Avaron Emerging Europe Fund, May 2026

UCITS, SFDR Article 8

AVARON Investment Funds | Since 2007

Investment Objectives & Approach

The Fund invests in public equities of Emerging Europe ex-Russia region with the aim to outperform the market with lower volatility. The Fund creates alpha to investors through active management, stock-picking and responsible investing. The Fund is benchmark agnostic, portfolio is built fully bottom up, and thus the Fund has low position overlap to regional indices. The Fund is run by seasoned investment managers Valdur Jaht and Peter Priisalm who are supported by Avaron's research team. Based on SFDR the Fund is an Article 8 fund. The Fund has been granted LuxFLAG ESG Label.

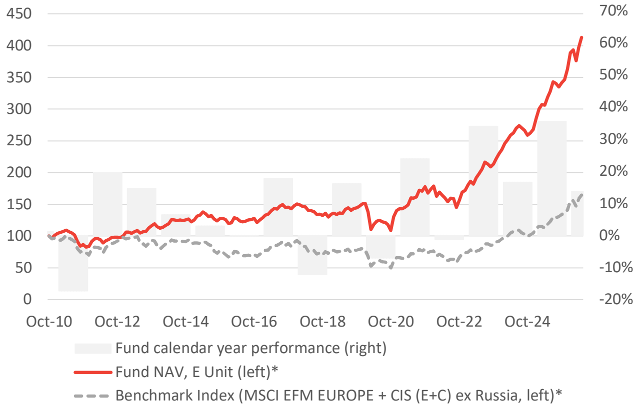
ESG LABEL

Lower risk ← → Higher risk

1	2	3	**4**	5	6	7

The risk indicator assumes that you keep the Fund for 5 years

Performance, E Unit



**Rebased (October 2010 = 100)*
Past performance is not a guarantee or indicative of future results.

Top 5 positions	Country	Sector	Market Cap MEUR	% of assets	Return 1 mo	Contr return
Allegro	PL	Cons. Disc.	8679	4.7%	17.7%	0.8%
Metlen Energy & Metals PLC	GR	Industrial	5987	4.2%	19.6%	0.7%
Jumbo	GR	Cons. Disc.	3128	4.2%	0.2%	0.1%
Coca-Cola Icecek	TR	Cons. Staples	4190	4.1%	7.8%	0.3%
LPP S.A.	PL	Cons. Disc.	9913	4.0%	3.9%	0.1%
5 largest positions total				**21.3%**		**2.0%**

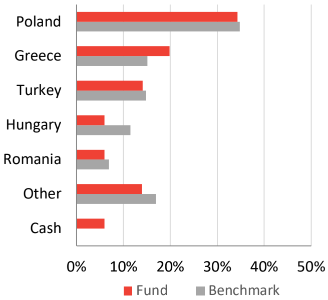
Returns*	Fund	Index	Excess
1 month	4.0%	4.0%	0.1%
3 months	5.0%	5.8%	-0.8%
6 months	19.1%	21.1%	-1.9%
YTD	13.7%	16.7%	-3.0%
1 year	29.6%	39.0%	-9.4%
3 years	108.2%	112.0%	-3.7%
5 years	157.5%	127.7%	29.8%
7 years	204.4%	120.2%	84.2%
10 years	233.4%	130.2%	103.2%
15 years	286.9%	69.9%	217.0%

** Fund E unit, Index is MSCI EFM EUROPE + CIS (E+C) ex RU*

Returns*	Fund	Index	Excess
2025	35.5%	34.6%	0.9%
2024	16.6%	13.9%	2.7%
2023	34.0%	25.2%	8.8%
2022	-1.2%	-3.1%	1.9%
2021	23.8%	14.9%	9.0%
2020	-7.0%	-18.0%	11.0%
2019	16.0%	10.3%	5.8%

