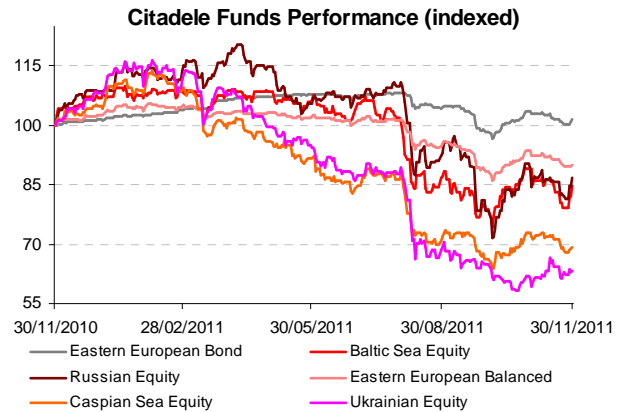




Citadele

Fund Manager Report. November 2011

Biggest part of November was spent in the environment of increasing fears on escalating European sovereign debt problems, having Italy's surging bond yields in the centre of attention. The last week of the month was spent in a very positive light as the major central banks did synchronized actions in order to ease the dollar funding strains. However, Eurozone's sovereign debt problems remain unresolved and remain at the center of investors' attention. Overall, most risk assets fell in November with equities (MSCI World) falling 2.7%, while gold and oil managed to rise slightly.



The next Citadele Fund managers' commentary will be released already in 2012. Therefore our team would like to take the Christmas and a happy, prosperous and

commentary will be released already in 2012. opportunity to wish you calm and merry fulfilling New Year!

Fund	Currency	Performance (as of November 30, 2011)				
		1m	3m	6m	12m	Since inception*
Citadele Eastern European Bond Fund	USD	-2.09%	-3.30%	-6.08%	1.41%	6.49%
Citadele Eastern European Balanced Fund	EUR	-3.79%	-5.99%	-12.08%	-9.92%	4.19%
Citadele Russian Equity Fund	USD	-2.45%	-9.53%	-18.77%	-13.18%	10.16%
Citadele Baltic Sea Equity Fund	EUR	-4.94%	-4.30%	-21.14%	-15.34%	1.79%
Citadele Caspian Sea Equity Fund	EUR	-5.06%	-4.78%	-24.76%	-30.80%	-21.20%
Citadele Ukrainian Equity Fund	EUR	3.31%	-10.10%	-32.73%	-36.61%	-33.79%
Citadele Baltic Real Estate Fund II	EUR	-1.45%	-1.47%	-1.58%	-6.65%	-13.52%

* % annualized

Citadele Eastern Europe Bond Fund – USD

In November, Eastern European sovereigns (-2.0%) underperformed Global Emerging Market sovereigns (-0.6%) as a result of increase in risk aversion that disproportionately reflected in our region. Eastern Europe's corporates, however, performed in line with their global EM peers dropping 2.0-2.3% based on JP Morgan indices. Within Eastern Europe, Ukraine underperformed losing 4.3%, while Kazakhstan and Russia showed slightly better results, dropping 2.6% and 1.4%, respectively, according to Trust indices.

Judging by the latest macro statistics, the steam in region's major economies continued to chill amid generally negative global conjuncture. As a result, consensus forecasts for Eastern Europe economic growth deteriorated for the fourth consecutive month,

as the region's GDP growth in 2012 was revised down to +3.1% compared to July's estimates of +4.2% by the panelists of FocusEconomics. In Russia, various high rank authorities revealed their latest estimates on the hot topic of net private capital outflow from Russia in 2011. At first, the CBR mentioned \$70bn, which shortly was hiked by \$4bn, while at the end of the month the Deputy Economy Minister Andrei Klepach announced that capital flight may reach even \$80bn this year, negatively affecting the value of ruble.

