



**IMJSC Citadele Asset Management**  
2A Republikas laukums,  
Riga, LV-1010, Latvia

**Open-end Investment Fund**  
**Citadele Baltic Sea Equity Fund**  
**PROSPECTUS**

The Fund is registered in the Republic of Latvia

Registered with the Financial and Capital Market Commission:

The Fund was registered on: 07.03.2013.

with the registration number: FL/27-098/258

Amendments to the Prospectus:

Registered on 11.07.2013, effective as of 11.07.2013.

Custodian: JSC Citadele banka

Sworn Auditor: SIA "KPMG Baltics"

The Prospectus, Fund Rules, Key Investor Information, annual and semi-annual reports of the Fund, information on the Fund Value and sales and redemption price of investment certificates 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:

2A Republikas laukums,  
Riga, LV-1010, Latvia,  
on business days from 08:30 to 17:30  
[www.citadeleam.lv](http://www.citadeleam.lv)

Distributor of the Investment Certificates:

in Latvia: JSC Citadele banka  
2A Republikas laukums,  
Riga, LV-1010, Latvia,  
as well as branches and customer  
service centres of JSC Citadele banka  
[www.citadele.lv](http://www.citadele.lv)

## IMPORTANT INFORMATION

Citadele Baltic Sea Equity Fund, in accordance with the Law on Investment Management Companies of the Republic of Latvia, is an open-end investment fund, and it operates in accordance with the Directive 2009/65/EK as well as other binding legal acts of the European Union. The activities of IMJSC Citadele Asset Management, which manages assets of this fund, are regulated by legal acts of the Republic of Latvia.

The Investment Certificates of the Fund are distributed in accordance with this Prospectus.

**Prevention of Money Laundering.** According to legal acts of the Republic of Latvia, the Company or Distributor has the right to request that the Investors to submit documents confirming legal capacity as well as identity of the Investor and his/her representative or copies of such documents duly approved by a notary.

Where the Investor refuses to submit to the Company the required documents, the Company has the right to reject the application for investment certificates without explanation. Further information about such requirements is available at the Company.

**Unfair Commercial Practice.** The Company does not allow performance of unfair transactions and market manipulation with financial instruments, as a result of which investors' rights or legal interests are injured.

**Market Timing.** The Company deliberately prevents performance of transactions with investment certificates that constitute market-timing practice; as such practice is detrimental to the interests of other Investors. Market timing practice takes advantage of the potential time difference between changes in the value of the financial instruments portfolio of the Fund and reflection of such changes in the Fund share value. The Company uses various methods to reduce the risk of market timing:

- control of frequent purchase/sale transactions involving investment certificates of the Fund;
- selective detailed investigation of cases involving active trade with investment certificates of the Fund.

The Company, using the mentioned methods for reduction of the risk caused by market timing, strives to apply this method in the interests of the Investors. The Company cannot ensure that it has sufficient information to identify market-timing practice. Even though the Company strives to detect market-timing practices, it cannot guarantee that this practice is completely eliminated.

**Data Protection.** The Investor (natural person) agrees that the Company, Custodian or Distributor processes personal data about the Investor. That includes also requesting and receiving the Investor's personal data from any third parties and databases established in accordance with procedure prescribed in legal acts of the Republic of Latvia, where the Company, Custodian or Distributor deems it necessary for ensuring compliance with the requirements prescribed by legal acts of the Republic of Latvia and/or country in which investment certificates of the Fund are distributed, for establishing legal relationship between the Investor and Company, Custodian or Distributor, or for meeting obligations.

**Distribution of Investment Certificates of the Fund.** Shares of the Fund shall not be distributed in countries where the Fund is not registered or where the relevant state authorities have not been duly informed about the distribution. Thus, this Prospectus shall not be regarded as a public offer or an advertisement in countries where the Fund is not registered or where the relevant state authorities have not been duly informed about the distribution.

Investment certificates of Citadele Baltic Sea Equity Fund will be quoted on the investment fund list of the NASDAQ OMX Riga.

### Risk Note

Despite the fact that the Company operates in accordance with the principles of diversification, general risks related to activities of investment companies and investments remain. The Investors should be aware that specific investment strategy aimed at investments in the Baltic Sea Region is subject to particular risks, especially liquidity risk, issuer's default risk and market concentration risk. Information on these risks as well as other risks and a description of risks is set forth in Chapter 4 of the Prospectus. The Investors should carefully study the information on risks contained in this Prospectus. Prior to making investments the Investors without relevant experience should consult an independent financial adviser to make an informed decision on the offered fund investment strategy and to ensure that the fund strategy, including potential risk, is appropriate for the investor's financial condition.

### Notification to Investors

**A high fluctuation level is characteristic of the value of an investment share of the Fund.**

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## **DEFINITION OF ABBREVIATIONS AND TERMS USED IN THE PROSPECTUS**

### **JSC Citadele banka and/or the Custodian**

The custodian of the open-end investment fund Citadele Baltic Sea Equity Fund.

**JSC** Joint Stock Company.

### **Redemption**

Redemption of investment certificates by the Company upon the request of the Investors for the current price determined in accordance with Paragraph 9.2 hereof.

### **Repurchase**

Repurchase of investment certificates by the Company with compensation for losses (where the Company and/or the Distributor and/or the Intermediary is responsible for errors or omissions in information stated in the Prospectus).

### **Derivatives**

Financial instruments whose value changes depending on respective interest rate, security price, currency exchange rate, price or interest rate index, credit rating or similar variable and by which one or several financial risks inherent in derivative primary underlying financial instrument are transferred between individuals involved in the transaction. No or minor initial investment is required for the purchase of a derivative compared to other contracts that also depend on changes in market environment, moreover, settlement for the contract takes place in the future.

### **Open-End Investment Fund**

A fund, the aim of which is aggregation of publicly acquired money resources for investment in transferable securities and other liquid financial instruments by following the risk mitigation principle and the investment limits, whose investment management company is under obligation to redeem investment certificates upon request of the investors.

### **Foreign State**

Any state other than the Republic of Latvia.

### **Member Country**

A member country of the European Union or the European Economic Area.

### **Group of Ten**

The countries that have concluded the General Arrangements to Borrow with the International Monetary Fund.

**MTF** Multilateral Trading Facility.

**EEA** European Economic Area.

**EU** European Union.

**EUR** Euro – currency unit of the European Monetary Union.

### **Financial Instruments**

Agreements that simultaneously give rise to financial assets for one person and financial liabilities or equity securities for another person.

### **Fund Manager**

The Investment Committee, appointed by the Executive Board of the Company, to perform functions of the Fund Manager, observing provisions of the Prospectus, resolutions of the Executive Board of the Company, investment policy of the Fund in accordance with procedures prescribed by the effective legal acts of the Republic of Latvia and the Fund Rules.

### **Fund Ongoing Charge**

The payments that are made from assets of the Fund notwithstanding the fact whether they are the mandatory payments that are necessary to ensure activities of the Fund, or a remuneration of a third party that is related to activities of the Fund or renders services to the Fund.

**Fund Ongoing Charges Figure**

The Fund ongoing charges figure is defined as a relation of the Fund total ongoing charges to the Fund average annual net asset value, expressed as a percentage.

**Fund Value**

For the purposes of this Prospectus and Rules, it is also referred to as the Fund net asset value.

**Fund** The open-end investment fund Citadele Baltic Sea Equity Fund founded by IMJSC Citadele Asset Management.

**IF** Investment Fund.

**Investment Fund Share**

IF share represents the right of claim attached to one investment certificate in proportion to the value of such share. The Fund share value is the fund net asset value divided by the number of investment certificates in circulation.

**Investor**

A person who owns an investment certificate of the investment fund.

**Investment Certificate**

A transferable security that represents investor's interest in the investment fund and rights attached to such interest.

**IMJSC** Investment Management Joint Stock Company.

**Equity Securities**

Financial instruments representing ownership interest in issuer's capital (e.g., stocks).