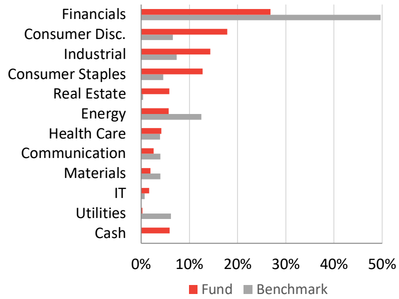
CAGR/Years*	Fund	Index
2024-2025	25.7%	23.8%
2023-2025	28.4%	24.3%
2021-2025	21.0%	16.4%

Country Weights

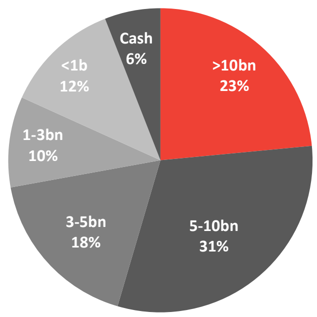


Note: Other for Avaron includes Slovenia, Czech Republic, Netherlands, Estonia, Bulgaria, Croatia and Lithuania. All are under Other for index as well.

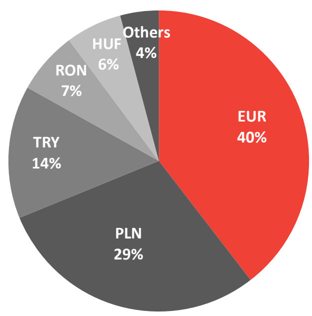
Sector Weights



Market Cap breakdown



Net currency breakdown



Country allocation	May-26	Change 1 mo	3 mo	12 mo	3 years	5 years	Contribution analysis 1 mo	3 mo	12 mo	YTD	3 years	5 years
Poland	**34.3%**	0.7%	1.4%	1.4%	13.7%	11.3%	2.3%	2.9%	9.5%	5.5%	35.1%	42.4%
Greece	**19.8%**	1.1%	0.4%	-3.4%	-3.3%	11.4%	1.3%	0.5%	4.6%	1.3%	25.4%	43.6%
Turkey	**14.1%**	-1.2%	0.5%	8.4%	14.1%	4.2%	0.2%	0.8%	4.4%	2.8%	3.2%	17.3%
Hungary	**6.0%**	-0.5%	0.4%	-1.7%	-7.7%	-9.7%	0.1%	1.0%	4.2%	2.5%	13.3%	16.1%
Romania	**6.0%**	-0.4%	-1.2%	2.7%	-3.9%	-5.4%	0.1%	0.1%	2.3%	1.0%	14.9%	21.5%
Slovenia	**4.7%**	-0.4%	-0.3%	-2.3%	-4.5%	-3.4%	0.0%	0.1%	3.0%	1.0%	13.7%	17.0%
Croatia	**2.9%**	-0.1%	-0.1%	1.2%	2.0%	0.4%	0.2%	0.1%	0.9%	0.4%	0.9%	0.2%
Netherlands	**2.7%**	1.0%	0.8%	1.1%	2.7%	2.7%	0.0%	-0.2%	0.0%	-0.2%	0.1%	0.1%
Estonia	**1.7%**	-0.3%	-0.3%	-0.8%	-1.0%	-0.2%	0.0%	0.1%	0.0%	0.1%	-0.4%	0.1%
Czech Rep.	**1.3%**	-0.3%	-0.4%	-2.1%	-3.2%	-7.3%	0.0%	-0.2%	0.5%	-0.1%	5.0%	14.3%
Lithuania	**0.3%**	0.0%	0.0%	-0.3%	-0.6%	0.3%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
Bulgaria	**0.3%**	-0.1%	-0.1%	-1.1%	-1.4%	-1.3%	0.0%	0.0%	0.2%	0.0%	1.9%	2.8%
Austria	**0.0%**	0.0%	0.0%	-1.8%	-2.4%	-4.9%	0.0%	0.0%	0.6%	0.0%	4.5%	8.2%

