



**IMJSC “Citadele Asset Management”**

Republikas square 2a,  
Riga, LV 1010, Latvia

**Open-end investment fund**  
**„Citadele Russian Equity Fund“**  
**SIMPLIFIED PROSPECTUS**

The Fund is registered in the Republic of Latvia

Registered with the Financial and Capital Market Commission:  
The Fund was registered on 05.03.2004.  
with the registration number 06.03.04.098/13

**Amendments to the Prospectus:**

Registered on 18.10.2004, effective as of 18.11.2004  
Registered on 21.12.2004, effective as of 21.01.2005.  
Registered on 17.02.2005, effective as of 17.02.2005.  
Registered on 14.07.2005, effective as of 01.09.2005  
Registered on 08.12.2005, effective as of 09.12.2005.  
Registered on 02.08.2007, effective as of 03.09.2007.  
Registered on 27.02.2008, effective as of 22.02.2008.  
Registered on 08.09.2008, effective as of 09.10.2008.  
Registered on 14.10.2008, effective as of 14.10.2008.  
Registered on 05.10.2009, effective as of 05.10.2009.  
Registered on 09.10.2009, effective as of 10.11.2009.  
Registered on 29.01.2010, effective as of 29.01.2010.  
Registered on 27.07.2010, effective as of 02.08.2010.  
Registered on 10.08.2010, effective as of 10.08.2010.  
Registered on 29.06.2010, effective as of 29.06.2011.

Custodian: JSC “Citadele banka”

Sworn Auditor: SIA “PricewaterhouseCoopers”

The Prospectus, the Fund Rules, the annual and semi-annual reports of the Fund as well as other information on the Fund and the Company is available free of charge at the office of the IMJSC “Citadele Asset Management” at the following address:

Republikas square 2a

Riga, LV 1010, Latvia

on business days from 08:30 to 17:30

(See also section “General information”).

**Distributor of Investment Certificates:**

In Latvia: JSC “Citadele banka”

Republikas square 2a, Riga, LV-1010, Latvia  
as well as branches and customer service units of  
the JSC “Citadele banka”.

**Fund Manager (Investment management company), the Company**

IMJSC “Citadele Asset Management”  
Republikas square 2a, Riga, LV 1010, Latvia

**Custodian**

JSC “Citadele banka”  
Republikas square 2a, Riga, LV-1010, Latvia

**Sworn Auditor**

SIA “PricewaterhouseCoopers”  
Riga, K.Valdemara street 19, LV-1010, Latvia

**Distributor of the Fund’s Investment Certificates**

In Latvia: JSC “Citadele banka”  
Republikas square 2a, Riga, LV-1010, Latvia  
as well as branches and customer service units of the JSC “Citadele banka”.

**Supervisory Authority**

Financial and Capital Market Commission  
Kungu street 1, Riga, LV-1050, Latvia

**Investment Objective**

The investment objective of the open end investment fund "Citadele Russian Equity Fund" is long-term capital growth from investments in shares of those company's that are registered or whose main activities take place in the Russian Federation. The fund's income will comprise share price increases and dividend payments.

**Investment Policy**

The policy of the investment fund sets out the following investment portfolio allocation:

- Up to 100% of the Fund's assets can be invested in equity securities issued by corporations;
- Up to 20% of the Fund's assets can be invested in term deposits with credit institutions;
- Up to 20% of the Fund's assets can be invested in money market instruments issued or guaranteed by government, municipalities and credit institutions as well as debt securities and money market instruments issued by corporations;
- Up to 10% of the Fund's assets can be invested in investment certificates of open-end funds or similar collective investment undertakings or similar securities (hereinafter, the investment certificates of investment funds).
- Up to 5% of the Fund's assets may be invested in investment certificates of investment funds managed by companies belonging to the same group – funds managed by IMJSC “Citadele Asset Management” as well as its subsidiaries;
- Up to 25% of the Fund's assets can be invested in securities and money market instruments not issued or guaranteed by governments and municipalities of the Russian Federation or corporations registered in the Russian Federation.

