

Citadele Eastern European Bond Fund

Fund statement as of 31 July 2010

Investment Objective

The investment objective is to achieve long-term capital growth by investing in short-term and long-term debt securities issued or guaranteed by governments, municipalities, central banks and credit institutions of the Eastern European countries as well as corporate debt securities. The Fund's investment portfolio is diversified across investments in different currencies and countries, thus ensuring the highest investment security and protection against movements in the value of the Fund's assets characteristic to investments in securities of a single currency or country. Use of derivatives to hedge the currency exposure is allowed.

Portfolio Manager's comments for July

Risk appetite rebounded strongly in July, resulting in a strong performance of EM debt. Russian Eurobonds market gained 3.4%, Ukraine 4.0%, and Kazakhstan 2.4%. Ukraine's outperformance was triggered by an approval of the new \$15.15bn 2.5-year IMF programme; rating agencies have started raising Ukraine's credit rating - Fitch by one notch to B, and S&P by one notch to B+.

In Russia, news regarding potential privatization of state-owned companies was the hottest topic: Transneft, Rosneft, Federal Grid, RusHydro, Sberbank, VTB, Russian Agricultural Bank and Sovkomflot are on the preliminary privatization list, while the final list is expected in November. The plan envisages that the government's stakes are reduced to 51%, except Transneft where it would be reduced to 75%. Russian Agricultural Bank seems to be at risk the most as its bonds are included in JP Morgan EMBI Global index because of 100% state ownership, and could be removed due to the prospective privatization.

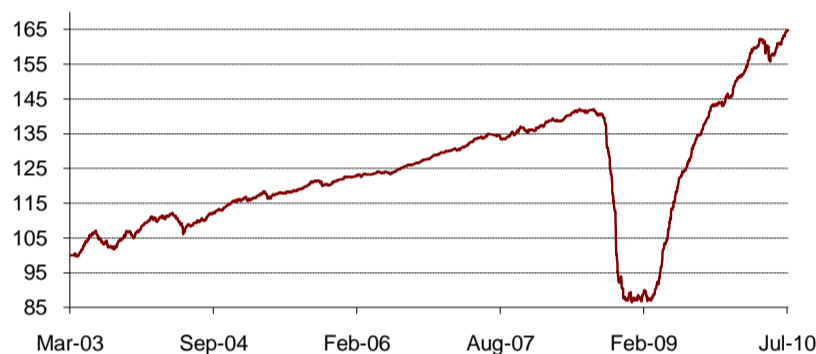
A positive external market environment resulted in a wave of new Eurobonds out of Russia: VTB managed to borrow twice – 300m in Swiss Franc and 400m in Singapore dollars. Gazprombank placed a \$500m Eurobond. Outside Russia, the primary market was sending mixed signals: exotic names borrowed, while more qualitative names postponed their placements citing market conditions. Belarus issued a debut sovereign Eurobond, while Kazakhstan and Ukraine postponed their placements. In the corporate space, the Ukrainian iron ore producer Ferrexpo postponed its placement citing market conditions, while Georgian Railway placed 5-year bonds at a cost of 10%.

On the corporate level, the most important news came from Kazakhstan. ATF Bank was downgraded one notch to Ba2 with a stable outlook by Moody's. On the contrary, Kazakhstan Railways released positive 2009 IFRS financials.

Our Fund lagged the general market rally, primarily due to a much shorter portfolio duration, but it still posted a decent 2.5% growth. The largest positive contribution came from the longer duration instruments – Metinvest'15, Alliance oil'15, Gazprom'20, Agrokor'16. We switched Kazmunaigaz'15 to Kazakh Railways'16, sold Naftogaz'14 to buy MHP'15, and sold Kazatomprom'15 to participate in the placement of Georgian Railways'15. Closer to the end of the month, we also sold out/reduced Privatbank'12, Alliance Oil'15 to capture their recent gains. As a result, the portfolio's average yield declined to 8.2% at the end of the month, while duration remained unchanged at 2.6.

Date of inception	12/03/2003
Legal Status	UCITS III Latvia domiciled
Base currency	USD
Fund size	USD 18.13 mln
Minimum Subscription	1 investment certificate
NAV	16.56
Number of holdings	38
Load fee	1.00%
Management fee	1.50% p.a.
ISIN code	LV0000400125
Riga Stock Exchange, Bloomberg code	PXSPAOF, PAREEUB LR
VALOR number	3298465
Issue/Redemption	Daily
Distribution Dividends	Reinvested

Indexed performance since inception



Ratios	1 year	3 years
Sharpe Ratio**	4.53	0.25
Max Drawdown***	3.87%	25.80%

Statistics	
Number of holdings	38
Bonds Average Duration	2.60
Bonds Average Yield to Maturity	8.20%

** - LIBOR USD 3M

*** Max Drawdown is calculated as the max drop of 30D roll return

Top 10 Holdings

Company	Weight	Yield	Maturity
GAZPROM INTL SA (GAZPROM)	7.2%	4.63%	01/02/2020
CenterCredit International BV	8%	4.32%	02/02/2011
Bank of Georgia JSC	9%	4.29%	08/02/2012
Azovstal Iron & Steel Works PJSC	9.1%	3.70%	28/02/2011
HALYK SAVING BANK-KAZAK	7.8%	3.43%	13/05/2013
MOL HUNGARIAN IOL AND GAS	5.9%	3.36%	20/04/2017
Parex Bank	5.6%	3.26%	05/05/2011
GNG FINANCE PUBLIC	8%	3.05%	08/11/2012
ZAGREBACKI HOLDING	5.5%	2.97%	10/07/2017
INTEGRA FINANS	16.8%	2.95%	29/11/2011
TOTAL:		35.97%	

Performance as at 31/07/2010

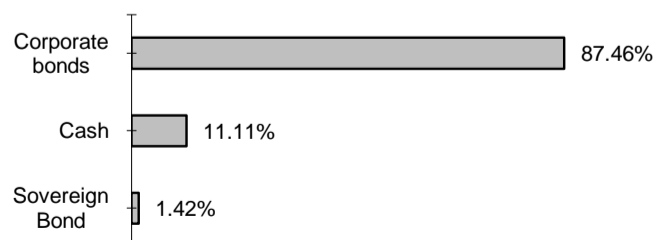
Period	Return
YTD	13.11%
1 month	2.48%
3 months	2.03%
6 months	9.02%
1 year	28.97%
2 years annualised	7.96%
3 years annualised	7.13%
5 years annualised	6.78%
Since inception	65.60%
Since Inception annualised	7.06%

Calendar Year Performance

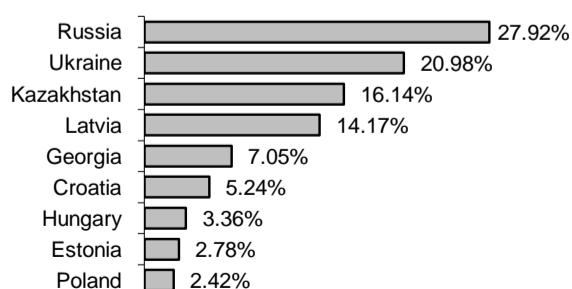
Year	Return
2003****	9.90%
2004	5.99%
2005	4.81%
2006	5.98%
2007	5.64%
2008	-36.21%
2009	67.89%

****- From 06/10/03

Portfolio Composition



Geographic Allocation



Currency Breakdown

