

# Citadele Russian Equity Fund

May 2011



**Citadele**

# Why Russia ?

- Commodity powerhouse, bordering Europe and China
  - One of the largest commodity producers on earth with significant output expansion potential
- Substantial home market
  - Total population of 141 mn
  - Russia – Europe's largest consumer market
- Significant investments required in the infrastructure development
- Pace of economic recovery exceeds expectations
- Stable / stabilizing political environment
- Stable macroeconomic situation



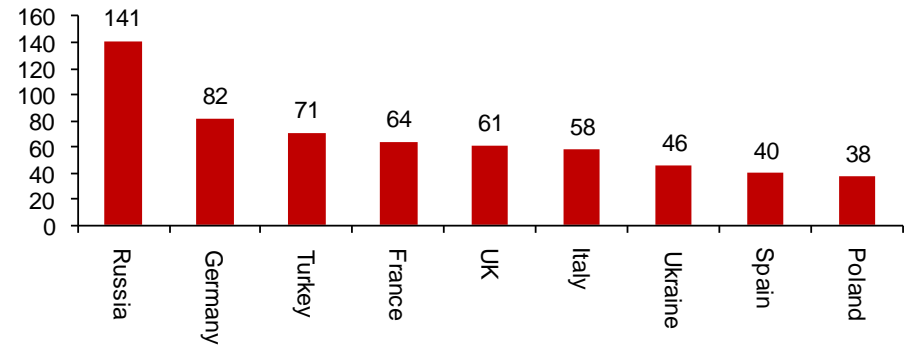
Rating agency	Credit rate
Moody's Investors Service	Baa1
Standard & Poor's	BBB
Fitch Ratings	BBB

# Russia

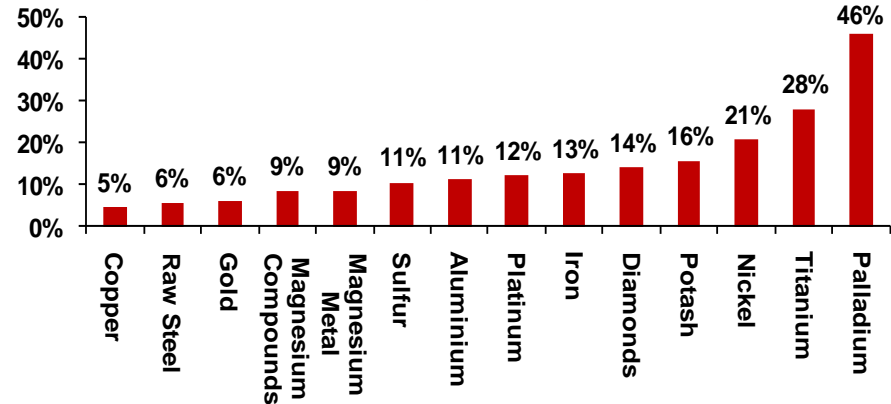
## Rich in Natural Resources and People

- World's largest producer and exporter of natural gas and oil
- Among the world's leading producers and exporters of diamonds, nickel, platinum, and other hard commodities
- Over \$520 bn of international reserves: still #3 globally
- Huge domestic consumption potential
  - Europe's largest consumer market with 80m active consumers
- Major infrastructure development needs and plans to accelerate future economic growth
  - Besides the needs for replacement of outdated infrastructure, several events to additionally boost infrastructure investments (e.g. 2014 Olympics, 2018 World Cup)

