



*Unofficial translation from the Estonian language*

**Avaron Emerging Europe Small Cap Fund**

**Annual Report for the Financial Year 2009**

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## Fund Facts

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Avaron Emerging Europe Small Cap Fund (hereinafter: „the Fund”) is registered in the Republic of Estonia as a contractual open-ended investment fund the units of which are publicly offered. The Fund complies with the requirements set out in the Council Directive 85/611/EEC of 20 December 1985.

Name of the Fund	Avaron Emerging Europe Small Cap Fund
Fund management company	AS Avaron Asset Management
Registered address and contact details of the fund management company	Address: Narva road 5-58, Tallinn 10117, Estonia Phone: +372 66 44 200 Facsimile: +372 66 44 201 E-mail: <a href="mailto:info@avaron.ee">info@avaron.ee</a> <a href="http://www.avaron.ee">www.avaron.ee</a>
Depository	AS Swedbank
Auditor	AS Deloitte Audit Eesti
Supervisor	Estonian Financial Supervision Authority
Fund managers	Valdur Jaht, Peter Priisalm
Fund established	3 April 2007
Start of the Fund's activities	23 April 2007
Financial year	01 January 2009 – 31 December 2009

## Management Report

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Avaron Emerging Europe Small Cap Fund (hereinafter: „the Fund”) started its activities on 23 April 2007. The value of the assets of the Fund totalled EEK 203 million as at the end of the 2009 financial year (31.12.2008: EEK 102 million). Avaron Emerging Europe Small Cap Fund invests in listed small and medium sized companies in Emerging Europe countries. As at the end of the financial year, the Czech Republic, Lithuania and Austria were the major countries among the Fund’s investments portfolio. Due to the market circumstances, a substantial share of the Fund’s assets was also held in cash and deposits. During the financial year, the Fund made its first investments into Turkey.

2009 was a very eventful year for the financial markets. Investors’ affection for the Emerging Europe region that took foothold in 2003-04 and started to fade in 2007-08 turned into outright hate in 2009. The gloom and doom prophecy that became market consensus in spring last year, however, was proven wrong and sentiment towards the region has been constantly improving since summer 2009. Nevertheless, we are still far from the levels of investor confidence we saw during the years 2005-07 as only the most venturesome foreign institutions have returned to the Emerging Europe markets.

Summarising 2009 we have witnessed dramatic declines in personal consumption and investment, rapid improvements in external balances and acute problems with fiscal deficits. Year 2009 showed us that Emerging Europe is very flexible, enabling quick economic adjustments. On the other hand, we learned that Emerging Europe is extremely dependent on Western Europe, through exports and EU support.

Due to the low base effect, year-on-year growth figures will look enormously positive again in 2010. Recent macro numbers already show steady improvement, although there are no signs of increased capacity utilization yet. We believe that the key drivers of economic recovery will be increased export volumes (low cost base makes the region very competitive again) and the banking sector that has stated its willingness to lend again in many countries. Unemployment figures are expected to peak in the first half of 2010, and consumers will start spending again in the second half of the year. There exist certain risks relating to Emerging Europe arising from possible delay in global recovery. However, we maintain our long-run positive stance towards the region.

2009 was also a year of recovery for Avaron funds, both performance and asset base wise. Avaron Emerging Europe Small Cap Fund A and B unit returned 39.6% and 40.4% in 2009, respectively. Nevertheless, after the rally, Emerging Europe markets are still substantially down from their 2007 peaks.

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Valdur Jaht  
Fund Manager and  
Member of the Management Board of the fund management company

## Confirmation of the Management Board of the Fund Management Company to the Financial Statements for 2009

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The Management Board of the fund management company has prepared the Financial Statements of Avaron Emerging Europe Small Cap Fund on April 19, 2010.

The Financial Statements have been prepared in compliance with the requirements stipulated in the Estonian Accounting Act, the Investment Funds Act and Accounting Principles Generally Accepted in Estonia and it gives a true and fair view of the assets, liabilities, net asset value and performance results of Avaron Emerging Europe Small Cap Fund. The Management Board considers Avaron Emerging Europe Small Cap Fund to carry its activities as a going concern.

The Financial Statements of Avaron Emerging Europe Small Cap Fund have been approved by the fund management company and the fund managers.

<b>Name</b>	<b>Position</b>	<b>Signature</b>	<b>Date</b>
Kristel Kivinurm-Priisalm	Chairman of the Management Board of the fund management company		19 April 2010
Valdur Jaht	Member of the Management Board of the fund management company/ Fund manager		19 April 2010
Peter Priisalm	Fund manager		19 April 2010

