

Investment Objectives & Approach

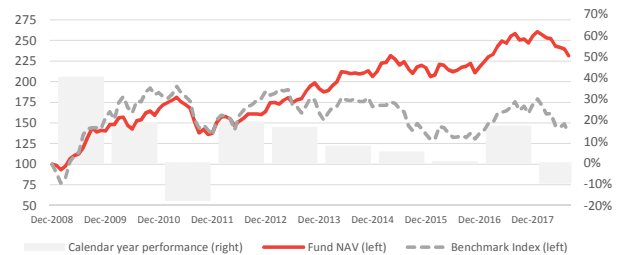
The Fund invests actively in listed equities of European Union new member states and accession countries (Emerging Europe, ex Russia). Benchmark agnostic, it emphasizes bottom-up, value oriented stock picking with a strong small and mid-cap bias. The Fund's investment objective is to maximise upside to internally set target prices, taking into account company quality, liquidity and FX outlook. By implementing our investment process we aim to outperform the market with lower volatility. The Fund typically invests in 30-40 regional companies, who generally demonstrate a competitive advantage or attractive risk/return features. It adheres to the UN Principles for Responsible Investment. Suitable for investors seeking a stock picking portfolio in Emerging Europe, it acts as medium to long term diversifier in a global Emerging Markets, European or Global Equity portfolio.

Fund Manager's Comment, August 2018

Global equities continued to rally in August, up 1.0% in \$ (+1.8% in €) on the back of strong US equities, while Europe (-3.7% in €) and Emerging Markets (-2.2% in €) retreated. Emerging Europe lost 7.2% in € in August as Turkish lira collapsed 24% to euro (worst monthly fall since the economic crisis in 2001) amid fierce selling and shorting pressure, and inadequate response from the central bank to rising inflation and currency volatility. Avaron Emerging Europe Fund lost 3.4% in August, outperforming the benchmark due to underweight in Turkey. Q2 earnings season almost got wrapped up in August. Companies in the Fund excluding asset valuation driven real estate names and holding companies posted on aggregate 11% yoy earnings contraction in € terms. This was the first quarter of annual earnings decline since 2Q16. Emerging Europe leading indicators continue to indicate fading momentum in the regional growth rate. August manufacturing PMI softened in Poland, Czech Republic, Greece and Turkey, while edging higher in Hungary. The cash position in the Fund remains high in historical terms as we see rather limited number of attractive value opportunities in Emerging Europe equity markets. While valuation on benchmark basis does not look expensive with MSCI EFM EUROPE + CIS (E+C) ex Russia trading at 10.7x 1YR FWD P/E, we are cautious on the earnings outlook as the profitability is getting squeezed amid rising input costs, while demand outlook gradually softens. In order to become more constructive on regional valuation we would need to see additional weakness in the equity prices or a downward adjustment in consensus earnings estimates.

To receive full monthly report please send a request to info@avaron.com.

Performance



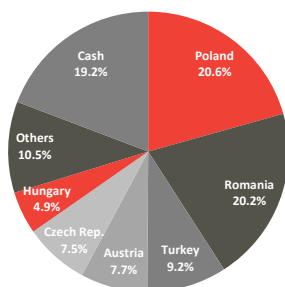
Past performance is not a guarantee or indicative of future results.

The benchmark of the Fund (E Unit) was changed from MSCI EFM CEEC ex Russia (net return) to MSCI EFM EUROPE + CIS (E+C) ex Russia (net return) as of July 2018 to better reflect our internal coverage universe. All historical comparisons refer to the new benchmark.

