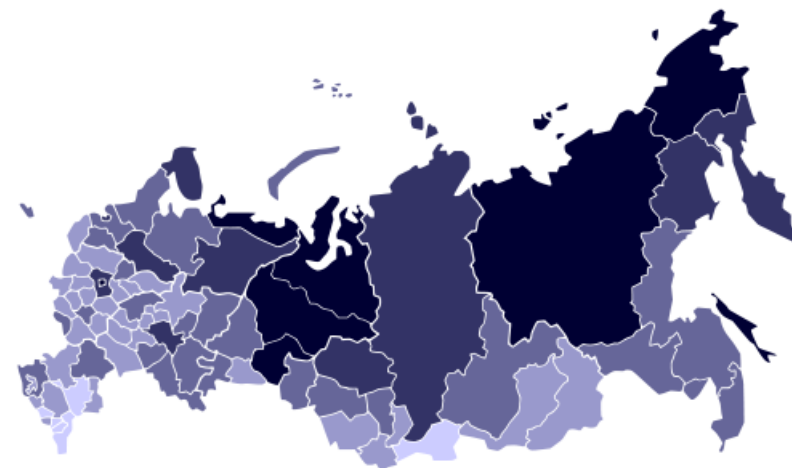


# Citadele Russian Equity Fund

August 2010

# Russia In Focus

- Russia is by far the largest country in the world, covering more than a ninth of the Earth's land area
  - Area: 17 000 km<sup>2</sup>
  - Population: 142 mln people
- Capital city – Moscow
- Main exports: Oil and oil products, natural gas, wood and wood products, metals, chemicals, weapons and military equipment
- Russia - among the world's 10 largest economies (in terms of GDP)\*\*



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP per capita, USD	1,854	1,345	1,793	2,129	2,376	2,993	4,100	5,332	6,985	9435	11788	
Real GDP growth, %	-5.3	6.3	10.0	5.1	4.7	7.3	7.1	6.4	6.7	8.1	5.6	-7.9
CPI growth, %	84.5	36.6	20.1	18.8	15.1	12.0	11.7	11.0	9.1	11.9	13.3	8.8
Fiscal balance, % of GDP	-4.4	-1.3	2.2	3.0	1.8	1.7	4.3	7.0	7.2	4.1	4.1	-5.9
Reserve Fund, USD bn							18.8	43.0	88.9	150	157	61
Current Account balance, % of GDP				11.1	8.4	8.2	9.9	10.9	10	8.6	5.9	3.57

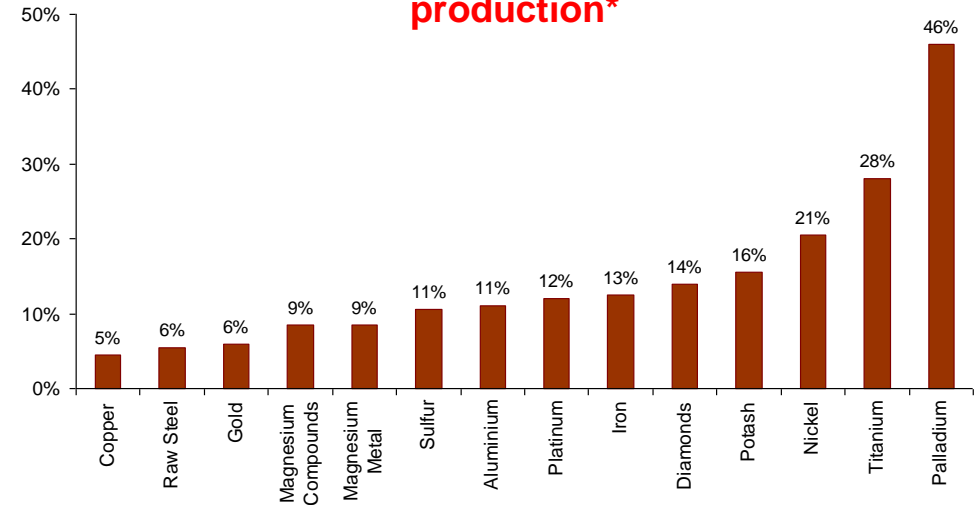
Rating agency	Credit rate
Moody's Investors Service	Baa1
Standard & Poor's	BBB
Fitch Ratings	BBB