Sector allocation		Change					Contribution analysis					
Financials	**26.9%**	-1.7%	-1.0%	-6.4%	-2.9%	-11.3%	1.1%	1.3%	12.6%	5.0%	58.4%	66.7%
Consumer Disc.	**17.9%**	1.0%	1.4%	4.1%	8.7%	10.9%	1.2%	1.6%	3.1%	1.0%	8.7%	23.7%
Industrial	**14.4%**	0.1%	0.5%	4.0%	8.9%	8.5%	0.9%	2.0%	4.5%	3.5%	8.3%	14.1%
Consumer Staples	**12.8%**	0.6%	0.7%	4.1%	4.8%	10.1%	0.2%	-0.4%	1.4%	1.3%	5.8%	9.4%
Real Estate	**5.8%**	0.7%	0.2%	1.0%	4.8%	-0.1%	0.1%	-0.5%	1.2%	-0.1%	2.7%	6.0%
Energy	**5.7%**	-1.0%	-0.2%	-2.1%	-9.2%	-7.0%	0.0%	0.8%	5.1%	2.3%	14.3%	31.5%
Health care	**4.2%**	-0.1%	-0.1%	-3.0%	-9.8%	-5.0%	0.2%	0.3%	1.6%	1.0%	9.6%	14.5%
Communication	**2.6%**	-0.1%	0.1%	0.1%	0.0%	-4.8%	0.2%	0.3%	-0.6%	0.3%	0.5%	0.3%
Materials	**2.0%**	0.0%	-0.2%	0.1%	-0.6%	-0.9%	0.2%	-0.1%	0.8%	-0.1%	6.9%	6.4%
IT	**1.7%**	-0.1%	-0.2%	-0.3%	0.3%	1.7%	0.0%	-0.1%	0.5%	-0.2%	2.1%	3.3%
Utilities	**0.3%**	0.0%	0.0%	-0.3%	-0.6%	-3.9%	0.0%	0.0%	0.0%	0.0%	0.1%	7.7%

Risk metrics	5Y risk*
Alpha	9%
Volatility & stand. deviation	12.9%
Beta	0.61
Sharpe ratio	1.46
Information ratio	0.39
Tracking error	7.5%

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

Turnover	
FY 2025	29.9%
FY 2024	12.4%
FY 2023	14.4%

Fund statistics	
Number of positions	52
Top10	38.2%
Top20	62.0%
Gross exposure	94.1%
Net exposure	94.1%
Concentration coefficient	41
Median market cap MEUR	4059
Average market cap MEUR	6513

Liquidity analysis*	
3 days	84.9%
2 weeks	94.0%
4 weeks	97.4%

**Turning portfolio into cash, based on 6 month average trading volume accounting for 30% of trading volume*

How to invest:
https://avaron.com/investor-assistance/

Fund Facts - Avaron Emerging Europe Fund	
Investment Manager	AS Avaron Asset Management
Fund type	UCITS (launch April 2007)
Currency and domicile	EUR, Estonia
Supervised by	Estonian FSA
SFDR classification	Article 8, light green product
Morningstar rating	Yes, four stars (Overall rating)
Dividends	reinvested
Fund size, MEUR	147.8
Total AUM, MEUR	387.4
Cut-off	10am CET
NAV frequency	Daily dealing, T+3
NAV calculation	Swedbank AS
Custodian	Swedbank AS
Transfer agent	Swedbank AS
External auditor	KPMG
Internal auditor	PWC

Unit class	Retail D	Institutional C	Institutional E	Large Institutional B	Mega Institutional A
ISIN	EE3600108866	EE3600102901	EE3600108874	EE3600090056	EE3600090049
Min. initial investment	100 EUR	100,000 EUR	100,000 EUR	1 MEUR	20 MEUR
Front-end load	None	None	None	None	None
Management fee	1.75%	1.10%	0.75%	0.95%	0.85%
Performance fee	None	None	15% over MSCI Emerging Europe index	None	None
Back-end load	None	None	None	None	None
Bloomberg	AVEMEUD ET	AVAEESC ET	AVEMEUE ET	AVAEESB ET	AVAEESA ET
RIC	LP68083763	LP68063797	LP68083764	LP65090724	LP65067768
Telekurs	CH12407332	CH10799792	CH12414216		
WKN code	A1W7P0	A0PEF0	A113GN	A417CB	A0QZYX
NAV as of 31-May-2026	40.3093 EUR	51.2309 EUR	41.3052 EUR	15.1031 EUR	13.8018 EUR