In Belarure, investors were pleased with a chain of positive developments at the end of the month. To note, Russia lowered its gas price for Belarus in 2012 by 44% y/y and Belarus agreed to sell its remaining 50% stake in Beltransgaz (the operator of main gas pipeline in Belarus) to Gazprom for \$2.5bn. In addition, Russia will provide a \$10bn loan to Belarus

for 25 years to construct a new nuclear plant. Due to the positive outcome of the Russia-Belarus talks, Belarus will now receive the second \$440m tranche of the stabilization loan from the EurAsEC anti-crisis fund in December. By and large, Belarus will, at least for the near term, be able to save around \$2bn of budget expenses, improve its balance of payments, recapitalize its banking sector and support the Belarusian ruble.

Performance of the banking sector was mixed across countries. In Russia loan portfolios continued to expand healthy, while deposits contracted amid decrease in corporate accounts, hence worsening the already somewhat tight liquidity situation in the sector. On the contrary, statistics released in Kazakhstan showed declining loan portfolios and deposit inflows, while the asset quality weakened with non-performing loans reaching 31% of total portfolio.

During the month, rating agencies actively reviewed sovereign credit ratings of a variety of Eastern European countries generally in the positive direction. In particular, S&P raised the credit rating of Georgia to BB-, while Hungary's rating was downgraded by Moody's to below-investment grade due to the country's constrained medium term growth prospects. Earlier, S&P and Fitch upgraded Kazakhstan's sovereign by one notch to BBB+ and BBB, respectively, due to the strengthening of fiscal and external balance sheets, supported by the expected increase in production output from oil and gas sectors. The news was followed by several rating upgrades in Kazakhstan's quasi-sovereign segment.

November also saw a peak to the 3Q11 reporting season across the region's Eurobond issuers. In general, the reported financials showed improving credit metrics amid still solid profitability. Nevertheless, the activity on the region's primary market in November was still rather low, as only the Russian state-related entities Gazprom managed to place dual-tranche Eurobonds in total of \$1.6bn and Gazprombank borrowed CHF 420mn (approx. \$450m) for 3 years.

During the month we slightly increased exposure to Ukraine by investing some spare cash into short duration Alfa Bank Ukraine. We also bought Georgian Railways 2015 yielding around 9%, as Georgia and Russia signed WTO agreement, which somewhat reduces geopolitical risks and was followed by the rating upgrade of Georgia sovereign. We sold off VimpelCom'13, as it reached fair level, in our view. As a result of transactions and market moves, at the end of the month, the Fund's average yield rose to 10.6% level, while the average duration remained flat at 2.5, while net cash was kept slightly below 7% of the assets.

In November, the Fund performed broadly in line with the market. Performance of the Fund was most negatively affected by Kazakhstan's BTA bonds that dropped by over 40% accompanied with negative rating actions and rhetoric from rating agencies, citing the increased probability of BTA's default or hostile restructuring in the near-to-medium term. Lack of clear comments from the Bank or Kazakh officials only

aggravated the situation. Other higher risk bonds (e.g. subordinated RosSelkhozBank'21 and Hungary's Magyar Telecom'16) declined less in the value, while a decent number of positions demonstrated small, but positive contribution, minimizing the mentioned negative effects of the individual positions.

Going forward, general risk appetite of course will greatly depend on the ability of European leaders to outline a credible direction towards a fiscal union. On the domestic front, of course the political situation in Russia post parliamentary elections deserves utmost attention. Apart from that, the second part of the month should see market activity subsiding in anticipation of Christmas holidays.

Citadele Eastern Europe Bond Fund - EUR

In November, we continued to reduce exposure to equity investments in Olainfarm, Westa and Halyk, as well as completely sold out MTS, Mechel and Centrengo equity positions. At the end of the month, the residual equity position comprised less than 5% of the Fund's assets. Apart from that, we bought Georgian Railways Eurobonds maturing in 2015, which was followed by S&P's upgrade of Georgia sovereign credit rating from B+ to BB-. We also bought Alfa Bank Ukraine bonds due to their short maturity and the attractive pricing.

