

## Fund Manager's Comment, January 2010

### Exceptionally strong January

Developed markets dived down in January while most Emerging Europe markets posted exceptional returns. Star performers were the Baltics, Croatia and Romania. Only Polish small caps and Austrian stocks showed some weakness. The Baltic index rose almost 28%, driven by Estonia's "euro-phoria" (with high probability Estonia to start using euro from 2011). Currencies were mixed with Romanian leu and Turkish lira witnessing over 3% appreciation to euro. Part of the strength of Emerging Europe equity markets and currencies can be explained by reversal from weak December, part by revived international investor interest towards the region.

Country	Index	1M change in local currency	1M change in EUR terms	1Y change in local currency	1Y change in EUR terms	2Y change in local currency	2Y change in EUR terms
US	SPX	-3.7%	-0.5%	30.0%	20.2%	-22.1%	-16.5%
Europe	SX5E	-6.3%	-6.3%	24.1%	24.1%	-26.8%	-26.8%
New Europe	EUETMP	3.0%	3.0%	64.8%	64.8%	-31.4%	-31.4%
Poland	WIG	0.2%	1.5%	62.3%	78.9%	-16.1%	-25.3%
Poland	MIDWIG	-1.4%	-0.1%	69.5%	86.8%	-31.4%	-38.9%
Poland	WIG20	-0.3%	1.0%	49.4%	64.7%	-19.3%	-28.1%
Czech Republic	PX	5.3%	6.1%	52.0%	61.7%	-21.5%	-22.2%
Hungary	BUX	2.8%	2.5%	89.6%	108.2%	-7.0%	-11.5%
Romania	BET	8.0%	11.4%	124.8%	135.5%	-32.4%	-38.6%
Bulgaria	SOFIX	1.9%	1.9%	51.9%	51.9%	-69.0%	-69.0%
Croatia	CRO	9.9%	9.8%	31.0%	32.2%	-51.0%	-51.5%
Slovenia	SVSM	1.0%	1.0%	7.3%	7.3%	-59.8%	-59.8%
Serbia	BELEX15	2.2%	-0.2%	26.4%	21.5%	-68.6%	-73.7%
B&H	SASX10	1.4%	1.4%	-3.6%	-3.6%	-66.5%	-66.5%
Baltics	OMXBPI	27.6%	27.6%	53.7%	53.7%	-34.7%	-34.7%
Austria	ATX	-0.1%	-0.1%	43.6%	43.6%	-35.1%	-35.1%
Turkey	XU100	3.5%	7.0%	110.7%	113.6%	28.0%	7.8%

Source: Bloomberg

### CE3: Macro improvement continues

The state of the German economy remains of key importance for its neighbours in the Central Europe. January brought slightly non-unanimous data from indicators that serve as leading proxy for CE3 industrial output. Although the business climate measured with IFO survey did significantly improve, ZEW clearly disappointed. The index measuring financial experts' confidence in the economy noted fourth consecutive decline from its September peak. The boost from stimulus programs gradually disappears. Sentiment indicators should soon hint the markets, whether export keeps the German recovery sustainably on track also through the second quarter.

Meanwhile CE3 still enjoys transmission effects of the recent dynamic rebound. In the Czech Republic Ministry of Finance has just increased official projections of GDP growth in 2010 from 0.3% to 1.3%. Noteworthy is that export growth will most likely turn positive on annual basis after being flat in November yoy. Lower risk aversion allows Hungary to continue gradual fiscal easing with the 25bp cut to 6.00%. Hungarian gross output dynamics escaped in November from the negative double-digit area for the first time in 2009 with the latest -7% reading. As we indicated, both countries cannot, however, boast about their consumers. Retail sales remain in lethargy and are seeing declines even on seasonally adjusted mom basis.

Poland ends the year as an outstanding green spot on the EU's map in terms of macroeconomic situation. Polish GDP in 2009 grew by 1.7% yoy according to the first estimates. Retail sales increased 7.2% yoy in December, driven by increased fuel consumption and generous Christmas spending. Naturally consumers' frugality does exist to some extent as white goods,

electronics and furniture categories are still declining yoy. However, the economy in Q4 shed less jobs than expected. Unemployment rate has not exceeded 12%, which bodes well for the coming months.

On the markets the year kicked-off with sizeable privatization supply. Polish Treasury conducted the first, as it turned out, fluent asset disposal. In the largest accelerated book-building in the history of the Warsaw Bourse, 10% stake in copper-mining conglomerate KGHM was sold. The deal size reached in total over €0.5bn. The book was 50% oversubscribed with 56% of the offer absorbed by the local institutions. For sale was also 10.8% stake in the second largest Polish oil company Grupa Lotos – worth around €100m. The latter offer's timing proved, however, less successful. Global shakedown in the second half of the month and company's rich comparative valuation resulted in a notable discount in pricing.

### Baltics: Economy bottoming, markets rally

Baltic stock markets were one of the best performing markets in the world in January with Estonian, Latvian and Lithuanian markets being up 45%, 17% and 20%, respectively. Rally has been supported both by depressed prices as well as improving outlook on the economy.

Lithuania was the first country in the Baltics to report preliminary 4Q09 GDP figures. Lithuania's economic contraction slightly eased in the period – 13.0% drop versus a decline of 14.2% in 3Q09. As Lithuania's GDP recorded double-digit drop already in 1Q09, then going forward we should see abrupt improvement in annual growth rates. Qoq GDP grew 0.1% on seasonally adjusted basis, reflecting the bottoming process.

In December retail sales declined 15% (17% in November) yoy in Estonia, 28% (30%) in Latvia and 24% (26%) in Lithuania, according to local statistical offices. There has been no sign of recovery in private consumption, as retail sales continued to drop also on seasonally adjusted basis in month-on-month comparison.

Tallinn Water, one of our portfolio companies reported strong 4Q results, showing 10% yoy revenue growth and 62% net margin, the highest in history. Net profit was supported by compensation received from the municipality for the connections developed as well as due to lower cost base.

Norma, a car parts producer headquartered in Estonia, a subsidiary of Swedish Autoliv, posted also surprisingly strong results in 4Q. Sales dropped 20% yoy, but rose 32% from 3Q. Net profit adjusted to one-offs rose 75% from 3Q to €1.7m, just 20% below 4Q08. Norma still faces large risks related to its largest clients in Russia and CIS countries, but the worst of the crisis seems to be put behind. Avaron has no positions in Norma.

### Romania: Next tranches of IMF support secured

After settling the political struggle and forming the new government, Romania managed quickly to adopt 2010 budget, which was crucial for releasing next tranches for IMF and EC help package. Adopted budget envisages deficit of 4.9% of GDP, in line with IMF requirements. The government has committed itself to quite a bold restructuring of public administration: 100,000 job cuts will take place this year and public sector wages will remain unchanged. With the adoption of the budget all conditions agreed with IMF have been met and after IMF mission to Romania it was indicated that there should be no obstacles to releasing the funds. It is expected that the IMF will release both the third (€1.5bn) and

### Marketing and Sales

Tel: +372 664 4205  
E-mail: info@avaron.com  
www.avaron.com

the forth (€0.8bn) tranches in February, while the EC will release a tranche of €1bn in March. During the January meeting the National Bank of Romania cut the base rate by 50 bps to 7.5% despite mounting inflationary pressures. Although rate cuts in mid-term were expected, the consensus was that in January the rates would remain unchanged.