**Baltic Sea Region**

For the purposes of this Prospectus the Baltic Sea Region comprises the following countries: Denmark, Estonia, Russia, Latvia, Lithuania, Norway, Poland, Finland, Germany, and Sweden.

**Account Holder**

A legal person entitled to open, hold and close financial instruments accounts in accordance with the Law on the Financial Instruments Market and regulations of the LCD or a legal person which can ensure keeping of financial instruments in the LCD through interbank or central depository correspondent relations.

**Latvian Central Depository and/or LCD**

A joint stock company which performs booking and accounting of financial instruments issued in public circulation in the Republic of Latvia and provides for financial instrument and cash settlements in transactions with financial instruments on a regulated market as well as financial instrument settlements among financial instruments account holders.

**Law** Law on Investment Management Companies.

**RL** Republic of Latvia.

**Money Market Instruments**

Highly liquid short-term debt securities whose value can be determined at any time (treasury bills, certificates of deposit, commercial paper etc.) usually traded on the money market.

**OECD** Organisation for Economic Co-operation and Development.

**Base Currency**

The currency in which the Fund Value and the Fund share value is expressed. The base currency of IF Citadele Baltic Sea Equity Fund is Euro.

**Debt Securities**

Securities representing issuer's liability to repay the debt to the holder of such security (e.g., bonds, promissory notes etc.).

**Transferable Securities**

Securities with unrestricted rights to transfer them.

**Publicly Available Information**

Detailed information about the Fund, the Company and the Custodian that is available to all Investors pursuant to legal acts of the Republic of Latvia. The Publicly Available Information is the Prospectus, Fund Rules, key investor information, annual and semi-annual report of the Fund, time and places of distribution of the Investment Certificates, the total value of the Fund and the Fund share value, sales and redemption prices for the Investment Certificates, information about the Company, information about the Custodian.

**Regulated Market**

A set of organisational, legal and technical measures which make possible entering into open and regular transactions in financial instruments.

**Company**

IMJSC Citadele Asset Management.

**Interested Persons of the Company**

Members of the Council and officers of the investment management company, shareholders who own 10 and more percent of the voting shares of the Company, as well as spouses, parents or children of such persons.

**Systematic Internaliser**

An investment brokerage company or a credit institution that deals on its own account on an organized, frequent and systematic basis by executing customer orders outside a regulated market or a multilateral trading facility.

**Intermediary**

Legal entities, incl. brokerage companies, depositaries, banks and other persons executing transactions in financial instruments attracted by the Company performing management of the Fund, or the Custodian for custody of assets of the Fund and/or order of the Company for execution of transactions with assets of the Fund.

**Execution Venue**

A regulated market, an MTF or a systematic internaliser, which acts in such status, or a system functioning similarly to a regulated market or MTF outside the EU.

**Custodian**

A person responsible for custody of, accounting for and effecting transactions with assets of the Fund, as well as for other obligations prescribed by legal acts of the RL and the custody agreement between the Custodian and Company.

**Custodian's Interested Persons**

Members of the Council and the Executive Board of the Custodian, shareholders who own 10 and more percent of the Custodian's voting shares, as well as spouses, parents or children of such persons.

**Custody Agreement**

Written agreement between the Company and the Custodian, whereby the Custodian undertakes to keep in custody the property of the Fund, to perform transactions with the property of the Fund, and to service accounts of the Fund in accordance with legal acts of the RL, the Custody Agreement, Prospectus and upon instructions of the Company.

**Financial and Capital Market Commission and/or the Commission**

An independent public institution, which, in compliance with its goals and objectives, enjoys full rights to regulate and supervise the financial and capital market and activities of its participants. The Commission makes independent decisions within the limits of its authority, performs functions assigned to it by legal acts of the RL, and is responsible for their execution.

## **1. GENERAL INFORMATION ON THE INVESTMENT FUND**

### **1.1. Objective of the Activities of the Fund**

The investment objective of the open-end investment fund Citadele Baltic Sea Equity Fund is long-term capital growth from investments in shares of those issuers who are registered or whose main activities take place in the Baltic Sea Region. The income of the Fund will comprise share price increases and dividend payments.

### **1.2. The Fund and the Legal Status of Its Property**

The **investment fund** is a pool of assets formed by investments made against investment certificates as well as assets obtained in transactions with the investment fund property and on the basis of rights owned thereby.

The **base currency** of Citadele Baltic Sea Equity Fund is Euro (hereinafter, EUR).

The investment fund is not a legal person.

Citadele Baltic Sea Equity Fund, in accordance with the Law, is an open-end investment fund, and it operates in accordance with legal acts of the European Union. The Company that manages the Fund is required to redeem investment certificates upon the request from the Investors.

The **property of the Fund** is a joint property of its investors to be held, booked and managed separately from the property of the Company and other funds under its management, as well as separately from the Custodian's property.

If the Custodian uses the Intermediaries for holding financial instruments, then, taking into account peculiarities of the property right and legal acts governing accounting of the same of the corresponding Foreign State, the property right to financial instruments may be registered in the name of the Custodian, Company or third party as well as in the name of a third party attracted by the Intermediary. In its turn, the Custodian accounts the property rights to such financial instruments belonging to the Company/Fund in accordance with the RL legal acts.

Should the Company or the Custodian be declared insolvent or liquidated, the property of the Fund shall not be included in the property of the Company or the Custodian.

### **1.3. Fiscal Year of the Fund**

The reporting period of the Fund is 12 months, and it coincides with the fiscal year of the Company. The fiscal year of the Fund coincides with the calendar year.

The first reporting year of a new fund may represent a shorter or longer time period, but it shall not be longer than 18 months. A decision on duration of the first reporting year shall be made by the Executive Board of the Company.



## 2. SUMMARY OF EXPENSES RELATED TO TRANSACTIONS WITH INVESTMENT CERTIFICATES AND MANAGEMENT OF THE FUND

### 2.1. Commission on Transactions with Investment Certificates

The commission for the sale of investment certificates is calculated as a percentage of the Fund share value. The purchase commission for the investment fund Citadele Baltic Sea Equity Fund is up to 3.0% of the Fund share value.

There is no commission for redemption of investment certificates.

### 2.2. Amount of Payments of the Fee for Management of the Fund

As a percentage per annum from the Fund average net asset value

Beneficiary	Amount of the Fee
Company	2.00 %
Custodian	0.18% *
Sworn Auditor	0.10%
Maximum Amount for Management of the Fund	4.00%

\* The total amount of the fee of the Custodian, including other payments, shall not exceed 0.50% per annum.

### 2.3. Other Payments from the Property of the Fund

Other expenses shall be covered from the property of the Fund if they are justified by external source documents and the RL legal acts regulating activities and accounting procedures of investment management companies and investment funds.

Other payments comprise such expenses as transaction charges, broker fees, and interest on loans, fee for registration of amendments of the Prospectus and/or Rules of the Fund, for supervision of the Fund and similar payments, custody of financial instruments, fee for including in and quoting of investment certificates on the lists of the stock exchanges, for legal and other professional consultations, the costs, which are related to distribution of the investment certificates of the Fund as well as similar costs and the like.

A charge for processing of a transaction is determined in accordance with the effective pricelist of the Custodian.

*The purpose of the above information is to provide a general estimate of total expenses to be covered directly or indirectly by the Investor who purchases investment certificates of the Fund. Further information on procedures for calculating and paying such expenses is explained hereinafter as well as in the Fund Rules.*

### 3. INVESTMENT POLICY AND INVESTMENT RESTRICTIONS

#### 3.1. Investment Objective

The *investment objective* of the open-end investment fund Citadele Baltic Sea Equity Fund is long-term capital growth from investments in shares of those issuers who are registered or whose main activities take place in the Baltic Sea Region. It is planned to receive the income of the Fund from share price increase and received dividends.