### Largest European Countries by Population, m



### Russia's Share in the World's Commodity Production

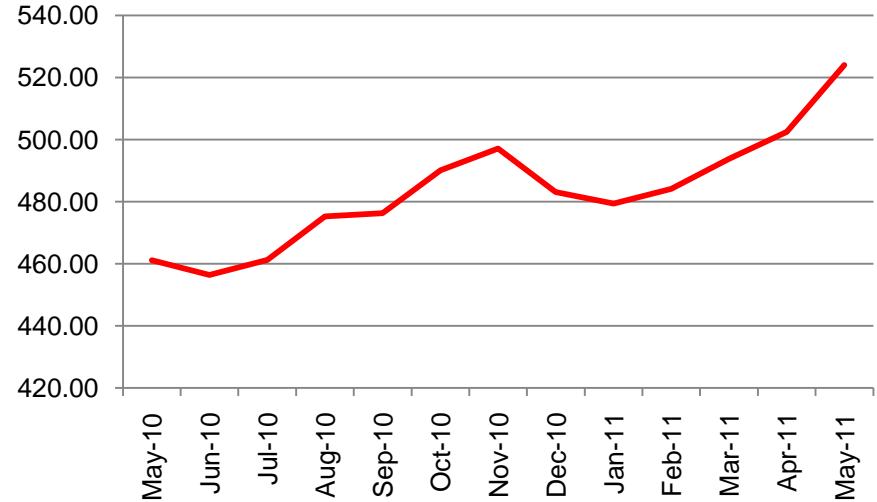


# Russian Macroeconomics

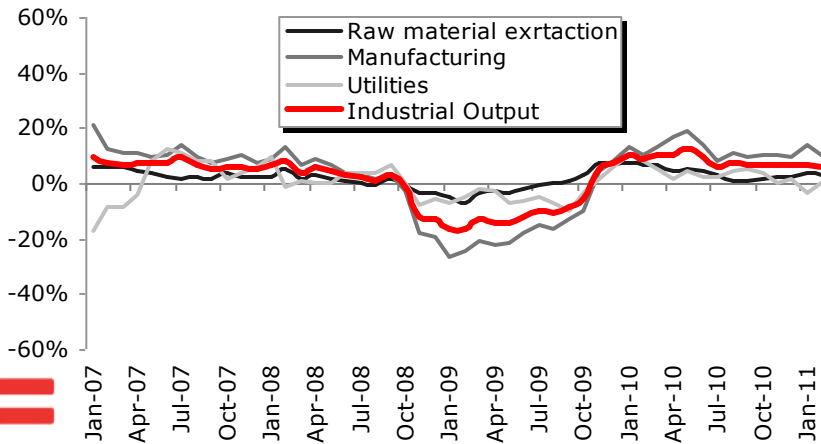
## Recovery is still strong in Russia

- Russian economy is rapidly recovering
  - Strong economic recovery was driven by revival in the export industries
  - The industrial sector has continued performing strongly early this year
  - Gradual positive spillovers to the domestic demand driven sectors
  - The performance of the industry and the retail sectors are seen to determine largely the country's economic performance in 2011

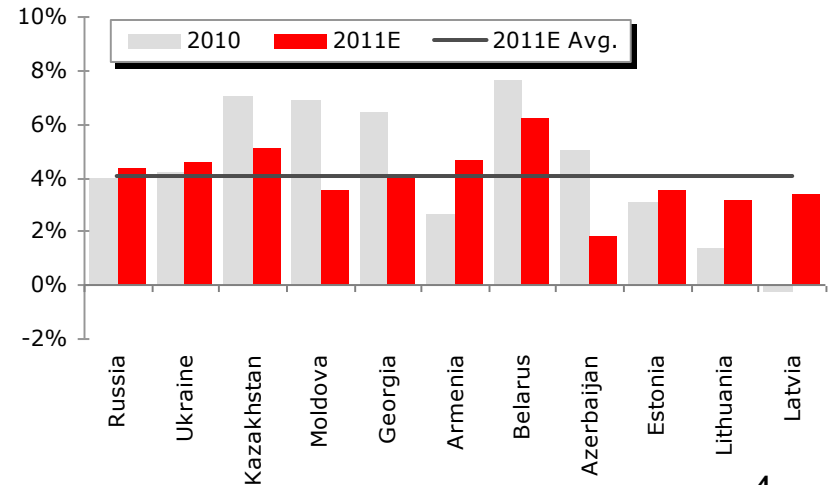
CB Reserves, USD mn



Russia's Industrial Output, % yoy



Real GDP 2011 Growth Forecast, % yoy



# Russian Equity Market

## Market dynamics

- Russian Equity Market Dynamics
  - Russia equity market surged by 15.5% in 1Q 2011, becoming one of the best-performing markets globally
- Valuations
  - Valuations are still attractive. At 7.4x, 12M forward P/E MSCI Russia remains the cheapest market in the MSCI EM universe. Its 38% discount to the MSCI EM is still exceptionally wide vs. the 2004-10 median of 20%.

