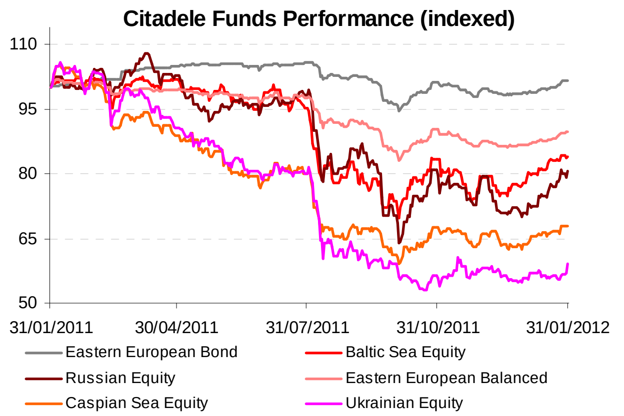
Fund Manager Report. January 2012

January was spent in a risk-on sentiment, sending all risk asset classes higher, despite the European country credit rating downgrades. The rally was spurred by easing concerns over European debt, good start of the reporting season, healthy macroeconomic data mainly from US and the FED's announcement not to raise interest rates until at least 2014. As a result, the MSCI World gained 4.9%, while the Emerging markets (+11.2%) and Germany (+9.4%) led the rally. Most commodities traded upwards – gold gained 11.1%, Brent crude oil increased 3.8% and London Metal index climbed 10.9%. EM bonds also traded up in what is widely considered a 'sweet spot' for higher-yielding fixed income assets, i.e., a slow, but positive growth outlook



Fund	Currency	Performance (as of January 31, 2012)				
		1m	3m	6m	12m	Since inception*
Citadele Eastern European Bond Fund	USD	3.02%	0.40%	-3.90%	1.66%	6.66%
Citadele Eastern European Balanced Fund	EUR	3.37%	-0.69%	-8.15%	-10.26%	4.50%
Citadele Russian Equity Fund	USD	13.68%	1.11%	-18.01%	-19.43%	10.43%
Citadele Baltic Sea Equity Fund	EUR	8.08%	0.81%	-11.77%	-15.89%	2.55%
Citadele Caspian Sea Equity Fund	EUR	6.96%	0.60%	-15.08%	-31.99%	-19.63%
Citadele Ukrainian Equity Fund	EUR	5.52%	5.52%	-26.25%	-41.05%	-32.35%

* % annualized

Citadele Eastern Europe Bond Fund – USD

In January, Eastern European sovereigns slightly outperformed the global EM peers amid the external positive sentiment gaining 2.1% versus 1.6% based on JP Morgan indices. Higher risk appetite especially supported growth among EM corporate issuers resulting in an outperformance over sovereign segment (+3.0%), while Emerging Europe corporate sub-index rose even more - +4.4% (JP Morgan CEMBI). Within CIS markets, Russia outperformed the market, gaining 2.7% due to the encouraging macro results, while Ukraine and Kazakhstan posted slightly lower gains based on TDI indices.

As appropriate for the beginning of a year, it is time to summarize the preceding year's key macro indicators. All in all, the region's major economies have demonstrated relatively resilient performance. For the whole of 2011, Russia's GDP grew by 4.3%, the same as the upward-revised figure for 2010. Ukraine's economy advanced by 5.2%, up from 4.2% in 2010, while Kazakhstan's GDP soared by the same 7.3% as in 2010. Current market consensus forecasts that the pace of region's GDP growth will somewhat abate in 2012: +3.6% in Russia, +3.5% in Ukraine and +5.2% in Kazakhstan. In 2011, inflationary pressures diminished across the region mostly due to exceptionally low food prices. In particular, the inflation in Russia dropped to the lowest level in twenty years – 6.1% vs. 8.8% in 2010, in Ukraine it lowered to 4.6% vs. 9.1% in 2010, while in Kazakhstan it remained flat at 7.4% due to the noticeable acceleration of food prices, while price growth in services industry was in line with forecasts.