## Balance Sheet

In Estonian kroon

<b>ASSETS</b>	<b>Note</b>	<b>31/12/2009</b>	<b>31/12/2008</b>
<b>Securities</b>			
Shares and fund units		139,007,929	63,810,760
Bonds		26,798,336	3,112,409
Money market instruments		11,858,981	0
Derivative instruments	<b>3</b>	0	3,373,025
<b>Total securities</b>		<b>177,665,246</b>	<b>70,296,194</b>
<b>Deposits</b>			
Cash and bank accounts		23,115,804	14,442,438
Term deposits		0	16,427,775
<b>Total deposits</b>		<b>23,115,804</b>	<b>30,870,213</b>
<b>Other assets</b>			
Accrued income		1,355,752	127,555
Receivables for subscribed units		134,849	0
Miscellaneous receivables		243,669	682,519
<b>Total other assets</b>		<b>1,734,269</b>	<b>810,074</b>
<b>TOTAL ASSETS</b>		<b>202,515,319</b>	<b>101,976,481</b>
<b>LIABILITIES AND NET ASSET VALUE</b>			
<b>Liabilities</b>			
Payables to the management company		318,240	124,446
Payables to the depository		46,679	25,008
Payables for redeemed fund units		0	91,158
Other liabilities		8,050	0
<b>Total liabilities</b>		<b>372,969</b>	<b>240,612</b>
<b>Net asset value of the fund</b>		<b>202,142,351</b>	<b>101,735,869</b>
<b>TOTAL LIABILITIES AND NET ASSET VALUE</b>		<b>202,515,319</b>	<b>101,976,481</b>

## Statement of Income and Expenses

In Estonian kroon

<b>INCOME</b>	<b>01.01-31.12.2009</b>	<b>01.01-31.12.2008</b>
<b>Net gain from investments</b>		
From shares and units		
Sales profit/(-loss)	-49,142,004	-158,918,385
Unrealised profit /(-loss)	77,550,920	-61,285,522
Dividends	6,879,284	5,691,910
Total from shares and units	35,288,200	-214,511,997
From bonds		
Sales profit/(-loss)	599,959	0
Unrealised profit /(-loss)	4,111,681	14,599
Interest income	888,337	11,009
Total from bonds	5,599,977	25,608
From deposits		
Interest income	298,167	859,415
The change in fair value of structured deposits	0	-251,782
Total from deposits	298,167	607,633
From derivative instruments		
Sales profit/(-loss)	2,278,878	9,322,697
Unrealised profit /(-loss)	-2,494,374	2,846,921
Total from derivative instruments	-215,496	12,169,618
<b>Total net gain from investments</b>	<b>40,970,849</b>	<b>-201,709,138</b>
<b>Other income</b>		
Net gain/(loss) from transactions in foreign currencies	-1,222,455	-11,865,162
<b>Total other income</b>	<b>-1,222,455</b>	<b>-11,865,162</b>
<b>TOTAL INCOME</b>	<b>39,748,394</b>	<b>-213,574,300</b>
<b>EXPENSES</b>		
<b>Operating expenses</b>		
Management fee	1,767,988	3,585,485
Performance fee	51,233	0
Depository fee	277,375	513,092
Other operating expenses	135,834	0
Transaction costs	99,517	296,252
<b>Total operating expenses</b>	<b>2,331,947</b>	<b>4,394,829</b>
<b>Other expenses</b>		
Other expenses	835	4,610
<b>Total other expenses</b>	<b>835</b>	<b>4,610</b>
<b>TOTAL EXPENSES</b>	<b>2,332,782</b>	<b>4,399,439</b>
<b>NET RESULT OF THE FUND</b>	<b>37,415,611</b>	<b>-217,973,739</b>