RTS MCAP, USD bn



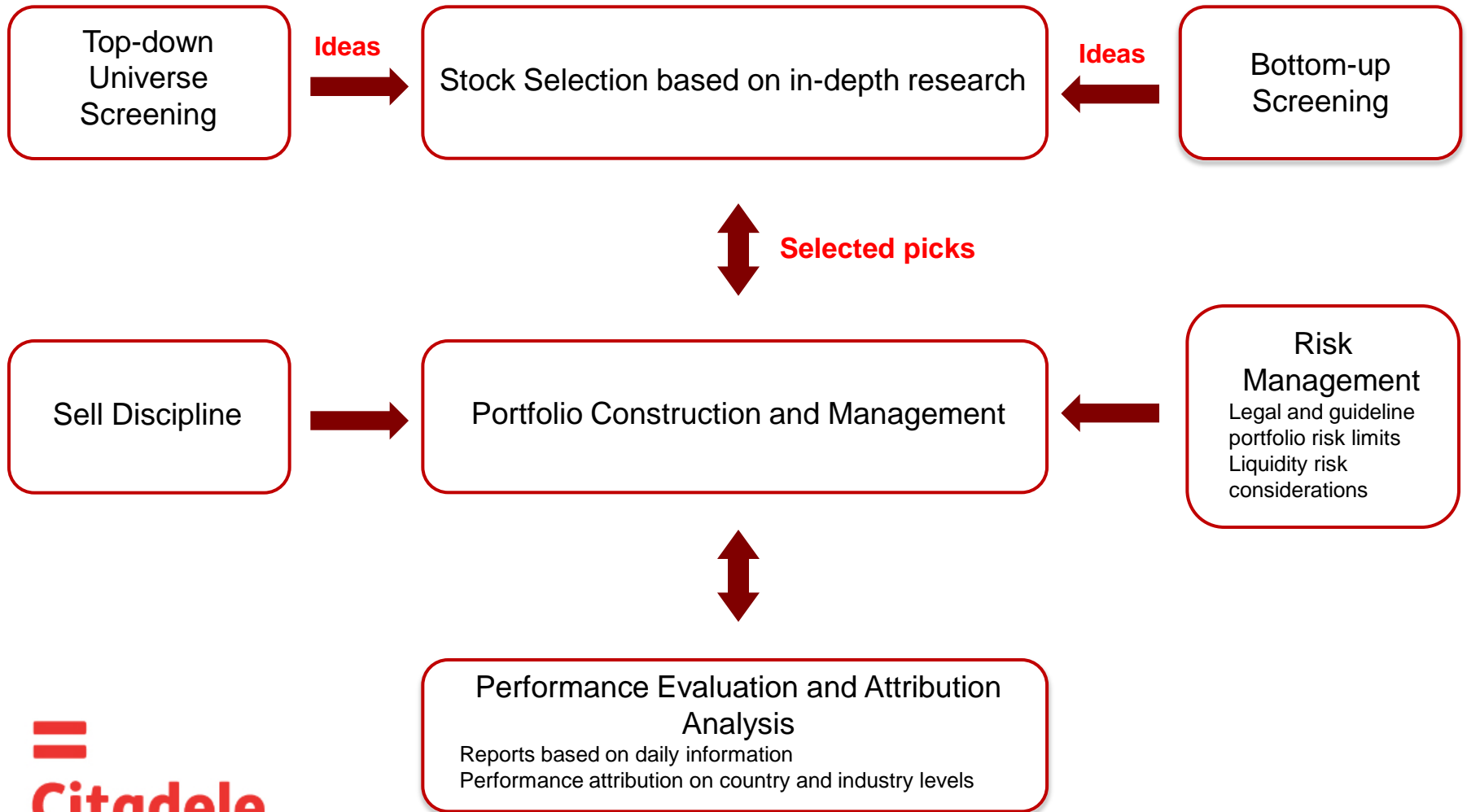
# Citadele Russian Equity Fund

## Investment Objective

- The Fund aims to achieve long-term growth, by investing in shares of companies located in **Russia**
- The Fund can invest both in locally listed equities as well as in foreign listed equities of companies with main operations in the region