#### Bulgaria: On its way to eurozone?

Bulgaria has been consistent in their tight fiscal stance and registered a budget surplus for a second month in a row in November. In the eleven months through November the government ran a cumulative budget deficit of about 0.7% of GDP, which is by far the lowest in the region. Adopted 2010 budget foresees 0.7% gap, but the government is discussing to increase expenditures in order to help economic growth to pick up and the deficit could be increased to 1.7%. However, increased expenditures could be off-set by the fact that budget is constructed on -2% GDP growth, while now the government is expecting 0.3% growth, and most economists see growth in the range of 0.5 to 1%. Citing tight fiscal policy, Moody's upgraded its outlook on Bulgaria's Baa3 rating to positive (from stable) in its first positive move on an EU state since July 2008. Bulgaria will most likely apply to enter ERM-2 waiting room in coming weeks, as entering the euro zone is now the first foreign policy priority of the government. Also negotiations on entering the Schengen Area are going forward and Bulgaria expects to be ready to adopt the Schengen treaty by March 2011.

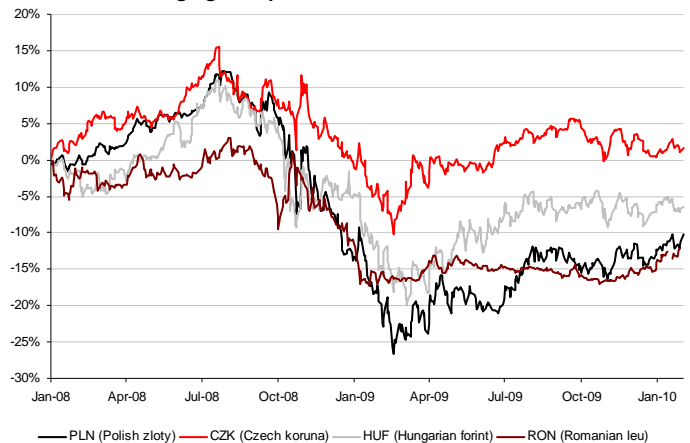
#### Croatia: New president elected

The second round of the presidential elections took place in January, bringing no surprises as the Social democrat candidate Ivo Josipovic won by absolute majority of 60.3%. Albeit being mostly in a representative role, the shift in support from HDZ (governing Croatian Democratic Union), which has been involved in numerous scandals in the past year, is a much welcomed sign in our view, especially in the light of possible wrap-up in EU accession talks this year. Meanwhile, the government decided on two recovery measures. Firstly, the central bank reserve requirement was cut by 1pps to 13%, freeing around HRK 3b (€410m). Around 60% of these funds will be allocated to the Croatian Bank for Reconstruction, which would then give out loans for companies to refinance their current debt or improve liquidity. Secondly, the state will guarantee around 25-50% of loans of different investment projects in order to decrease banks' interest rates and improve private investments. The total effect of these two measures is difficult to estimate as the detailed implementation plan is yet to be disclosed.

#### Regional currencies appreciate

The first weeks of January revealed also growing appetite for the CE3 currencies, which returned to their appreciation path. This phenomenon was well mirrored by rushing demand in tenders of Polish zloty nominated Treasury papers. Investors declared over two times higher demand for already outstanding €4bn of supply. Increased investors' interest has been as well utilized by Hungary that placed a \$2bn 10Y USD bonds. The largest movement, however, was seen in Romanian leu on the back of improving macro and subsiding political tensions. From November lows the leu has gained 4% against the euro. This bodes well for our long position in 2011 RON bonds that we entered during the height of the political crisis looking to play on mid-term currency appreciation and easing of local interest rates. The bond returned 6.7% alone in January.

Emerging Europe currencies to EUR since 2008



Source: Bloomberg

#### Balanced positioning maintained

The first week(s) of January brought the expected positive effect of rebuilding regional positions after the "clean-the-books" sell-off in December. However, in the second half of the month global optimism started to falter as the first Q4 results and 2010 guidance slightly disappointed the investors. What characterizes the recent weakness in Emerging Europe equities is that this was the first time during and after the crisis when investors clearly differentiated between cyclical and non-cyclical companies. For example, the regional telecom sector remained largely untouched during the sell-off, while regional financials took a heavy blow. We used the weakness to rebalance our portfolios after recent inflows by increasing the cyclical exposure. Nevertheless to a large extent the portfolios remain similar to those of year-end, having a balanced approach by combining cyclical names with non-cyclical companies and bonds. Despite the fact that we have become more constructive on regional macro and believe that there might be surprises on the upside vs. consensus in 2010-11, we are sticking to our balanced approach towards equities. Our recent conversations with company managements across the region indicate a clear discrepancy in terms of 2010 outlook vs. the market, the latter being very optimistic. Therefore, we see a risk that the 2010 management guidance might disappoint the markets, especially among cyclical names, as the consensus figures for 2010 are quite optimistic. On the other hand history has shown that the managements are always slightly behind the cycle in their outlook. Also, after horrible 2009 the incentive to outperform is bigger than ever leading to subdued guidance for 2010. Given all this we would treat potential market weakness during the reporting season as a buying opportunity.

For more insight to our funds' portfolios read Avaron Quarterly Strategy Note issued in January. If you wish to receive it, please send your request to [info@avaron.com](mailto:info@avaron.com).

## Avaron Emerging Europe Small Cap Fund

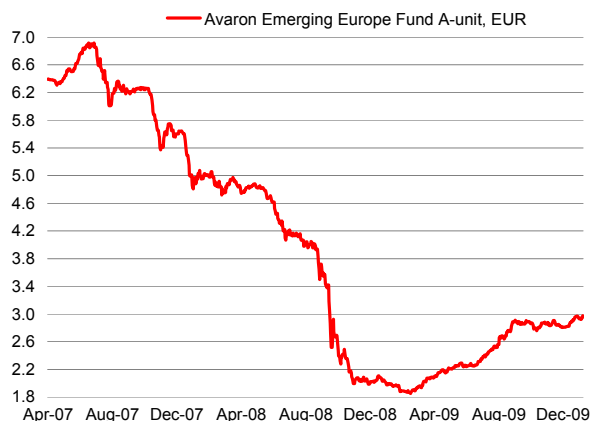
January 2010

### Investment objectives

Avaron Emerging Europe Small Cap Fund is a value fund that invests in listed small and mid cap companies of countries that joined the European Union in 2004 and 2007, and prospective candidate countries that are expected to join the Union in the future. The Fund does not invest in CIS (includes Russia) due to different risk profile.

