

## Investment Objectives & Approach

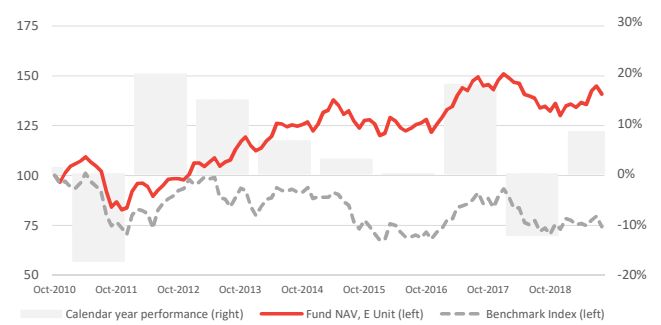
The Fund invests actively in listed equities of European Union new member states and accession countries (Emerging Europe, ex Russia). Benchmark agnostic, it emphasizes bottom-up, value oriented stock picking with a strong small and mid-cap bias. The Fund's investment objective is to maximise upside 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 2019

Global equities corrected in August as the escalation of trade tensions was once again outweighing the central banks' dovish tone. MSCI World was down 2.2% in \$ (-1.4% in €) while Emerging Markets lost 5.1% in \$ (-4.3% in €). Emerging Europe (MSCI EFM EUROPE + CIS (E+C) ex Russia) underperformed losing 6.6% in € terms driven by the poor performance of Polish stocks (-6.8% in €), especially banks. Polish banks came under strong selling pressure in July-August due to renewed uncertainty around the future of their Swiss franc mortgage portfolios. Turkish market also posted poor performance (-8.5% in €) as we saw some profit taking after the stellar early summer performance. Avaron Emerging Europe Fund delivered -2.8% return in August, outperforming the benchmark due to UW in Turkey and Poland. YTD the Fund is up 8.3% compared to +1.8% of the benchmark. Positioning of the Fund is conservative as we have around 15% of cash in the portfolio and the portfolio is underweight in the high beta Turkish market. The selection of companies in the Fund portfolio trade at 10.3x 1YR FWD P/E compared to 9.9x historical average. We favour companies with strong balance sheets and solid sustainable free cash flow generation. The aggregate net gearing of our portfolio companies stands at 17%, cash flow yield at 9% and dividend yield at 5%+ on an average pay-out rate of 61%.

To receive detailed fund manager comment please send a request to [info@avaron.com](mailto:info@avaron.com).

## Performance, E Unit



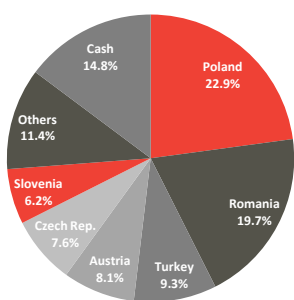
| Perf overview | Net return E Unit | Index return* |
|---------------|-------------------|---------------|
| 1 month       | -2.8%             | -6.6%         |
| YTD           | 8.3%              | 1.8%          |
| 3 months      | 3.7%              | -0.7%         |
| 6 months      | 3.7%              | -4.1%         |
| 1 year        | 5.1%              | 3.5%          |
| 3 years       | 12.2%             | 6.1%          |
| 5 years       | 12.2%             | -20.2%        |
| 7 years       | 43.6%             | -15.8%        |
| 8 years       | 53.2%             | -6.9%         |

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

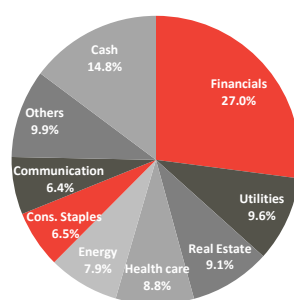
## Calendar year return, E Unit

| Year | Gross  | Net    | Index* |
|------|--------|--------|--------|
| 2018 | -10.9% | -12.2% | -18.6% |
| 2017 | 19.2%  | 17.7%  | 25.3%  |
| 2016 | 2.1%   | -0.1%  | 1.2%   |
| 2015 | 6.7%   | 2.9%   | -20.0% |
| 2014 | 9.4%   | 6.5%   | 4.7%   |
| 2013 | 18.5%  | 14.6%  | -13.9% |
| 2012 | 21.1%  | 19.7%  | 39.3%  |
| 2011 | -16.3% | -17.3% | -27.5% |