Performance of the Fund was negatively affected by Kazakhstan's BTA Bank exposure as the bonds dropped over 40% and the remaining shares of Uranium One. Other higher risk bonds (e.g. Ukrainian Oschadbank'16 and subordinated RSHB'21) affected the Fund less negatively. At the same time, a large number of instruments managed to break-even in November and deliver small, though positive contribution minimizing the negative effects mentioned before. At the end of the month, the Fund's average yield had risen to 11.5%, while the average duration slightly declined to 2.5. Net cash balance was kept slightly below 7% of the Fund's assets.

Citadele Caspian Sea Equity Fund

November was a roller-coaster month for emerging markets equities, with Central Asian region being no exception. Extremely negative sentiment on the global markets caused by aggravating European debt problems resulted in a significant sell-off in the region's shares. However, the strong rebound during the last week of the month caused by encouraging macroeconomic data from the US, as well as the coordinated liquidity boosting actions from the key central banks mitigated the negative trends. As a result, Rencasia index lost 1.3% in EUR terms during November with the supportive oil price allowing the region to outperform Emerging Markets universe represented by MSCI EM Index, which slid by 3.2%. The Fund managed to marginally beat the benchmark, but still declined by 1.2% over the corresponding period.

Country-wise, Kazakhstan was the major negative contributor, which is not surprising considering its weight in the Fund. Oil and gas sector delivered weak

returns, as Max Petroleum slid by 10.3% and Tethys Petroleum sank by 14.0%. The highly volatile Uranium One exhibited the worst performance among portfolio stocks, plunging by 26.7%. Energy sector was also disfavored in other Central Asian countries, including Turkmenistan and Mongolia, where Dragon Oil declined by 10.2% and shares of coal producer SouthGobi Resources depreciated by 13.4%. The cyclical financial sector of the region was also under pressure, resulting in Kazkommertsbank and Halyk bank shares dropping by 10.4% and 6.8%, respectively. Another portion of weak results came from Materials, as Kazakhmys lost 6.7% and ENRC gave up 4.3%.

During the month we have significantly reduced exposure to the banking sector by selling a portion of Halyk Bank, Bank of Georgia and Kazkommertsbank. Instead, we have increased exposure to the oil and gold mining sectors by investing into KMG E&P and adding two fresh names into the portfolio: Manas Resources, a promising gold exploration company operating in Kyrgyzstan, and Anglo-Asian Mining operating an above average-grade gold mine in Azerbaijan at modest cash costs. Besides, the Fund partially divested from Uranium One, taking advantage of its recent share price strength, and Zhaikmunai, to meet regulatory requirements.

Previous month again demonstrated that Central Asian equities are tightly linked with global sentiment and demand for risk assets. Therefore we continue to be cautious on prospects of any sharp rally unless there are signs of gradual resolution of the European debt problems and fears of a global recession subside. However, we re-emphasize good macroeconomic indicators of the region, with inflation levels in Kazakhstan slowing to 7% YTD and stable oil prices being an obvious positive factor during the month. On the negative side, some disappointment may well come from Kazakhstan's banking industry, which, although being marginally profitable, still suffers from asset quality issues. Ratio of non-performing has hit record highs reaching 37% and credit portfolio growth remains weak.

Citadele Baltic Sea Equity Fund

Biggest part of November was spent in the environment of increasing fears on escalating European sovereign debt problems, having Italy's surging bond yields under the reading-glass. However, the last week of the month markets were particularly strong as a result of synchronized actions of major central banks aimed at easing dollar funding strains, coupled with some better-than-expected economic statistics in the developed economies. From country perspective, Denmark posted outstanding results, gaining 6.4%, while other markets were in the red throughout the month. The outperformance of Denmark was caused by the healthcare segment (Novo Nordisk in particular), which accounts for 48% of OMX Copenhagen index. Among other markets, Norway (-0.8%), Germany (-0.9%), Sweden (-1.1%), Russia (-1.4%) and Finland (-1.5%) experienced slight depreciation, while Baltic States (-5.2%) and Polish (-

3.5%) markets lagged behind. As far as currencies are concerned, the Fund gained from EUR depreciation against USD, but slightly lost from its appreciation against SEK, NOK and PLN. Overall, the Fund closed the month 4.9% lower.