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

- up to 100% of the Fund assets can be invested in equity securities issued by corporations. No less than two thirds of the Fund assets can be invested in equity securities issued by corporations, which are registered or main activities of which take place in states of the Baltic Sea Region;
- up to 25% of the Fund assets can be invested in deposits with credit institutions;
- up to 25% of the Fund assets can be invested in debt securities issued or guaranteed by government, municipalities and credit institutions as well as debt securities issued by corporations;
- up to 25% of the Fund assets can be invested in money market instruments issued or guaranteed by government, municipalities and credit institutions as well as money market instruments issued by corporations;
- up to 10% of the Fund 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).

#### 3.2. Investment Objects and Types

The Fund assets can be invested in the following financial instruments:

- 1) equity securities issued by corporations registered in the Baltic Sea Region or OECD member countries;
- 2) debt securities and money market instruments issued or guaranteed by central banks, governments and municipalities of member countries or OECD member countries;
- 3) debt securities and money market instruments issued or guaranteed by government and municipalities of the Baltic Sea Region;
- 4) debt securities and money market instruments issued or guaranteed by credit institutions as well as by corporations of the Baltic Sea Region, member country, or OECD member countries;
- 5) deposits with credit institutions licensed in a member country or OECD member country that is included in the Group of Ten;
- 6) investment certificates (shares) of open-end funds or similar collective investment undertakings registered in member countries and other countries.
- 7) to provide protection against the risk of fluctuations in market value of the Fund assets that may arise due to changes in asset prices or exchange rates, the Fund Manager has the right to invest in derivatives at the expense of the Fund. The Fund Manager has the right to enter in derivatives transactions at the expense of the Fund with the purpose to make profit. For information on additional risks arising from transactions in derivatives, see Chapter 4 'RISKS' hereof;
- 8) the Fund Manager can enter into (repo) transactions for repurchase of financial instruments at the expense of the Fund to achieve short-term liquidity;
- 9) where necessary for operations of the Fund, the Fund Manager has the right to keep a part of the Fund assets in liquid assets including cash.

##### 3.2.1. Investments into Transferable Securities and Money Market Instruments

1. Investments of the Fund can be made in freely transferable securities and money market instruments that meet at least one of the following criteria:
  - 1) they are traded on a regulated market;
  - 2) they are included in the official listing of a stock exchange of countries of the Baltic Sea Region, OECD member countries, or they are traded at an execution venue, MTF or systematic internaliser of these countries, or they are traded in a system functioning similarly to a regulated market or MTF outside the EU;

- 3) they are not included in the official listings of stock exchanges or are not traded on regulated markets, but the rules governing the issue of such securities and money market instruments provide that they will be included in the official listings of the stock exchanges or regulated markets referred to in Subparagraphs 1) and 2) of Paragraph 1 of Paragraph 3.2.1, and that these securities or money market instruments will be included there within one year from the date of commencement of subscription to these securities or money market instruments;
2. The Fund assets can be invested in money market instruments that are not traded on regulated markets, if they are transferable without restrictions (there are no conditions restricting execution of transactions) and upon one of the following conditions:
  - 1) they are issued or guaranteed by a member country or municipality of a member country, other country (in federal country – one of the members of federation) or international financial institution if one or several member countries are its members;
  - 2) they are issued or guaranteed by the central bank of a member country, by the European Central Bank or the European Investment Bank;
  - 3) they are issued by a corporation whose securities are traded in accordance with Subparagraphs 1) and 2) of Paragraph 2 of Paragraph 3.2.1;
  - 4) they are issued or guaranteed by a credit institution which is registered in a member country, and the activity of which is supervised by a body supervising financial services in accordance with the requirements of the EU, or an issuer, whose activity is regulated by the requirements that are not less severe than the ones determined by the EU and which meets at least one of the following requirements:
    - a) it is registered in OECD member country that is included in the Group of Ten,
    - b) an investment level rating has been assigned to it,
    - c) a thorough analysis of the legal regulation of activity of an issuer certifies that the requirements regulating its activity are not less severe than the ones determined by the European Union.
  - 5) they are issued by a corporation, the amount of capital and reserves of which amounts to 10 million Euro or equivalent amount in lats according to the exchange rate set by the Bank of Latvia or exceeds this amount, and which prepares and publishes an annual report in conformity with the requirements to preparation and publication of annual reports that are equal to the once effective in the EU. Such corporation is in a group with one or several corporations the shares of which are traded on a regulated market and which is intended to attract monetary assets to the group, or such corporation is a structure founded for the special purpose specialising in turning of debts into securities, and which have concluded an agreement on liquidity maintenance with such bank that meets the requirements to a credit institution stipulated in Subparagraph 4) of Paragraph 2 of Paragraph 3.2.1. The protection of Investors that is equal the protection referred to Subparagraph 1), 2), 3) and 4) of Paragraph 2 of Paragraph 3.2.1 is applied to investments in such money market instruments.
3. Where the invested amount does not exceed 10% of the Fund assets, the Fund investments can be made in transferable securities and money market instruments other than those referred to in Paragraph 3.2.1.

### **3.2.2. Deposits in Credit Institutions**

1. The Fund assets can be deposited with a credit institution that has obtained a licence for credit institution operations in a member country or OECD member country that is included in the Group of Ten.
2. Deposits in credit institutions may be made if they are repayable on demand or they can be withdrawn prior to the end of the time limit and the time limit thereof does not exceed 12 months.

### **3.2.3. Investments in Fund Investment Certificates**

1. The Fund assets may be invested in investment certificates or shares of open-end funds or collective investment undertakings comparable thereto which are registered in a member country, which are subject to regulation that is analogous to the requirements of the Law.
2. The Fund assets may be invested in certificates or shares of foreign open-end funds or collective investment undertakings comparable thereto if an investment fund meets the following requirements:
  - 1) it is registered in a country in which the legal framework provides for the state supervision of such undertakings which is of equal value with the supervision specified in this Law, a supervisory body of the respective country collaborates with the Commission;

- 2) its principles of operation, including protection of investors, investment and transaction restrictions, are analogous to the provisions of the Law regarding the operation of open-end funds;
- 3) it prepares and make public semi-annual and annual reports to enable the assessment of its assets, liabilities, income and operations over the reporting period.
3. The Fund assets may be invested in the certificates (shares) of the open-end funds and collective investment undertakings referred to in Paragraphs 1 and 2 of Paragraph 3.2.3 if the Prospectus, the Fund Rules or comparable document of the open-end fund or collective investment undertaking provides that investments in other funds or collective investment undertakings may not exceed 10% of the assets of the fund or collective investment undertaking.

### **3.2.4 Transactions in Derivatives**

1. The Fund assets may be invested in futures, plain vanilla options and swaps which are traded on the markets referred to in Paragraph 1 of Paragraph 3.2.1 of this Prospectus or the over-the-counter derivatives and which concurrently meet the following requirements:
  - 1) their underlying assets are the financial instruments referred to in Paragraph 3.2.1, 3.2.2 and 3.2.3 of this Prospectus, financial indices, interest rates, exchange rates or currencies in which in accordance with the Prospectus or Rules it is intended to make investments of the Fund assets;
  - 2) the counterparty to the transactions in over-the-counter derivative financial instruments shall be a credit institution which meets the requirements of Paragraph 1 of Paragraph 3.2.2 of this Prospectus, or an investment brokerage company the amount of capital and reserves of which amounts to 10 million Euro or equivalent amount in lats according to the exchange rate set by the Bank of Latvia or exceeds this amount, which is registered in a member country or OECD member country that is included in the Group of Ten, and the operation of which is supervised of a body supervising financial services;
  - 3) reliable and verifiable valuation of the over-the-counter derivative financial instrument takes place each day and the derivative may be sold or liquidated at its fair value at any time at the initiative of the company by an offsetting (reverse) transaction.