Avaron's investment style is value driven with focus on active management and stock-picking. Avaron conducts proprietary research in order to identify attractively valued securities. Essential part of the identification process is on-site company visits that enable to assess management competence and transparency. Avaron looks for investment targets with competent and transparent management team, with strong market position in its sector and strong growth prospects, and most importantly attractive price level.

The Fund is registered in Estonia, open daily and is UCITS-3 compliant.



Past performance is not a guarantee or indicative of future results

### Fund facts

Management company	AS Avaron Asset Management
Fund launch	April 23, 2007
Domicile	Estonia
Public marketing	Estonia, Finland, Latvia
Dealing	Daily (16.00 CET)
Fund size, EURm	14.3

	Unit A	Unit B	Unit C
Management fee, annual	1.75%	1.25%	1.25%
Incentive fee/benchmark	15% over 5% p.a.	15% over 8% p.a.	10%/ 12 mo Euribor
High watermark	Yes	Yes	Yes
Subscription fee	2.0%	none	2.0%
Redemption fee	1.5%	none	1.5%
ISIN	EE3600090049	EE3600090056	EE3600102901
Bloomberg	AVAEESA	AVAEESB	AVAEESC
Open for subscriptions	A & B unit open for existing investors only		All investors

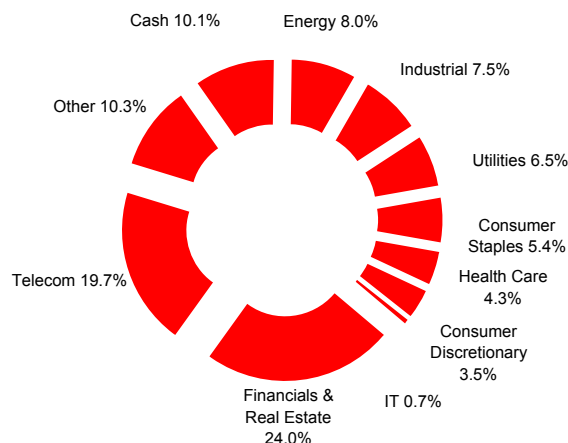
The Fund units are held in electronic form with OMX Exchanges. NAV's and performance are available at: Bloomberg and [www.avaron.com](http://www.avaron.com)

### Fund performance

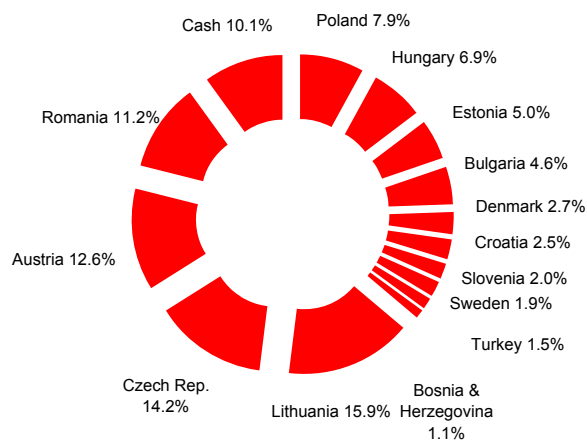
	Unit A	Unit B	Unit C
NAV in EUR	2.98	3.03	10.81
1 month	5.5%	5.5%	5.3%
3 months	6.4%	6.6%	6.3%
6 months	23.0%	23.4%	n/a
1 year	49.5%	50.3%	n/a
2 years	-39.8%	-39.2%	n/a
Year-to-Date	5.5%	5.5%	5.3%
Since launch	-53.4%	-52.7%	8.1%
Launch date	April 23, 2007	April 23, 2007	Sept 08, 2009

\* Net-of-fees

### Sector allocation



### Country allocation



### Marketing and Sales

Tel: +372 664 4205  
E-mail: [info@avaron.com](mailto:info@avaron.com)

Authorised and regulated by Estonian Financial Supervision Authority

## Avaron Emerging Europe Small Cap Fund

January 2010

### Monthly performance gross-of-fees

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2007	-	-	-	-	-2.9%	6.0%	-2.1%	-4.9%	-1.9%	0.3%	-9.4%	0.4%	
2008	-12.2%	0.8%	-2.1%	-1.4%	0.7%	-7.3%	-6.6%	-3.4%	-14.8%	-29.0%	-13.9%	-2.5%	-63.5%
2009	-1.3%	-5.4%	5.0%	9.4%	3.6%	2.2%	6.7%	10.5%	8.6%	-3.1%	1.6%	-0.4%	42.6%
2010	5.7%												

### Monthly performance net-of-fees B-unit

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2007	-	-	-	-	-2.4%	5.0%	-2.2%	-5.1%	-2.0%	0.1%	-9.5%	0.3%	
2008	-12.4%	0.7%	-2.2%	-1.5%	0.5%	-7.5%	-6.8%	-3.5%	-14.9%	-29.0%	-14.0%	-2.6%	-64.0%
2009	-1.4%	-5.5%	4.8%	9.3%	3.5%	2.1%	6.5%	10.3%	8.4%	-3.3%	1.5%	-0.5%	40.4%
2010	5.5%												

### Market cap breakdown

	Jan-10	No of positions	Net FX exposure	Jan-10
Blue Chip (over 3 EURbn)	27.8%	12	PLN	7.9%
Mid Cap (1 - 3 EURbn)	5.4%	4	RON	10.3%
Small Cap (0.5 - 1 EURbn)	9.5%	3	BGN	5.0%
Small Cap (150 - 500 EURm)	12.4%	8	LTL	13.8%
Micro Cap (up to 150 EURm)	17.1%	16	HUF	2.1%
Other (mainly bonds)	17.8%	8	EEK	4.8%
<b>Total</b>	<b>89.9%</b>	<b>51</b>	EUR	33.9%
			CZK	14.2%
			HRK	3.0%
			SEK	1.9%
			GBP	0.5%
			BAM	1.1%
			TRY	1.5%
			<b>Total</b>	<b>100.0%</b>

Median market cap (EUR million)\*

314.8

\* Median market cap of equities in the fund's portfolio

### Sector allocation

	Jan-10	Oct-09	Jul-09
Financials & Real Estate	24.0%	23.4%	18.1%
Consumer Discretionary	3.5%	3.5%	5.6%
Telecom	19.7%	15.5%	19.0%
Consumer Staples	5.4%	5.9%	3.6%
Health Care	4.3%	5.9%	8.7%
IT	0.7%	0.7%	1.1%
Industrial	7.5%	5.4%	5.0%
Materials	0.0%	0.0%	0.0%
Energy	8.0%	7.3%	10.5%
Utilities	6.5%	6.7%	1.7%
Other	10.3%	10.0%	13.9%
Cash	10.1%	15.6%	12.8%

### Country allocation

	Jan-10	Oct-09	Jul-09
Poland	7.9%	1.8%	3.0%
Romania	11.2%	8.7%	4.9%
Bulgaria	4.6%	5.2%	5.5%
Lithuania	15.9%	16.1%	19.4%
Hungary	6.9%	8.2%	10.3%
Estonia	5.0%	6.7%	6.2%
Austria	12.6%	13.4%	12.7%
Czech Rep.	14.2%	12.2%	16.4%
Croatia	2.5%	3.0%	7.3%
Slovenia	2.0%	2.4%	1.1%
Bosnia & Herzegovina	1.1%	1.2%	0.3%
Sweden	1.9%	2.0%	0.0%
Denmark	2.7%	3.4%	0.0%
Turkey	1.5%	0.0%	0.0%
Cash	10.1%	15.6%	12.8%

