the ousting of his fellow party member Sorin Grindeanu by PSD. On both occasions increased tensions between the governing PM and PSD leader Liviu Dragnea led to the change of the former. Dragnea himself cannot be the PM as he has been convicted for electoral fraud and is currently under investigation for misuse of European Union and state funds. End-January Viorica Dancila, a little-known politician but close

ally of Dragnea, was approved as the new PM, becoming the first woman to hold the position in the country's history.

**Avaron Emerging Europe Fund gained 1.9% in January** underperforming the benchmark due to weak euro based return of off-benchmark Turkish exposure, notable UW in Poland that posted very strong performance and high average cash position close to 30%. In 5 years the Fund has delivered +49.2% return vs. +32.2% for the index with lower volatility (9.1% vs. 15.4% for the index), resulting in 6.1% alpha.

### Key changes in the portfolio

In January we **added Polish insurer PZU to the portfolio** and selectively added to some existing positions. During the month we invested 3.4% of the portfolio in total. PZU is the #1 insurer in Poland with 40% market share, and among the leading players in the Baltics. Via stakes in Pekao and Alior banks, 20% and 32% respectively, PZU is also the #2 banking group and #3 asset manager in Poland. After years of irrational price competition we are seeing structural return to profitability in the motor third party liability (22% of gross written premiums) and casco (16% of GWP) products, while underpenetrated life insurance (40% of GWP) segment offers secular growth opportunity. PZU also benefits from one-stop digital platform offering and cross-selling within the group. The company trades at 13.4x 2019f P/E, 2.5x P/B with expected ROE of 19% and DY of 6%.

### Outlook

**Eurozone leading indicators continue to signal robust economic activity.** January flash composite PMI further accelerated to an 11.5-year high indicating a super-strong 1% quarterly GDP growth rate. The expansion remains broad-based supported by rising new orders and rising confidence on future outlook. Employment grew at the fastest pace since 2000. Given strong demand and stretched capacity on the supply side price pressures continued to increase further, running at the highest in almost seven years. Such strong start of the year poses upside risks to the current 2.5% annual GDP growth expectations. ECB is expected to remain committed to its expansive bias until autumn 2018 when the bond purchase programme will be terminated. We still do not expect any rate hikes from the ECB in 2018, although the risks related to inflation are on the rise.

**Macro environment in Emerging Europe remains similarly strong** as January high-frequency data continued to improve across the board. Business sentiment is robust and regional consumer continues to be supported by tightening labour markets. For 2018 the wider consensus pencils in a slight moderation in growth momentum from 4.4% to 3.5% as fiscal support in some countries should fade. On the other hand private investments that have lagged should continue to pick up amid robust domestic and external demand conditions,

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thus we consider 4% growth rate achievable. Inflationary pressures in the region will become more 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.

### Positioning

At the end of January the **cash position in the Fund stood at 29%**, flat compared to end-2017 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.

**We have maintained high weight in Romania** (16.2% in the portfolio vs. 4.1% in the index) on decent valuations (MSCI Romania at 9.1x 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 positive net fund flows to the Romanian equities.

**Compared to the benchmark index the portfolio is significantly UW** (16.2% vs. 64.4%) **in Poland** as largely local equities seem fairly valued, especially small and mid-caps. Poland (WIG Index) trades at 12.5x 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 11.3x, the Czech market at 14.4x 2018f P/E. Compared to the benchmark the Fund is UW in Hungary (0.5% vs. 15.8%) and almost neutral in the Czech Republic (6.9% vs. 8.6%).

**Off-benchmark Turkish companies** (16.1% 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 8.7x 2018f P/E, almost 1 StDev below the long term average. The banking sector index is trading at 6.0x 2018f P/E and 0.9x P/B, both more than 1 StDev below the long term average. ROE of Turkish banks is expected at 15%. We have currently 8.0% of the portfolio invested in Turkish banks.

Among **Austrian-listed companies** (off-benchmark, 7.8% of the portfolio) we hold Emerging Europe real estate

companies, which **offer attractive valuations on unjustified discounts to NAV and solid dividend streams.**

**The selection of companies in the Fund portfolio trade at 10.8x 1YR FWD P/E**, below 12.3x of the benchmark index but above the 8-year average of 9.9x. 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 4-5% on average pay-out rate of 79%.

	% of the Fund	P/E adj			EPS adj growth		EV/EBITDA		Div yield	P/NAV	P/B
		12M	2018	2019	2018	2019	2018	2019	2017	12M	12M
Cyclical	45.7%	11.6	10.6	9.9	-0.3%	6.5%	4.4	4.1	4.5%	-	1.33
Non-cyclical	11.4%	15.3	12.0	10.9	12.6%	9.8%	5.7	5.3	4.7%	-	1.10
Asset play	13.9%	-	-	-	-	-	-	-	5.1%	0.75	0.80
Total equity	71.0%	12.2	10.8	10.1	1.8%	7.1%	5.0	4.6	4.7%	-	1.14

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](http://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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