### **3.3. Investment Limitations**

1. The Fund investments, excluding the Fund investments referred to in Paragraph 2 of Paragraph 3.3, in transferable securities or money market instruments of a single issuer may not exceed 5% of the Fund assets. The limit referred to can be increased up to 10% of the Fund assets, but in that case the aggregate value of investments exceeding 5% may not exceed 40% of the Fund assets.
2. The Fund investments in transferable securities of a single issuer can be increased up to 25% of the Fund assets if they are debt securities issued by a credit institution registered in a member country and if the terms of such debt securities provide that acquired funds will be invested in assets that during the entire duration of the debt security fully secure the liabilities arising out of such debt security, and such liabilities have priority fulfilment if the issuer becomes insolvent.
3. If the value of debt securities issued by a single issuer referred to in Paragraph 2 of Paragraph 3.3 and owned by the Fund exceeds 5% of the Fund assets, the total value of investments of the Fund exceeding 5% restriction may not exceed 80% of the Fund assets.
4. The Fund investments in a single credit institution may not exceed 20% of the Fund assets. Such limitation does not apply to on-demand claims against the Custodian.
5. Investment of the Fund assets in investment certificates of one open-end investment fund may not exceed 10% of the Fund assets. The total investments of the Fund in certificates (shares) of the collective investment undertakings referred to in Paragraph 2 of Paragraph 3.2.3 may not exceed 30% of the Fund assets.
6. Total risks arising from transactions in derivatives, including in the derivatives included in transferable securities or money market instruments may not exceed the Fund net asset value. In calculating the total risk, the value of the underlying assets of the derivative instrument, the counterparty risk, the future market movements and the time required to close the relevant position shall be taken into account. The total risk value also includes the risk arising from further investment of the proceeds received from REPO transactions

The Company applies **the commitment approach to valuation of the total risk of the Fund.**

7. Risk position in transactions in over-the-counter derivatives with each counterparty may not exceed:
  - 1) 10% of the Fund assets if the counterparty is a credit institution that has obtained a licence for credit institution operations in a member country or OECD member country that is included in the Group of Ten;
  - 2) 5% of the Fund assets if the counterparty is an investment brokerage company the amount of capital and reserves of which amounts to 10 million Euro or equivalent amount in lats according to the exchange rate set by the Bank of Latvia or exceeds this amount, which is registered in a member country or OECD member country that is included in the Group of Ten, and the operation of which is supervised of a body supervising financial services.
8. Taking into account that transactions in derivatives can be performed at the expense of the Fund for the purpose of gaining profit, the limitations prescribed by this Paragraph 3.3 shall apply to the underlying asset of the derivative.
9. Disregarding the investment limits specified separately established in Paragraphs 1, 4, 6, and 7 of Paragraph 3.3, the total investments of the Fund in transferable securities and money market instruments, the deposits and transactions in derivatives of the Fund where the issuer, guarantor, deposit taker, or counterparty is the same person may not exceed 20% of the Fund assets. In applying the investment limits prescribed by this Paragraph, corporations belonging to one group shall be considered as one person.
10. The investment limits specified separately established in Paragraphs 1, 2, 3, 4, 6 and 7 of this Paragraph cannot be aggregated, which means that the total investments of the Fund in transferable securities and money market instruments, investment funds deposits and transactions in derivatives where the issuer, guarantor, deposit taker, or counterparty is the same person may not exceed 35% of the Fund assets.

#### **3.4. Investment Limitations in Respect of Single Issuer**

1. Fund investments in separate investment objects may not exceed the following criteria:
  - 1) 10% of the nominal value of those shares of one issuer which carry no voting rights;
  - 2) 10% of the total amount of debt securities issued by one issuer;
  - 3) 10% of the total value of money market instruments issued by one issuer;
  - 4) 25% of the number of investment certificates of one open-end fund or collective investment undertaking.
2. Investments of assets of all funds managed by the Company shall not either in total or for each fund separately directly or indirectly exceed 10% of any of the following criteria:
  - 1) fixed capital of one issuer;
  - 2) total amount of voting rights of one issuer.
3. The Fund assets may not be given out in loans or invested in real estate, precious metals and derivatives the underlying asset of which are precious metals or commodities.

#### **3.5. Exceeding the Investment Limits**

Exceeding the investment limits is permissible if such situation arises from exercising the subscription rights associated with transferable securities or money market instruments belonging to the property of the Fund or from other conditions that the Company was unable to foresee. In order to prevent the exceeding of investment limits, the Company has to sell securities in accordance with the risk reduction principle and interests of the Investor.

Investment limits referred to in Subparagraphs 2), 3) and 4) of Paragraph 1 of Paragraph 3.4 can be exceeded at the moment of investing if at that moment it was not possible to determine or calculate the value or quantity of issued securities with inherent liabilities or the value or quantity of investment certificates in circulation.

The Company shall immediately inform the Commission about exceeding the investment limits and the corrective measures to be taken.

#### **3.6. Loans at the Expense of the Fund**

To accommodate requests to redeem investment certificates or to meet other liabilities of the Fund, including settling such expenses of the Fund that, if not paid on time, may cause losses to the Fund, the Company can borrow on the Fund's account in total up to 10% of the Fund net asset value, but only for short-term up to three months.

The decision about borrowing on the Fund's account shall be taken by the Fund Manager in accordance with the Prospectus, Fund Rules and Articles of Association of the Company.

### **3.7. General Provisions**

The Company conducts business with the property of the Fund in accordance with the Law, this Prospectus, Fund Rules and other legal acts in force in the Republic of Latvia.

The Company has no right to take on liabilities at the expense of the property of the Fund, if these liabilities are not directly related to the Fund. The Company may not conduct transactions without compensation with the property of the Fund. Claims against the Company and claims inherent in the Fund assets shall not be netted.

The property of the Fund shall not be pledged or otherwise encumbered except in cases provided for in the Law and the Prospectus.

The Company is not allowed to sell securities or to undertake liabilities for selling securities at the Fund's expense if these securities are not the property of the Fund at the time of the transaction.

Upon evaluation of compliance of the investment portfolio of the Fund with investment restrictions, the investment value determined by using procedures described in Chapter 7 of the Prospectus 'METHODS AND PROCEDURES FOR DETERMINING THE FUND NET ASSET VALUE' shall be used.

### **3.7. Choice of Investment Objects**

Investment objects shall be chosen in accordance with the principles of the investment policy of the Fund and investment restrictions as well as in accordance with procedure prescribed by the Fund Rules, observing the principles of diversification and risk reduction.

The Investment Committee, appointed by the Executive Board of the Company manages the property of the Fund, makes decisions and issues orders. The Investment Committee performs functions of the Fund Manager in accordance with provisions of the Prospectus, resolutions of the Executive Board of the Company, investment policy of the Fund and procedures stated by the effective RL legal acts and Fund Rules.

## 4. RISKS

### 4.1. 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. 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. According to the long-term strategy of the Fund, the Fund is more suitable for the Investors who want to make investments for the term not less than 3 years.

### 4.2. 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 shares. The following risks must be distinguished in this respect:

**General Market Risk** – a risk that the price of securities or other financial instruments as well as income from them will change due to the factors attributed to interest rate changes (in case of debt securities) or broad changes in the capital market (in case of equity securities) and these changes are not related to a particular issuer of securities. The market risk includes the price, currency, interest rate and liquidity risk.

**Specific Risk** – possibility to suffer loss where the price of a debt security will change because of the factors related to the securities' issuer or – in case of financial derivatives – to the person issuing the security that is the underlying asset of the financial derivative.

**Price Risk** – a risk to suffer losses in connection with fluctuations of the price of financial instruments.

**Currency Risk** – a risk to suffer losses in connection with exchange rate fluctuations.

**Interest Rate Risk** – a risk to suffer losses in connection with fluctuations of market interest rates.

**Liquidity Risk** – a risk that a position in the investment portfolio of the Fund cannot be sold, liquidated or closed at limited cost in an adequately short time frame and that the ability of the fund to repurchase or redeem its investment certificates at the request of any unit-holder is thereby compromised.

**Issuer's Risk** – a risk to suffer losses in connection with worsening of financial performance of an issuer of financial instruments, issuer's default or insolvency.