# Investment Process

## Schematic Overview



# Investment Process

## Investment Idea Generation

- Top-down asset allocation
  - Sector allocation based on our views on the outlook of individual sectors
    - Sector views crystallised during quarterly Investment Committee meetings and discussions within Fund management team
    - Allocation based both on structural long-term investment themes as well as current economic and sector trends, which are identified on the basis of in-house research in combination with selected third party macro and industry research
  - Geographic allocation based on our view on macro outlook of the respective countries
    - As a significant part of the investment universe is represented by industries, which are more driven by global trends than domestic economic developments (e.g. energy, mining, industrials, consumer sectors), sector outlook dominates the Fund's asset allocation process
    - However, issues such as political risks and local macro environment (for domestic demand plays) are taken into account in determining the Fund's geographic allocation
  - Overall desired risk level considerations based on our market outlook for the coming quarter
- Bottom-up identification of individual investment cases
  - Fund management team
  - Weekly conference calls of Eastern European team
  - Strong contact base in the region
  - New equity issues
  - Sell-side research



# Investment Process

## Stock Selection

- Bottom-up fundamental analysis of the issuers
  - Combination of in-house research, meetings and discussions with issuer top management, local brokers, and third-party research
- We seek companies with:
  - Significant underlying growth potential
  - Strong / improving fundamentals
  - Clear catalysts for value realisation
  - Strong / predictable management and corporate governance practices
  - Tolerable business risk profile
  - Attractive valuations (relative valuations performed in-house, for absolute valuations mostly use selected third-party research)

# Investment Process

## Portfolio Construction and Monitoring

- Populated from stocks identified in Stock Selection
  - Positions sized according to conviction (1-5% of the Fund's assets)
  - Not structured around benchmark
  - Medium portfolio turnover
  - Limits to individual positions, based on stock liquidity and inherent riskiness of the issuer
- Sell Discipline
  - Undesirable changes in fundamentals
  - Changing sector or country dynamics
  - Fair price target achieved / exceeded
  - Relatively more attractive issuer identified
- Ongoing market and company monitoring for early signs of change
- Fund's target allocation reviewed on quarterly basis, unless the Fund management team feels there are significant changes in market environment, which require immediate changes in the Fund's strategy
- Need-based ad-hoc meetings of Fund management team