Public offering France, Austria, Germany, Finland, Sweden, Denmark, Estonia, Latvia Lithuania and Norway (units C, E)

Tax transparency Germany

Platforms & execution Euroclear FundSettle, Allfunds, Clearstream Banking SA, SIX SIS AG, CACEIS Investor Services, IFSAM, Inversis, FIL Fondsbank, BNP Paribas Securities Services Luxembourg, Comdirect

Fund documents & prospectus https://avaron.com/our-products/aef/

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About Avaron Asset Management

Founded in 2007, Avaron Asset Management is an independent management-owned investment manager with a clear focus on stock-picking and responsible 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 300 Emerging Europe companies, backed by regular on the ground 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 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 16 professionals (including 9 in the investment team), based in Estonia and Poland, takes care of 380M+ euros of mainly professional investor assets.

We are supervised by the Estonian Financial Supervision Authority. Avaron and our funds are audited by KPMG.

Kristel Kivinurm-Priisalm
Managing Partner,
Head of Investor Relations

Peter Priisalm
Partner, co-CIO,
Investment Manager

Valdur Jaht
Partner, co-CIO,
Investment Manager

Rain Leesi, CFA
Investment Manager,
Head of Research

Signatory of:

Important Legal Information

Overview of the month

Equity returns	1 mo LC	1 mo €	3 mo €	YTD €	1Y €	3Y €	5Y €
US	5.2%	5.7%	11.8%	11.7%	25.7%	70.0%	98.9%
Europe	3.7%	3.7%	0.0%	6.2%	15.2%	53.9%	69.1%
Emerging Markets	9.7%	10.2%	10.7%	26.3%	50.1%	78.7%	50.7%
Emerging Europe*	4.0%	4.0%	5.8%	16.7%	39.0%	112.0%	127.7%
Poland	6.6%	7.3%	7.9%	13.4%	35.8%	135.7%	118.9%
Czech Republic	2.5%	2.9%	-1.2%	-3.3%	27.3%	132.3%	227.0%
Hungary	0.6%	3.8%	13.5%	29.2%	60.7%	198.4%	185.0%
Baltics	-0.5%	-0.5%	2.8%	3.3%	10.0%	23.8%	36.2%
Romania	7.0%	5.9%	4.4%	17.8%	65.9%	175.6%	237.9%
Bulgaria	1.6%	1.6%	-4.3%	4.4%	25.8%	95.9%	154.5%
Croatia	4.5%	4.5%	5.8%	10.3%	26.1%	105.0%	144.7%
Slovenia	0.3%	0.3%	-0.6%	17.9%	44.0%	191.1%	252.5%
Turkey	-5.3%	-6.0%	-2.1%	15.8%	28.7%	23.1%	111.7%
Austria	6.4%	6.4%	10.0%	17.2%	43.4%	130.9%	124.0%
Greece	8.9%	8.9%	5.1%	12.9%	34.3%	117.6%	213.3%

*Source: LSEG. * MSCI EFM EUROPE + CIS (E+C) ex Russia*

Currencies to €	1 mo	3 mo	YTD	1Y	2Y	3Y	5Y
Poland	0.6%	-0.2%	-0.4%	0.4%	1.0%	7.0%	5.8%
Hungary	3.0%	6.4%	8.6%	14.1%	10.1%	4.7%	-1.9%
Czech Rep.	0.0%	-0.2%	-0.5%	2.5%	1.5%	-2.4%	4.6%
Romania	-1.1%	-3.0%	-3.0%	-3.6%	-5.2%	-5.4%	-6.3%
Serbia	-0.1%	0.0%	-0.1%	-0.2%	-0.3%	-0.2%	0.1%
Turkey	-0.8%	-2.9%	-5.5%	-16.7%	-34.7%	-58.3%	-80.6%

Source: LSEG

Emerging Europe equities gained 4.0% in May, a solid month in absolute terms but well behind the broader EM rally, which was powered by Asian tech and a late-month risk-on move as optimism over an extension of the US-Iran ceasefire pushed oil to a one-month low and lifted global sentiment.