The region's resilient macroeconomic growth was supported by the dynamics in the banking sector. In Russia, the aggregate loan portfolio expanded by remarkable 28% in 2011б while deposits grew 24% during the year. At the same time, in Ukraine loans added 9.5% and deposits climbed 17.5%, while in

Kazakhstan loans advanced by 11.5% and deposits added 14.1%. In Russia, we expect the loan portfolio growth could shrink to mid-teens in 2012 amid the expectedly slower growth of the economy this year.

Despite the generally supportive macro data, the rating agency Fitch in January changed the outlook on Russia's BBB credit rating to stable from positive. By doing so, it effectively reduced the likelihood of Russia's sovereign rating to be upgraded in the near term. The decision of Fitch was based on an elevated political uncertainty in the country and on possible contagion from Europe. Currently, Russia is rated BBB/stable from Fitch and S&P, while Moody's has assigned a one notch higher rating with a stable outlook. All in all, the agency's decision did not obscure investors' bullish mood towards the region's assets during the month. Meanwhile, in Kazakhstan's early parliamentary elections the ruling party Nur Otan gained a substantial overweight over opposition with 80% of the votes, while both newcomers - Communist People's party and Akzhol - gained 7.2% and 7.5% respectively.

In January, following the surge in new the region's sovereigns successfully made use of the window of opportunity to borrow in total USD 6.5bn equivalent on Eurobond markets. In particular, Poland tapped two of its running issues by selling EUR 750m bond with maturity in March 2017 and USD 1bn bond with maturity in March 2022. Lithuania, Romania and Turkey each issued new 10-year bonds worth $1.5bn at yields of 6.75%, 6.875% and 6.35%, respectively. At the same time, Sberbank became the first Russia's corporate borrower to place Eurobonds this year. The issue was split in two tranches: a 5-year bond of USD 1bn was priced at a yield of 4.95% and a 10-year bond of USD 500m was priced at a yield of 6.125%. All placements met strong investors' demand, which obviously is positive for the market.

In January, the Fund lagged the market rally by a slim margin due to its lower interest rate risk positioning, especially in Russia. However, it is not surprising that almost all positions were profit-making during the month, while the highest-beta holdings, namely, Ukraine's FUIB'14, Russian Agricultural Bank's subordinated bonds and Russia's Matalloinvest'16 were TOP3 contributors.

During the month we made only one trade, seeing the portfolio well suitable to the actual market developments. We switched from USD-denominated Russia'30 to EUR-denominated Lithuania'16, as the spread between both sovereign bonds reached 100bp level, despite equivalent credit ratings. Moreover, recent change in relationship between EUR and USD interest rate curves has resulted in an increased attractiveness of EUR-denominated assets. At the end of the month, the Fund's average yield declined to 9.6% and the average duration remained at 2.3, while net cash stayed at 7% of the assets.

While the market has performed very well in January, the overall setting for 2012 for the higher yielding fixed income assets is characterized by many as a "sweet spot", where economic growth is just as high as to restrain any evolution of systemic defaults, and monetary policies continue loose. In such a "sweet spot" scenario, emerging market debt indeed looks attractive, and we find hard currency and corporate debt to be particularly well-placed. While Eastern Europe overall does not particularly stand out, opportunities for security selection remain wide, which is what we will be concentrating on in the coming months.

Citadele Eastern Europe Bond Fund - EUR

In January, the Fund marginally outperformed the market, as almost all positions were profit-making. As usual in the marker rallies, the higher-beta issues, such as Ukraine's FUIB'14, Russian Agricultural Bank's subordinated bonds and Russia's Matalloinvest'16 were the major positive contributors. On the other hand, Credit Bank of Moscow's sole Eurobond lagged the market rally and was a slight drag on the Fund's performance.

During the month we made only one trade as we considered the portfolio to be appropriate for the market developments. We switched from USD-denominated Russia'30 to EUR-denominated Lithuania'16, as spread between both sovereign bonds reached 100bp level, despite equivalent credit ratings. Moreover, recent change in relationship between EUR and USD interest rate curves has resulted in increased attractiveness of EUR-denominated assets. At the end of the month, the Fund's average yield declined to 10.3% and the average duration lowered to 2.4, while net cash stayed slightly below 7% of the assets.

