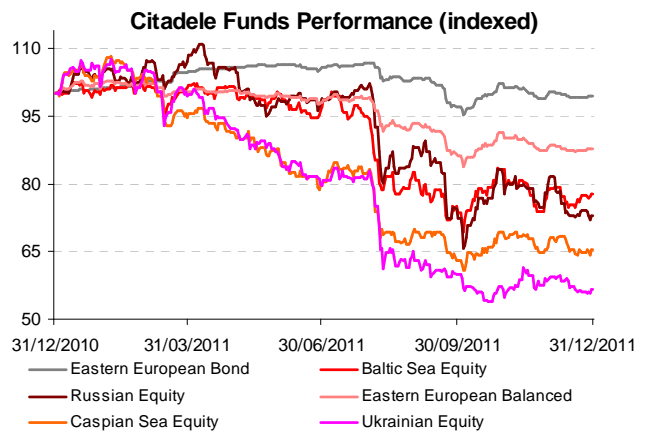




Citadele

Fund Manager Report. December 2011

December was, compared to the previous months, a relatively calm month in the World's equity markets. Most developed equity markets were roughly flat, leading to -0.2% return for MSCI World index. Russian equity market underperformed on the back of parliamentary elections and the following unrest in the country. Eastern European bonds also underperformed their global EM peers. Meanwhile, European leaders did not manage to come up with a sound plan for tackling the debt crisis, creating a risk off-loading and sending the US and German bond yields lower. Most commodities traded down – gold lost 9.7%, while Brent crude oil fell 2.4%.



Fund	Currency	Performance (as of December 31, 2011)				
		1m	3m	6m	12m	Since inception*
Citadele Eastern European Bond Fund	USD	-0.46%	2.56%	-5.95%	-0.52%	6.37%
Citadele Eastern European Balanced Fund	EUR	-0.14%	1.90%	-10.46%	-12.20%	4.13%
Citadele Russian Equity Fund	USD	-8.82%	0.95%	-26.33%	-27.11%	8.74%
Citadele Baltic Sea Equity Fund	EUR	-1.88%	5.66%	-20.14%	-22.35%	1.50%
Citadele Caspian Sea Equity Fund	EUR	-0.94%	3.61%	-18.56%	-34.71%	-21.03%
Citadele Ukrainian Equity Fund	EUR	-3.21%	-5.24%	-28.74%	-43.26%	-33.75%

* % annualized

Citadele Eastern Europe Bond Fund – USD

In December, global Emerging Market sovereign (+1.3%) and corporate (+1.0%) debt continued to outperform Eastern European segment with -0.5% and -0.8%, respectively (based on JP Morgan indices). Based on TDI indices, Russia and Ukraine performed similarly, losing around 0.1% in December, whereas Kazakhstan plunged 2.1% as country remains burdened with large non-performing banking sector assets.

In December, Russia's newswires were dominated and markets were driven by political events, as the election cycle began on December 4 with the parliamentary (the State Duma) elections, which were won by the ruling United Russia party receiving around half of total votes. Immediately, the validity of elections was questioned by observers, while the opposition gathered several mass protests demanding new elections. Although these events by headcount compare to the demonstrations during the fall of the

Soviet Union 20 years ago, a major overhaul in Russia's politics seems unlikely at the moment, in our view. Vladimir Putin remains the front-runner for presidential elections in March'12, still enjoying high individual ratings in most opinion polls. Nevertheless, tensions on the political front will likely remain in place until early spring, putting a downward pressure on the ruble and lifting up country's risk premium.

In the meantime, the latest statistics supported expectations that macro pulse in Russia continued to abate, as GDP grew 5.4% y/y in November vs. 5.6% in October. Nevertheless, owing to robust domestic demand growth, Russia's economy is expected to grow solidly by 4% in 2011, before slowing to ca. 3% growth in 2012. Within CEE periphery Kazakhstan delivered moderate industrial production results for November with a slight 0.6% m/m increase due to the growth in manufacturing industry, while Ukraine in the light of a global drop in metal prices experienced a 2.8% m/m slump in industrial production.