# Statement of Investments

In Estonian kroon as of 31.12.2009

Name	Issuer	Country	Nominal value	FX	Quantity	Average acquisition cost per unit	Average acquisition cost	Market value per unit	Total market value	Share of market value of fund's assets, %
<b>Shares and units</b>										
A AND D PHARMA HOLDINGS NV DR	A & D PHARMA HOLDINGS NV	RO	1	EUR	17,168	124.58	2,138,832	62.58	1,074,408	0.53%
ADVANCE TERRAFUND SHARE	ADVANCE TERRAFUND REIT JSC	BG	1	BGN	448,553	16.13	7,236,499	10.56	4,735,963	2.34%
BOMI SA	BOMI SA	PL	0.01	PLN	60,000	54.80	3,288,259	47.23	2,833,902	1.40%
BOSNALIJEK DD SHARE	Bosnalijek DD	BA	10	BAM	3,500	119.19	417,178	130.95	458,327	0.23%
BULGARIA REAL ESTATE FUND	BULGARIA REAL ESTATE FUND	BG	1	BGN	566,083	9.44	5,346,303	2.92	1,652,698	0.82%
BULGARTABAC	BULGARTABAK HOLDING AD	BG	1	BGN	17,900	183.86	3,291,050	142.98	2,461,644	1.22%
CESKE ENERGETICKE ZAVODY AS	CESKE ENERGETICKE ZAVODY AS	CZ	100.00	CZK	20,850	519.16	10,824,465	510.88	10,651,762	5.26%
CITY SERVICE AB	CITY SERVICE AB	LT	1	LTL	140,210	46.24	6,483,640	29.26	4,102,172	2.03%
EGIS GYOGYS.NA	EGIS RT	HU	1,000	HUF	4,425	857.53	3,794,558	1,086.55	4,807,980	2.37%
ELANA AGRICULTURAL LAND OPPORT	ELANA AGRICULTURAL LAND OPPORT	BG	1	BGN	200,000	18.53	3,706,968	6.54	1,308,591	0.65%
EQUEST BALKAN PROPERTIES PLC	EQUEST BALKAN PROPERTIES PLC	GB	0.01	GBP	340,000	26.34	8,954,783	3.18	1,080,095	0.53%
ERSTE GROUP BANK AG	ERSTE GROUP BANK AG	AT	1	EUR	2,250	412.30	927,674	407.72	917,374	0.45%
HRVATSKI TELEKOM DD	HRVATSKI TELEKOM DD	HR	100	HRK	10,550	496.37	5,236,756	585.71	6,179,283	3.05%
IMMO EAST IMMOBILIEN ANLAGEN	IMMO EAST IMMOBILIEN ANLAGEN	AT	1	EUR	57,564	34.10	1,962,728	60.24	3,467,378	1.71%
KAPSCH TRAFFICOM AG	KAPSCH TRAFFICOM AG	AT	0.01	EUR	3,750	241.52	905,691	395.52	1,483,193	0.73%
KOMERCNI BANKA	KOMERCNI BANKA	CZ	500	CZK	835	2,191.68	1,830,052	2,353.23	1,964,950	0.97%
KRKA	KRKA	SI	1	EUR	4,333	1,044.30	4,524,935	1,000.69	4,335,973	2.14%
OMV AG	OMV AG	AT	1	EUR	11,000	365.19	4,017,114	480.32	5,283,485	2.61%
PANEVEZIO STATYBOS TRESTAS	PANEVEZIO STATYBOS TRESTAS	LT	1	LTL	55,948	75.69	4,234,752	17.16	960,342	0.47%
PEGAS NONWOVENS CZK	PEGAS NONWOVENS SA	LU	1	CZK	24,200	305.07	7,382,813	263.74	6,382,626	3.15%
PROSPECTIUNI SA BUCURESTI	PROSPECTIUNI SA BUCURESTI	RO	2.5	RON	1,071,741	0.82	883,977	0.80	861,637	0.43%
RAIFFEISEN BANK	RAIFFEISEN BANK	AT	1	EUR	5,686	416.13	2,366,094	618.00	3,513,932	1.74%
ROKISHKIO SHURIS	ROKISHKIO SHURIS	LT	1	LTL	280,893	10.00	2,810,077	13.59	3,816,493	1.88%
SIF BANAT CRISANA(RO)	SIF BANAT CRISANA	RO	0.1	RON	166,300	17.75	2,952,120	4.17	693,024	0.34%
SIF MOLDOVA (RO)	SIF MOLDOVA	RO	0.1	RON	1,946,200	4.51	8,775,668	4.20	8,182,201	4.04%
SIF MUNTENIA(RO)	SIF MUNTENIA	RO	0.1	RON	471,700	10.04	4,736,151	2.62	1,235,100	0.61%
SIF OLTENIA (RO)	SIF OLTENIA	RO	0.1	RON	583,500	6.06	3,537,265	4.68	2,732,892	1.35%
SPARKASSEN IMMOBILIEN AG	SPARKASSEN IMMOBILIEN AG	AT	1	EUR	31,629	148.43	4,694,572	78.23	2,474,258	1.22%
STRABAG SE	STRABAG SE	AT	1	EUR	7,700	307.57	2,368,290	323.86	2,493,736	1.23%
SWEDBANK AB SER A	SWEDBANK AB (SE)	SE	21	SEK	32,500	90.77	2,949,913	108.32	3,520,428	1.74%
TALLINNA KAUBAMAJA	TALLINNA KAUBAMAJA AS	EE	10	EEK	18,000	67.41	1,213,384	56.48	1,016,640	0.50%
TALLINNA VESI AS	TALLINNA VESI AS	EE	10	EEK	29,022	158.49	4,599,710	156.47	4,541,072	2.24%
TELEFONICA O2 C.R. SHARE	TELEFONICA O2 C.R.	CZ	100	CZK	44,800	236.16	10,579,895	248.50	11,132,609	5.50%

Member of management board:

## Statement of Investments (continued)

In Estonian kroon as of 31.12.2009

Name	Issuer	Country	Maturity	Nomin al value	FX	Quantity	Avg acq. cost per unit	Average acquisition cost	Market value per unit	Total market value	Interest rate, %	Share of market value of fund's assets, %
TELEKOM SPRSKE AD BANJA LUKA	TELEKOM SRPSKE AD BANJA LUKA	BA		1.79	BAM	170,000	11.02	1,872,888	11.92	2,026,252		1.00%
TELEKOMUNIKACJA POLSKA	TELEKOMUNIKACJA POLSKA S.A.	PL		3	PLN	58,100	60.41	3,510,090	60.45	3,512,084		1.73%
TEO LT AB	TEO LT AB	LT		1	LTL	1,478,214	6.99	10,337,545	8.29	12,251,541		6.05%
TURK TELEKOMUNIKASYON SHARE	TURK TELEKOMUNIKASYON AS	TR		1	TRY	57,000	30.34	1,729,443	33.26	1,895,576		0.94%
VIENNA INSURANCE GROUP	VIENNA INSURANCE GROUP	AT		1	EUR	6,270	685.97	4,301,014	563.24	3,531,502		1.74%
WIENERBERGER AG	WIENERBERGER AG	AT		1	EUR	9,600	192.82	1,851,115	199.95	1,919,515		0.95%
ZEMAITIJOS PIENAS	ZEMAITIJOS PIENAS	LT		1	LTL	324,830	8.98	2,916,472	4.66	1,515,290		0.75%
<b>Total shares and units</b>								<b>165,490,732</b>		<b>139,007,929</b>		<b>68.64%</b>
<b>Bonds*</b>												
EESTI ENERG. EUR 4.5% 18.11.20	EESTI ENERGIA AS	EE	2020-11-18	1,000	EUR	478,000	922.33	4,408,745	1,342.38	6,456,242	4.50	3.19%
LITHUANIA EUR 3.75% 10.02.16	GOVERNMENT OF LITHUANIA	LT	2016-02-10	1,000	EUR	137,000	990.36	1,356,793	1,361.31	1,936,351	3.75	0.96%
LITHUANIA EUR 9.375% 22.06.14	GOVERNMENT OF LITHUANIA	LT	2014-06-22	1,000	EUR	144,000	1561.89	2,249,122	1,769.90	2,659,756	9.375	1.31%
MNV ZRT 4.4% CONVERT. 25.09.14	MNV ZRT	HU	2014-09-25	100,000	EUR	400,000	1593.49	6,373,977	1,708.18	6,906,132	4.40	3.41%
MOL 3.876% 05.10.15	MOL MAGYAR OLAJ-ES GAZIPARI	HU	2015-10-05	1,000	EUR	295,000	1056.07	3,115,410	1,306.40	3,896,507	3.876	1.92%
ROMANIA RON 8% 25.10.2011	GOVERNMENT OF ROMANIA	RO	2011-10-25	10,000	RON	1,480,000	352.72	5,220,293	356.86	5,361,658	8.00	2.65%
DANSKE PANK EST EEK 31.03.2010	Danske Bank A/S Eestii filiaal	EE	2010-03-31	10000	EEK	6,070,000	96.95	5,884,816	98.88	6,001,730	4.55	2.96%
POLAND GOV PLN 25.07.2010	GOVERNMENT OF POLAND	PL	2010-07-25	1000	PLN	1,570,000	365.28	5,734,866	373.07	5,857,251	3.68	2.89%
<b>Total bonds</b>								<b>34,344,023</b>		<b>39,075,628</b>		<b>19.30%</b>
<i>*Accrued interest in the amount of EEK 418,311 has been added to the value of bonds; the accrued interest is recorded in the balance sheet under "Accrued income".</i>												
<b>Total securities</b>								<b>199,834,755</b>		<b>178,083,557</b>		<b>87.94%</b>
<b>Deposits</b>												
Current account at depository										23,115,804		11.41%
<b>Total deposits</b>										<b>23,115,804</b>		<b>11.41%</b>
<b>Total investments</b>										<b>201,199,361</b>		<b>99.35%</b>
<b>Other assets</b>												
Accrued income (dividends)										755,064		0.37%
Accrued income (income tax reclaimed)										182,376		0.09%
Receivables for subscribed units										134,849		0.07%
Miscellaneous receivables (trade settlement receivable)										243,669		0.12%
<b>Total other assets</b>										<b>1,315,958</b>		<b>0.65%</b>
<b>TOTAL ASSETS OF THE FUND</b>										<b>202,515,319</b>		<b>100.0%</b>

Member of management board:

## Statement of Investments

In Estonian kroon as of 31.12.2008

Name	Issuer	Country	Nominal value	FX	Quantity	Avg acq cost per unit	Avg acq cost	Mrkt value per unit	Total mrkt value	Share of market value of fund's assets, %
<b>Shares and units</b>										
A AND D PHARMA HOLDINGS NV DR	A & D PHARMA HOLDINGS NV	RO	1	EUR	9,668	192.04	1,856,649	34,26	331,261	0.32%
AB SA	AB SA	PL	1	PLN	98,395	75.80	7,458,288	13,29	1,307,458	1.28%
ADVANCE TERRAFUND SHARE	ADVANCE TERRAFUND REIT JSC	BG	1	BGN	448,553	16.13	7,236,499	8,88	3,982,718	3.91%
ARCO VARA SHARE	ARCO VARA AS	EE	10	EEK	337,189	12.57	4,238,139	2,66	896,896	0.88%
AS EESTI TELEKOM LIHTAKTSIA	EESTI TELEKOM AS	EE	10	EEK	16,100	63.23	1,018,070	61,02	982,422	0.96%
BULGARIA REAL ESTATE FUND	BULGARIA REAL ESTATE FUND	BG	1	BGN	566,083	9.44	5,346,303	6,79	3,844,418	3.77%
CITY SERVICE AB	CITY SERVICE AB	LT	1	LTL	184,045	49.16	9,047,349	15,35	2,825,700	2.77%
ELANA AGRICULTURAL LAND OPPORT	ELANA AGRICULTURAL LAND OPPORT	BG	0	BGN	200,000	18.53		7,14		1.40%
EQUEST BALKAN PROPERTIES PLC	EQUEST BALKAN PROPERTIES PLC	GB	0.01	GBP	340,000	26.34	8,954,783	4,78	1,626,537	1.60%
ERSTE GROUP BANK AG	ERSTE GROUP BANK AG	AT	0	EUR	15,644	565.90	8,852,995	253,46	3,965,083	3.89%
FARMACOL SHARE	FARMACOL S.A.	PL	1	PLN	55,263	168.66	9,320,860	107,44	5,937,556	5.82%
FLAMINGO	FLAMINGO	RO	0.1	RON	1,289,700	1.83	2,362,475	0,11	144,150	0.14%
HRVATSKI TELEKOM DD	HRVATSKI TELEKOM DD	HR	100	HRK	5,000	553.24	2,766,181	422,92	2,114,584	2.07%
IMMO EAST IMMOBILIEN ANLAGEN	IMMO EAST IMMOBILIEN ANLAGEN	AT	1	EUR	482,064	35.68	17,198,052	7,20	3,469,381	3.40%
INDYKPOL SA COMMON STOCK	INDYKPOL SA	PL	5	PLN	13,614	431.67	5,876,813	88,00	1,198,080	1.17%
INTER CARS SA	INTER CARS SA	PL	2	PLN	1,254	249.21	312,514	101,56	127,353	0.12%
LC ROMANIA PROPERTY FUND LTD	LEWIS CHARLES ROMANIA	GB	1.4	GBP	243,572	32.56	7,929,738	1,47	358,533	0.35%
MECANICA CEHLAU PIATRA NEAMT	MECANICA CEHLAU PIATRA NEAMT	RO	0.1	RON	1,455,000	1.75	2,540,517	0,46	664,644	0.65%
MONDI PACK PAPER SWIECIE SA	MONDI PACK PAPER SWIECIE SA	PL	1	PLN	9,553	393.51	3,759,188	150,72	1,439,850	1.41%
PANEVEZIO STATYBOS TRESTAS	PANEVEZIO STATYBOS TRESTAS	LT	1	LTL	55,948	75.69	4,234,752	6,79	380,083	0.37%
PEGAS NONWOVENS CZK	PEGAS NONWOVENS SA	LU	1	CZK	24,200	305.07	7,382,813	135,85	3,287,509	3.22%
POLSKI KONCERN NAFTORNY ORLEN	POLSKI KONCERN NAFTOWAY ORLEN	PL	1.25	PLN	25,600	153.86	3,938,873	97,68	2,500,729	2.45%
RAIFFEISEN BANK	RAIFFEISEN BANK	AT	1	EUR	15,944	836.34	13,334,666	301,96	4,814,421	4.72%
SIF BANAT CRISANA(RO)	SIF BANAT CRISANA	RO	0	RON	166,300	17.75	2,952,120	2,13	353,968	0.35%
SIF MOLDOVA (RO)	SIF MOLDOVA	RO	0	RON	223,200	10.34	2,307,039	2,07	462,064	0.45%
SIF MUNTENIA(RO)	SIF MUNTENIA	RO	0	RON	471,700	10.04	4,736,151	2,42	1,141,546	1.12%
SIF OLTENIA (RO)	SIF OLTENIA	RO	0	RON	168,500	12.01	2,023,398	2,28	384,854	0.38%
SPARKASSEN IMMOBILIEN AG	SPARKASSEN IMMOBILIEN AG	AT	0	EUR	46,629	151.10	7,045,455	30,98	1,444,477	1.42%
TELEFONICA O2 C.R. SHARE	TELEFONICA O2 C.R.	CZ	100	CZK	25,700	241.79	6,213,993	247,90	6,370,949	6.25%
TEO LT AB	TEO LT AB	LT	1	LTL	501,275	6.18	3,096,841	5,25	2,633,518	2.58%
VIENNA INSURANCE GROUP	VIENNA INSURANCE GROUP	AT	1	EUR	4,750	714.46	3,393,703	377,37	1,792,505	1.76%
ZEMAITIJOS PIENAS	ZEMAITIJOS PIENAS	LT	1	LTL	624,830	8.81	5,504,455	2,56	1,598,868	1.57%
<b>Total shares and units</b>							<b>175,946,640</b>		<b>63,810,760</b>	<b>62.57%</b>

Member of management board:

## Statement of Investments (continued)

In Estonian kroon as of 31.12.2008

Name	Issuer	Country	Maturity	Nom. value	FX	Quantity	Avg acq cost per unit	Avg acq cost	Mrkt value per unit	Total mrkt value	Interest rate	Share of market value of fund's assets, %
<b>Bonds*</b>												
TALLINNA SADAM FRN 17.03.09	TALLINNA SADAM AS	EE	2009-03-16	1,000	EUR	200,000	1,548.90	3,097,809	1,556.20	3,162,668	7.95	3.10%
<b>Total bonds</b>								<b>3,097,809</b>		<b>3,162,668</b>		<b>3.10%</b>
<i>*Accrued interest in the amount of EEK 50,259 has been added to the value of bonds; the accrued interest is recorded in the balance sheet under "Accrued income"</i>												
<b>Derivative instruments</b>												
FX OPT EUR/PLN @ 3.5524 08APR9	HANSAPANK	EE	2009-04-08	1	EUR			356,248		2,611,781		2.56%
FX OPTION EUR/RON@4.0 02FEB09	HANSAPANK	EE	2009-02-02	1	EUR			164,278		230,882		0.23%
FX OPTION EUR/RON@4.1 05JAN09	HANSAPANK	EE	2009-01-05	1	EUR			114,994		17,900		0.02%
FXOPTION EUR/CZK@26.12 21APR09	HANSAPANK	EE	2009-04-21	1	EUR			243,131		512,462		0.50%
<b>Total derivative instruments</b>								<b>878,651</b>		<b>3,373,025</b>		<b>3.31%</b>
<b>Total securities</b>								<b>179,923,100</b>		<b>70,346,453</b>		<b>68.98%</b>
<b>Deposits*</b>												
Current account										12,829,751		12.58%
DEPOSIT-HANSAPANK(EUR)	HANSAPANK	EE	2009-01-12		EUR			1,955,688		1,965,303	5.90	1.93%
DEPOSIT-HANSAPANK(EUR)	HANSAPANK	EE	2009-01-07		EUR			782,275		782,400	5.75	0.77%
DEPOSIT-HANSAPANK(EUR)	HANSAPANK	EE	2009-01-12		EUR			1,955,688		1,965,303	5.90	1.93%
DEPOSIT-HANSAPANK(EUR)	HANSAPANK	EE	2009-01-12		EUR			1,955,688		1,965,303	5.90	1.93%
DEPOSIT-HANSAPANK(EUR)	HANSAPANK	EE	2009-01-12		EUR			1,955,688		1,965,303	5.90	1.93%
DEPOSIT-HANSAPANK(EUR)	HANSAPANK	EE	2009-01-12		EUR			1,955,688		1,965,303	5.90	1.93%
DEPOSIT-HANSAPANK(EUR)	HANSAPANK	EE	2009-01-12		EUR			1,955,688		1,965,303	5.90	1.93%
DEPOSIT-HANSAPANK(EUR)	HANSAPANK	EE	2009-01-12		EUR			1,955,688		1,965,303	5.90	1.93%
DEPOSIT-HANSAPANK(EUR)	HANSAPANK	EE	2009-01-12		EUR			1,955,688		1,965,303	5.90	1.93%
O/N DEPOSIT -HANSAPANK(E EK)	HANSAPANK	EE	2009-01-01		EEK			1,612,687		1,612,934	5.50	1.58%
<b>Total deposits</b>								<b>18,040,466</b>		<b>30,947,509</b>		<b>30.35%</b>
<i>*Accrued interest in the amount of EEK 77,296 has been added to the value of deposits; the accrued interest is recorded in the balance sheet under „Accrued income“</i>												
<b>Total investments</b>								<b>197,963,566</b>		<b>101,293,962</b>		<b>99.33%</b>
<b>Other assets</b>												
Miscellaneous receivables (unsettled transactions)										682,519		0.67%
<b>Total other assets</b>										<b>682,519</b>		<b>0.67%</b>
<b>TOTAL ASSETS</b>										<b>101,976,481</b>		<b>100.00%</b>

## Statement of Changes in Net Assets

In Estonian kroon

	<u>01.01-31.12.2009</u>	<u>01.01-31.12.2008</u>
<b>Net asset value at the beginning of the period</b>	<b>101,735,869</b>	<b>385,638,030</b>
Cash received for fund units issued	110,282,691	11,174,162
Cash paid for fund units redeemed	-47,173,087	-76,936,469
Subscription and redemption fees paid to the fund management company	-118,733	-166,115
Net result of the Fund	37,415,611	-217,973,739
<b>Net asset value at the end of the period</b>	<b><u>202,142,351</u></b>	<b><u>101,735,869</u></b>
Number of A units in circulation at the end of the period:	722,404.356	679,576.209
Number of B units in circulation at the end of the period:	2,357,788.152	2,511,150.502
Number of C units in circulation at the end of the period:	<u>401,487.666</u>	<u>-</u>
Net asset value of an A unit at the end of the period (EEK):	44.1370	31.6084
Net asset value of an B unit at the end of the period (EEK):	44.8586	31.9597
Net asset value of an C unit at the end of the period (EUR):	<u>10.2668</u>	<u>-</u>

# Notes to the Financial Statements

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## Note 1. Accounting Policies and Assessments Used

The financial statements of Avaron Emerging Europe Small Cap Fund (hereinafter „the Fund“) for 2009 have been prepared in compliance with the effective Investment Funds Act as supplemented by the regulations of the Minister of Finance, and the Accounting Principles Generally Accepted in Estonia. The requirements of the Accounting Principles Generally Accepted in Estonia comply with the internationally acknowledged accounting and reporting principles and are stipulated in the Estonian Accounting Act, which is supplemented by the guidelines issued by the Estonian Accounting Standards Board.

The balance sheet and the statement of income and expenses and the notes to the financial statements have been prepared in accordance with the Minister of Finance Regulation No. 50 of 02.07.1998 "Requirements for the Annual and Semi-Annual Reports of Investment Funds". The financial statements have been prepared in Estonian kroon, unless a reference to another currency is made. The main accounting principles used when preparing the financial statements have been set out below.

### Foreign currency transactions

Upon recording foreign currency transactions, the last bid rate established by the depository for the funds managed by AS Avaron Asset Management on the transaction date has been used (hereinafter referred to as the depository bid rate). The assets and liabilities fixed in foreign currency are translated into Estonian kroon based on the depository bid rate applicable on the balance sheet date.

Gains and losses from foreign currency transactions are recorded in the statement of income and expenses under "Gain/ (loss) from transactions in foreign currencies" on net basis.