During November, the only sector in the Fund's universe that yielded positive returns was Healthcare, mostly driven by Danish companies as described above. The other defensives also had superior performance, barely going into negative territory. Among the cyclicals, the Energy sector, supported by sustained oil prices, was the strongest, falling only marginally. The IT sector performed in line with the market, but due to the very successful stock picking, the Fund had superior gains from investing into the sector's companies (main positive contributors were Atea and SAP). Consumer Discretionary and Industrials generally performed in line with the market, while Materials and Financials were hurt the most throughout the month. The Fund also lost from the surprise nationalization of Lithuanian Snoras Bank (1.2% of Fund's assets).

Throughout November, we continued to implement our revised strategy and further increased the Fund's cash position. Reacting to the escalating European debt problems, we have significantly reduced the Fund's allocation to the banks. We divested from SEB Bank and reduced our positions in Sberbank, PKO Bank and DNB. On the additions side, we added Muenchener Rueckver reinsurance company as we find attractive long-term value in the sector. In the beginning of the month, we exploited the strength in oil prices and oil refining companies, and took profits from Rosneft, substituting it with the much more defensive Federal Hydrogenerating Company, which is Russia's low-cost hydro power generation company. Continuing our switch from cyclical names to more defensive ones, we have sold the very cyclical Volkswagen, and added Magnit, which is one of the leading Russian food retailers and has attractive financial strength and promising further growth perspectives. At the end of the month, we added Lanxess to the Fund, which we found as significantly undervalued. This trade idea worked out sooner as expected and we closed the position shortly after, with a 14% gain for the Fund. We also took part of the profits from the strong gain of Novo Nordisk share price.

Despite the stock market rally that we have experienced in the last couple of weeks, we adopt a more cautious stance on the equity markets relative to consensus in the short term. We believe that in mid-term the European debt problems are a potential threat to the existence of Eurozone in its current form; therefore we maintain our vigilance, which is reflected in the relatively high cash position and biasness towards defensive sector companies.

Citadele Russian Equity Fund

Following the October rally, in November investors took a pause. Although the month was quite volatile, the local RTS index lost just 1.4%, while the MSCI Russia index closed almost flat, declining 0.4%. The

positive sentiment was back in the markets after the leading central banks announced a joint and coordinated action to boost liquidity by cutting costs of USD swap lines by 50 basis points. Although this does not eliminate the risks of a global recession, the action was applauded by investors, driving risk assets higher. Russian equity market benefited as well, yet the Russia-dedicated investment funds failed to attract new money inflows. According to EPFR, during November there was about USD 50mn outflow from Russia-dedicated funds, whereas the global Emerging Markets universe added USD 150mn of funds during the same period.

The Fund's unit price was valued 2.5% down in November, lagging behind the RTS index, due to the large portion of foreign listed Russian shares within the Fund's portfolio and the large price swings at the cut-off dates. The main laggards were consumer sector, as well as metals & mining company shares. On the other side, the Fund benefited mostly from the telecoms, energy, utilities and financial sectors. Positive contribution came also from the tactical trades with Evraz and Sberbank, where we have benefited from the excessive fluctuations of the mentioned share prices. Overall, the Fund had a trade turnover of about 14% of its net asset value, which corresponds to the high level of market turbulence and is in line with our active management strategy. Besides the mentioned tactical trades, we sold Rushydro and decreased exposure to Lukoil and Rosneft. In the first case we were motivated by the pre-election related weakness of the utilities sector, while in the second instance we targeted to reduce dependence on blue chips following the previous month's 20-30% price rally of these assets. Instead the Fund invested into the shares of Magnit, which we find to be a highly appealing consumer story in the Russian retail market. The other part was retained in the form of cash, standing at decent 16.5% by the end of the reporting month.