Yet Russia's banking sector continued to deliver healthy growth figures in November. All in all, the year-to-date performance has been very strong, with loan portfolio up by 26% and deposits +18%. Taking into account expectedly slower economy growth in 2012, the aggregate loan portfolio growth could shrink to mid-teens in the next year, in our view. Statistics released by financial regulators showed corporate deposit withdrawing in both Ukraine and Kazakhstan, which resulted in an overall increase in balance-sheet leverage of the region's financial institutions without any substantial enhancement in the asset quality.

On the monetary policy front, the Central Bank of Russia made further steps towards a free floating currency/inflation targeting at the end of the month by widening the EUR-USD basket band by RUB 1 to RUB 6 and decreasing the amount of interventions by USD 100m. Earlier it decided to cut its refinancing rate by 25bp to 8.0%, which overall might result in higher ruble volatility in the upcoming months.

Ukraine's financial markets were affected by Moody's decision to revise the country's credit rating outlook from stable to negative due to the lack of financial disbursements from IMF, the interruption in negotiations of a new gas delivery agreement with Gazprom as well as constantly declining country's international reserves.

During the month we opportunistically invested in an attractively valued short maturity Baltic placement. Otherwise, the end of the year was spent calmly without any substantial trading activity. As a result, the Fund's average yield reached 10.1% and the average duration was 2.3 at the end of the month, while net cash was marginally reduced to 6% of the assets.

The Fund slightly underperformed the market during the month. For the second consecutive month BTA bonds turned out to be the worst performer and put the Fund's monthly performance in the red. Now it is almost certain that debt restructuring will take place rather soon, as the management acknowledged that bank may have insufficient liquidity to make a coupon payment at the beginning of January 2012, though we believe the coupon is also used as a "stick" before the intensive negotiations with creditors start. Currently the bank's bonds trade at very distressed levels, while it is too early to tell whether the debt restructuring will be successful. Among other positions, Czech-based coal producer New World Resources was the largest positive contributor to the Fund's performance, followed by Alfa Bank Ukraine and Georgian Railways.

January will gradually bring markets back to more "normal" operational mode with European debt situation and global macro trends likely to dominate news and the overall sentiment. In this uncertain global setting we think a bottom-up selection of instruments pays off, which is what we will concentrate on, on a portfolio level preferring shorter overall duration.

Citadele Eastern Europe Bond Fund - EUR

In December, according to the changed mandate of the Fund, we sold out equity investments in Olainfarm, Westa, Halyk, Uranium One and in Central European

Distribution company. During the month, Privatbank bond successfully matured. The spare cash was reinvested in an attractively priced short maturity Baltic market placement, as well as in the Eurobonds of Azerbaijan Railways, a strategically important state-owned company in the Caucasus country.

In December, the Fund demonstrated better performance than the market overall, declining just 0.1%. In particular, various positions in Central Europe (New World Resources and Zlomrex), in Ukraine (Oschadbank and Alfa Bank Ukraine) and in Belarus (Belagroprombank) outweighed the negative effect from BTA Bank, which dropped in the anticipation of the very difficult second-round debt restructuring. At the end of the month, the Fund's average yield was 11.0% and the average duration remained at 2.5. Net cash balance was 3.5% of the Fund's assets.

Citadele Caspian Sea Equity Fund

Regional issues were in focus in the Central Asian region during December, as global investor sentiment brightened slightly on the back of ECB liquidity-enhancing measures and promising retail sales and unemployment data from the US. Violent riots in the Kazakhstan's city of Zhanaozen were detrimental for the country's investment reputation and reminded of the elevated political risks in the region. In addition, falling commodity prices added more fuel to the fire, as Brent oil gave up 2.8%, base metals LME index slid by 3.8% and gold recorded a disappointing 10.5% drop. As a result, Rencasia index lost 4.0% in EUR terms over the month, and was thereby outpaced by the general emerging markets universe represented by MSCI EM Index, which gained 2.4% in the same currency. The Fund slightly outperformed the benchmark over the month, however still declined by 3.4%.