### Financial assets and liabilities

Financial assets include securities, deposits, accrued income, other receivables and derivative instruments with positive market value. Financial liabilities include accrual-based liabilities to the management company and depository and other liabilities as well as derivative instruments of negative market value. Financial assets and liabilities are initially recorded at cost, which is the fair value of the consideration paid or received to acquire the financial asset or liability. The initial acquisition cost includes all the expenses directly related to the financial asset or liability. The financial assets and liabilities are recorded in the balance sheet at the moment when the right of ownership is transferred to the Fund in accordance with the terms and conditions of the financial asset or liability contract.

### Securities

Shares, units of investment funds, bonds, derivative instruments, structured bonds and other securities are recorded as securities in the balance sheet. The transaction date method is used when accounting for securities. Securities are initially recognised at acquisition cost, which is the fair value of the consideration paid for the security. The acquisition cost includes all direct expenses related to acquiring the financial asset. Securities are later accounted for in accordance with the following principles:

- The market value of shares traded on a regulated market is determined on the basis of the official closing price on the balance sheet date. If the closing price is unavailable, the official mid price is used. If mid price is also unavailable, the last official bid price is used.
- The value of bonds not traded on a regulated market is determined based on the average of the bid and ask quotes as provided by the price feed service provider being used. If the quotes are not available or if the quotes do not reflect the fair value of the bond in the opinion of the fund management company, the price is determined based on the yield curve method.
- The value of options not traded on a regulated market is determined based on the Black & Scholes valuation model. The inputs that are necessary for the calculation are determined by the fund management company after consulting with the counterparty of the option.

Unrealised gains/ (losses) from revaluation of securities are recorded in the statement of income and expenses under "Unrealised profit/ (loss)" on the corresponding instrument.

Securities are removed from the balance sheet when the fund has lost control over the corresponding financial assets either as a result of selling them or expiry of their term. When accounting for realised gains/ (losses) from securities transactions, the FIFO method is used. The line „Sales profit/ (loss)“ in

the statement of income and expenses indicates the difference between the sales amount of an instrument and the corresponding acquisition cost. The sales amount of securities is the quantity of securities sold multiplied by the sales price less paid commissions.

### **Deposits**

Cash and deposits are valued at nominal value. The balances of current accounts, overnight deposits and time deposits are recorded under deposits. Accrued interest on deposits is recorded as accrued income.

In order to determine the value of structured bonds and structured deposits, the bond or deposit is divided into separate components (for example deposit plus option). The value of each component is determined in accordance with the principles set out in the procedure for calculating net asset value. In order to determine the total value of the instrument, the values of different components are summed up.

### **Other assets**

Other assets include receivables from revenues calculated on the accrual basis but not received yet, including interest, other similar receivables, dividend receivables, and other accrued income. Miscellaneous receivables include receivables from unsettled sale transactions.

### **Liabilities**

Liabilities include management fee and performance fee payables to the fund management company, and depository fee and transaction fee payables to the depository. Liabilities also include payables to fund unit-holders for redeemed units. Miscellaneous liabilities include payables for securities purchase transactions.

### **Recognition of income and expenses**

Sales revenue and expenditure is recorded on the accrual basis when all the essential risks relating to ownership have passed to the buyer and the sales revenue (expenditure) and the expenses relating to a transaction can be reliably established. Received dividends are recognised under "Dividends" at the moment when the shareholder's right to the dividend is fixed.

The operating expenses of the fund include the management fee and performance fee payable to the management company, the depository fee payable to the Fund's depository, fund administration fees, fees to the registrar of fund units and transaction fees. Transaction fees related to security purchase and sales transactions are recorded under "Transaction fees" in the statement of income and expenses. Commissions which arose and were paid in acquisition of securities, but are not clearly identifiable are included within the acquisition cost of securities.

## Note 2. Statement of Commissions

In Estonian kroon

01.01.2009 - 31.12.2009

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
AS SEB Pank	22	49,474,869	-	0.00%
Erste Group Bank AG	40	43,889,360	-	0.00%
Swedbank AS	32	18,212,506	-	0.00%
IPOPEMA Securities S.A.	12	17,076,590	-	0.00%
Patria Finance, a.s.	16	17,020,419	-	0.00%
Banco Espirito Santo de Investimento, S.A.	19	14,181,323	-	0.00%
Concorde Securities	13	10,415,832	-	0.00%
AB DNB Nord bankas	5	9,942,382	-	0.00%
KBC Securities Romania S.A.	10	9,262,495	-	0.00%
TeliaSonera AB	1	8,527,170	-	0.00%
ING Bank	7	8,369,522	-	0.00%
Deutsche Bank AG	2	6,424,760	-	0.00%
EVLİ BANK PLC	6	4,821,022	-	0.00%
First Financial Brokerage House	2	3,291,050	-	0.00%
Raiffeisen Group	6	2,377,195	-	0.00%
Funds/clients of AS Avaron Asset Management	4	2,325,797	-	0.00%
InterCapital Securities Ltd.	3	2,010,254	-	0.00%
UniCredit Group	2	1,729,443	-	0.00%
Bank Handlowy	1	1,034,432	-	0.00%
Hypo Alpe-Adria-Bank AD Banjaluka	1	567,383	-	0.00%
Lewis Charles Securities	1	168,681	-	0.00%
<b>Total</b>	<b>205</b>	<b>231,122,485</b>	<b>-</b>	<b>0.00%</b>