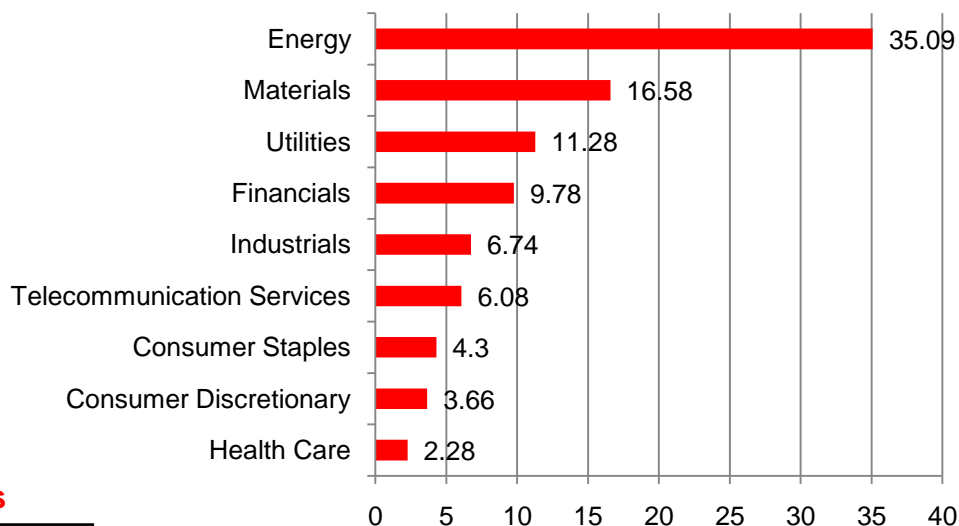
# Citadele Russian Equity Fund

Portfolio Characteristics as of 30/04/2011

## Top 10 Holdings

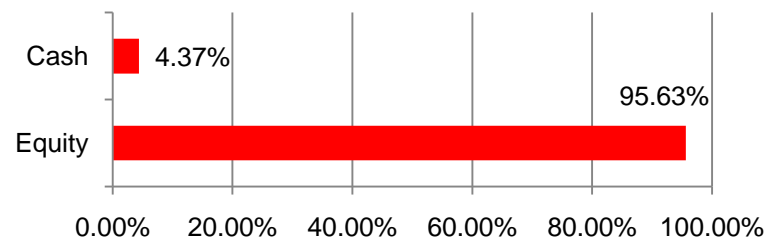
Sberbank	7.1%
Lukoil	6.2%
Gazprom	5.4%
Norilsk Nickel	3.9%
TNK-BP	3.6%
Holding MRSK	3.2%
Uralkaly	3.1%
Mobile Telesystems	3.1%
Magnit	2.4%
Bank of Georgia	2.3%

## Breakdown by Sector, %



Ratios	1 Year	5 Years
Volatility	14.5%	37.5%
Alpha	0.3%	0.3%
Daily Tracking Error	15.1%	30.3%
Sharpe Ratio	1.4	0.1
Information Ratio	-0.36	0.1
Max Drawdown	9.0%	0.5%

## Breakdown by Instrument, %



# Citadele Russian Equity Fund

## Performance Characteristics

Type of the Fund	Open-ended
Compliance status	UCITS III
Domicile	Latvia
Currency	USD
Benchmark	RTSI\$ (USD)
Fund size	16.34 mn
Management Fee	2% per annum
Load fee	up to 2.5%
Investment Manager	Citadele Asset Management
Custodian	Citadele Bank
ISIN	LV0000400190
Listing	OMX Riga Stock Exchange
Inception date	17 March 2004
Liquidity	Daily