# Russia

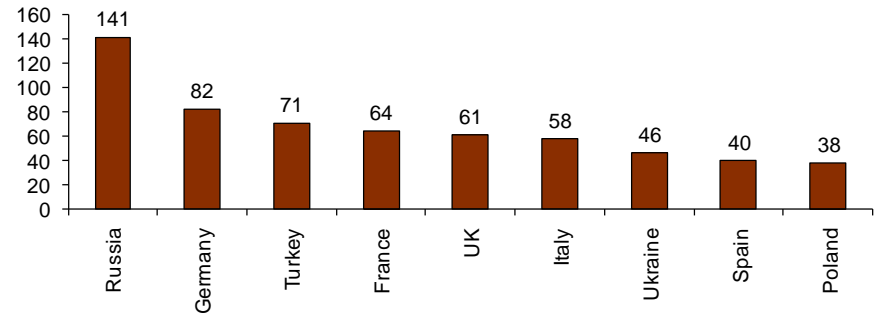
## One of the largest world's commodity producer

- 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 USD 430 bn of international reserves: still third largest globally
- Huge domestic consumption potential: Russia is the largest consumer market in Europe with 80 mln active consumers.

### Russia's share in the world's commodity production\*



### Largest European countries by population, mln

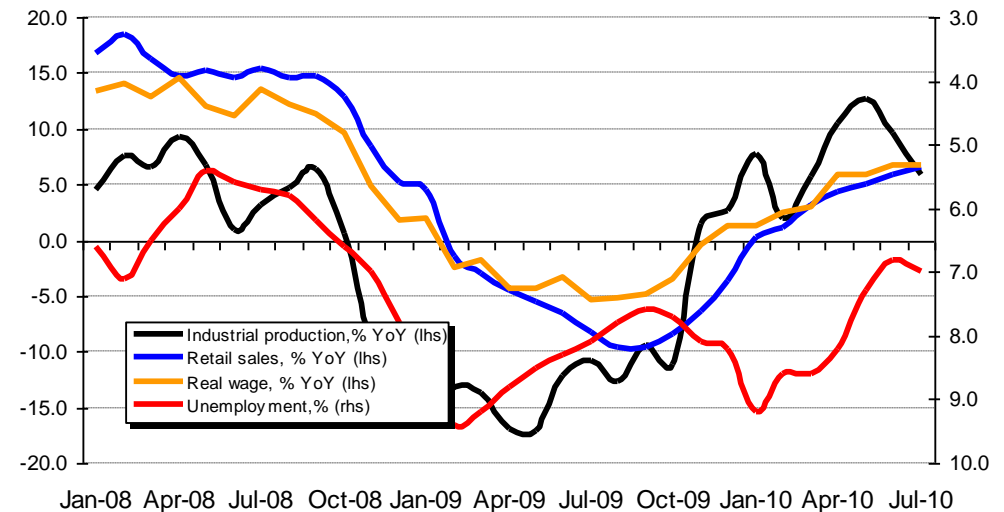


# Russian Macroeconomics

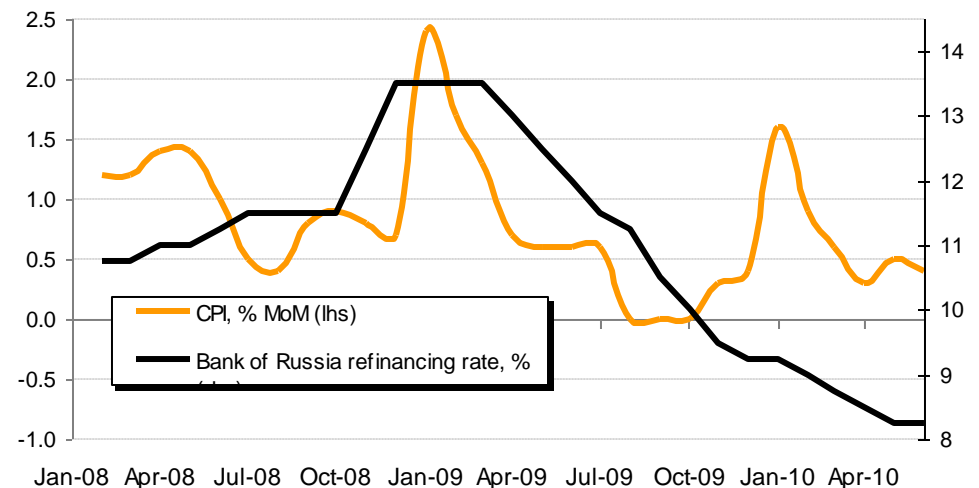
## Recovery is accelerating

- Russian economy is rapidly recovering
  - GDP growth accelerated to 5.4% YoY in 2Q10, 1H10 growth reached 4.2% YoY
  - Private consumption and investments components of GDP are showing strong positive dynamic
- Expansionary monetary policy is continuing to stimulate real economy
  - Significant slowdown of inflation rate and speculative strength of rouble allowed the Bank of Russia to cut interest rates in very aggressive manner
- Strong pick-up in domestic demand implies additional optimism
  - Retail sales are recovering strongly (+6.6% YoY in July)
  - Accelerating growth real wage and real disposable income implied further recovery in domestic consumption and demand