01.01.2008 - 31.12.2008

	Number of transactions	Volume of transactions	Total commissions paid	Weighted average fee
Erste Bank	186	357,223,942	-	0.00%
Swedbank AS	50	54,717,901	-	0.00%
SEB	34	33,831,708	-	0.00%
Evli Securities	4	12,022,160	-	0.00%
BRE Securities	13	8,090,236	-	0.00%
Concorde Securities	3	10,258,314	-	0.00%
UniCredit CAIB	22	33,382,610	-	0.00%
First Financial Brokerage House	11	7,668,267	-	0.00%
Bank Handlowy	65	56,305,211	-	0.00%
ING Bank	2	4,215,335	-	0.00%
Ipopema Securities	70	90,447,262	-	0.00%
Lewis Charles Securities	2	2,025,468	-	0.00%
Patria Finance	64	137,068,685	-	0.00%
KBC Securities	18	20,557,509	-	0.00%
Funds/clients of AS Avaron Asset Management	2	3,601,025	-	0.00%
Banco Espirito Santo de Investimento	40	21,410,304	-	0.00%
<b>Total</b>	<b>586</b>	<b>852,825,937</b>	<b>-</b>	<b>0.00%</b>

### Note 3. Statement of Derivative Instruments

31.12.2009

There were no outstanding derivative instruments.

31.12.2008

Type of instrument	Issuer of the instrument	Name and quantity of underlying	Exercise date	Premium/ price of instrument	Exercise price		Market value		Equity of the issuer of the instrument
					per unit	total	per unit	total	
Put option	AS Hansapank	19,328,800 CZK	21/04/2009	15,540 EUR	26.120	740,000 EUR	0.69	512,462 EEK	29.5 bn EEK
Put option	AS Hansapank	5,328,600 PLN	08/04/2009	22,770 EUR	3.552	1,100,000 EUR	2.37	2,611,781 EEK	29.5 bn EEK
Put option	AS Hansapank	1 600 000 RON	02/02/2009	10,500 EUR	4.000	400,000 EUR	0.58	230,882 EEK	29.5 bn EEK
Put option	AS Hansapank	1,230,000 PLN	05/01/2009	7,350 EUR	2.100	300,000 EUR	0.06	17,900 EEK	29.5 bn EEK
<b>Total</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>2,540,000 EUR</b>	<b>X</b>	<b>3,373,025 EEK</b>	<b>X</b>

### Note 4. Comparative Analysis of the Net Asset Value

	<u>31/12/2009</u>	<u>31/12/2008</u>	<u>31/12/2007</u>
Net asset value of the Fund (EEK)	202,142,351	101,735,869	385,638,030
Net asset value of A unit (EEK)	44.1370	31.6084	88.3119
Net asset value of B unit (EEK)	44.8586	31.9597	88.8367
Net asset value of B unit (EUR)	10.2668	-	-

### Lisa 5. Other Information

The fund's portfolio turnover ratio amounted to 53% in 2009 (163% in 2008). The portfolio turnover ratio is computed by taking the lesser of purchases or sales and dividing by average monthly net assets.

The total expense ratio (including management, performance and depository fees) equalled 2.11% of net asset value for A units, 1.59% for B units and 1.90% for C units. The total expense ratio excluding performance fee equalled 2.11% for A units, 1.59% for B units and 1.58% for C units. C units were launched during the year of 2009. The reported total expense ratio for C units has been annualised.

[TRANSLATION FROM ESTONIAN]

## SWORN AUDITOR'S REPORT

To the Shareholders of Avaron Emerging Europe Small Cap Fund and the Fund Manager:

We have audited the accompanying annual accounts (page 5 to 16) of Avaron Emerging Europe Small Cap Fund, which comprise the balance sheet as of 31 December 2009, and the profit and loss statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Fund Manager Management Board's Responsibilities for the Annual Accounts*

Management Board of the Fund Manager AS Avaron Asset Management is responsible for the preparation, true and fair presentation of the annual accounts according to the Law of Investment Funds, Estonian Accounting Act and the guidelines issued by Estonian Accounting Standards Board. The responsibility includes: designing and maintaining an internal control environment relevant to assure the true preparation and fair presentation of annual accounts which are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### *Sworn Auditor's Responsibilities*

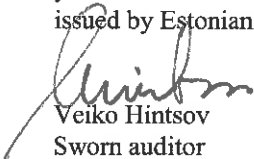
Our responsibility is to express an opinion on the annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing. The standards require us to comply with ethical requirements, plan and perform the audit to obtain reasonable assurance on whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence regarding the numbers and disclosures presented in the annual accounts. The volume and content of the procedures selected depends on the judgment made by the sworn auditor, including the assessment on risks of material misstatement in the annual accounts, whether due to fraud or error. While making the risk assessment the sworn auditor considers if the internal control environment is relevant to provide true preparation and fair presentation of the annual accounts in order to design appropriate audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the internal control environment. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management of the Fund Manager, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence, which is obtained by us, is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

In our opinion, the annual accounts of Avaron Emerging Europe Small Cap Fund present in all material respects truly and fairly the financial position as of 31 December 2009 and of the financial performance for the financial year then ended in accordance with the Law of Investment Funds, Estonian Accounting Act and the guidelines issued by Estonian Accounting Standards Board.

  
Veiko Hintsov  
Sworn auditor  
28 April 2010  
Sworn auditor no 328  
AS Deloitte Audit Eesti  
Licence 27