### Style analysis

	% of the Fund	P/E adj TTM	P/E adj 2010	EPS adj growth 2010	EV/EBITDA 2010	Div yield 2009	P/NAV TTM	P/B TTM
Cyclical	16%	26.5	13.3	86.7%	3.4	1.7%	-	0.92
Non-cyclical	43%	12.4	11.3	0.6%	4.7	5.8%	-	1.44
Asset play	13%	-	-	-	-	-	0.50	0.85
Total equities	72%	14.4	11.8	12.8%	4.5	5.2%	-	1.15
		CY	YTM					
Bonds	18%	3.9%	5.1%					

### Largest positions, end of month

	% of total assets
TEO LT	6.9%
TELEFONICA O2 CZECH REPUBLIC	5.3%
CEZ AS	5.1%
SIF 2 MOLDOVA	4.4%
CITY SERVICE AB	3.9%

10 largest positions account for 38.9%  
Concentration coefficient 38.9

### Contribution analysis

	1 mo	3 mo	YTD
Financials & Real Estate	0.5%	1.5%	0.5%
Consumer Discretionary	0.2%	0.3%	0.2%
Telecom	2.4%	2.1%	2.4%
Consumer Staples	0.2%	0.7%	0.2%
Health Care	0.0%	-0.4%	0.0%
IT	0.0%	0.0%	0.0%
Industrial	1.3%	1.0%	1.3%
Materials	0.0%	0.0%	0.0%
Energy	0.1%	0.7%	0.1%
Utilities	0.7%	0.3%	0.7%
Other	0.2%	0.5%	0.2%
<b>Total</b>	<b>5.7%</b>	<b>6.7%</b>	<b>5.7%</b>

\* Contribution to gross return

Poland	0.2%	0.3%	0.2%
Romania	1.4%	2.5%	1.4%
Bulgaria	0.1%	0.2%	0.1%
Lithuania	3.0%	2.7%	3.0%
Hungary	-0.1%	-0.1%	-0.1%
Estonia	0.6%	0.9%	0.6%
Austria	-0.7%	-0.8%	-0.7%
Croatia	0.3%	0.3%	0.3%
Czech Rep.	0.8%	0.6%	0.8%
Slovenia	0.1%	-0.2%	0.1%
Bosnia & Herzegovina	0.0%	-0.1%	0.0%
Sweden	-0.2%	0.2%	-0.2%
Denmark	0.0%	0.1%	0.0%
Turkey	0.2%	0.3%	0.2%
Other	0.0%	0.0%	0.0%
<b>Total</b>	<b>5.7%</b>	<b>6.7%</b>	<b>5.7%</b>

\* Contribution to gross return

### Portfolio turnover

12 months 2009  
46% 53%

\* Calculated as the lesser of purchases or sales and divided by average monthly net assets of the fund

### Volatility of the fund

12 months  
Daily volatility 12%

### Liquidity back-test

Time for disposal	Percentage of total trading volume		
	10%	30%	50%
3 days	63%	74%	80%
2 weeks	74%	88%	90%
4 weeks	87%	91%	91%

\* Percentage of fund assets disposable assuming various time periods for disposal and various shares of total market trading volume. Calculation is based on 6 previous months trading volume. It is assumed that bonds can be sold within 3 days.

## Avaron Balkan Fund

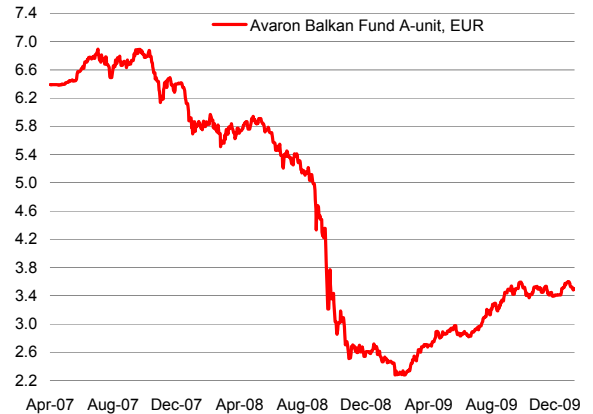
January 2010

### Investment objectives

Avaron Balkan is a value fund that invests in listed equity securities of countries that joined the European Union in 2007 (Bulgaria, Romania) and prospective candidate countries that are expected to join the Union in the future (Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Serbia).

Avaron's investment style is value driven with focus on active management and stock-picking. Avaron conducts proprietary research in order to identify attractively valued securities. Essential part of the identification process is on-site company visits that enable to assess management competence and transparency. Avaron looks for investment targets with competent and transparent management team, with strong market position in its sector and strong growth prospects, and most importantly attractive price level.

The Fund is registered in Estonia, open daily and is UCITS-3 compliant.



Past performance is not a guarantee or indicative of future results

### Fund facts

Management company	AS Avaron Asset Management
Fund launch	April 23, 2007
Domicile	Estonia
Public marketing	Estonia, Finland, Latvia
Dealing	Daily (16.00 CET)
Fund size, EURm	11.0

	Unit A	Unit B	Unit C
Management fee, annual	1.75%	1.25%	1.25%
Incentive fee/benchmark	15% of return that exceeds 5% p.a.	15% of return that exceeds 8% p.a.	10%/ 12 mo Euribor
High watermark			Yes
Subscription fee	2.0%	none	2.0%
Redemption fee	1.5%	none	1.5%
ISIN	EE3600090064	EE3600090072	EE3600102893
Bloomberg	AVABKFA	AVABKFB	AVABKFC
Open for subscriptions	A & B unit open for existing investors only		All investors

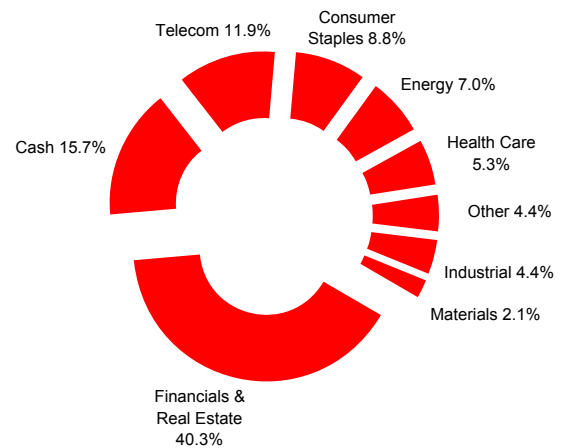
The Fund units are held in electronic form with OMX Exchanges. NAV's and performance are available at: Bloomberg, OMX, [www.avaron.com](http://www.avaron.com)