From the perspective of regional contribution, Kyrgyzstan came as the major laggard of the month, as shares of gold mining companies reacted painfully to the commodity's depreciation – Manas Resources declined by 3.3% and Centerra Gold plunged by 13.0%. Elsewhere, Mongolia's weak performance was mainly attributable to Ivanhoe Mines and Southgobi Resources sliding by 9.7% and 13.4%, respectively. Meanwhile, Kazakhstan financial sector took a major hit, as one of the country's core banks Halyk gave up 11.6% and real estate company Chagala Group surrendered 21.7% on low trading volumes. Production facilities of local energy giant KazMunaiGas E&P were left undamaged after mass protests at Zhanaozen, however the worsened sentiment led to company's shares falling by 5.0%. By contrast, Kazakhstan's telecom sector exhibited resilience - shares of Kazakhtelecom edged up by 18.0% as the company signed an agreement with TeliaSonera to sell its 49% stake in GSM Kazakhstan. Finally, Georgia was the only positive contributor during December on the back of a strong +7.0% performance from Bank of Georgia and a surge in Liberty Consumer, which gained 99% as a result of thin trading activity.

Citadele Funds Manager Report

December 2011

The events of the previous month reminded investors that local country-specific risks of the region should not be neglected. Although Zhanaozen riots were curbed and did not spread to other parts of the country, the reputation of Kazakhstan among international investors was tarnished. Moreover, the ensuing resignation of Mr Kulibayev, Mr Nazarabayev's son-in-law and his possible successor, from the position of Samruk Kazyna CEO re-ignited speculations over political developments in the country in the face of upcoming Parliamentary elections. In addition, possible fluctuations in commodity prices are also likely to remain a risk factor. On the positive side, macroeconomic fundamentals of Kazakhstan, the driving force of the region, are stable. Country's banking sector is rebounding, as reports show that NPLs (calculated according to local standards) finally declined in November. According to Mr. Marchenko, the chairman of the National Bank, banking sector's loan portfolio is expected to add 12-15% during this year, and the share of bad loans is to decrease further.

As political risks ahead of the January parliamentary elections in Kazakhstan are escalated, we have adjusted the structure of the portfolio to be less vulnerable to sudden price drops. In particular, we have increased the cash position up to around 20% by the end of the year. For this purpose, we have partially sold Zaikmunai, Ivanhoe Mines and Kazakhtelecom. On the contrary, taking the opportunity of lower prices, the Fund expanded the list of holdings by investing into high-quality and high-value-added Mongolian coking coal producer Mongolian Mining Corporation, which we consider to be the most promising value investment among the peers of the region. We expect that the major focus during January will be on the political issues, which currently add nervousness to the markets. In case of peaceful stabilization, the region's political risk premium should converge back to the earlier levels.

Citadele Baltic Sea Equity Fund

December was, compared to a couple of previous months, a relatively calm month in the World's equity markets. Markets started off the last month of 2011 on a positive note on expectations of a constructive outcome from the European officials' meeting focused on fiscal discipline. However, the markets dropped right after, as the working group did not manage to agree on a sound plan for ending the European debt crisis. Second part of the month regained a positive note, led by better than expected economic statistics in US and to some extent also in Germany. Overall, the Fund lost 1.9% during the month. The weak performance of the Fund was mostly caused by the underperformance of the Russian equity market as the RTS index lost 10.3% due to the unrest that followed the parliamentary elections of early December. The Polish equity market also suffered strongly, losing 6.4%, but the Fund managed to gain from investments in Poland due to successful stock picking. Among remaining equity markets in the region, the best performers were Denmark (+1.2%), Norway (+1%) and Sweden (+0.9%), while Finland (-2.8%), Germany (-3.1%) and Baltic States (-2.9%) underperformed

marginally. From currency perspective, the Fund gained from the Euro depreciation against peers.