**Investor Profile**

The Fund was set up for professional and experienced investors as well as for those investors that are not familiar with capital market opportunities but whose purpose is to profit in the capital markets and who want to participate in the development of the economy of the Russian Federation. Such strategy comprises risk of issuer's default, political risk, economic risk and currency risk that can adversely affect the value of the Fund's shares or investment certificates. The long-term strategy of the Fund recommends a 5-year investment horizon.

**Investment-Related Risks**

The operations of the Investment Fund involve risks that arise from various factors. Each type of risk can adversely affect the operational results of the Fund and, thus, each of the Fund's shares. The following risks must be distinguished in this respect:

**Basic risk** – Investors should be aware that the price of securities as well as income from securities is subject to fluctuations that directly affect the value of investment certificates owned by the Investor.

**Liquidity risk** – refers to the ability at any point in time to dispose of (sell or liquidate) any of the Fund's assets. If financial instruments or other assets can be sold or liquidated so that the average bid (in comparison to transaction volume in the particular market) does not create significant movements in price, this market can be regarded as liquid.

**Investments in the Russian markets are subject to increased risk that markets for various assets are illiquid in the short-term. Consequently, a situation may occur that financial instruments or other assets cannot be sold or must be sold for a reduced value.**

**Issuer's default risk** – related to the securities issuer's inability to fulfil its obligations against the securities holder. While planning the Fund's investment policy the Company takes into account investment safety of each particular country, security and bank term deposit, i.e., analyses credit ratings of each country, bank or enterprise. Occurrence of this risk can create partial or full default on liabilities with respect to a particular financial instrument and affect the Fund's net asset value and, thus, the value of each share of the Fund.

**Legal or regulatory risk** – risk of possible changes in national and foreign laws and regulations (including tax policy) resulting in additional expenses to the Fund.

**Information risk** – inaccessibility or lack of securities market information on issuer's true condition.

**As there may not always be a common standard for disclosure in the Russian Federation, there is an increased risk that despite prudent management the Fund Manager may receive insufficient information that results in adverse investment decision.**

**Financial risk** – financial risk of investment funds is primarily related to situations when, due to external factors beyond the Company's control, Investors simultaneously request redemption of their investment certificates which results in decreased efficiency of the Fund's operations.

**Derivatives risk** – Investors should be aware that investments in derivatives are subject to high risk. Liabilities or claims from such transactions may decrease or cease to exist. The risk of loss in certain situations may not be estimated and may exceed the value of collateral. If loans are used to cover liabilities arising from derivatives or if liabilities or claims from such transactions are denominated in foreign currency, the risk of loss may increase.

**Derivatives transactions may result in insolvency and encumber the Fund’s properties, without the possibility to estimate losses in advance.**

**Main Foreign Investment Risks:**

- **Political risk** – political situation in Russia since early 1990-s has been very unstable with frequent conflicts between the president and the parliament. That has negatively affected the business and investment climate. Therefore, investors who consider making investments in the Russian markets should also take into account political risk, i.e., risk related to possible changes in government policies or priorities (war, nationalisation, confiscation, introduction of restrictions or embargo, thus unforeseeable consequences in the changes in political direction) that could result in losses or decrease in profits. This risk is particularly characteristic to countries with undeveloped legal system and lack of business traditions and culture. Russian Federation belongs to these countries.
- Economic risk – risk of changes in economic situation of investment regions, such as economic recession, excessive inflation, banking crisis, etc.;
- Accounting risk and risk of double tax collection – use of different accounting principles for securities accounting and registration systems in different countries may cause additional burdens on investments, such as higher tax rates being set for non-resident investments abroad; thus, the Fund’s property may be burdened more than if investments were made on the local market;
- **Currency risk** – investors should pay attention also to currency risk. Such historical facts as the Russian crises in 1998, which resulted in significant devaluation of the rouble, or events of 2003, when the rouble appreciated against the dollar, require serious attitude against the currency risk. This risk pertains to possible losses, which the holder of the fund’s investment certificates may incur due to adverse currency fluctuations. It should also be taken into account that despite the fact that the fund’s shares are nominated in one (“base”) currency, structure of investments may comprise financial instruments of various countries denominated also in other currencies.