### Fund performance

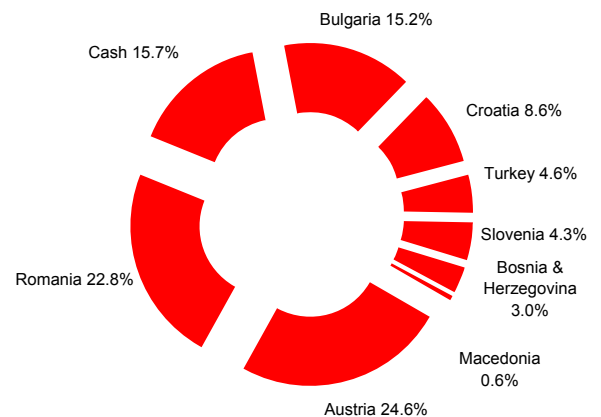
	Unit A	Unit B	Unit C
NAV in EUR	3.50	3.56	10.09
1 month	2.7%	2.7%	2.7%
3 months	2.5%	2.6%	2.6%
6 months	18.0%	18.3%	n/a
1 year	39.9%	40.7%	n/a
2 years	-39.5%	-38.9%	n/a
Year-to-Date	2.7%	2.7%	2.7%
Since launch	-45.2%	-44.3%	0.9%
Launch date	April 23, 2007	April 23, 2007	Sept 22, 2009

\* Net-of-fees

### Sector allocation



### Country allocation





## Avaron Balkan Fund

January 2010

### Monthly performance gross-of-fees

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2007	-	-	-	-	1.2%	5.1%	1.9%	-0.4%	-0.4%	2.4%	-6.5%	0.2%	
2008	-9.5%	1.8%	-3.2%	2.3%	2.0%	-5.8%	-4.1%	-3.0%	-17.3%	-28.9%	-10.8%	-3.7%	-59.5%
2009	-2.9%	-7.7%	9.7%	9.0%	5.7%	-0.6%	3.5%	10.0%	8.8%	-3.2%	1.2%	-1.0%	35.0%
2010	2.9%												

### Monthly performance net-of-fees B-unit

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2007	-	-	-	-	1.0%	4.3%	1.6%	-0.5%	-0.6%	2.2%	-6.6%	0.0%	
2008	-9.6%	1.7%	-3.4%	2.1%	1.8%	-5.9%	-4.3%	-3.1%	-17.4%	-29.0%	-10.9%	-3.8%	-58.8%
2009	-3.0%	-7.9%	9.5%	8.9%	5.5%	-0.8%	3.3%	9.8%	8.6%	-3.4%	1.0%	-1.1%	32.8%
2010	2.7%												

### Market cap breakdown

	Jan-10	No of positions	Net FX exposure	Jan-10
Blue Chip (over 3 EURbn)	30.4%	6	RON	21.0%
Mid Cap (1 - 3 EURbn)	11.0%	4	EUR	44.2%
Small Cap (0.5 - 1 EURbn)	4.2%	3	BGN	15.8%
Small Cap (150 - 500 EURm)	11.1%	6	HRK	9.5%
Micro Cap (up to 150 EURm)	23.2%	17	RSD	0.6%
Other (mainly bonds)	4.4%	2	BAM	3.0%
<b>Total</b>	<b>84.3%</b>	<b>38</b>	EEK	0.1%
			GBP	0.5%
Median market cap (EUR million)*		155.9	TRY	4.6%
			MKD	0.6%
			<b>Total</b>	<b>100.0%</b>

### Sector allocation

	Jan-10	Oct-09	Jul-09
Financials & Real Estate	40.3%	40.9%	40.2%
Energy	7.0%	5.9%	6.2%
Industrial	4.4%	5.0%	1.7%
Consumer Discretionary	0.0%	0.0%	0.6%
Consumer Staples	8.8%	8.8%	6.8%
Materials	2.1%	2.0%	1.1%
Telecom	11.9%	11.3%	9.7%
Other	4.4%	4.0%	5.2%
Health care	5.3%	5.8%	0.3%
Cash	15.7%	16.3%	28.2%

### Country allocation

	Jan-10	Oct-09	Jul-09
Romania	22.8%	18.2%	12.0%
Austria	24.6%	26.1%	24.9%
Bulgaria	15.2%	17.9%	17.0%
Croatia	8.6%	11.3%	14.0%
Serbia	0.6%	0.9%	0.9%
Bosnia & Herzegovina	3.0%	4.8%	3.0%
Slovenia	4.3%	4.6%	0.0%
Turkey	4.6%	0.0%	0.0%
Macedonia	0.6%	0.0%	0.0%
Cash	15.7%	16.3%	28.2%

### Style analysis

	% of the Fund	P/E adj TTM	P/E adj 2010	EPS adj growth 2010	EV/EBITDA 2010	Div yield 2009	P/NAV TTM	P/B TTM
Cyclical	30%	12.5	9.7	22.6%	3.6	2.5%	-	0.95
Non-cyclical	27%	13.7	9.6	21.5%	3.8	6.5%	-	1.01
Asset play	23%	-	-	-	-	-	0.45	0.55
Total equities	80%	15.0	10.6	32.7%	4.4	4.4%	-	0.84
		CY	YTM					
Bonds	4%	8.0%	7.7%					

### Largest positions, end of month

	% of total assets
HRVATSKE TELEKOM DD	6.0%
VIENNA INSURANCE GROUP	5.4%
OMV AG	5.3%
RAIFFEISEN INTL BANK HOLDING	4.7%
ADVANCE GPSTERRAFUND - REIT	4.7%

10 largest positions account for 47.9%  
Concentration coefficient 35.4

### Contribution analysis

	1 mo	3 mo	YTD
Financials & Real Estate	1.3%	0.3%	1.3%
Energy	-0.2%	0.4%	-0.2%
Industrial	0.1%	-0.1%	0.1%
Consumer Discretionary	0.0%	0.0%	0.0%
Consumer Staples	0.1%	0.6%	0.1%
Telecom	1.2%	1.5%	1.2%
Materials	0.0%	0.5%	0.0%
Health Care	0.1%	-0.4%	0.1%
IT	0.0%	0.0%	0.0%
Other	0.3%	-0.2%	0.3%
<b>Total</b>	<b>2.9%</b>	<b>2.5%</b>	<b>2.9%</b>

\* Contribution to gross return

	1 mo	3 mo	YTD
Romania	2.1%	3.9%	2.1%
Austria	-0.9%	-1.9%	-0.9%
Bulgaria	0.1%	-0.3%	0.1%
Croatia	0.8%	0.8%	0.8%
Serbia	0.0%	-0.2%	0.0%
Bosnia & Herzegovina	-0.1%	-0.3%	-0.1%
Slovenia	0.1%	-0.4%	0.1%
Turkey	0.7%	1.0%	0.7%
Macedonia	0.0%	0.0%	0.0%
Other	0.0%	-0.1%	0.0%
<b>Total</b>	<b>2.9%</b>	<b>2.5%</b>	<b>2.9%</b>

Contribution to gross return

### Portfolio turnover

	12 months	2009
	43%	52%

\* Calculated as the lesser of purchases or sales and divided by average monthly net assets of the fund

### Volatility of the fund

	12 months
Daily volatility	17%

### Liquidity back-test

Time for disposal	Percentage of total trading volume 10%	Percentage of total trading volume 30%	Percentage of total trading volume 50%
3 days	52%	73%	74%
2 weeks	73%	78%	81%
4 weeks	77%	83%	85%

\* Percentage of fund assets disposable assuming various time periods for disposal and various shares of total market trading volume. Calculation is based on 6 previous months trading volume. It is assumed that bonds can be sold within 3 days.