Despite the recent convincing rally, we have currently adopted a relatively conservative stance as the fate of European debt crisis is largely unknown. Thus avoiding banking and materials sector will be a part of our strategy for the coming month. Moreover, we see the Russian State Duma elections as an important source of additional political risks, which is expected to increase the risk premium of the country ahead of the upcoming 2012 presidential elections. Apart from the local environment, among the major events which will have a significant impact on the markets we see the upcoming European Union summit and the OPEC's Vienna meeting, with the latter being concentrated around the possible increase of oil production quota to 30 mmbd from the current 24.8. The decision in favor could trigger a divestment from oil names, although oil prices seem support due to the tensions between the Western countries and Iran.

Citadele Ukrainian Equity Fund

During last month Ukrainian equity market showed controversial dynamics. While the local market was up for 9%, with many stocks posting double-digit gains,

performance of the foreign-listed Ukrainian companies was largely disappointing, as WIG Ukraine Index lost 13% during the same period. The Fund posted a 3.3% gain, thus standing between the local and overseas market performance.

Sector-wise, materials and industrials provided the biggest returns, while consumer staples lagged. At the individual stock level, Motor Sich (+14.6%) remained the largest positive contributor to the Fund's performance, buoyed by the news that the company signed a \$1.2bn five-year contract to supply helicopter engines to Russian Helicopters. Regarding the other industrials, railcar builders Stakhaniv Railcar (+7.9%) and Kryukiv Railcar (+7.2%) made solid gains, yet still underperformed the broader local benchmark, while WSE-listed lead-acid batteries manufacturer Westa (-40.1%) topped the list of the Fund's performance draggers, as its stocks came under pressure after the company reported a \$9.5m net loss for 9M11 and downgraded its 2011FY sales target by 26%. Chemicals name Stirol (+27.7%) and telecom name Ukrtelecom (+10.1%) were on the second and third spot in terms of the provided support to the Fund's performance last month. The former witnessed a strong rally on the expectations of a lower Russian natural gas import price, which could be reduced to \$220-230 per ths. m3 in 2012 from the currently anticipated \$380 per ths. m3.

Yenakyevo Steel was the star performer among the materials as continuing speculation about Metinvest buyback pushed the stock up by an impressive 54%. Elsewhere in the sector, coke producers Yasynivsky Coke (+34.7%) and Avdiyivsky Coke (+12.4%) as well as Alchevsky Steel (+9.3%) recorded significant gains in November, demonstrating immunity to the negative production outlook for the steel and related companies, while Ferrexpo (-12%) and Azovstal (-9.7%) were smashed.

Despite encouraging privatization events in the Ukrainian utilities sector, the sector came as only a marginal positive contributor to the Fund's return in November as losses generated by the less liquid electricity power distribution stocks almost fully offset the gains provided by electricity generating company Centerenergo (+2.8%).

In the consumer staples sector, MHP (+2.4%) contributed positively to the Fund's performance as the stock saw a return of investors' interest on the back of issued strong set of 9M11 results, revealing a 30% y/y increase in the company's revenues and EBITDA and a 27% y/y surge in net income. At the same time, Kernel (+0.1%) provided only a marginal support to the Fund, being squeezed by the reported disappointing quarterly results, disclosing a 33% y/y drop in the company's EBITDA and a 6% y/y reduction in its net profits. Other consumer staples were mainly lower, with Agroton (-24.1%) and Astarta (-16.3%) underperforming.

During the month we have increased exposure to the blue-chip Centerenergo, anticipating some support from the utility sector privatisation process and we have performed tactical trades with the shares of Ferrexpo, resulting in a positive contribution to the Fund's

Citadele Funds Manager Report

November 2011

performance. Otherwise, we have held the cash position at the relatively high 13% level. For the remainder of the year, we will keep the allocation of the Fund's portfolio relatively conservative, avoiding banks and materials sectors, as the increasing

possibility of tail events is hanging over the markets globally.

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