**Counterparty Risk** – a risk of loss for the Investor in case the counterparty to a transaction will default on its obligations before the final settlement of the transaction's cash flow in connection with action and/or omission of a counterparty or the Intermediary (for example, in connection with fraud or negligence of the Intermediary, improper accounting of financial instruments or monetary funds held by an Intermediary), the Intermediary's insolvency or other process, by which its activity is restricted or suspended. While planning the investment policy of the Fund, the Company takes into account safety of investments and custody safety in each particular country, and safety of investing in specific financial instruments and bank term deposits, i.e. analyses credit ratings of each country, bank or enterprise. Occurrence of this risk may create partial or full default on liabilities with respect to a particular financial instrument, cause full or partial loss, sustained unavailability of financial instruments, making execution of orders difficult or impossible, impossibility to exercise the rights related to financial instruments (for example, voting rights) in connection with insolvency (bankruptcy) of the Intermediary that is a custodian of financial instruments or is involved in execution of orders, or in connection with the other process restricting or suspending its operation, and may affect the Fund Value and, thus, the value of each share of the Fund. It should be taken into account that foreign legal acts and market practice that may materially differ from acts and practice existing in the RL may be applied to holding of the financial instruments that are a part of the property of the Fund and the Intermediary's insolvency process.

**Market Concentration Risk.** Due to the fact that 100% of the Fund assets may be invested in the specific region (in shares of enterprises of the Baltic Sea Region), the market concentration risk inherent to the Fund is higher than the risk of the fund that is more diversified geographically.

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

**Systemic Risk** – a risk to suffer losses in connection with impossibility to make settlements or transfers caused by interruption of operations of settlement centres or settlement systems.

**IPO (Initial Public Offering) Risk** – it is related to the possible investments of the Fund in initial public offerings (IPO's). This is a risk that the share price on the post-IPO market is very volatile due to such factors as lack of previous market, lack of previous trading experience, limited number of shares available for trading and limited information about the issuer.

**Derivatives Risk** – the 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.

**Transactions in derivatives may result in insolvency and encumber objects of the property of the Fund, without the possibility to estimate the amount of possible losses in advance.**

**Main Foreign Investment Risks:**

- political risk – is related to the fact that investment countries get involved in military conflicts and warfare, as well as risk of unfavourable changes in political environment of countries. Such factors usually have a major impact on the economical or political stability, financial markets of the respective country or region, and thus may have an impact on the performance of the Fund;
- economic risk – a risk of changes in economic situation of investment regions, such as economic recession, excessive inflation, banking crisis, etc.;
- currency risk – this risk pertains to possible losses, which the holder of the fund's investment certificates may incur due to adverse currency fluctuations. The base currency of the Fund is EUR, but the Fund assets may also be placed in financial instruments denominated in other currencies, consequently, there is a risk of change in the value of foreign currency in relation to the base currency of the Fund;
- information Risk – inaccessibility or lack of true and complete securities market information reflecting the real situation of an issuer, prices of financial instruments, exchange rates, market tendencies;
- legal or Regulatory Risk – a risk of possible changes in national, foreign and international legal acts, resolutions and acts of the legislator, judicial power, executive power (including tax policy) resulting in additional expenses or losses inflicted upon the Fund;
- 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 property of the Fund may be burdened more than if investments were made on the local market;
- risk of holding of the financial instruments issued in the Foreign States – it is connected with accounting of the financial instruments and monetary funds held and accounted by the Intermediary in a Foreign State that are owned by the Fund and the rights related thereto. The Investor shall be aware of the fact that action, inaction and responsibility of such Intermediaries is regulated by legal acts and market practice of the country of registration of the Intermediary that may be less favourable for the Investor and may essentially differ from the RL legal acts and markets practice related to holding of financial instruments and the rights related to financial instruments.

**4.3. Risks Related to Business Activities of the Investment Company**

Activities of investment management companies, like any other profit driven business activities, are subject to risk of decrease in profits or incurrence of losses.

Current norms of legal acts of the RL regulating activities of the investment management company have a substantial and positive impact on possible risks arising for investment management companies.

The legal acts regulating activities of investment management companies contain provisions protecting interests of investors and promote risk reduction, as well as entitle the Financial and Capital Market Commission, which is a fully legitimate autonomous state body that regulates the financial and capital market and its participants in accordance with the purpose of its activity and tasks, to act on behalf of the RL regulating activities of securities market participants, including investment management companies, and controlling public circulation of financial instruments, including investment certificates, in the Republic of Latvia.



Legal acts of the RL provide an important norm protecting the interests of investors: should the rights of the investment management company to manage funds be deformed (for example, insolvency or bankruptcy), investment funds under its management shall not be liquidated, but, instead, the management company of such funds shall be replaced.

Risks related to business activities of the investment company are as follows:

**State Regulation** – an external risk related to stability of the state legislation and legal acts. The revision of legal acts regulating business activities of investment companies is a substantial state regulation risk factor.

**Changes in Political Situation** – the investment company is a business entity acting in the RL, and its activities are closely related to the political situation in the country. Changes in the political situation may directly affect activities of the investment company and dynamics of the Fund net asset value.

**Changes in Economic Situation** – these are external risks that may affect attractiveness of the sphere of activity of the investment company – banking crisis, changes in consumer demands, and changes in inflation.

**Competition Risk** – competition on the part of Latvian investment companies and foreign fund management companies is to be taken into account as it may increase as this market niche develops. Consequently, the investment management company may terminate its activities and transfer responsibility for the management of the Fund to another investment management company or custodian.

**Operation Compliance Risk** – a risk that the Company may suffer losses or legal duties may be imposed upon it, or sanctions may be applied against it, or its reputation may change for the worse, due to the fact that the company does not observe or breaches compliance laws, regulations and standards.

**Other Risks** – activities of the investment company may also be affected by other risks such as force majeure (for example, natural disasters), ecological changes, crime, etc., which the investment company cannot fully predict or control.

#### **4.4. Potential Measures for Risk Reduction**

In order to decrease investment risks, the Fund is managed following the principles of diversification and risk reduction.

When making investments on the Fund's account, the Company obtains sufficient information on potential or acquired investment objects, and it also monitors the financial and economic situation of issuers of financial instruments in which the property of the Fund is or will be invested.

When developing the investment strategy of the Fund and investment restrictions within the scope of the investment policy of the Fund set out in this Prospectus, the Company conducts analysis of investments of the Fund and their classification by maturity, geographic allocation, sectors, currencies, etc. and evaluates the degree of risk attributable to each of these factors. The Company strictly observes the norms and restrictions stipulated in the Prospectus, Fund Rules and legal acts of the RL.

In order to reduce risk, the Company conducts the following assessments:

- country rating by applying international credit rating agency scales;
- review of the political situation in the country;
- analysis of the economic situation in the country.

In case of losses that may arise due to the registrar's gross negligence or intentional non-performance of obligations, the Company will have to protect its right by filing a claim directly against the issuer and/or its appointed Intermediary. The Company and Custodian will apply all necessary knowledge and diligence in selection, appointment and monitoring its local Intermediaries.

The investment strategy of the Fund is developed to minimise risks referred to in Subparagraphs 4.2 and 4.3, but the Company does not guarantee that it will be possible to fully avoid these risks in the future.

## **5. RIGHTS AND LIABILITY OF THE INVESTORS**

### **5.1. Rights of the Investors**

- 1) To sell without limitation their investment certificates at or outside the stock exchange;
- 2) To participate, in proportion to the number of investment certificates held, in the distribution of income earned from transactions with the property of the Fund;
- 3) To participate, in proportion to the number of investment certificates held, in the distribution of the liquidation income of the Fund;
- 4) To demand that the Company redeems their investment certificates;
- 5) To demand that the Company repurchase investment certificates it has issued if the Company is responsible for errors or omissions in information stated in the Prospectus, which is important for proper valuation of the investment certificates.
- 6) To demand and receive free of charge annual and semi-annual reports of the Fund, to have access to all publicly available information about IMJSC Citadele Asset Management and about persons related to activities of the Fund. The content of such information and the procedure for obtaining it is stated in the Fund Rules.
- 7) The Investor has no right to request division of the Fund. This restriction applies as well to the pledge of the property pledged by Investor, creditor, or administrator in the event of the Investor's insolvency.