## Performance

**31/05/11**

1 m	-6.86%
3 m	-6.15%
6 m	6.88%
1 year	27.33%
Annualized Since Inception	14.14%

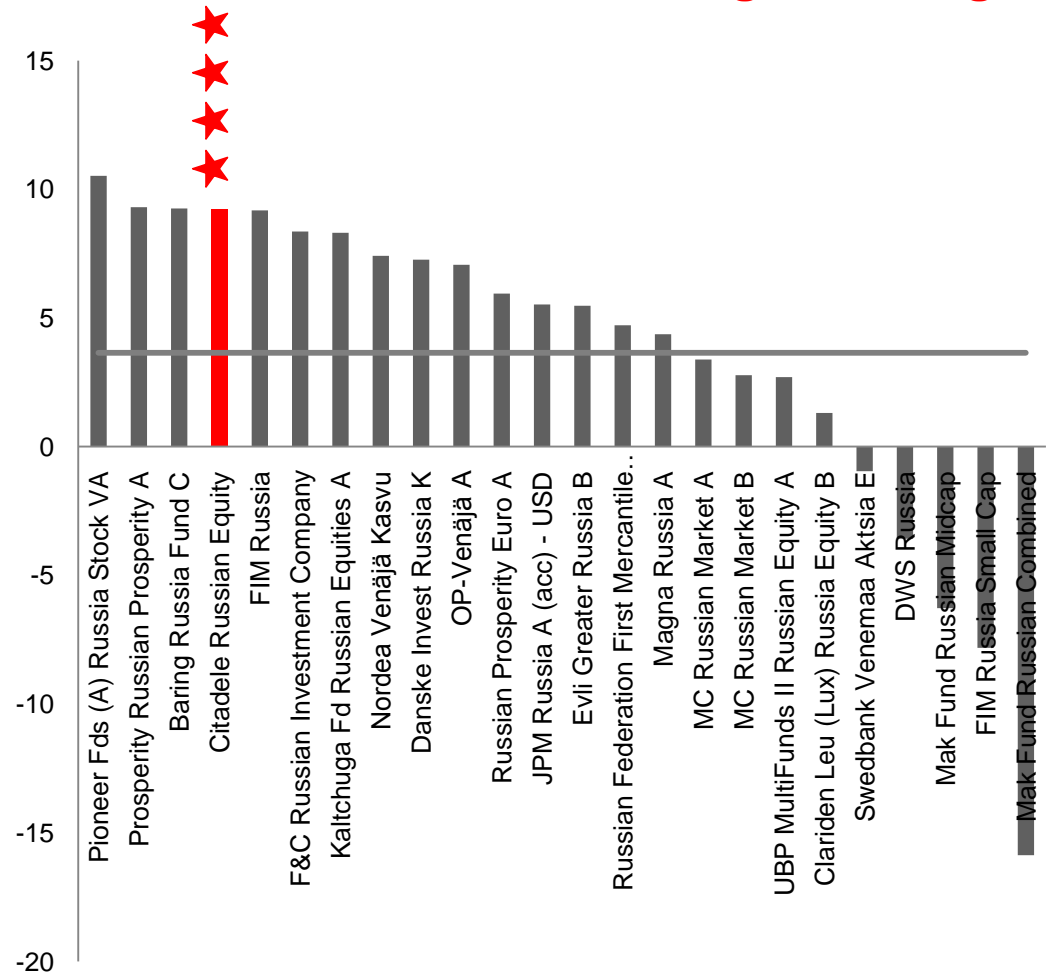
## Indexed Performance since Inception



# Citadele Russian Equity Fund

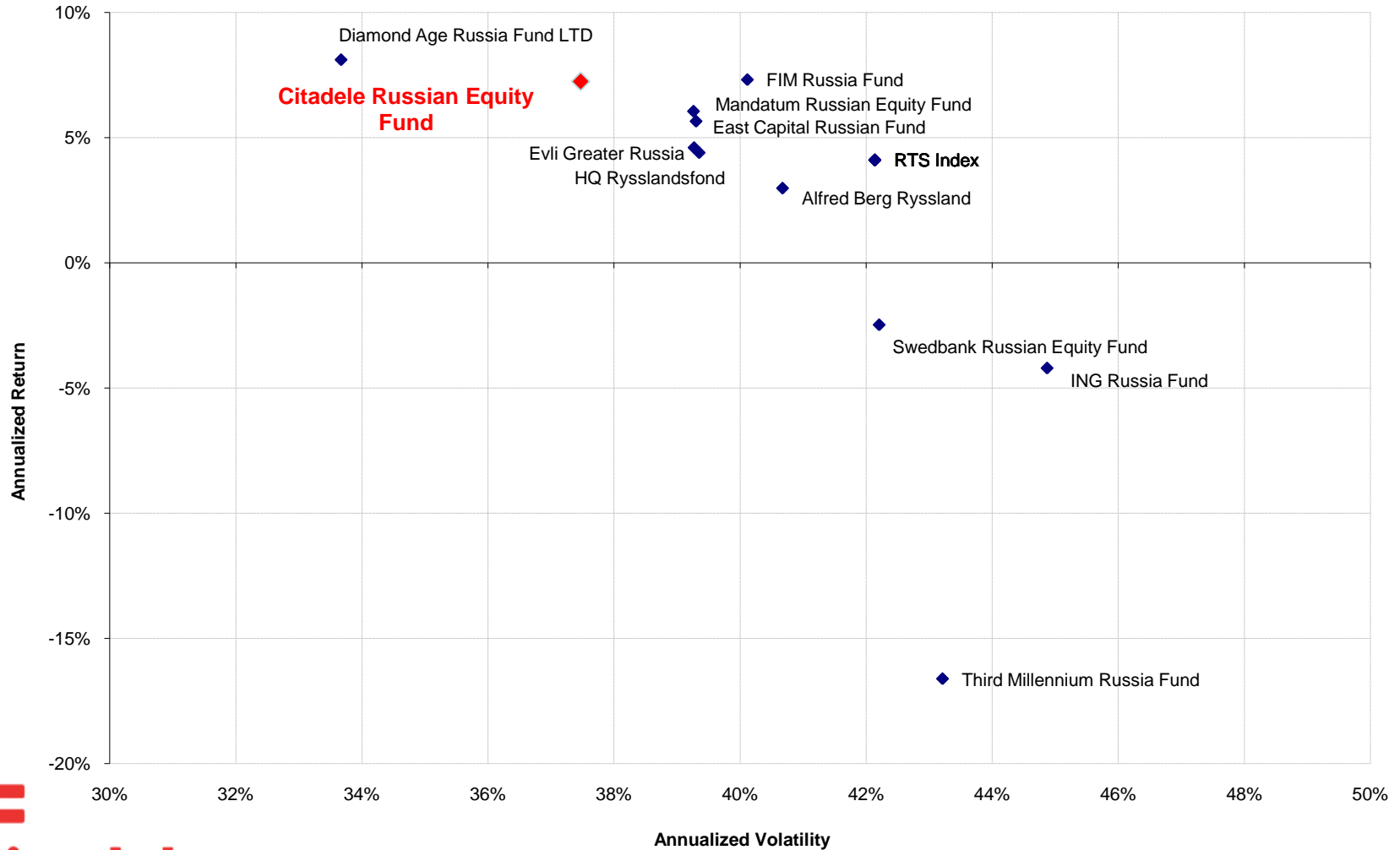
- CREF is one of the top performing funds during the last 5 years till April, 2011.
- It is one of four funds in peer selected group to hold **4 Morningstar stars**.
- Considering risk adjusted performance Citadele Russian Equity Fund is the **second best in its peer group**.
- Superior results are coming from **better security selection, sector allocation** and form the second tier equities.