### Economy recovery is accelerating



### Even lower policy rates

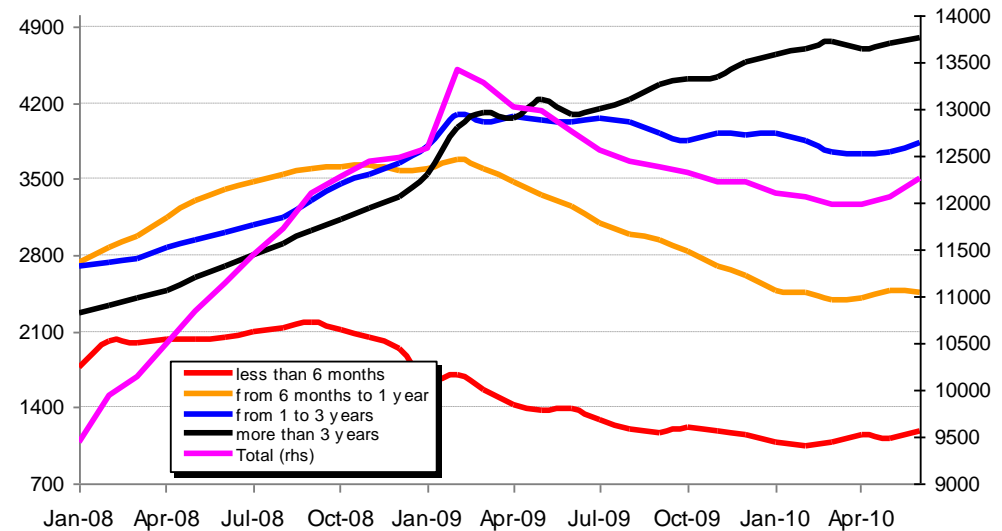


# Russian Macroeconomics

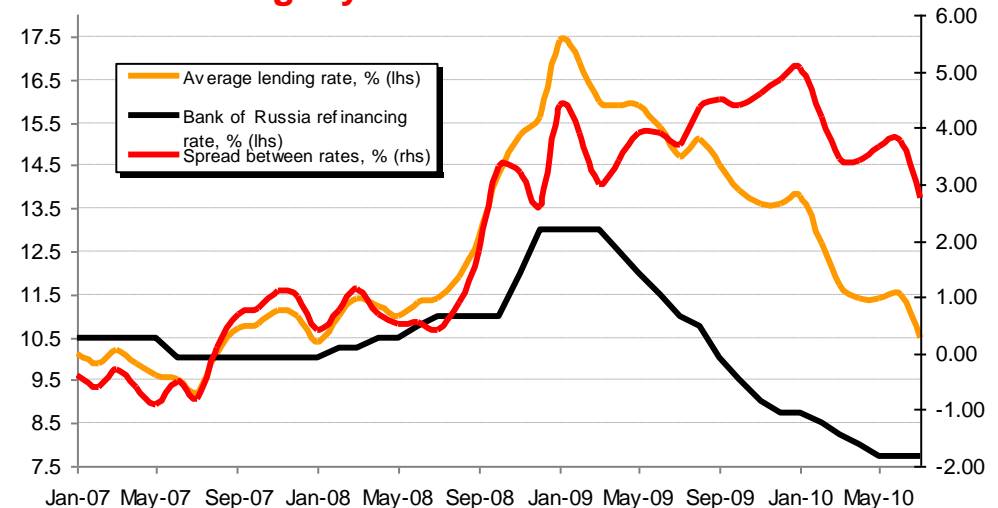
## Back to the credit creation mode

- Economy's de-leveraging process is probably over – banking system again switched to the credit creation mode
  - Excess liquidity in banking system started to translate into credit growth for real sector, however relatively low credit quality of new borrowers still impose some limitations for rapid expansion of banks' loan portfolio
  - NPL ratios has stabilized
  - Bank of Russia projects 15% lending growth rate this year