Rights and obligations of owners of publicly issued investment certificates are stated in accordance with the Law, the Law on the Financial Instruments Market and other legal acts of the RL.

### **5.2. Liability of the Investors**

The Investor is not responsible for liabilities of the Company. The Investor's liability for claims that may be lodged against the property of the Fund is limited to the value of the Fund shares owned.

Arrangements contrary to the above provisions shall be invalid as from the moment of signing. Claims against the Investor concerning his liabilities may be lodged against his investment certificates, but not against the property of the Fund.

## 6. FUND MANAGEMENT

### 6.1. Investment Management Company

<b>Name of the Company:</b>	IMJSC Citadele Asset Management
<b>Registered address:</b>	2A Republikas laukums, Riga, LV-1010, Latvia Tel. (+371) 67010810, fax (+371) 67778622

The location of the executive body of the Company is the same as its registered address.

<b>The Company was founded on:</b>	11 January 2002
<b>Unified Registration Number:</b>	40003577500
<b>Founding, Registered and Paid-Up Capital of the Company:</b>	LVL 4,150,000
<b>Shareholders of the Company:</b>	<b>JSC Citadele banka</b> Unified Registration Number: 40103303559
	Number of Shares: 4,150,000 with voting rights
	Portion of the Capital: 100.00%

#### Licences and Special Permits:

Licence for Investment Management Services No 06.03.07.098/285 – reregistered on 10 December 2004, 30 September 2005, 5 December 2005 and 5 August 2010.

Licence for Management of State Funded Pension Scheme Assets No 06.03.09.098/284 – reregistered on 10 December 2004, 7 December 2005 and 5 August 2010.

#### 6.1.1. Rights, Obligations and Liability of the Company for Management of the Fund

##### Rights

The Company shall manage on its own behalf and at the expense of the Investors the property of the Fund and rights attached thereto, investing the property of the Fund in accordance with risk reduction principle in investment objects allowed by the Law and the Prospectus.

While managing the Fund, the Company shall act in the same manner a careful and attentive owner would do, and only and solely in the best interests of Investors of the Fund, without endangering financial market stability.

The Company does not need the consent of Investors for performing actions related to management of the Fund.

The Company is entitled to a fee for the management of the Fund, including charges and reimbursement for expenses.

The Company has the right to set up and manage more than one fund.

##### Obligations

The Company shall be obliged to lodge claims of the Investors on its behalf against the Custodian or third parties should the circumstances so require. This, however, shall not restrict the rights of investors to lodge such claims on their own behalf.

The Company shall be obliged to notify the Commission in writing about any amendments to the lists of the Interested Persons of the Company and Custodian's Interested Persons, as well as of any amendments and supplements to documents and information submitted to the Commission within a week from the date of making such amendments.

##### Responsibility

The Company is not allowed to invest its funds in the fixed capital of another investment company as well as purchase investment certificates of the Fund managed by the Company.

The Company is responsible for losses caused to Investors or third parties by the executives or authorised persons of the Company as a result of infringement of the Law, the Prospectus or the Fund Rules or due to misuse of powers or negligent performance of their duties.

### 6.1.2. Executive Board of the Company

The **Executive Board** is the executive body of the Company responsible for managing the property of the Company and using its capital in accordance with the provisions of the law and articles of association and instructions of general meetings of shareholders.

#### Rights and Obligations Related to Management of the Fund

1. The Executive Board is in charge of and manages all matters of the Company. It is also responsible for all business activities of the Company, as well as for accounting in conformity with the requirements of the RL legal acts. The Executive Board represents the Company. The Executive Board shall manage the property of the Company and use its capital in accordance with the RL legal acts and Articles of Association and instructions of the general meetings of shareholders of the Company.
2. The Executive Board shall ensure creation and operation of a comprehensive and efficient internal control system that is in compliance with the character, volume and complexity of the Company and funds managed by the Company.
3. The Executive Board shall perform the following actions, independently or with involvement of competent persons:
  - accounting of the Fund, keeping such accounting separately from accounting of other funds managed by the Company;
  - prepare annual and semi-annual reports on Funds;
  - approve annual and semi-annual reports of the Fund;
  - appoint and approve the Auditor who audits the annual report of each fund;
  - other actions prescribed by the Law and the RL legal acts in relation to accounting of assets of the Fund.

#### Composition of the Executive Board:

<b>Uldis Upenieks</b>	Chairman of the Executive Board
<b>Zigurds Vaikulis</b>	Member of the Executive Board

### 6.1.3. Council of the Company

The **Council** is an institution elected by shareholders and consisting of 3 persons as at the moment of approval of the Prospectus.

#### Rights and Obligations of the Council Related to Management of the Fund:

- at any time the Council is entitled to request from the Executive Board a report on the condition of the Company, including the condition of the Fund;
- the Council is entitled to examine registers and documents, as well as financial instruments and other property of the Company, including the property of the Fund;
- the Council may entrust any of its members to carry out such examination, or entrust an external expert with elucidation of individual issues.

#### Composition of the Council:

<b>Juris Jākobsons</b>	Chairman of the Council, adviser to the Executive Board of JSC Citadele banka, Head of Department for Strategic Development of Subsidiaries
<b>Vladimirs Ivanovs</b>	Deputy Chairman of the Council, Head of Private Capital Management Sector of JSC Citadele banka
<b>Philip Nigel Allard</b>	Member of the Council, member of the Executive Board of JSC Citadele banka

### 6.1.4. Fund Manager

The Executive Board of the Company shall appoint the Investment Committee of the Fund consisting of at least three members. The Investment Committee performs functions of the Fund Manager, manages and is empowered to give orders concerning the property managed by the Fund in accordance with the Prospectus, Fund Rules and resolutions of the Executive Board of the

Company. The Fund Rules shall regulate the procedures for passing resolutions and orders by the Investment Committee.

Members of the Investment Committee shall only be allowed to work in one Investment Company.

Employees of Fund Management Division of the Company **Andris Kotāns, Kristiāna Ķiete and Elchin Jafarov** have been appointed to the Investment Committee.

#### 6.1.5. Names of Other Funds, Private Pension Fund Plans and State Funded Pension Scheme Asset Investment Plans Managed by the Company

The Company manages the following state funded pension scheme asset investment plans:

- Citadele Universal Pension Plan,
- Citadele Active Pension Plan.

The Company manages assets of the following investment funds:

- open-end investment fund Citadele Russian Equity Fund,
- open-end investment fund Citadele Ukrainian Equity Fund,
- open-end investment fund Citadele Strategic Allocation Funds,
- open-end investment fund Citadele Baltic Real Estate fund - II,
- open-end investment fund Citadele Eastern European Fixed Income Funds,
- closed investment fund Baltic Pearl Real Estate Fund.

The Company manages the following private pension scheme asset investment plans:

- Pension Plan Citadele – Active of JSC Citadele Open Pension Fund,
- Pension Plan Citadele – Active USD of JSC Citadele Open Pension Fund,
- Pension Plan Citadele – Active EUR of JSC Citadele Open Pension Fund,
- Pension Plan Citadele – Balanced of JSC Citadele Open Pension Fund,
- First Real Estate Portfolio of the Pension Plan of JSC First Closed Pension Fund.

#### 6.1.6. Fee to the Company, Procedure for Calculation and Payment of Such Fee

The fee to the Company for management of the Fund shall be calculated on daily basis and accrued throughout the month. The fee is paid from the property of the Fund once a month. The Company calculates, but the Custodian verifies, accepts and transfers the fee to the Company.

When calculating the fee payable to the Company for management of the Fund on the current day of calculation of the Fund net asset value, the Company assumes that the year of the Fund consists of 365 days:

$$SA_t = FNAV_i * \frac{L_1}{365} * N$$

$SA_t$  – fee payable to the Company for management of the Fund on the current Fund net asset value calculation day;

$FNAV_i$  – the Fund net asset value on the previous day of calculation of the Fund Value;

$N$  – number of calendar days from the last day of calculation of the Fund net asset value;

$L_1$  – the rate at which a fee payable to the Company is calculated.