Healthcare was repeatedly the best performing sector, being the only one to yield a positive return. However, due to successful stock picking, the Fund also managed to gain from the Energy and IT sector stocks, despite the sectors falling notably in the composite benchmark. As for the Energy sector, the main positive contributors were Norwegian PGS and Statoil, whereas in the IT sector Atea and LPKF Laser & Electronics outperformed. In the Fund, the Financials and Industrials also lost only slightly. The largest value destructor for the Fund was Utilities sector, with Russian companies (e.g., Federal Hydrogenerating Co and Holding MRSK) leading the tumble. The Materials sector was also weak, with Mechel, K+S and Uralkali lagging behind. Consumer Staples generally performed in line with the market with Morpol the only exception as it lost value despite slightly stronger salmon price. During December, the Consumer Discretionary and Telecommunication sectors lost slightly. The latter was influenced by the bad news for Deutsche Telecom – AT&T was forced to withdraw its bid for DTE's subsidiary T-Mobile, as the competition authorities forbid the deal.

During December, we conducted relatively few transactions with the Fund's assets, reducing the cash position to 5%. Firstly, we added Fraport, the operator of a number of airports, including Frankfurt am Main, which is one of the major airports in Europe. Further during the month, we took profits from Atea, following its strong share price performance and increased the portion of Sberbank and Morpol in the Fund. Moreover, we added the branded clothing manufacturer Hugo Boss, as we expect the demand for luxury products to be more resilient to economic slowdown. Finally, the Fund invested into the German chemicals producer Lanxess, after its shares experienced a sharp decline and reached the level that seems to be attractive to us.

We maintain our vigilant view on the equity markets as the European debt crisis is still boiling. There are more than 150 billion Euros of European debt maturing in the first quarter of 2012, which will mostly need to be refinanced. We expect that the global equity markets will balance between the European debt issues and healthy economic statistics data from US.

Citadele Russian Equity Fund

Russian equities fell significantly during December as a reaction to widespread public protests against parliamentary elections' results. Media reports about unrests with increased security presence in capital and other major cities created an impression that there are attempts from the opposition in Russia to practice a scenario similar to Arab Spring events, and that the election outcome may embody the start of a period of significant changes in Russia together with social instability and escalated political uncertainty. These fears were among the reasons for the 10.8% decline in the RTS Index. Ruble also weakened noticeably versus the dollar-euro basket (-2.7%) as capital outflow intensified for the same political reasons.

According to EPFR data, during December there was about USD 370mn outflow from Russia-dedicated funds, while the global Emerging Markets universe's outflow was approx. USD 175mn during the same period.

The Fund's unit price declined by 8.8% in December, outperforming the RTS index, due to the successful stock selection within the Fund's portfolio in Energy, Materials and Financial sectors. The main laggards were Consumer sector, as well as Industrials shares. On the other side, the Fund benefited mostly from the Energy, Telecoms and Healthcare sectors. Positive contribution came also from the tactical trades with Evraz and Sberbank, where the Fund benefited from the escalated volatility of those share prices. We also added Rostelecom, Rushydro and Polymetal GDRs in the Fund. Overall, the Fund had a trade turnover of about 9.5% of its net asset value, which corresponds to the high level of market turbulence and is in line with our active management strategy. The other part was retained in the form of cash, standing at 4.4 % by the end of the reporting month as we decreased cash exposure in order to be ready for the possible New Year's rally.