**There are particular risks related to investments in the Russian Federation.**

In the Russian market there is particularly broad set of risks related to securities settlement and custody. These risks arise from the fact that securities are not in physical form, therefore, the only certification of the title to securities is a record in the issuer’s register of Shareholders. Each issuer is responsible for appointment of his own registrar. That, in turn, results in geographically dispersed distribution of several hundreds of registrars. The Russian Federal Securities and Capital Market Commission (“the Russian Commission”) has defined the duties of the registrar as well as what constitutes a certification of the title and transactions. However, difficulties with implementation of the regulations of the Russian Commission mean there is still the possibility of loss or error and there are no guarantees that the registrar will act in accordance with the applicable laws and regulations. Industry best practices are still under development. Upon registration the registrar makes a corresponding entry in the register of shareholders. Title to securities is legal in the register, but it is not evidenced with a personal copy from the register of Shareholders. An excerpt from the register only confirms that the registration has taken place. The excerpt, however, does not have a real value. Moreover, the registrar usually does not accept the excerpt as evidence of the title to securities, and his duties do not comprise informing the Custodian or its local agents in Russia if or when changes are made to the register of Shareholders. The Russian securities are not physically deposited with the Custodian or its local agents in Russia.

Thus, neither the Custodian, nor its local agents in Russia perform the custody or the Custodian functions in the traditional sense. Registrars are not agents of the Custodian or its local agents in Russia, nor are they responsible towards them. The Custodian is liable only for non-performance of its duties and deliberate default on its liabilities as well as for the consequences of non-performance or deliberate breach of duties of its local agents in Russia. It is not liable for losses that have arisen due to liquidation, bankruptcy, registrar’s non-performance or deliberate default. Where such losses occur, the Company shall file a claim against the issuer and/or its appointed registrar.

For more information on risks see the full Prospectus.

**Derivatives**

To provide protection against the risk of fluctuations in market value of the Fund’s assets that may arise due to changes in asset prices or exchange rates, the Fund Manager has the right to invest in derivatives

on the Fund’s account. Furthermore, the Fund Manager has the right to enter in derivatives transactions on the Fund’s account with the purpose to profit.

The Fund Manager can enter into repurchase (“repo”) agreements on the Fund’s account.

#### **Taxes and Duties**

The Company hereby gives a general survey of tax legislation of the Republic of Latvia and bears no responsibility for procedures of tax application to each specific Investor. The Investor shall be aware that tax application depends on his country of residence. The Investor should contact a tax advisor to clarify questions concerning procedures of tax application.

#### **Application of Corporate Income and Individual Income Tax**

According to the Republic of Latvia normative acts, investment funds are not subject to corporate income tax, thus, no corporate income tax shall be levied on funds accumulated by Investors in the Fund and on property owned by the Fund.

The Investors shall independently pay their individual income tax or corporate income tax on the relevant part of income in accordance with procedures stated by the RL Law “On Individual Income Tax” and the RL Law “On Corporate Income Tax”.

At the moment of approval of the simplified Prospectus the RL Law “On Individual Income Tax” provides for no individual income tax to be levied on income from the sale of investment certificates.

At the moment of approval of the simplified Prospectus the RL Law “On Corporate Income Tax” provides for no corporate income tax to be levied on income from the sale of investment certificates.

At the moment of approval of the simplified Prospectus, according to the RL Law “On Corporate Income Tax” and the RL Law “On Individual Income Tax”, no corporate income tax or individual income tax is levied on non-resident income from the sale of investment certificates.

#### **Commissions**

The Company shall receive a fee for the Fund’s management amounting to 2.0% of the Fund’s asset value. The fee is paid from the Fund’s property once a month no later than 3 business days after the end of each calendar month.

In addition, the Fund shall pay fees to the Custodian and the Sworn Auditor.