Greece led the region (+8.9%), with the Athens exchange driven higher by banks and by state-controlled electric utility Public Power Corporation's €4.5bn capital raise. The offering was 4.5x oversubscribed on the back of an order book of roughly €18 billion, the largest ever recorded on the exchange. We opted out, seeing limited long-term upside from the offer level.

Poland (+7.3%) and Romania (+5.9%) also outperformed. Romania's energy- and utility-heavy benchmark was led by the strong Q1 earnings of renewable energy producers, while oil and gas names drew additional support from attractive dividend yields. In Poland, equities printed fresh record highs, with refiners benefiting from a surge in margins driven by the Iran war. The gains came even as the central bank held its rate at 3.75% for a second consecutive meeting, citing geopolitical uncertainty and inflation that had risen to 3.2% in April, near the top of its target band.

Turkey was the clear laggard (-6.0%), driven mainly by a fresh bout of political risk. A late-May court ruling that annulled the main opposition party's leadership triggered sharp short-term sell-off, with banks hit hardest on fears the turmoil could undermine the country's orthodox economic program. Meanwhile, the lira came under pressure, but the authorities leaned hard against the move, intervening in the market to the tune of an estimated $7bn to limit volatility. Together with the anchor of a still-restrictive 37% policy rate, that intervention kept a lid on the depreciation, leaving the euro return on Turkish equities only modestly worse than the local-currency figure.

Avaron Emerging Europe Fund gained 4% last month, in line with the benchmark. Poland and Greece were the main contributors to the monthly return with 2.3pp and 1.3pp, respectively. In Turkey we managed to deliver marginally positive return, outperforming the broad market, fully attributable to favourable stock picking.

The largest positive contributor was Polish e-commerce company Allegro, which delivered a total return of 17.7% in euro terms last month. The re-rating was underpinned by a strong set of Q1 results. Both, the core Polish business and the international segment beat expectations on the top line, while profitability surprised meaningfully to the upside.

The largest detractor was TAV Airports, the Turkish airport operator, which continued to weigh on performance, falling 10.2% in € terms and costing the Fund 0.35pp. The drag was a continuation of late April's reaction to a weak first quarter, compounded in May by soft April traffic data and the broad Turkish market sell-off late in the month, when the court ruling against the main opposition hit Borsa Istanbul-listed names across the board.

Investment insight: Jumbo (Greece)

Jumbo (€3.1bn) is a Greek owner-operated non-food specialty retailer trading at around 9x earnings and 5x EV/EBITDA, with a 5% dividend yield and net cash equal to roughly one-sixth of its market value. It is a high-quality, founder-led, debt-free, cash-generative business whose shares have de-rated on softer margins and a weak Romanian consumer – issues we read as cyclical and largely already priced in, not structural.

Jumbo sells toys, seasonal goods, home items, baby products and stationery (ca. 40,000 SKUs) through large-format hyperstores across Greece (ca. 60% of sales), Romania, Cyprus and Bulgaria, with a growing franchise network. **The engine of the business model is sourcing.** More than 70% of merchandise is imported directly from China and paid for in $. Jumbo has spent three decades building scale, supplier relationships and a pre-buying discipline that let it offer very low price points while still earning industry-leading margins. Gross margins have run in the mid-50s% and EBITDA margins in the mid-30s% – figures that very few retailers anywhere come close to. The product mix skews toward low-ticket, impulse, "treasure-hunt" purchases that are relatively resilient across cycles and hard to replicate online, because the experience and the breadth of cheap SKUs in one trip is itself the draw. Another business model strength is asset ownership. Jumbo owns the majority (>60%) of its outlets and has been steadily buying back previously leased stores where the economics make sense (three acquired in Greece in 2025). This lowers rent leakage, strengthens asset backing, and gives management control over its best locations.