Citadele Caspian Sea Equity Fund

The appetite for risk assets improved in January, as global investor sentiment started to recover. Encouraging macroeconomic data from the US and the absence of utterly bad news from Europe lifted confidence and spurred demand for emerging markets equities. Another supportive factor for the Central Asian region was strong performance of commodities, as Brent rose by 3.4%, base metals LMEX index added 10.9% and gold surged by 11.1%. In terms of country specific issues, the outcome of Parliamentary elections in Kazakhstan did not bring big surprises, as the ruling Nur Otan party got over 80% of votes, what lead to preservation of a stable political landscape in the country. Rencasia Index jumped by 13.7% over the month, what was more than enough to outpace emerging markets peers represented by MSCI EM Index, which advanced by 11.2%. The Fund managed to return 7.0% in euro terms, while EUR appreciated 0.9% vs. USD during the reporting period.

Country-wise, Kazakhstan delivered the bulk of positive contribution on the back of strong performance from the regional energy chips. Oil and gas name Tethys Petroleum rose by 23.5% on the news of successful rail-loading terminal commissioning. KazMunaiGas E&P edged up by 8.6%, and sentiment-sensitive Uranium One surged by 27.6%. Supportive commodity environment was beneficial for Kazakhmys, as the shares of the copper producer added 12.5%. Financial sector also started to bounce back, driven by positive dynamics from major regional banks Halyk and Kazkommerts edging up by 16.2% and 9%, respectively. On the negative side, Max Petroleum lost 7% and Caspian Services plunged by 69.1% on low trading volumes. Turkmenistan became another positive contributor of the month, as shares of Dragon Oil recorded a 12.3% hike on a decent operational report for 4Q2011. At the same time, despite strong results from Petromatad (+27.1) and Southgobi (+16.3%), performance of Mongolia was capped by sliding shares of Ivanhoe Mines (-8.6%) due to Rio Tinto taking over control of the company bypassing a minority buyout offer. Within the Fund, Georgia was the laggard of the month, as gains from the Bank of Georgia (+4.4%) were more than offset by losses on the relatively illiquid holdings of Liberty Consumer dropping by 20.4%.

Elevated political risks in Kazakhstan, the leading economic force of the region, subdued after convincing victory of the Majilis elections by the ruling party and relatively muted reaction from the opposition. Re-appointment of Karim Massimov as the Prime Minister together with minor adjustments to the new government reinforced the perception that the vector of the country's political development will remain unchanged. At the same time, macroeconomic data of Kazakhstan delivered a positive surprise, as the GDP figure for 2011 stood at robust 7.5% and official inflation rate was tamed to 7.4%. Indicators of other target investment countries were also encouraging. Rapidly developing Mongolian economy reported impressive GDP growth of 17.3% for 2011, as local resource sector continues to be an increasingly appealing investment target.

During the month, we took profits from Kazakhtelecom shares, while the other parts of the portfolio were left unchanged. For the coming month, we find hard commodity prices to be overall supportive for the performance of the regional stocks, most of which are attractively valued. At the same time, we think that re-ignition of the recent rally is hardly possible without a radical improvement in the profile of risk assets globally. Considering the recent rally escalated sensitivity of risky assets to the political events, we will maintain a decent cash position both to defend the Fund against possible sudden tail events and to obtain opportunity cash for the opposite scenario.

Citadele Baltic Sea Equity Fund

The global stock markets experienced a strong rally during January, as investor concerns about European debt issues somewhat retreated, despite the fact that Standard & Poor's downgraded European countries' credit ratings. The positive sentiment was driven primarily by the news from the US, where employment data were again strong and the FED claimed not to raise interest rates until at least 2014, to support a "fragile" recovery. As one could expect, the strongest performer in January was the Russian equity market (+14.1%), led by its high-beta nature, which makes it an attractive investment at times of risk-on trading environment. The German market, which has been underperforming in autumn, also recovered strongly, rising 9.5%. The Fund gained from a successful stock picking in Norway, managing to win nearly 10% more than OBX index (+12% vs +2.3%). The Polish (+8.8%) and Finnish (+7.8%) equity markets performed in line with the market, while Sweden (+4.9%), Denmark (+4.8%) and Baltic States (+2.8%) lagged behind. From currency perspective, the Fund gained from the Euro depreciation against SEK, NOK and PLN, but lost marginally from weakening of USD. Overall, the Fund gained 8.1% during January, erasing a large part of the previous year's loses.