The **Fund asset value** is calculated in accordance with Paragraph 7.1 of the Prospectus.

The amount of the **monthly fee** payable to the Company for management of the Fund is calculated by summing the daily fees payable to the Company for management of the Fund:

$$SA_K = \sum_{t=1}^K SA_t$$

$SA_k$  – fee for the current month payable to the Company for management of the Fund;

$SA_t$  – fee payable to the Company for management of the Fund on each Fund net asset value calculation day;

$K$  – number of days the Fund net asset value was calculated.

## 6.2. Custodian

<b>Name of the Custodian:</b>	Joint Stock Company Citadele banka
<b>Founded on:</b>	30 June 2010
<b>Unified Registration Number:</b>	40103303559
<b>Licences:</b>	Licence for Credit Institution Activities No 06.01.05.405/280
<b>Registered Address of the Custodian:</b>	2A Republikas laukums, Riga, LV-1010, Latvia

The location of the executive body of the Custodian is the same as its registered address.

### 6.2.1. Rights and Obligations of the Custodian

#### Rights

The Custodian shall act independently from the Company and only in the best interests of Investors accordance with regulations of the Commission, Prospectus and Fund Rules.

The Custodian shall be entitled to a fee for services agreed upon in the Custody Agreement.

The Custodian shall have the right to assign to third persons the custody of the property of the Fund, servicing of accounts of the Fund, and performance of broker's duties (execution of intermediary transactions on securities market).

The Custodian, ensuring holding of financial instruments and monetary funds included in the structure of the property of the Fund by the Intermediary in the Foreign State, has the right to enter into agreements with such Intermediaries, provided that the Custodian has informed the respective Intermediary that the financial instruments owned by the Custodian's clients (incl. the Fund) are held in the corresponding account.

#### Transfer of Rights to Manage the Fund to the Custodian

If the rights of the Company to manage the Fund expire, the rights to manage the Fund shall be transferred to the Custodian, except where such rights are assigned to another company.

The Custodian to which the rights to manage the Fund have been transferred enjoys all rights of the Company, except for the rights of issue and/or redemption of investment certificates of the Fund.

Within the term prescribed by legal acts of the RL from the date of transfer of the rights to manage the Fund, the Custodian shall transfer the rights to manage the Fund to another investment company. If the Custodian does not transfer the rights to manage the Fund to another investment company within the prescribed term, the Custodian shall liquidate the Fund.

#### Obligations

The Custodian shall keep the property of the Fund in accordance with legal acts of the RL and the Custody Agreement.

The Custodian shall ensure that investment certificates are issued, sold, and redeemed on behalf of the Company and in accordance with the Law, applicable legal acts of the RL, the Prospectus and Fund Rules.

The Custodian shall ensure that the Fund net asset value is calculated in accordance with legal acts of the RL, regulations of the Commission, the Prospectus and Fund Rules.

The Custodian shall act upon the orders of the Company or persons authorised by the Company, unless they are contrary to legal acts of the RL, regulations of the Commission, the Prospectus, Fund Rules or Custody Agreement.

The Custodian shall ensure that the Fund income is used in accordance with the Law, applicable legal acts of the RL, the Prospectus and Fund Rules.

The Custodian shall ensure proper payments related to transactions with the property of the Fund.

The Custodian shall be obliged to lodge claims of Investors on its behalf against the Company should the circumstances so require. This shall not restrict the rights of Investors to lodge such claims on their own behalf.

The Custodian shall immediately notify the Commission and the Council of the Company about actions of the Company known to the Custodian, which contradict legal acts of the RL, the Prospectus, Fund Rules or Custody Agreement.

### Responsibility

Where the Custodian has deliberately or negligently broken the law or the Custody Agreement, the Custodian shall be fully responsible to Investors of the Fund, the Company and third parties for the losses caused.

Where the Custodian has granted its consent for a transaction that fails to conform to the Law and applicable provisions of legal acts of the RL, or has failed to lodge a claim in respect of default on such provisions, the Custodian and the Company shall be jointly responsible for losses caused to the Fund.

The Custodian shall not be responsible for losses incurred by the Fund and/or Company due to insolvency of the Intermediary, including, for example, in connection with application of legal acts of the respective state related to insolvency, application of legal acts on limitation of turnover of financial instruments, payment operations, operations in financial instruments, money transfers, currency conversion, introduction of a special regime or limitations.

Transfer of the Custodian's obligations to third parties shall not release the Custodian from liability stated by legal acts of the RL and the Custody Agreement.

#### 6.2.2. Fee to the Custodian, Procedure for Calculation and Payment of Such Fee

Calculation of the fee payable to the Custodian is included in the Fund asset value calculation on every business day. In calculation of the **daily fee** payable to the Custodian, the Company assumes that the reporting year of the Company consists of 365 days:

$$TA_t = FNAV_i * \frac{L_2}{365} * N$$

- TA<sub>t</sub> – fee payable to the Custodian on the day of calculation;
- FNAV<sub>i</sub> – the Fund net asset value on the previous day of calculation of the Fund Value;
- N – number of calendar days from the last day of calculation of the Fund net asset value;
- L<sub>2</sub> – the rate at which a fee payable to the Custodian is calculated.

Fee to the Custodian for the custody and supervision of the property of the Fund is paid once a month.

The **monthly fee** to the Custodian is calculated as a sum of fees to the Custodian for each day of the Fund value calculation:

$$TA_k = \sum_{t=1}^k TA_t$$

- TA<sub>k</sub> – fee payable to the Custodian for the current month;
- TA<sub>t</sub> – fee payable to the Custodian for each day of the Fund net asset value calculation;
- k – number of days of the Fund asset value calculation.

The **Fund asset value** is calculated in accordance with Paragraph 7.1 of the Prospectus.

#### 6.3. Sworn Auditor

<b>Name of the Sworn Auditor:</b>	SIA "KPMG Baltics"
<b>Registration number:</b>	40003235171
<b>Registered address:</b>	Vesetas iela 7, Riga, LV-1013, Latvija

The location of the executive institution of SIA PricewaterhouseCoopers is the same as registered address.

**Licences:** Latvian Sworn Auditors' Association Licence No 55 for auditing services.

SIA "KPMG Baltics" is one of the largest audit, management and tax consulting companies in Latvia.

Fee payable to the **Sworn Auditor** shall be included in calculation of the Fund asset value gradually – in similar proportions every day. When calculating the **Sworn Auditor's** fee on the current day, the Company assumes that the reporting year of the Fund is 365 days. The fee for an audit of the Fund shall be accrued and paid to the **Sworn Auditor** once a year.

## **7. METHODS AND PROCEDURES FOR DETERMINING THE FUND NET ASSET VALUE**

### **7.1. Principles for Valuation of the Fund Assets**

The Fund shall keep its accounting in accordance with the Law, Regulations on Preparation of Financial Statements of Investment Funds issued by the Commission as well as other legal acts of the RL. The International Accounting Standards issued by the Board for International Accounting Standards shall be applied in valuation of items of financial statements.

The Company shall keep accounting of the Fund in the base currency of the Fund. In order to comply with the requirements of legal acts of the Republic of Latvia, the Company shall ensure accounting in LVL. Transactions in the base currency of the Fund are recalculated in LVL in accordance with the exchange rate set by the Bank of Latvia at the moment of execution of a transaction.

The assets of the Fund shall be valued in accordance with the following accounting concepts:

- 1) it is assumed that the Fund will continue to exist in the future;
- 2) the same valuation methods as in the previous accounting year shall be applied;
- 3) valuation shall be prudent:
  - financial statements of the Fund shall comprise revenues derived only until the date of preparation of financial statements;
  - all possible costs shall be taken into account regardless of the time of their occurrence (i.e. those that are related to the accounting year and to the previous operational periods);
- 4) revenues and expenses related to the accounting period shall be taken into account regardless of the date of payment and the date of receipt or issue of an invoice;
- 5) all items with material impact on the valuation or decision-making of persons using the financial statements shall be disclosed;
- 6) items of assets and liabilities and their components shall be valued separately;
- 7) all transactions shall be booked and disclosed in a financial statement taking into account their economic content and nature rather than their legal form.