**Citadele Russian Equity Fund is amongst top performers in the world with 4 star Morningstar rating**



# Citadele Russian Equity Fund

Peer group comparison 5 years ending April 30, 2011

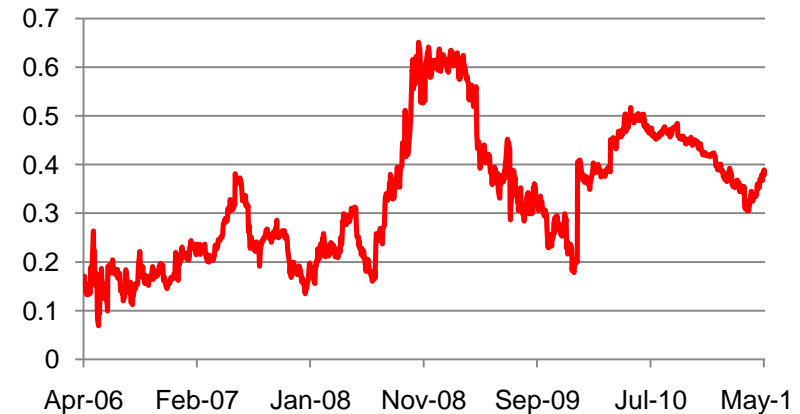


# Citadele Russian Equity Fund

## Market Outlook

- Global commodity price and liquidity environment supportive for the region's equities
- Solid economic performance to continue
  - Strength in export-oriented industries to push through to domestic demand
  - In Russia, domestic consumption should be supported by expansionary fiscal policy ahead of 2012 Presidential elections
- Despite the strong year-end rally, valuations still leave ample headroom
  - Russia's valuation discount to EM remains below its long-term average
- Russian equity market in 2011
  - combination of volatile and mixed global backdrop coupled with supportive domestic drivers.