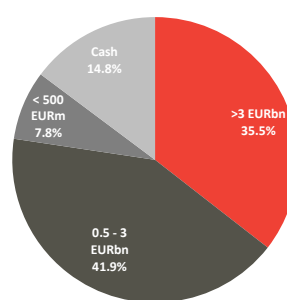
## Geographic breakdown



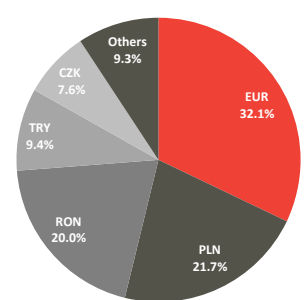
## Sector breakdown



## Market Cap breakdown



## Net currency breakdown



## Country allocation

|            | Change |       |       |       |         |         | Contribution analysis |       |       |       |         |         |
|------------|--------|-------|-------|-------|---------|---------|-----------------------|-------|-------|-------|---------|---------|
|            | Aug-19 | 1 mo  | 3 mo  | 12 mo | 3 years | 5 years | 1 mo                  | 3 mo  | 12 mo | YTD   | 3 years | 5 years |
| Poland     | 22.9%  | 0.7%  | 0.8%  | 2.2%  | 14.0%   | 15.2%   | -1.0%                 | 0.4%  | 0.3%  | 1.4%  | 4.2%    | 4.7%    |
| Romania    | 19.7%  | -0.9% | 0.3%  | -0.5% | 7.7%    | 1.5%    | 0.3%                  | 2.5%  | 4.3%  | 6.3%  | 11.4%   | 12.2%   |
| Turkey     | 9.3%   | -0.2% | 1.3%  | 0.1%  | -10.8%  | -3.7%   | -0.8%                 | 1.0%  | 1.5%  | -0.2% | -8.5%   | -8.1%   |
| Austria    | 8.1%   | -0.3% | 0.1%  | 0.4%  | -10.2%  | -3.6%   | 0.2%                  | 0.9%  | 0.7%  | 1.6%  | 5.9%    | 9.2%    |
| Czech Rep. | 7.6%   | 0.0%  | -0.1% | 0.1%  | -2.1%   | 3.6%    | -0.4%                 | -0.2% | -0.5% | 0.1%  | 3.0%    | 2.8%    |
| Slovenia   | 6.2%   | 0.3%  | 0.0%  | 2.6%  | 2.3%    | 2.7%    | 0.0%                  | 0.1%  | 0.6%  | 0.3%  | 0.7%    | 0.5%    |
| Hungary    | 4.4%   | 0.0%  | -0.1% | -0.5% | 3.6%    | 1.4%    | -0.2%                 | -0.2% | -0.4% | -0.3% | -0.2%   | 0.8%    |
| Baltics    | 2.5%   | -0.3% | -0.7% | -0.6% | 0.9%    | -1.3%   | 0.0%                  | 0.0%  | 0.1%  | 0.1%  | 0.8%    | 2.0%    |
| Croatia    | 2.0%   | 0.0%  | 0.1%  | 0.1%  | 1.2%    | 2.0%    | -0.1%                 | 0.1%  | 0.0%  | 0.2%  | 0.0%    | 0.1%    |
| Others     | 2.5%   | -0.2% | -0.1% | 0.6%  | 0.9%    | -1.6%   | -0.1%                 | 0.2%  | 0.2%  | 0.3%  | 0.7%    | 1.7%    |

## Risk metrics

|                               | 5Y risk* |
|-------------------------------|----------|
| Alpha                         | 4%       |
| Volatility & stand. deviation | 9.2%     |
| Beta                          | 0.46     |
| Sharpe ratio                  | 0.28     |
| Information ratio             | 0.65     |
| Tracking error                | 10.4%    |