## UIS Avaron Emerging Europe

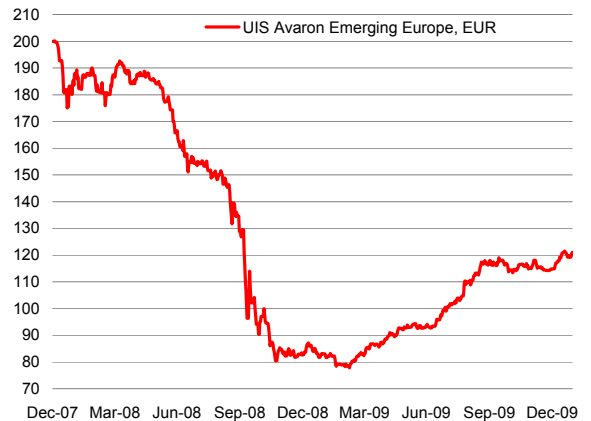
January 2010

### Investment objectives

UIS Avaron Emerging Europe is a value fund that invests in listed small and mid-cap companies of countries that joined the European Union in 2004 and 2007, and prospective candidate countries that are expected to join the Union in the future. The Fund does not invest in CIS (includes Russia) to its different risk profile. The Fund's portfolio is concentrated and consists of 20-25 individual holdings.

Avaron's investment style is value driven with focus on active management and stock-picking. Avaron conducts proprietary research in order to identify attractively valued securities. Essential part of the identification process is on-site company visits that enable to assess management competence and transparency. Avaron looks for investment targets with competent and transparent management team, with strong market position in its sector and strong growth prospects, and most importantly attractive price level.

The Fund is registered in Luxembourg, open daily and is UCITS-3 compliant. Avaron acts as a delegated Sub-Manager of the Fund.



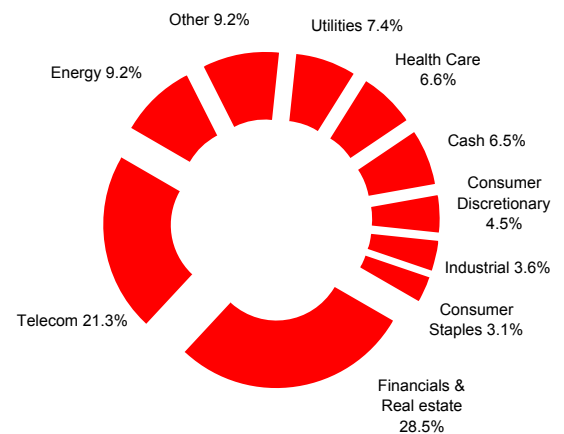
Past performance is not a guarantee or indicative of future results

### Fund facts

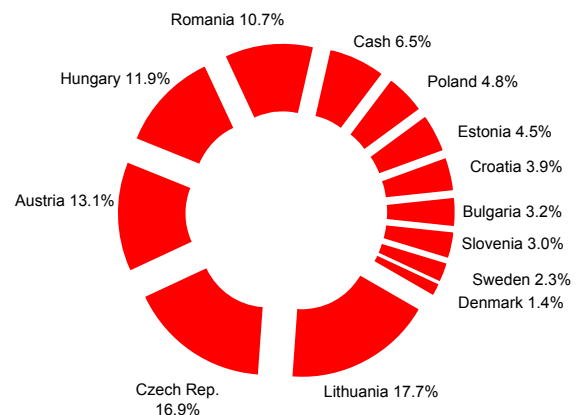
Management company	BNP Paribas Asset Management Luxembourg
Manager	Sycomore Asset Management
Sub-manager	Avaron Asset Management
Fund launch	December 31, 2007
Domicile	Luxembourg
Public marketing	Luxembourg, France
Dealing	Daily (11.00 CET)
Fund size, EURm	8.4

	Unit R (retail)	Unit I (institutional)
Management fee, annual	2.5% max	1.5% max
Incentive fee	20% of return that exceeds 10% p.a.	15% of return that exceeds 10% p.a.
Subscription fee	none	none
Redemption fee	none if 15-day notice, otherwise 3%	none if 15-day notice, otherwise 3%
Minimum subscription	none	none
ISIN	LU0377169288	LU0377167746
Bloomberg	UISAVRR LX	UISAVRI LX

### Sector allocation



### Country allocation



### Fund performance

As of May 28, 2009	Unit R (retail)	Unit I (institutional)
NAV in EUR	117.22	121.06
1 month	5.4%	5.5%
3 months	5.3%	5.8%
6 months	18.9%	20.2%
1 year	42.3%	45.7%
Year-to-Date	5.4%	5.5%
Since launch (Dec-2007)	-41.4%	-39.5%

\* Net-of-fees

\*\* For certain periods where the return of R & I unit is not available, their return has been simulated based on the X unit of the fund. X unit has lower fees compared to R & I unit classes.

### Marketing and Sales

Tel: +372 664 4205  
E-mail: info@avaron.com

Authorised and regulated by Estonian Financial Supervision Authority

## UIS Avaron Emerging Europe

January 2010

### Monthly performance, net-of-fees

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2008	-8.2%	2.0%	-0.4%	-0.4%	-0.9%	-9.5%	-7.0%	-3.0%	-14.1%	-24.5%	-12.6%	-2.2%	-58.6%
2009	0.5%	-4.8%	5.6%	6.4%	5.1%	0.8%	7.7%	9.0%	7.4%	-3.0%	0.4%	-0.2%	38.7%
2010	5.5%												

\* Performance of I unit (for certain periods where the return of I unit is not available, its return has been simulated based on the X unit of the fund. X unit has lower fees compared to the I unit class)

### Market cap breakdown

	Jan-10	No of positions	Net FX exposure	Jan-10
Blue Chip (over 3 EURbn)	35.4%	11	PLN	4.8%
Mid Cap (1 - 3 EURbn)	3.0%	1	RON	10.7%
Small Cap (0.5 - 1 EURbn)	13.0%	2	BGN	3.2%
Small Cap (150 - 500 EURm)	15.2%	3	LTL	15.0%
Micro Cap (up to 150 EURm)	11.4%	5	HUF	3.6%
Other (mainly bonds)	15.5%	7	EEK	3.0%
<b>Total</b>	<b>93.5%</b>	<b>29</b>	EUR	35.5%
			CZK	16.9%
Median market cap (EUR million)*		2,842	HRK	5.1%
* Median market cap of equities in the fund's portfolio			SEK	2.3%
			<b>Total</b>	<b>100.0%</b>