- The cost of credit for real sector is declining further
  - Lower cost of funding for the banking sector resulted into lower interest rates for real sector
  - The spread between average lending rate and refinancing rate started to decline, reflecting gradual improvement in the perception of risk level in real economy

### Banks' loan portfolio is growing again [RUB bln]



### Slightly easier life for real sector

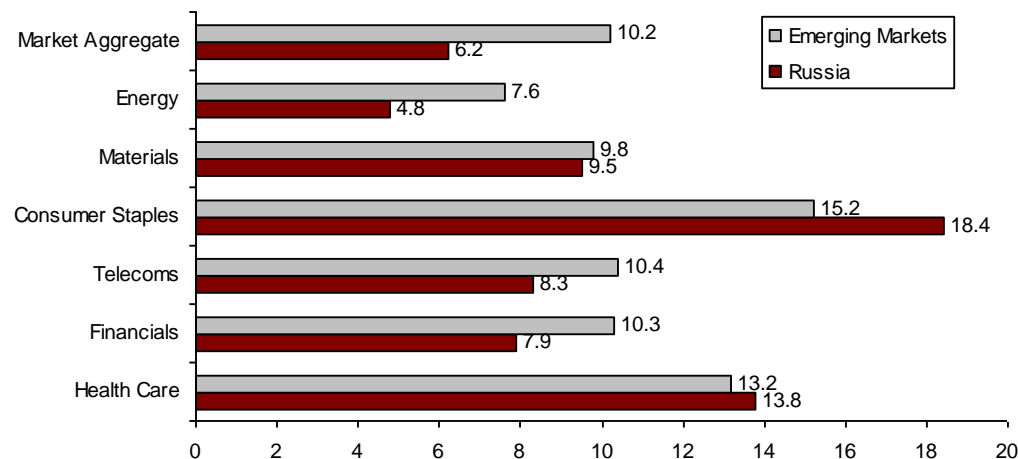


# Russian Equity Market

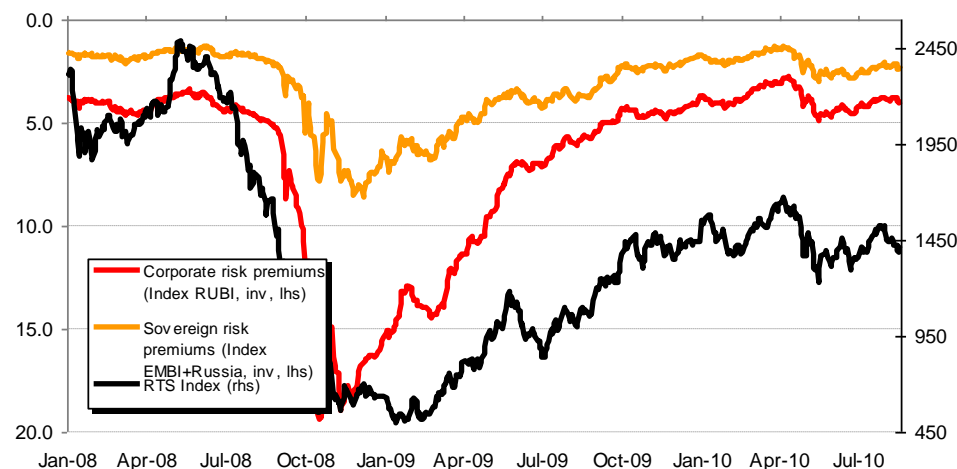
## Valuations and risk perception are favorable for equities