We believe that Russian equities have a little chance of a quick recovery in nearest months as political uncertainty prevails, coupled with the low likelihood of an immediate breakthrough in resolving the EU debt crisis. Moreover, global economic environment is likely to remain predominantly discouraging and thereby pressure commodity prices down, while the oil price seems to be supported due to the tensions between the Western countries and Iran. Taking into consideration the way parliamentary elections took place makes us believe that the risk premium of the upcoming 2012 presidential elections can still rise. We also suppose that if there will be any positive impulse in Russian equities – liquidity may be the key factor and the large caps are to be the first to kick-off to the upside. We expect the market to continue being predominantly macro driven with most equities remaining highly correlated, leaving fewer specific themes to play. But looking for longer term more clarity on EU anti-crisis policy actions, possible further monetary easing from the world's major central banks and moderating political uncertainty in Russia shortly after the presidential elections could set the scene for a healthy rebound in 2H12.

Citadele Ukrainian Equity Fund

Ukrainian equities retreated in December, with trading volumes remaining subdued and major action coming from foreign-listed stocks, which, as measured by WIG-Ukraine Index, dove by 2.7% during the period, but outperformed local UX Index, which tumbled by 7.8%. Concerns that global economic growth is slowing and that the European debt crisis remains unresolved determined stocks' performance. The announcement that Moody's downgraded Ukraine's sovereign rating outlook from "positive" to "negative" also appeared to weigh on the market sentiment. The Fund's NAV declined by 3.2% during the last month, strongly outperforming the UX index, but slightly lagging the WIG-Ukraine index.

Every sector generated losses in the Fund, except for utilities, which eked out a slight gain on the back of double-digit returns posted by electricity distributor Zhytomyrenergo, rebounding after November's sharp drop. The cycle-sensitive sectors lagged, with materials declining the most as concerns that global economic growth is slowing hurt the commodity demand. Industrials also performed poorly, witnessing strong supply due to year-end portfolio rebalancing. Aside from utilities, traditionally defensive sectors such as consumer staples and telecommunications provided negative returns, but outperformed the broader market.

Stock-wise, Kernel (+1.2%) turned out to be another name that contributed positively to the Fund's performance in December. Most other consumer staples stocks lost some ground, with MHP and Agroton slumping by 2.3% and 2.6%, respectively. Having started December on a downbeat note, Astarta managed to erase a big chunk of steep losses in the second half of the month and ended with only 3.7% down on a strong set of operating figures, reporting 85% y/y surge in sugar output during the 2011 production season.

Jet-engine producer Motor Sich (-9.7%) appeared to be the biggest drag in the Fund's performance last month, followed by railcar producer Stakhaniv Railcar (-18.7%), coming under selling pressure from the expected slowdown in demand. In the materials sector, coal miners Komsomolets Donbassa (-33.1%) and Pokrovskoe Coal Mine (-20.9%), as well as coke producer Yasynivsky Coke (-22.2%) led the decline, posting losses in excess of 20%, followed by Avdiyivsky Coke (-14.2%), which disappointed the market participants by publishing poor 9M11 financials, revealing a 9M11 loss of UAH 16.2m, compared to net income of UAH 181.9m in 9M10. Meanwhile, Azovstal (-2.8%), Yenakiyev Steel (-7.3%) and Alchevsk Steel (-10%) held up somewhat better, despite the outlook for the steel sector remaining gloomy. Iron ore producers Northern Iron Ore (-1.3%) and Ferrexpo (-6.8%) fell the least.

Elsewhere, telecommunications name Ukrtelecom plummeted by 5.2% in December, while electricity generating company Centrenergo dropped by only 1.2%, receiving support from the encouraging privatization developments in the Ukrainian utilities sector.

In December, we have concluded only a couple of trades as year-end market activity was muted. The Fund added Westa, after its sharp share price drop, as we expect to see improving financials during the New Year. On the contrary, we have partially sold North Ore Mining and Processing Enterprise, as we expect the name to underperform the market in mid-term. For January, we expect to see escalated volatility environment on the local market amidst persisting uncertainties in the developed markets. We do not exclude investors' bargain-hunting attempts, which still, in our view, will be generally conditioned by the news from the Eurozone and the U.S. The global backdrop coupled with the escalating political tensions in the region are seen to remain the major factors in driving market performance during the coming month.

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