### Sector allocation

	Jan-10	Oct-09	Jul-09
Financials & Real Estate	28.5%	18.7%	5.9%
Consumer Discretionary	4.5%	5.9%	6.9%
Telecom	21.3%	24.9%	27.7%
Consumer Staples	3.1%	5.4%	3.0%
Health Care	6.6%	7.4%	9.3%
IT	0.0%	0.0%	0.0%
Industrial	3.6%	3.5%	3.2%
Materials	0.0%	0.0%	0.0%
Energy	9.2%	12.9%	12.6%
Utilities	7.4%	8.6%	4.7%
Other	9.2%	9.5%	11.0%
Cash	6.5%	3.2%	15.5%

### Country allocation

	Jan-10	Oct-09	Jul-09
Poland	4.8%	2.3%	2.6%
Romania	10.7%	4.6%	0.0%
Bulgaria	3.2%	4.3%	3.5%
Lithuania	17.7%	21.4%	18.6%
Hungary	11.9%	11.1%	9.7%
Estonia	4.5%	8.8%	8.3%
Austria	13.1%	8.9%	6.5%
Czech Rep.	16.9%	17.5%	21.2%
Croatia	3.9%	8.4%	11.0%
Slovenia	3.0%	3.9%	3.0%
Sweden	2.3%	3.1%	0.0%
Denmark	1.4%	2.6%	0.0%
Cash	6.5%	3.2%	15.5%

### Style analysis

	% of the Fund	P/E adj		EPS adj growth 2010	EV/EBITDA 2010	Div yield 2009	P/NAV TTM	P/B TTM
		TTM	2010					
Cyclical	18%	29.5	12.3	83.5%	2.5	1.9%	-	0.98
Non-cyclical	47%	11.7	11.9	-4.2%	5.1	5.7%	-	1.64
Asset play	14%	-	-	-	-	-	0.53	1.37
Total equities	78%	14.0	12.0	9.8%	4.7	5.4%	-	1.38
		CY	YTM					
Bonds	15%	3.5%	4.9%					

### Largest positions, end of month

	% of total assets
TEO LT	9.4%
MNV Zrt convertible (Richter) 25/09/2014	6.5%
SIF 2 MOLDOVA	6.3%
CEZ AS	5.9%
TELEFONICA O2 CZECH REPUBLIC	5.0%

10 largest positions account for 53.1%  
Concentration coefficient 24.1

Portfolio turnover 12 months 2009  
41% 45%

\* Calculated as the lesser of purchases or sales and divided by average monthly net assets of the fund

Volatility of the fund 12 months

Daily volatility 13%

### Liquidity back-test

Time for disposal	Percentage of total trading volume		
	10%	30%	50%
3 days	61%	76%	91%
2 weeks	80%	91%	91%
4 weeks	91%	91%	95%

\* Percentage of fund assets disposable assuming various time periods for disposal and various shares of total market trading volume. Calculation is based on 6 previous months trading volume. It is assumed that bonds can be sold within 3 days.



## Avaron - Listed Equity Stock-picker in Emerging Europe

Avaron is an independent management-owned asset manager with a clear focus on Emerging Europe listed equities. Avaron employs value-oriented investment style with emphasis on providing its clients the best risk-return relationship at any point of time. Our value-added lies in proprietary bottom-up research and local presence that enables us to identify attractive investment opportunities.

Avaron's experienced team combines 10 professionals, including three investment managers with 10 years+ experience. Seated in Tallinn and Warsaw, Avaron's investment team follows more than 250 companies that have passed our qualitative screening process in the region. We are all-cap investors but have over 10 years' experience in investing in regional small and mid-cap companies. Since mid 1990s Avaron team has serviced Scandinavian and Western European institutional clients in the region and worked with blue chip partners for brokerage, custody, fund administration and auditing functions. Avaron is supervised by the Estonian Financial Supervision Authority.

We manage the assets of institutional clients through three open-ended long-only equity funds and managed accounts:

**Avaron Emerging Europe Small Cap Fund** - invests in listed equities across Emerging Europe (ex-Russia). UCITS, registered in Estonia

**Avaron Balkan Fund** - invests in listed companies of Balkan countries with focus on EU new member states and accession countries. UCITS, registered in Estonia

**UIS Avaron Emerging Europe** - concentrated portfolio of 20-25 listed companies across Emerging Europe. UCITS, registered in Luxembourg as a sub-fund of a SICAV. Avaron acts as the delegated sub-manager of the sub-fund.

### Key Team Members



**Kristel Kivinurm-Priisalm**

*13 years of experience in Emerging Europe investments*

**2007 - ... Investment Manager, Avaron**

- Investment strategy & business development

**2002-2007 Director, Head of Asset Management, Trigon Capital**

**1999-2001 Director, Capital Markets & Investment Management, Trigon Capital**

**1997-1999 Analyst, Corporate Finance, Trigon Capital**

**Education & other:**

- Concordia International University Estonia (now part of Tallinn Technical University), summa cum laude, BA, international business
- St. Petersburg University of Economics and Finance, exchange student
- Chairman of the Association of Estonia's Fund Management Companies, since 2007
- Member of the Supervisory Board of Estonia's Guarantee Fund, since 2005
- Voting member of Tallinn Stock Exchange Listing and Supervisory Committee, 2000-2005



**Peter Priisalm**

*13 years of investment management, corporate finance and strategic management experience*

**2007 - ... Investment Manager, Avaron**

- Focus on the Baltics and Central Europe, supported by two analysts

**2000 - 2006 MicroLink Group** (a leading Baltic IT company now owned by TeliaSonera)

- 2001 - 2006 Member of Management Board, Group
- 2003 - 2006 CEO, MicroLink Estonia
- 2002 - 2004 Head of Finance & Administration
- 2000 - 2002 Corporate Finance Manager

**1997 - 2000 Director, Corporate Finance, Suprema Securities (now EVLI Group)**

**1997 Financial analyst, Port of Tallinn**

**1995-1997 Business reporter with focus on stock exchange news, Baltic News Service**

**Education:**

- Concordia International University Estonia (now part of Tallinn Technical University), summa cum laude, BA in International Business.



**Toomas Reisenbuk**

*15 years of experience in investment management, corporate finance and consulting*

**2007 - ... Advisor, Investment Strategy, Avaron**

- Focus on global outlook and investment strategy

**2001-2007 Fund Manager, Asset Management, Trigon Capital**

**1999-2001 Head of Research, Trigon Capital**

**1995-1997 Head of Corporate Finance, Trigon Capital**

**1997-1998 Head of Research, Handelsbanken Estonia**

**1994-1995 Analyst, EBRD**

**Education:**

- Tallinn Technical University, BA economics.