- Based on the conventional valuation metrics Russian equity market is one of the cheapest in the Emerging Markets universe
- Valuation discount is attributable not only to Energy sector anymore, but is much more evenly distributed between other sectors
- Strong inflows into Russia-dedicated Funds
- Positive perception of Russian risk
  - sovereign and corporate spreads are at pre-crisis level while equity market is still down about 40%
- Healthy domestic money market
- Macroeconomic “Safe haven” in overleveraged sovereign world
- Successful corporate debt restructuring, generally lower level of leverage
- Capital markets are open again
  - Several successful domestic and international IPO/SPO (including Rusal USD 2.24 bn Hong Kong IPO), about USD 8 bn of new Eurobonds issues YTD

### 12 m fwd sector P/E ratio: Not only energy anymore



### Russian risk perception



# Citadele Russian Equity Fund

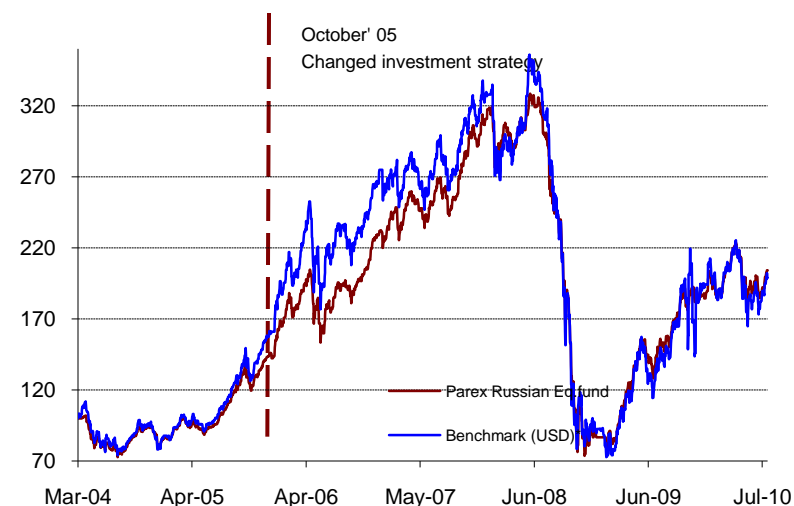
## Fund Characteristics and Performance \*

### Fund Characteristics

■ Type of the Fund	Open-ended
■ Compliance status	UCITS III
■ Domicile	Latvia
■ Currency	USD
■ Benchmark	RTSI\$ (USD)
■ Fund size	USD 13.39 mln
■ Management Fee	2% per annum
■ Load fee	up to 2.5%
■ Investment Manager	Citadele Asset Management
■ Custodian	Citadele banka
■ ISIN	LV0000400190
■ Listing	OMX Riga Stock Exchange
■ Inception date	17 March 2004
■ Liquidity	Daily
■ Morning Star rating	★★★★



### Indexed performance since inception



### Performance

**31/07/10**

YTD	9.79%
1m	6.83%
3m	-5.05%
6m	5.46%
1 year	38.53%
Since Inception	114.30%
Since Inception annualized**	12.71%

\* - as of 31/07/10

\*\* - annualized performance is calculated, using ACT/360 method

# Citadele Russian Equity Fund

## Fund Characteristics and Performance \*

### Ratios

	1 Year	3 Years
Volatility	25.01%	45.65%
Alpha	0.27%	0.09%
Daily Tracking Error	17.51%	37.55%
Sharpe Ratio**	1.58	-0.17
Information Ratio	-0.32	0.10
Max Drawdown***	18.33%	58.64%