The strong performance of the Fund was driven by a relatively balanced growth across sectors. The strongest sectors were Consumer Staples, Consumer Discretionary and Utilities. Consumer Staples sector was the top performer of the month, as a result of successful stock picking – Morpol and Magnit outperformed the market substantially. Within Consumer Discretionary, best performers were Kongsberg Automotive, which managed to refinance its debt successfully and German luxury goods producer Hugo Boss. Finally, Utilities sector gained sharply from the well performing Russian companies. Financials sector also posted solid gains, mainly driven by Russian and Polish banking sectors. Energy, Health Care, Materials, IT and Industrials all performed generally in line with the market. A positive contribution came from Norwegian and Russian Oil&Gas companies (Energy sector), GN Store Nord (Health Care), metal producers Mechel and Norsk Hydro (Materials), SAP (IT) and Fraport, DSV and Polimex Mostostal (Industrials). The only sector that broadly underperformed during January was Telecommunications, which even closed the month in the red.

Stimulated by rapid price movements in equity markets, January was a relatively active month in terms of transactions with the Fund's assets, as we adjusted the Fund's allocations according to market situation. During the month, we took profits from such strong performers as Kongsberg Automotive, GN Store Nord and Norsk Hydro. Furthermore, we sold out our positions in Lanxess, Novo Nordisk, Surgutneftegas and Atlas Copco, which all had rebounded very strongly during the last months. On the other hand, we increased our holdings in Tele2 and Tallink. We also added NovaTek, a Russian independent producer of natural gas, and Phosagro, a vertically-integrated phosphate-based fertiliser producer, to the Fund. Finally, we invested in Norwegian owner and operator of LNG vessels Awilco LNG, as we are positive on the tight supply-demand situation in LNG shipping market.

During February, we expect the equity rally to slow down and we would not be surprised to see a correction in stock markets, as the Greece debt maturities approach. On the other hand, the macroeconomic data is still on the positive side and the earnings reporting season has also started off well, which could hold up the optimism on equities. From sectoral perspective, we prefer Energy, Materials, Utilities and Health Care to Consumer Staples and Discretionary sectors for the next quarter, based on strong fundamentals and attractive valuations.

Citadele Russian Equity Fund

As a part of the risk assets domain, Russian equities demonstrated positive performance during January. This can be partially explained by the FED's decision to extend the "near zero" interest rate policy and the ECB's liquidity provisions, which bolstered investor confidence over the stalled Greek debt problem. The significantly lower base of the Russian equity market after the end-2011 sell–off and the increase in risk appetite that pushed the players to enter the market also supported the impressive performance. Moreover, escalating tensions in the Middle East provided strong support for hydrocarbons, which is a fundamentally positive and supportive driver for Russian equities. From the fund flows perspective, according to EPFR data, there were about USD 239mn worth of inflows into Russia-dedicated equity funds during January, which in fact equaled almost half of the amount directed to the global Emerging Markets universe in total during the month. Despite such solid fund flow figures, Russian equity market still suffers from significant outflow of funds - overall, there has been a 3.7bn USD outflow from Russia-dedicated funds since June 2011.

The Fund's unit price gained 13.7% in January, staying almost in-line with the RTS index. Sector-wise, the most positive drivers of the Fund's portfolio were energy, materials, and utilities. In addition, some modest positive performance came from consumer discretionary sector. On the opposite side, the main laggards were names representing consumer staples and industrials sectors. Among individual companies, we find it important to mention Power Machines, which was unexpectedly delisted from all Russian exchanges. The event naturally caused a severe decline in the liquidity and led to the impressive 32.4% price drop. At the moment the listing is reversed, but unfortunately the previous price levels have not been reached yet. This story reflects institutional instability characterizing the Russian market.