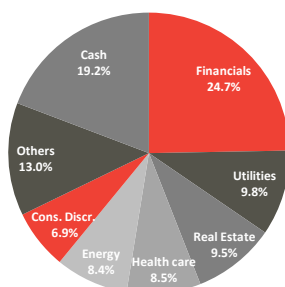
Perf overview	Fund net return	Index return*	Calendar year return		
			Year	Gross	Net Index*
1 month	-3.4%	-7.2%	2017	19.2%	17.3% 25.3%
YTD	-9.5%	-19.9%	2016	2.1%	0.6% 1.2%
3 months	-4.7%	-6.0%	2015	6.7%	5.0% -20.0%
6 months	-10.0%	-19.4%	2014	9.4%	7.8% 4.7%
1 year	-10.4%	-21.4%	2013	18.5%	16.7% -13.9%
3 years	7.5%	-5.9%	2012	21.1%	19.2% 39.3%
5 years	28.9%	-14.7%	2011	-16.3%	-17.6% -27.5%
7 years	53.3%	-10.1%	2010	20.8%	18.9% 19.2%
10 years	17.0%	-23.5%			

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

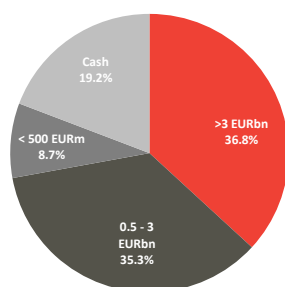
Geographic breakdown



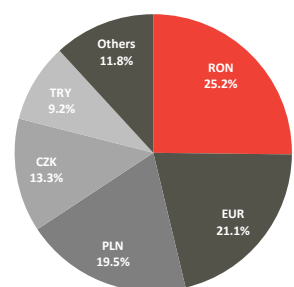
Sector breakdown



Market Cap breakdown



Net currency breakdown



Country allocation

	Aug-18	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Poland	20.6%	4.4%	5.9%	4.5%	10.5%	20.6%	0.1%	0.7%	0.1%	-1.6%	3.6%	5.1%
Romania	20.2%	1.9%	3.1%	3.4%	2.0%	-1.2%	0.5%	1.1%	2.2%	2.4%	7.0%	12.8%
Turkey	9.2%	-8.1%	-4.2%	-14.2%	-0.4%	-7.9%	-3.7%	-7.3%	-12.0%	-10.1%	-7.6%	-0.4%
Austria	7.7%	-2.3%	-1.1%	-2.1%	-10.6%	-5.0%	0.1%	0.6%	0.6%	0.6%	6.4%	7.5%
Czech Rep.	7.5%	0.3%	0.3%	-3.3%	-3.3%	1.4%	-0.2%	0.3%	0.7%	0.6%	0.9%	4.0%
Hungary	4.9%	1.7%	2.7%	4.2%	3.8%	-6.9%	0.4%	0.2%	0.0%	0.0%	0.9%	4.6%
Slovenia	3.6%	0.2%	0.5%	0.3%	0.4%	-2.4%	-0.1%	0.1%	0.1%	0.1%	0.1%	1.2%
Baltics	3.2%	-0.1%	1.5%	1.3%	1.0%	-5.3%	0.0%	0.2%	0.1%	0.0%	1.1%	1.5%
Croatia	1.8%	0.0%	0.1%	-0.2%	1.8%	1.8%	-0.1%	-0.1%	-0.3%	-0.2%	0.1%	0.1%
Others	1.9%	3.2%	2.8%	3.0%	4.6%	9.6%	0.0%	0.1%	-0.1%	0.1%	0.8%	3.8%

Contribution analysis

Risk metrics	3Y risk*
Alpha	3%
Volatility & stand. deviation	9.2%
Beta	0.45
Sharpe ratio	0.30
Information ratio	0.42
Tracking error	10.6%

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

Sector allocation

	Aug-18	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Financials	24.7%	-3.2%	-2.7%	-8.9%	-3.5%	-10.7%	-1.6%	-2.1%	-5.0%	-5.3%	4.4%	14.5%
Utilities	9.8%	0.6%	0.9%	0.9%	-3.7%	-3.7%	0.0%	0.2%	0.9%	0.7%	2.0%	7.9%
Real Estate	9.5%	-1.6%	-0.4%	-3.5%	-1.7%	-2.3%	0.1%	0.6%	0.4%	0.6%	2.5%	4.0%
Health care	8.5%	1.9%	3.2%	4.5%	4.2%	0.2%	0.3%	0.4%	0.1%	0.1%	1.0%	3.1%
Energy	8.4%	0.9%	1.3%	1.6%	-1.1%	5.1%	0.3%	0.5%	1.1%	1.2%	3.9%	3.0%
Cons. Discr.	6.9%	-0.2%	0.9%	0.9%	2.0%	-6.0%	-0.7%	-1.1%	-1.5%	-1.7%	1.2%	6.2%
Industrial	4.9%	-0.8%	4.7%	1.9%	3.0%	4.1%	-0.8%	-1.1%	-1.4%	-1.2%	-0.3%	-0.3%
Consumer Staples	4.3%	1.6%	1.9%	-2.3%	1.5%	2.3%	-0.7%	-1.0%	-1.7%	-1.4%	-0.3%	1.6%
Others	3.7%	4.4%	4.6%	4.8%	3.3%	2.9%	0.0%	-0.5%	-1.6%	-1.1%	-1.2%	0.3%