The stock has been under pressure over the past months, down ca. 30% since last autumn highs due to worries over profitability and recent poor performance in Romania. Strong margins have been the heart of the Jumbo case, and the recent margin erosion has unsettled investors. Gross margin fell ca. 90bps in 2025 to 54.7% That was the single biggest deviation from sell-side estimates and the main driver of the 2025 operating profit shortfall. Compounding the unease, management has guided to a further potential 100-200bps of gross-margin downside in 2026 "to be on the safe side." Part of the decline is attributed to the rising contribution of lower-margin franchise/wholesale sales – a credible, structural-mix explanation. But the procurement model is genuinely opaque from the outside. FX, freight, pre-buying timing and supplier terms all flow through COGS with a lag of several months, so reported margins reflect conditions that prevailed earlier. Management has framed FY26 guidance as a prudent budget rather than a confident point estimate. The absence of a clean analytical anchor makes the debate hard to settle, and markets dislike that.

The clearest near-term negative has been Romanian performance. Romania is a key medium-term growth pillar with management still targeting to double the store base over a decade, but the economy is in a slowdown. Romania is battling the EU's largest fiscal deficit (7.9% of GDP in 2025) that has resulted in tax/VAT increases, frozen public wages, inflation near 10%, weakening RON and political instability. Jumbo's Romanian sales grew only 4% in 2025 and have decelerated through 2026. The April update showed Romania down a striking 15% yoy (March: -5%), dragging group sales to -4% for the month and the 4-month run-rate to +4%. Competition in Romania is also intensifying (Action has opened several stores since September), although management argues these smaller-format discounters overlap more with Pepco/KiK than with Jumbo's hyperstores.

Looking at 2026 net-profit guidance of roughly €310-320mil, implying a flat-to-slightly-down year, there seems **no obvious near-term earnings-upgrade catalyst**. Freight rates have ticked above last year's levels since March, and logistics costs (insurance, rerouting around Africa with ca. 60-day Asia-to-Piraeus transit times) remain sticky, so a clean margin rebound is unlikely in 2026 even with a supportive euro. However, looking at the valuation where Jumbo currently trades, essentially all of this is already in the price.

Underneath the short-term noise, **we believe that the growth algorithm is intact at a normalised 5-6% sales CAGR, with EBIT roughly flat-to-modestly-up over the next 3 years**. We do not model a precipitous margin collapse, the more likely path is orderly normalisation toward the low-54s% gross margin, with franchise mix shedding ca. 20bps and input/logistics costs limiting any rebound. FX is, if anything, a tailwind into 2027 once the lag works through.

Beyond the base case, several initiatives are being implemented to support future growth. **Firstly, the capital-light expansion through franchise agreements.** In May, Jumbo signed an agreement with Balfin Group to extend the brand into six new markets – Ukraine, Georgia, Armenia, Azerbaijan, Kazakhstan and Uzbekistan – on top of the existing Balkan partnerships. This complements the existing partnership with Fox Group in Israel and Canada. Crucially, under the new structure Balfin takes on full end-to-end supply-chain responsibility, including a China-based logistics hub. This lets Jumbo enter new geographies with essentially no capital, time or execution risk. The trade-off is that Jumbo earns a thinner, wholesale-style margin and cedes some economics to the partner.

Secondly, organic store rollout complemented by the introduction of new store formats. On the core owned network, management continues a disciplined cadence of roughly two hyperstores per year on average, with a new Romanian store in Baia Mare expected by end-October 2026 and Romania still carrying the most meaningful long-term white space (management targets doubling the store base over a decade). Alongside this, Jumbo is testing a smaller pop-up format — initially contemplated for Canada but now likely to be trialled across the core markets, with Iași, Romania flagged as the first location in 2026. The pop-ups would showcase a slice of the 40,000-SKU range in commercially attractive sites such as malls, echoing the Fourlis/IKEA approach in Greece; we would not expect them to move the topline materially, but they are a cheap way to deepen market penetration on impulse-driven trips. A separate, low-cost Turkish entry via e-commerce only (served from the Romanian DC) is planned by end-2026, testing market appetite with immaterial spend.