We made some tactical trades in the Fund during January, taking some profits from Surgutneftegaz–preferred shares and ordinary shares of Lukoil and Evraz. Overall, the Fund's trade turnover reached about 5% of its net asset value. At the end of January cash position stood at around 1% of net asset value of the Fund, as we were expecting market growth and managed to allocate free resources in equities starting from December.

Looking forward to the coming month, we believe that Russian equities will behave as an exceptionally sensitive function of the global risk asset universe, as stalled EU debt crisis is expected to remain one of the main stress sources. Moreover, the amplified echoes of Chinese economy's "hard landing" scenario could put risk assets returns under heavy selling pressure. As far as local factors are concerned, we do not expect cardinal changes in the political landscape of the country before the March presidential elections. Considering all the factors mentioned above, we will tend to adopt a more conservative stance, within which an increase of the cash position in the Fund would be the most probable action.

Citadele Ukrainian Equity Fund

Against the backdrop of highly volatile trading, Ukrainian stocks managed to end January on a positive note. In the second half of the month, the local market finally started to catch up with the beginning-of-year gains seen in Europe and the US. The gains were not uniform, and foreign-listed stocks outperformed the locally-traded ones, as the WIG-Ukraine index (tracking the performance of Ukrainian names listed in Warsaw Stock Exchange) posted a 7% gain, while the local UX index went up by 3.8%.

The Fund returned 5.5% over the period, with all but telecommunication sector delivering positive results. Industrials contributed the most to the Fund's growth in January, followed by materials and consumer staples. Utilities and energy sector delivered only modest gains.

On the security level, performance of the Fund was powered ahead by Northern Ore Mining (+13%) and Ferrexpo (+27%), rallying back from earlier (last month's?) losses. On the contrary, chemicals name Stirol was the main laggard, partially due to the report by Ukraine's energy and coal industry minister that Ostchem, the group affiliated with Stirol, virtually halted gas imports from Central Asia in January due to increased prices. The minister's report, however, was followed by Ostchem's announcement, revealing its intention to import 8 bcm of gas to Ukraine in 2012. Steel stocks and related names were mostly higher, with Yasynivsky Coke being an outstadning performer recording a 15% surge in its share quotations. Meanwhile, Avdiyivsky Coke lagged, witnessing a 1% decline last month.

WSE-listed lead-acid battery producer Westa ended up to be in the top-three positive contributors to the Fund's performance in January, recording a 44% growth as investors seemed to reconsider the company's indebtedness and liquidity risks, appraising the effects of the divestiture of the company's subsidiary Techkomplekt announced already? in late December. Locally-listed machine building stocks also generated positive returns, with the way up led by Stakhaniv Railcar (+25%), supported by good 4Q11 results, reporting pre-tax income of UAH 64m, which is a 283% q/q improvement. Motor Sich and Kryukiv Railcar posted single-digit gains of 8% and 7%, respectively.

In consumer staples sector, Kernel performed poorly, losing 2% over the month, while MHP delivered a solid return of 21%, supported by strong operating figures. Other agricultural stocks including Astarta (+8%) and Agroton (+8%) held up well, rebounding from recent lows. Elsewhere, telecommunications name Ukrtelecom turned out to be among few casualties, sliding down by 4%, while utilities name Centrenergo saw moderate appreciation of 2.5%.

During the month we have added Stahanovsky Railcar Plant, as we reassessed the attractiveness of the future prospects of the company. The complementary logic was its significant underperformance relative to the local railcar building companies, as a result of last-year tensions between the owner of the company and Ukrainian officials. Otherwise, the structure of the

Fund was unaffected and by the end of the month the cash balance stood at a fairly elevated level of 18%. We consider the investment appetite for risk assets to be exceptionally sensitive to possibly binary political events on the global arena. Thus we will maintain our more conservative stance, with the decent cash kept for opportunistic investing in case of a rapid turnaround.

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