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

## Sector allocation

|                  | Change |       |       |       |         |         | Contribution analysis |       |       |       |         |         |
|------------------|--------|-------|-------|-------|---------|---------|-----------------------|-------|-------|-------|---------|---------|
|                  |        | 1 mo  | 3 mo  | 12 mo | 3 years | 5 years | 1 mo                  | 3 mo  | 12 mo | YTD   | 3 years | 5 years |
| Financials       | 27.0%  | 1.0%  | 0.9%  | 2.3%  | -2.4%   | 7.6%    | -1.5%                 | -0.3% | -2.2% | -0.4% | 0.8%    | 2.5%    |
| Utilities        | 9.6%   | 0.6%  | 0.6%  | -0.2% | 0.1%    | -6.5%   | 0.3%                  | 1.2%  | 1.9%  | 2.0%  | 5.2%    | 4.6%    |
| Real Estate      | 9.1%   | -0.6% | -0.1% | -0.4% | -7.3%   | -3.1%   | 0.2%                  | 0.9%  | 0.8%  | 1.7%  | 2.4%    | 4.2%    |
| Health care      | 8.8%   | 0.3%  | 0.0%  | 0.3%  | 4.1%    | 3.2%    | -0.2%                 | 0.0%  | 0.0%  | 0.0%  | 0.7%    | 1.0%    |
| Energy           | 7.9%   | -1.6% | -1.2% | -0.5% | 2.6%    | -0.5%   | -0.1%                 | 0.7%  | 2.3%  | 3.3%  | 6.3%    | 5.7%    |
| Consumer Staples | 6.5%   | 0.4%  | 1.1%  | 2.2%  | 3.6%    | 6.0%    | 0.0%                  | 0.9%  | 1.7%  | 1.1%  | 1.4%    | 3.7%    |
| Communication    | 6.4%   | -0.3% | 0.3%  | 1.2%  | 5.5%    | 6.0%    | -0.1%                 | 0.8%  | 1.5%  | 1.7%  | 1.3%    | 1.4%    |
| Cons. Discr.     | 5.5%   | -0.1% | 0.4%  | 0.4%  | -0.2%   | -1.1%   | -0.4%                 | 0.3%  | 0.0%  | 0.4%  | 0.6%    | 3.5%    |
| Others           | 4.4%   | -0.5% | -0.4% | -0.8% | 1.7%    | 4.4%    | -0.3%                 | 0.2%  | 0.9%  | 0.1%  | -0.7%   | -0.6%   |

## Fund statistics

|                           |       |
|---------------------------|-------|
| Number of positions       | 37    |
| Top10                     | 49.4% |
| Top20                     | 70.5% |
| Gross exposure            | 85.2% |
| Net exposure              | 85.2% |
| Concentration coefficient | 31    |
| Median market cap MEUR    | 1727  |
| Average market cap MEUR   | 2850  |

## Style allocation

|                   | Change |       |       |       |         |         | Contribution analysis |      |       |      |         |         |
|-------------------|--------|-------|-------|-------|---------|---------|-----------------------|------|-------|------|---------|---------|
|                   |        | 1 mo  | 3 mo  | 12 mo | 3 years | 5 years | 1 mo                  | 3 mo | 12 mo | YTD  | 3 years | 5 years |
| Cyclical          | 46.1%  | -1.8% | -0.7% | 1.1%  | 1.9%    | 15.2%   | -2.3%                 | 1.0% | 1.2%  | 3.6% | 5.8%    | 6.6%    |
| Non-cyclical      | 23.1%  | 1.0%  | 1.8%  | 1.9%  | 7.7%    | 4.1%    | -0.2%                 | 1.6% | 3.1%  | 2.4% | 5.5%    | 8.9%    |
| Asset play        | 16.0%  | -0.1% | 0.5%  | 1.4%  | 2.0%    | 4.0%    | 0.5%                  | 2.1% | 2.6%  | 3.7% | 6.0%    | 8.2%    |
| Convertible bonds | 0.0%   | 0.0%  | 0.0%  | 0.0%  | 0.0%    | -7.2%   | 0.0%                  | 0.0% | 0.0%  | 0.0% | 0.0%    | -0.3%   |
| High yield bonds  | 0.0%   | 0.0%  | 0.0%  | 0.0%  | -4.0%   | 0.0%    | 0.0%                  | 0.0% | 0.0%  | 0.0% | 0.7%    | 2.4%    |
| FX Derivatives    | 0.0%   | 0.0%  | 0.0%  | 0.0%  | 0.0%    | 0.0%    | 0.0%                  | 0.0% | 0.0%  | 0.0% | 0.0%    | 0.1%    |
| Cash              | 14.8%  | 0.8%  | -1.6% | -4.4% | -7.6%   | -16.1%  | -0.1%                 | 0.0% | 0.0%  | 0.0% | -0.6%   | -0.5%   |