**Kadri Haldre**

*9 years of experience in compliance, risk management, finance and administration*

**2007 - ... Head of Finance & Compliance, Avaron**

- Responsible for Avaron's finances, back-office, tax, legal, compliance and risk management

**2004 - 2007 Chief Financial Officer, Trigon Capital**

**2000 - 2004 Various positions in Trigon Asset Management unit related to middle office, compliance & risk management**

**Education:**

- Stockholm School of Economics in Riga, BSc in Economics and Business Administration, specialisation in finance
- Copenhagen Business School, MSc in Economics and Business Administration, focusing on finance
- Stockholm School of Economics, exchange student



**Valdur Jaht**

*10 years of experience in investment management and consulting in the region*

**2007 - ... Investment Manager, Avaron**

- Focus on the Balkan region, supported by two analysts

**2003 - 2007 Portfolio & Fund Manager, Trigon Capital**

**2000 - 2003 Accountant & financial analyst in various Estonian companies in the retail and wholesale sector**

**Education:**

- Tartu University, BA in Finance;
- Jonköping International Business School, exchange student

## How to Buy Avaron Funds

### How to buy and sell fund units

The units of Avaron funds are electronic securities, registered with the Estonian Central Securities Depository (OMX Nasdaq). The trades with Avaron fund units are settled as "delivery against payment" (DVP) transactions (i.e the investor cannot simply make a cash transfer to the fund's account - the trade is instead settled as a securities transaction).

**In order to buy Avaron fund units, the investor's custodian must have sub-custody relations in Estonia to safe-keep Estonian securities. We need to know the name of the investor's sub-custodian and the number of the investor's securities account in Estonia in order to process the transaction.**

### Unit classes available for subscription

A and B units are open for existing investors only. C unit is available for subscription by all investors.

### Trade process

1) Submit a trade order to Avaron by e-mail (invest@avaron.com) or fax (+372 6644201) on day T before 17.00 Estonian time (GMT+2). The trade will be effected with NAV as of T.

2) Once the NAV of the fund for T has been calculated on day T+1, we send to the investor a trade confirmation detailing the necessary information relating to the trade (amount, price, value date, etc). Based on this trade confirmation, the investor's custodian has to instruct a delivery against payment securities transaction to its Estonian sub-custodian.

3) The trade will be settled on value date (usually T+4) in the Estonian Central

### Our settlement details

#### ISIN codes

Avaron Emerging Europe Small Cap Fund A	EE3600090049
Avaron Balkan Fund A	EE3600090064
Avaron Emerging Europe Small Cap Fund B	EE3600090056
Avaron Balkan Fund B	EE3600090072
Avaron Emerging Europe Small Cap Fund C	EE3600102901
Avaron Balkan Fund C	EE3600102893

#### Numbers of securities accounts for settlement

Avaron Emerging Europe Small Cap Fund	99101130013
Avaron Balkan Fund	99101130000

#### Custodian

Swedbank E767,  
SWIFT: HABAE2X

**Avaron shall reject an investment into the funds if the investor is not eligible to invest based on applicable securities legislation.**

### Avaron funds

Avaron manages two open-ended equity funds:

**Avaron Emerging Europe Small Cap Fund** – invests in listed small cap companies of new EU member states (joined in 2004 and 2007) and EU accession countries. Open daily, UCITS compliant.

**Avaron Balkan Fund** – invests in listed companies of Balkan countries with a focus on new EU member states (Bulgaria, Romania) and prospective accession countries like Croatia,

### Fund facts

**Fund Management Company** - AS Avaron Asset Management

**Domicile of funds & fund management company** - Estonia

**Supervision** - Estonian Financial Supervision Authority, www.fi.ee, Avaron has a license for fund and portfolio management services.

**Fund custody and administration** - AS Swedbank

**Auditor of funds & fund management company** - Deloitte

**Fund structure** - the funds comply with the UCITS Directive

**Dealing** - the funds are open daily with cut-off at 17.00 Estonian time (GMT+2). Subscriptions and redemptions are accepted in Estonian kroon and euro.

**Units** - there are three unit classes: A and B units are open for existing investors only. C unit is available for subscription by all investors

**Register of units** - The units of Avaron funds are registered electronically with Estonian Central Securities Depository (OMX Nasdaq).

**Settlement** - Settlement takes place as delivery against payment (DVP), usually T+4, either in euro or Estonian kroon

### Custody banks that can safe-keep Avaron's fund units

Based on the information available to us, the following custodians have opened direct sub-custody accounts in Estonia:

Bank Austria Creditanstalt	JP Morgan Chase Bank
Banque Carnegie Luxembourg	Kredietbank SA Luxembourg
Bank of Luxembourg	Morgan Stanley
Bank Morgan Stanley AG	Nordea
Zürich	OKO Bank
Canada Life International	Pictet & Cie
Citi	Raiffeisen
Citco Global Custody	RBC Dexia Investor Services
Collins Stewart	SEB & SEB Luxembourg
Credit Suisse Securities	SIS Fund Platform
Danske Bank	Societe Generale
Deutsche Bank	State Street Bank
DZ Bank International	Svenska Handelsbanken
Erste Bank	Swedbank
Finter Bank	The Bank of New York
HSBC	The Northern Trust Company
ING Luxembourg	UBS
JP Morgan Bank Luxembourg	

### Marketing and Sales

Tel: +372 664 4205  
E-mail: info@avaron.com

### Fund Orders

Fax: +372 664 4201  
E-mail: invest@avaron.com  
www.avaron.com

## 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. 5-58, Tallinn 10117, Estonia; phone +372 6644 200; 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.

This material contains data and facts on investments and funds managed by Avaron, which are provided for information purposes only. No investment advice is offered or given by Avaron to persons using this material. This material is complimentary to and not a substitute for independent professional advice from a person qualified to provide it in your home country. Reliance on this material for the purpose of buying the securities to which this material relates may expose a person to a significant risk of losing all of the property or other assets invested. The information herein is, to the best of the knowledge of Avaron, in accordance with the facts. However, Avaron, none of its affiliates, directors or officers accept any liability in respect of the accuracy or completeness of any information herein, or omitted to be included herein, or any information provided, or omitted to be provided, by any third party. All information and expressions of opinion contained in this material are subject to change without notice.

This material does not constitute or form part of a distribution or an offer or solicitation to buy or sell any securities (in particular, shares or units in any of Avaron funds) to any person in any jurisdiction in which such distribution, offer or solicitation would be contrary to local law or regulation.

In particular, the information herein is not for distribution, and does not constitute an offer to sell or buy, or the solicitation of any offer to sell or buy, any securities in the United States of America or to or for the benefit of United States persons (within the meaning of Regulation S under the Securities Act of 1933).

In relation to persons in the United Kingdom, the information herein is directed only at Investment Professionals in the meaning of Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. This material should not be relied on by persons in the United Kingdom who are not Investment Professionals. Any investment or investment activity to which this material relates is available in the United Kingdom only to Investment Professionals and will be engaged in only with Investment Professionals.

In relation to persons in Switzerland, this material is directed only at Swiss Qualified Investors in the meaning of Article 10 (3) of the Collective Investment Schemes Act. Swiss private individuals are not allowed to use this material. The funds managed by Avaron are not authorised for distribution in Switzerland.

Subscription of Avaron funds should be made on the basis on the funds' prospectus and simplified prospectus, 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.