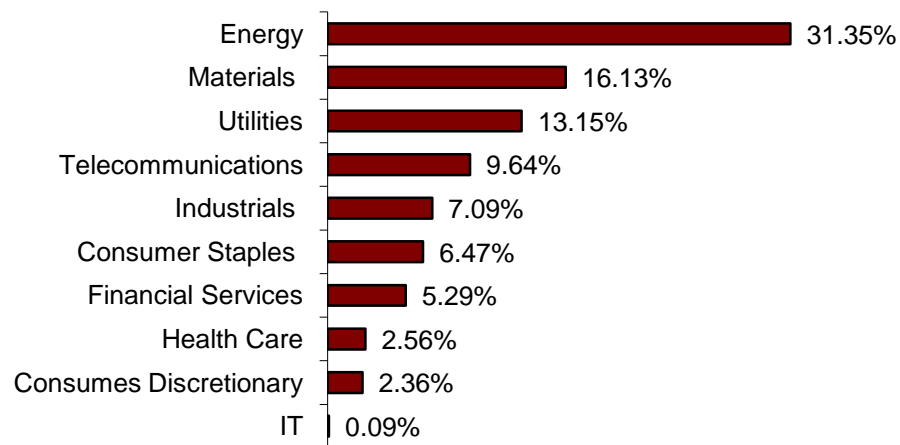
### Top Holdings

LUKOIL	7.98%
Sberbank	5.29%
Mobile Telesystems OJSC	4.96%
Holding MRSK OAO	4.47%
Norilsk Nickel	3.89%
Magnit OAO	3.69%
Polymetal	2.96%
Gazprom OAO	2.94%
Surgutneftegaz	2.75%
OGK-4 OJSC	2.61%
<b>TOTAL:</b>	<b>41.54%</b>

### Instrument Breakdown



### Breakdown by sectors



**Citadele**

\* as of 31/07/2010

\*\* - LIBOR USD 3M

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

# Citadele Russian Equity Fund

## Objective and Investment Process

### ■ Fund's Objective

- The fund seeks a high level of capital growth by investing in a diversified portfolio of equity securities, located in or exposed to growth in Russia

### ■ Investment Process

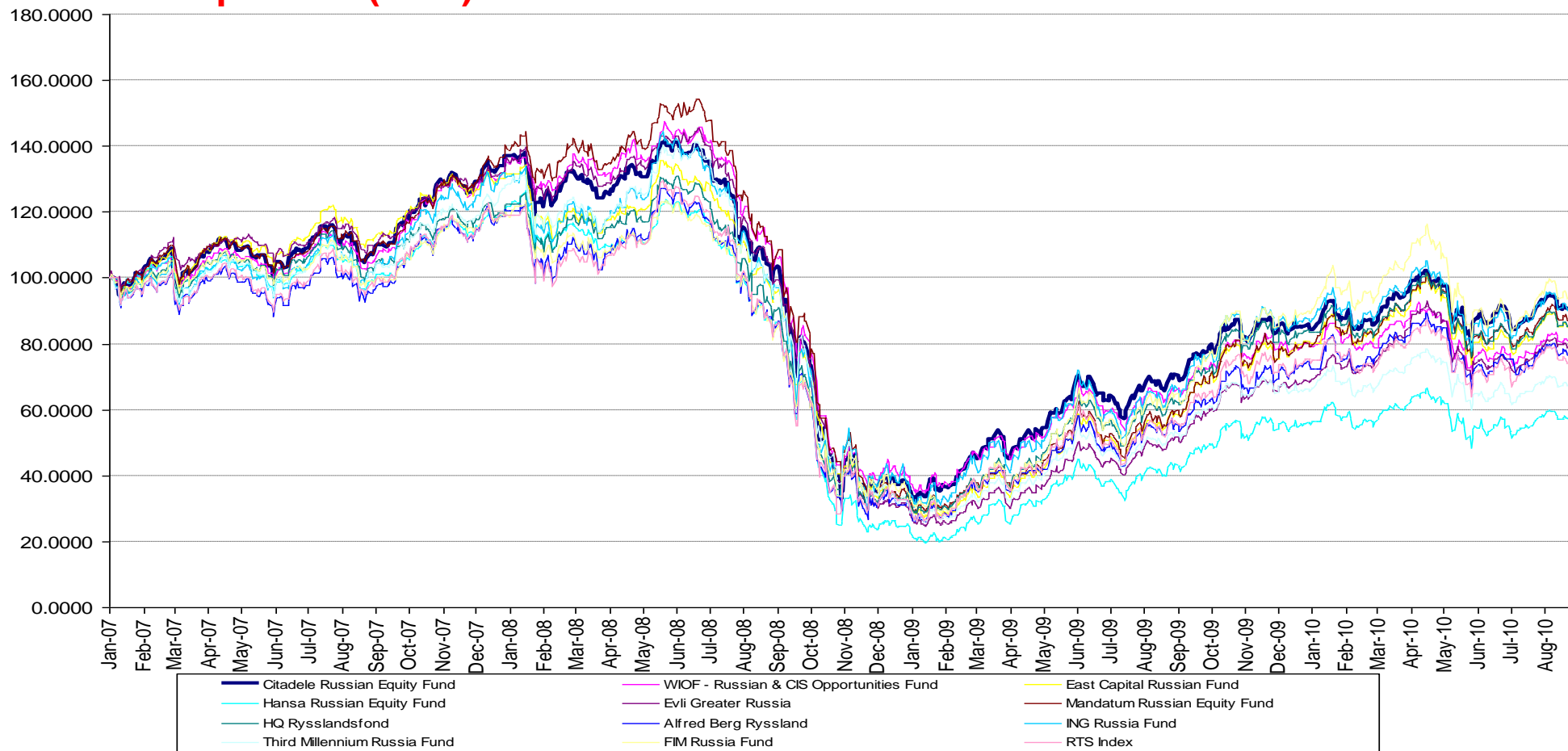
- Fundamental, non-benchmark driven approach
- Bottom-up fundamental analysis of the issuers
- Analysis based on a combination of in-house research, meetings and discussions with issuers' top management, local brokers, and third-party research
- The following factors are key to our investment decision:
  - Underlying growth potential
  - Valuations (relative valuations performed in-house, for absolute valuations mostly use selected third-party research)
  - Strength of financial position
  - Corporate governance and quality of management
  - Evaluation of major risk factors
- Periodic review of portfolio composition by industry to make sure it is in line with our overall market and industry outlook
- The Fund will seek securities that are:
  - Undervalued relative to their peers &/or mispriced relative to their intrinsic value
  - Have clear future growth drivers