## Turnover

|         | Adj*  |
|---------|-------|
| FY 2018 | 20.7% |
| FY 2017 | 28.5% |
| FY 2016 | 17.7% |

\*Adjusted for fund flows

## Liquidity analysis\*

|         | 20%   | 50%   |
|---------|-------|-------|
| 3 days  | 64.2% | 74.3% |
| 2 weeks | 79.0% | 92.7% |
| 4 weeks | 89.7% | 96.0% |

\*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>          | UCITS V, public common investment fund |
| <b>Launch date</b>        | April 23, 2007                         |
| <b>Domicile</b>           | Estonia                                |
| <b>Currency</b>           | EUR                                    |
| <b>Dividends</b>          | reinvested                             |
| <b>Fund size, MEUR</b>    | 57.4                                   |
| <b>Total AUM, MEUR</b>    | 370+                                   |

**TER 2018** 0.37% (excluding management and performance fees)

|               | NAV         | TER 2018       | TER 2018       |
|---------------|-------------|----------------|----------------|
|               | 31-Aug-2019 | excl. perf fee | incl. perf fee |
| <b>B unit</b> | 4.9753 EUR  |                |                |
| <b>C unit</b> | 16.8456 EUR | 1.58%*         | 1.67%*         |
| <b>D unit</b> | 13.9842 EUR | 2.37%          | 2.37%          |
| <b>E unit</b> | 14.0760 EUR | 1.22%          | 1.46%          |

\* C unit management fee lowered to 1.15% and performance fee cancelled as of 06.09.2018

|  |  |
|--|--|
| <b>Cut-off</b>                         | 10am CET   |
| <b>NAV frequency</b>                   | Daily dealing, T+3   |
| <b>Public offering</b>                 | France, Switzerland, Germany, United Kingdom, Finland, Sweden, Estonia, Latvia |
| <b>Morningstar rating</b>              | Yes, three stars (5 years)   |
| <b>Tax transparency</b>                | Germany, Switzerland   |
| <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>         |

|               | ISIN code    | WKN code | Bloomberg ticker | Reuters RIC | Telekurs ID |
|---------------|--------------|----------|------------------|-------------|-------------|
| <b>C unit</b> | EE3600102901 | A0PEFO   | AVAEESC ET       | LP68063797  | CH10799792  |
| <b>D unit</b> | EE3600108866 | A1W7P0   | AVEMEUD ET       | LP68083763  | CH12407332  |
| <b>E unit</b> | EE3600108874 | A113GN   | AVEMEUE ET       | LP68083764  | CH12414216  |

| Unit class                          | D (Retail) | C (Institutional) | E (Institutional)  |
|-------------------------------------|------------|-------------------|--|
| <b>Min. initial investment</b>      | -          | 500,000 EUR       | 500,000 EUR  |
| <b>Front-end load</b>               | -          | -                 | -  |
| <b>Management fee</b>               | 2%         | 1.15%             | 0.85%  |
| <b>Performance fee (unit based)</b> | -          | -                 | 15% over MSCI EFM EUROPE + CIS (E+C) ex RU index, annual reset (June 30) |
| <b>Back-end load</b>                | -          | -                 | -  |

#### Contact Information

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#### About Avaron Asset Management

Avaron Asset Management (founded in 2007) is an independent management-owned investment manager with a clear focus on stock-picking (bottom-up) and value investing in Emerging Europe region. We aim to deliver positive risk-adjusted return to our clients over the market cycle. Our portfolios are long-only and invest in listed stocks.

Investment ideas are generated through in-house proprietary research of approximately 250 Emerging Europe companies, backed by regular on the ground visits and meetings. Our stock selection is primarily driven by the upside to internally set target prices on single company level. We invest only in business models that we understand and can model ourselves focusing on companies with leading market positions and strong recurring revenue streams. In addition, we have integrated ESG analysis into our investment process and adhere to the UN Principles for Responsible Investment (UN PRI). Our team of 19 professionals (including 11 in the investment team), based in Estonia and Poland, takes care of around 400 million euros of mainly professional investor assets.

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

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