**Trailing P/E Discount Between MSCI Russia and MSCI EM indexes**



- Accelerated reform agenda in Russia could attract additional investor interest
  - Issues on the table: oil taxation reform, WTO membership, privatisation
- Significant infrastructure spending plans

# Risks

## Risks to consider

- Geopolitical and government risks
- Natural resource price risk
- Economic slump risk
- Price bubble risk
- Global emerging markets risk
- Global and local liquidity risks
- Currency risk
- Inflation risk
- Liquidity risk

# Citadele Russian Equity Fund

## Fund Management team



### **Elchin Jafarov, Portfolio Manager**

Mr. Elchin Jafarov is a co-manager of Citadele Russian Equity fund. Elchin re-joined the Citadele Asset Management team in February 2011. Earlier, from 2004 till 2007 Elchin held the position of fund manager of Parex Russian Equity and WIOF Russian Opportunities funds. From 2007 he has been involved in the academic and research activities and holds assistant professor chair in one of the top Latvian business schools. Elchin received his Master's degree from the Stockholm University in 2003. He is a student member of the Institute of Actuaries (UK) and holds ACCA certificate.



### **Antons Lubenko, Portfolio Manager**

Antons Lubenko is responsible for security selection in Russia and Ukraine. Mr. Lubenko rejoined the Fund management team in January 2010. He has served as the manager of Parex Russian Equity for 2 years, until May 2009 when he joined the Bank's brokerage to ensure efficient trade execution for CAM. Mr. Lubenko has been part of Parex / Citadele Group since 2005. During this time he has worked in capacities as broker, trading the region's equities, and fund manager. Thus, he is familiar with the Russian and CIS equity markets and has established an extensive contact base in the region. Mr. Lubenko holds MSc in Economics from the University of Latvia.



### **Lidiya Mudra, Analyst**

Lidiya Mudra delivers analytical support on Ukrainian and Russian equities. She joined Citadele Asset Management Ukraine in January 2008. Prior to that she worked at UFC Capital as an equity research analyst. She holds a Bachelor's degree in International Relations and a Diploma in Information Science with a qualification as analyst in international affairs from Khmelnytskyi National University in Ukraine.

# Citadele Russian Equity Fund

## Contact details

### President, CEO

Vladimirs Ivanovs

phone +371 6 7010345

fax +371 6 7010253

e-mail: [Vladimirs.Ivanovs@citadele.lv](mailto:Vladimirs.Ivanovs@citadele.lv)

### Portfolio Manager

Elchin Jafarov

phone +371 6 7010157

fax +371 6 7778253

e-mail: [elcin.jafarov@citadele.lv](mailto:elcin.jafarov@citadele.lv)

### Portfolio Manager

Antons Lubenko

phone +371 6 7010758

fax +371 6 7778253

e-mail: [antons.lubenko@citadele.lv](mailto:antons.lubenko@citadele.lv)

# Important information

The information contained in this review was obtained in good faith from sources believed to be reliable. No guarantee, explicit or implicit, is provided with respect to completeness and accuracy of the information. The opinions expressed represent the current opinion of the authors and do not represent the opinion of Citadele Asset Management or any of its affiliates, subsidiaries or representatives. The opinions are subject to change without prior notice. Neither Citadele Asset Management nor any of its affiliates, subsidiaries or representatives accepts the liabilities arising from the possible use of the information contained in this review. This material is provided for informational purposes only and should not be construed as advice to buy, hold or sell a particular security or investment. Any investment you make shall be based solely on your own evaluation of your financial circumstances and investment objectives.

Past performance is not a guide to future performance.

The opinions expressed are based on Citadele Asset Management's internal forecasts and should not be relied upon as indicating any guarantee of return from an investment in our funds.

Citadele Asset Management is a business name of Citadele Asset Management IPAS, registered in Latvia on 11/01/2002, Reg.No. 40003577500. Registered Office: Republikas square 2A, Riga, LV-1010, Latvia. Authorised and regulated in Latvia by Financial and Capital Market Commission, license No. 06.03.07.098/181.

Contact us at Citadele Asset Management, Republikas square 2A, Riga, LV-1010, Latvia.

Tel: +371 67010810, Fax: +371 67778622, Email: [asset@citadele.lv](mailto:asset@citadele.lv)