<b>Beneficiary</b>	<b>Amount of the Fee</b>
Company	2.00 % per year of the Fund’s asset value
Custodian	0.175% per year of the Fund’s asset value that does not exceed USD 3,000,000, and 0.15% per year of the Fund’s asset value that exceeds USD 3,000,000 Transaction processing fee in accordance with the bank's current pricelist The total fee to the Custodian shall not exceed 0.50% per year of the Fund’s average asset value per year
Sworn Auditor	Shall not exceed 0.10% per year of the Fund’s average asset value per year
Third parties (for holding of financial instruments, fee to the LCD, charge for including in and quoting of investment certificates on the lists of the stock exchanges, etc.)	In accordance with source documents and actual costs
<b>Total annual Fund management fees shall not exceed 4.00% per year of the Fund’s average asset value per year.</b>	
The amount is determined pursuant to the European Commission April 27, 2004 Recommendation No. 2004/384/EC on the content of the simplified prospectus set out in Section C of Appendix 1 of the European Council Directive 85/611/EC, taking into account amendments to the Directive 2001/107/EC and 2001/108/EC, is in line with the definition of Total Expense Ratio, and does not include payments referred to in Paragraph 2.3 of the Prospectus.	

When the Fund’s assets are invested in another fund’s investment certificates issued by the Company itself or by another company related to the Company through common management or control, or



The Company discloses information on the Fund's share value for the previous day on each business day at 10.00. The information can be obtained by calling the numbers stated in the Prospectus, as well as directly at the Company's office or from Distributors, as well as on the website of the JSC "Citadele banka": [www.citadele.lv](http://www.citadele.lv).

#### **Conditions for Suspension of Redemption and Repurchase of Investment Certificates**

In case of extraordinary situation in financial markets (temporary shutdown of stock exchanges, banks, brokerages or any other reason preventing transactions in securities) or due to other events of uncontrollable nature, the Company may temporarily suspend trading in the Fund's investment certificates. The Company shall immediately inform every investor directly or shall publish announcement in one of the daily periodicals.

The redemption and repurchase of investment certificates may be suspended in cases when the Commission exercises its right to limit the Company's rights to manage the Fund's bank accounts, and in the event of liquidation of the Fund.

Redemption and repurchase of investment certificates is prohibited after start of the Fund's liquidation. Upon liquidation of the Fund, claims of the Fund's creditors and Investors shall be satisfied in accordance with procedures prescribed by the law.

#### **Distribution of the Fund's Income**

Income received from the Fund's property is reinvested in the Fund.

The Investor participates in distribution of income derived from transactions with the Fund's property in proportion to the number of investment certificates owned.

The income of the Investor is reflected in the increase or decrease of value of the Fund's investment certificates. The Fund's share value is determined on each business day in accordance with the RL legal acts and provisions of the Prospectus and the Fund Rules.

The Investor can realise the income from the Fund's shares only by requesting the Company to redeem the security or by selling the investment certificate.

#### **Performance of the Fund**

Year 2004 was the first year of the Fund's operations. In the second half of the year the volume of the Fund's net assets increased by 34.6% and on December 31, 2004 exceeded USD 3.4 million. From the beginning of the Fund's operations on March 2004 till the end of the year the Fund's share value experienced sharp fluctuations which resulted in overall 17% decrease.

2005. On December 31, 2005 the Fund's net assets totalled to USD 7,071,670, and one investment certificate was worth USD 14.24.

In 2006 the Fund's net assets doubled. 2006. On December 31, 2005 the Fund's net assets totalled to USD 14,690,900, and one investment certificate was worth USD 23.20.

In 2007 the Fund's net assets continued to increase rapidly reaching USD 19,440,953 on 28.12.2007, and value of one investment certificate increased by 36.90% reaching USD 31.76.

In 2008 the Fund's net assets decreased and on December 30, 2008 in total were USD 5'585'823 and the value of one investment certificate dropped by 72.73 % reaching value of USD 8.66.

In 2009 Fund's net assets increased and on December 30, 2009 in total were USD 9'117'671 and value of investment certificate during the year increased by 125.40% reaching value of USD 19.52.