The investment thesis of Jumbo rests on: (i) buying a genuinely high-quality business at a depressed multiple; (ii) getting paid a substantial, well-covered cash yield to wait; and (iii) holding free optionality on franchise/format expansion and an eventual Romanian recovery.

The de-rating has been driven by margin anxiety and a cyclical Romanian downturn, both of which we judge to be largely discounted at current valuation.

Jumbo is essentially debt free beyond lease liabilities. Net cash stood at €470mil at end-2025 (net cash/EBITDA 1.1x), i.e. almost one-sixth of the entire market cap sits in cash. Over the past 3 years on average 75% of EBITDA has been converted to operating cash flow underpinning 7-8% FCF yield. Jumbo has repeatedly shown that when organic reinvestment opportunities are limited, excess cash is returned, including via special dividends. The proposed €0.70 DPS, on top of a €0.50 special in March and €0.51 last July, brings trailing 12-month cash returns to €1.71 per share – over 7% yield at the current price. On our read of the FCF and net-cash profile, sustainable annual distributions of €1.50-1.60 per share are achievable, and the upcoming CAPEX into a new distribution centre is easily covered without eroding the net-cash position. The one fair criticism is the absence of a formal payout framework – the distribution pattern is erratic year to year, which reduces visibility and is part of why the market does not fully capitalise the cash-return capacity.

On balance, this is a high-quality, cash-compounding franchise on sale because of a temporary Romanian downturn rather than a structural break with an unlevered balance sheet, owner-operator alignment and a strong cash yield protecting the downside while one waits. With Romania set to recover as fiscal and FX pressures ease, margins normalising as the procurement lag turns, and the stock near trough multiples and sentiment, the re-rating potential is asymmetric. The investor is paid to be patient but positioned ahead of an earnings and multiple recovery the current price largely ignores. **As of end-May, Jumbo was the 3rd largest position in the portfolio with 4.2% weight.**

Regional and portfolio valuation

Emerging Europe trades at a discount to Europe and global emerging markets, and the MSCI ACWI. To anchor the relative valuation discussion for Emerging Europe, we use a 75/25 blend of MSCI Europe and MSCI Emerging Markets as the comparator basket. The weighting reflects the underlying composition of our benchmark. Roughly ¾ of the index sits in EU member states – most of which are either eurozone economies or convergence plays anchored to the ECB cycle and eurozone trade and capital flows – while the remaining quarter is dominated by Turkey, whose inflation regime, FX dynamics, and monetary cycle place it firmly in the broader EM camp. The 75/25 split thus captures both the EU-integration character of the bulk of the universe and the genuinely EM-cycle exposure. On top of the implied multiple from this blend, we apply a 15% liquidity discount to arrive at a fair reference multiple, reflecting the structurally lower trading volumes, smaller free floats, and shallower investor base of Emerging Europe relative to both developed Europe and the EM. **Applying the framework on a P/B basis using 2026-28 3-year average multiples and ROEs**, the blended comparator trades at a P/B of 2.12 on a blended ROE of 15.4%, against Emerging Europe at a P/B of 1.38 and an ROE of 14.3%. Normalising for the slightly lower ROE of our universe and applying the 15% liquidity discount **yields a fair-value P/B of approximately 1.67, implying re-rating potential of around 21%** before any change in book value or ROE. The decomposition is instructive. Emerging Europe earns essentially the same ROE as developed Europe, so its P/B discount to MSCI Europe is not explained by underlying profitability and represents a genuine valuation gap. By contrast, part of the discount to broad EM is fairly attributable to the lower ROE of the EME universe relative to the Asia-tech-driven higher returns of MSCI EM.