**Citadele**

# Citadele Russian Equity Fund

## Peer Comparison (USD)



## Citadele Russian Equity Fund vs Benchmark



	2006	2007	2008	2009	YTD
Citadele Russian Equity Fund	62.92%	36.90%	-72.73%	125.4%	9.78%
RTS	69.38%	20.20%	-72.70%	128.62%	-1.60%

# Citadele Asset Management

## Fund Management Team



### **Edgars Makarovs, Head of Portfolio Management**

Mr. Edgars Makarovs is a Head of Portfolio Management since 2002 and is currently responsible for all client portfolios and funds. He has been with Parex\* Group since 1999. Mr. Makarovs began his career as a financial market analyst in Investment Planning and Strategy Department at Parex banka and was involved in the Bank's proprietary portfolio management. From 2005 he is a member of Investment Committee for all Parex managed investment funds and pension funds. Edgars holds a Master's degree of Science in Business Administration from University of Latvia, the largest and leading university in Latvia.



### **Vitalij Sostak, CFA, Portfolio Manager, Citadele Asset Management**

Mr. Vitalij Sostak joined Parex\* Asset Management Lithuanian subsidiary in 2006. In December 2008 Vitalij joined PAM portfolio management team in Company's head office in Riga. Vitalij started his career at Lithuanian brokerage company Baltic Securities in 2003 as a securities broker. From 2004 he spent almost two years at SEB Lithuania as a securities broker where he was responsible for securities trading in Central and Eastern Europe equity markets. Vitalij has a BSc degree in Economics from University of Vilnius and MSc degree in Business Administration from Warsaw Agricultural University.

# Citadele Asset Management

# Why Citadele Asset Management

## General Information

- The leading investment specialist and wealth management service provider in the Baltics
- Established track record in investment products covering Eastern Europe
  - Eastern European fixed income and balanced funds
  - Equity funds in Russia, Baltics, Ukraine
- Local presence in the Baltics, Belarus, Russia, Ukraine, Lithuania and Kazakhstan
- Wealth management services for regional clients
  - Prime focus on generating absolute returns in all market conditions
- Dominant local player offering full product range to regional institutional and private customers
  - Mutual funds market share in Latvia 24%
- Open architecture platform allows to focus on client needs
  - Products of the leading global asset management companies, covering all investment strategies, asset classes, broad geography and economic sectors
- Team of 72 seasoned professionals with local and international experience
- Subsidiary of Citadele banka (main shareholders 75% Latvian Privatization Agency, 25% European Bank of Reconstruction and Development)

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# Important information

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Past performance is not a guide to future performance.

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