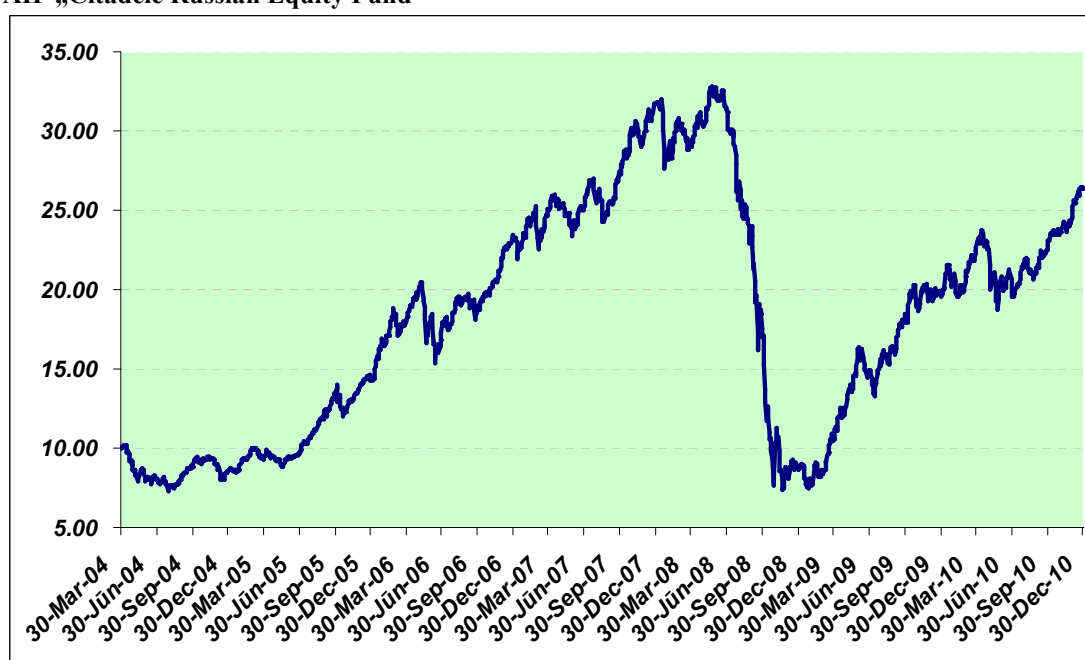
In 2010 Fund's net assets increased and on December 30, 2010 in total were USD 14'833'529 and value of investment certificate during the year increased by 35.09%, reaching value of USD 26.37.

#### **Financial indicators**

USD	30.12.2010	30.12.2009	30.12.2008	28.12.2007	29.12.2006.	31.12.2005.	31.12.2004.
Net assets	14,833,529	9'117'671	5'585'823	19'440'953	14'690'900	7,071,670	3,426,125
Number of Investment Certificates	562,514	467'209	645'011	612'100	633'174	496,488	398,122
Value of an Investment Certificate	26.37	19.52	8.66	<u>31.76</u>	23.20	14.24	8.61

**Dynamics of Funds share value**

Period	Year 2010	Year 2009	Year 2008	Year 2007	Year 2006	Year 2005	Since foundation (2004)
Increase/decrease in the share value	35.09%	125.40%	-72.73%	36.90%	62.92%	65.39%	15.35%

**AIF „Citadele Russian Equity Fund”**

Historical performance of the Fund does not determine the Fund's future performance. The historical dynamics does not guarantee similar dynamics in the future. The Fund's net asset value can increase and decrease, and the Investor shall be aware that by investing in the Fund's certificates he might receive back less than he invested.

**General Information**

The Full Prospectus, the Simplified Prospectus, the Fund Rules, the annual and semi-annual financial reports of the Fund, information about investment certificate sales and redemption price, information about the place and time for submitting applications for purchase and redemption of the Fund's investment certificates, information about the Fund's net asset value and the Fund's share value, as well as other information on the Fund, the Company, and the Custodian is available free of charge at the office of the IMJSC "Citadele Asset Management" at the following address: Republikas square 2a, Riga, LV 1010, Latvia, on business days from 08:30 to 17:30, or from the Distributors, as well as from the recording and information agencies of the countries in which the Fund's investment certificates are distributed.

Upon Investors request the application for redemption of the Fund's investment certificates can be submitted to the recording and information agency.

Upon Investor's request payments related to redemption of investment certificates can be made by recording and information agency, including other payments to be disbursed to the Investors.

Information about the sales and redemption prices for the Fund's investment certificates, as well as other information, is published in accordance with the legal requirements of a country in which the Fund's investment certificates are distributed.