Contribution analysis

Fund statistics

Number of positions	36
Top10	45.8%
Top20	67.3%
Gross exposure	80.8%
Net exposure	80.8%
Concentration coefficient	36
Median market cap MEUR	1755
Average market cap MEUR	2773

Style allocation

	Aug-18	1 mo	3 mo	12 mo	3 years	5 years	1 mo	3 mo	12 mo	YTD	3 years	5 years
Cyclical	45.0%	-3.9%	3.4%	-1.9%	9.5%	11.4%	-2.7%	-4.0%	-7.5%	-7.6%	6.3%	13.4%
Non-cyclical	21.2%	3.8%	5.8%	1.9%	1.3%	-1.6%	-0.6%	-0.9%	-1.7%	-1.7%	1.0%	10.6%
Asset play	14.6%	-1.2%	0.0%	-3.2%	-1.4%	-4.1%	0.2%	0.7%	0.8%	1.1%	4.5%	10.5%
Convertible bonds	0.0%	0.0%	0.0%	0.0%	0.0%	-15.4%	0.0%	0.0%	0.0%	0.0%	0.0%	2.8%
High yield bonds	0.0%	0.0%	0.0%	-2.7%	-5.4%	-1.8%	0.0%	0.0%	0.0%	0.0%	1.4%	2.5%
FX Derivatives	0.0%	0.0%	0.0%	-0.2%	0.0%	-0.1%	0.0%	0.0%	-0.2%	0.0%	0.0%	0.6%
Cash	19.2%	1.3%	-9.2%	6.0%	-4.0%	11.7%	-0.2%	-0.2%	-0.4%	-0.3%	-0.5%	-0.5%

Contribution analysis

Turnover	Adj*
FY 2017	28.5%
FY 2016	17.7%
FY 2015	22.2%

* Adjusted for fund flows

Liquidity analysis*	20%	50%
3 days	66.7%	75.4%
2 weeks	79.3%	93.0%
4 weeks	90.1%	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 tradina volume

Fund Facts - Avaron Emerging Europe Fund

Investment Manager	AS Avaron Asset Management
Fund type	UCITS, public common investment fund
Launch date	April 23, 2007
Domicile	Estonia
Currency	EUR
Dividends	reinvested
Fund size, MEUR	64.9
Total AUM, MEUR	450+

TER 2017 0.39% (excluding management and performance fees)

	ISIN Code	NAV 31-Aug 2018
A unit	EE3600090049	4.4460 EUR
B unit	EE3600090056	4.7287 EUR
C unit	EE3600102901	15.9966 EUR
D unit	EE3600108866	13.3928 EUR
E unit	EE3600108874	13.3949 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, Switzerland
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	-	500,000 EUR*	500,000 EUR*
Front-end load	2%	-	-
Management fee	2%	1.15%*	0.85%
Performance fee (unit based)	-	-*	15% over MSCI EFM EUROPE + CIS (E+C) ex RU index, annual reset (June 30)
Back-end load	-	-	-

*effective as of September 06, 2018

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.

Signatory of:



RESPONSIBLE BUSINESS INDEX
 GOLD LEVEL 2018



Kristel Kivimurm-Priisalm

Managing Partner,
 CEO & COO



Peter Priisalm

Partner, co-CIO,
 Investment Manager



Valdur Jaht

Partner, co-CIO,
 Investment Manager

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