	P/E		P/B		ROE %		DY %	
	2026	2027	2026	2027	2026	2027	2026	2027
MSCI ACWI	19.2	16.8	3.53	3.17	17.6	18.1	1.7	1.8
MSCI Europe	15.7	14.4	2.31	2.16	14.3	14.6	3.1	3.4
MSCI EM	13.1	10.8	2.27	1.99	17.3	18.2	2.3	2.6
Emerging Europe *	10.5	9.0	1.45	1.38	13.8	14.8	4.5	5.1
vs Global	*-46%*	*-46%*	*-59%*	*-57%*	*-21%*	*-18%*	*170%*	*178%*
vs Europe	*-33%*	*-37%*	*-37%*	*-36%*	*-3%*	*2%*	*46%*	*49%*
vs EM	*-20%*	*-17%*	*-36%*	*-31%*	*-20%*	*-18%*	*100%*	*95%*

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

A cross-check on a 2028f P/E basis yields a strikingly similar conclusion. Importantly, the 2028 horizon already incorporates three years of expected earnings growth into the denominator, so the discount that survives reflects the residual valuation gap after consensus growth has been priced in. The comparator basket trades at 12.3x 2028 earnings (Europe at 13.2x, EM at 9.7x), against 8.7x for Emerging Europe. Applying the same 15% liquidity discount **produces a fair P/E of approximately 10.5x and re-rating potential of 20%** – closely aligned with the figure derived from the ROE-adjusted P/B framework. This lends confidence that the valuation gap is structural rather than methodology-specific, and that ca. **20% re-rating is a reasonable anchor for the medium-term opportunity**, conditional on a stable or improving geopolitical backdrop. It is worth emphasising that this figure captures re-rating potential only and does not credit the region for any earnings growth differential, which we address separately below. The comparator basket has a meaningfully different sector mix to ours – notably more technology, healthcare, and global consumer exposure, and less banks, utilities, and materials – which structurally lifts its multiples and may overstate the headline upside.

A resolution of the Russia–Ukraine war remains one of the key prerequisites for the region's full re-rating potential to materialise and would act as a powerful catalyst for further narrowing of the valuation gap. While high-level engagement earlier this year – including the January Paris Coalition of the Willing summit and the subsequent February trilateral negotiations in Geneva – initially shifted market perceptions toward a more plausible path to de-escalation, momentum has since faded. The Geneva talks ended abruptly on the second day, US diplomatic attention pivoted to the Iran conflict that erupted in late February, follow-up rounds planned for early March were postponed, and Russia has since launched its spring offensive while continuing to insist on full control of Donetsk. That said, parts of the architecture have continued to advance. Ceasefire monitoring frameworks have reached an advanced draft stage, prisoner-of-war exchanges have continued, and discussions around long-term security guarantees and a post-war reconstruction package remain on the agenda. While a near-term breakthrough looks unlikely, any credible framework that reduces tail risks and clarifies the security outlook would likely be sufficient to trigger a further reassessment of risk premia. In such a scenario, investors who have been structurally avoiding Emerging Europe on geopolitical grounds are likely to return, initially through broad regional exposure and subsequently through more selective positioning, accelerating valuation normalisation across the asset class.

Our Fund portfolio today trades at 10.3x 1YR FWD P/E. The expected ROE for the portfolio companies this year stands at 17%, while trailing cash flow yield is between 4-5%. Leverage level remains contained with net gearing at 36%, while the portfolio offers strong 4%+ DY at 41% payout rate.

	% of the Fund	P/E adj 12M	P/E adj 2026	P/E adj 2027	EPS adj growth 2026	EPS adj growth 2027	EV/EBITDA 2026	EV/EBITDA 2027	Div yield 2025	P/B 12M
Cyclical	71.5%	11.5	10.1	9.3	9.9%	8.1%	6.0	5.5	4.2%	1.78
Non-cyclical	19.5%	15.8	13.9	11.1	17.2%	24.4%	6.2	5.1	2.6%	2.11
Asset play	3.0%	-	-	-	-	-	-	-	4.2%	0.93
Total equity	94.1%	12.2	10.7	9.7	11.1%	10.8%	6.1	5.4	3.9%	1.78