In exceptional cases deviations from the above accounting principles are allowed. Any such case shall be explained in annexes to a financial statement, stating its impact on assets and liabilities, financial position and financial results of the Fund.

The **Fund Value** (also referred to as the Fund net asset value) is the value of assets of the Fund less the value of liabilities of the Fund.

The **Fund share value** is the net asset value of the Fund divided by the number of investment certificates in circulation.

The **number of investment certificates in circulation** is the number of investment certificates issued less the number of investment certificates redeemed upon the investor's request.

The Fund net asset value, including the value of its assets and liabilities, and the Fund share value shall be determined on a regular basis – on every business day after 17.30.

Pursuant to the Prospectus and requirements of legal acts of the RL, assets of Citadele Baltic Sea Equity Fund may comprise only financial assets (see the definition of 'Financial Instruments').

The Fund Manager shall divide all financial assets included in the Fund into the following categories:

- financial assets held for trading purposes;
- financial assets held to maturity.

Financial assets **held for trading** purposes are financial assets purchased or incurred mainly for the purpose of deriving profit from short-term price fluctuations.

Financial assets **held to maturity** are financial assets with fixed or determinable payments and fixed maturity, which may and are meant to be held to maturity.

The Fund Manager shall be entitled to include financial assets with fixed or determinable payments and fixed maturity in the category of financial assets held to maturity if he intends to hold such financial assets to maturity and is able to do so.

The Fund Manager shall classify financial assets with the fixed maturity at the moment of purchase and shall revise the asset classification on a regular basis (at the end of each month).



The valuation of assets of the Fund is done prudently. In valuation of financial assets the Fund Manager shall use the following principles:

- Financial assets held for trading purposes and available for sale shall be valued at their fair value. The fair value is the amount of money for which an asset may be exchanged or obligations may be fulfilled in a transaction between well informed, concerned and financially independent persons.
- Financial assets held to maturity with the fixed maturity shall be valued at the depreciated acquisition value applying the accrued interest rate method (see Paragraph 7.1.2).

Financial assets initially recognised in financial statements shall be valued at their acquisition value, which is the fair value of remuneration paid for the asset. The transaction costs directly related to the purchased asset are included in the acquisition value.

#### **7.1.1. Valuation of Debt Securities Held for Trading Purposes**

The fair value of debt securities held for trading purposes that are quoted on stock exchanges or other regulated markets shall be based on last published market prices known to the Custodian.

Where the security income is paid out in form of coupon payment and the stock exchange price does not include accrued interest or coupon portion, it is added in amount that corresponds to the time period from the starting date of coupon calculation to the date of calculation of the Fund Value.

#### **7.1.2. Valuation of Debt Securities Held to Maturity and Debt Securities not Traded Publicly**

Debt securities held to maturity and debt securities not traded publicly on stock exchanges or other regulated markets are valued at their depreciated acquisition value, which is calculated using the accrued interest rate method, i.e. the security book value is the sum of its acquisition value and depreciated discount or mark-up (Agio, Disagio) value. Income is recognised and accounting value reduced using the rate that precisely discounts the flow of anticipated future payments (until the financial asset maturity or until the date of interest rate revision) to the financial asset current accounting value.

If the yield on securities is paid out as a coupon, the accrued interest or coupon portion shall be added to the amount conforming to the period of time from the starting date of such coupon calculation until the date of calculation of the Fund Value.

#### **7.1.3. Valuation of Equity Securities**

The value of equity securities quoted on stock exchanges or other regulated market is based on the last published market prices known to the Custodian.

Equity securities not traded on stock exchanges or other regulated markets shall be valued at their acquisition value. In accordance with the prudence principle, such assets are valued at the lower price, if known to the Custodian from transactions performed by its customers or in the market. Information on transactions performed in the market is available in official and public data sources (e.g., newspapers, news agencies).

#### **7.1.4. Valuation of Certificates of Other Investment Funds**

The value of certificates of open-end investment funds or other similar securities is based on the last available redemption price of investment certificates (shares) on the day of calculation of the Fund Value.

#### **7.1.5. Valuation of Term Deposits**

All term deposits shall be classified as financial assets held to maturity and valued by adding the accrued interest (which is calculated over the period from the last date of interest payment to the date of calculation of the Fund Value) to the principal amount of such term deposit.

#### **7.1.6. Valuation of Derivatives**

Derivatives quoted on stock exchanges or other regulated markets are valued at a price for which the instrument can be sold (the last purchase price at market close on the day of calculation of the Fund Value).

Over-the-counter derivatives that are not quoted on stock exchanges or other regulated markets are valued at their repurchase price or at offsetting transaction price confirmed in writing by the partner on the day of calculation of the Fund Value, or at a price that is calculated on the basis of the

market price of the underlying asset. An offsetting transaction is a transaction that liquidates a derivative.

**Securities futures** shall be valued at the exercise price on the respective stock exchange or regulated market where the transactions have been concluded as of the moment of the stock exchange closing on the date of calculation of the Fund Value.

**Currency forwards** shall be valued at the fair value applying the position-closing cost method. The fair value of a currency forward is the difference between the value of currency purchased and the value of currency sold, revalued at the offsetting forward rate as of the date of calculation of the Fund Value. Where the rate confirmed by counterparty is not available, a transaction shall be valued at a price that is derived from the market price of the underlying asset, i.e. applying the current exchange rate and market interest rates.

**Currency swap transaction (SWAP)** is an instrument that consists of two parts – a spot transaction and currency forward transaction. Therefore, each part of a transaction is valued separately applying methods used for valuation of the respective instrument.

#### **7.1.7. Revaluation of Assets in Currencies Other than the Base Currency of the Fund**

Assets in currencies other than the Base Currency of the Fund shall be valued in the Base Currency of the Fund at the exchange rate of respective currencies stated by the News and Information Agency Bloomberg, Reuters or other equivalent source of information as of the date of calculation of the Fund Value.

#### **7.2. Calculation of the Value of Liabilities of the Fund**

The **value of liabilities** shall be calculated by adding up all payments charged to the account of the Fund, including fees payable from the property of the Fund to the Company, Custodian, Auditor and third parties, liabilities ensuing from loans and other liabilities of the Fund.

Liabilities in currencies other than the base currency of the Fund shall be revalued in the Base Currency of the Fund at the exchange rate of respective currencies stated by the News and Information Agency Bloomberg, Reuters or other equivalent source of information as of the date of calculation of the Fund Value.

#### **7.3. Revenue and Expense Accounting**

Revenues and expenses related to an accounting period shall be disclosed in the Statement of Investment Income of the Fund regardless of the date of receipt or payment thereof. The accrued income shall only be included in the Statement of Investment Income of the Fund if there is **no doubt that it has been received**.

#### **7.4. Responsibility**

The Company is fully responsible for conformity of calculation of the Fund Value and the Fund share value to the Law, Prospectus and Fund Rules.

The Custodian shall control conformity of calculation of the Fund Value and the Fund share value to the Law, regulations of the Financial and Capital Market Commission, Prospectus and Fund Rules. Assets shall be valued on the basis of information on condition of the property of the Fund (cash accounts, financial instruments portfolio and other property) supplied by the Custodian, and in accordance with procedures stated in Chapter 7 of the Prospectus.

#### **7.5. Frequency of Determining the Fund Value and Disclosing Information on the Fund Value**

The Fund Value is determined on each business day after the Company receives from the Custodian the statement on the portfolio of the Fund, which is submitted on each business day after 17.30.

At 10.00 the Company discloses information on the Fund Value determined for the previous business day, and the information can be obtained by calling the phone numbers stated in the Prospectus, or directly at the office of the Company or offices of the Distributors.

## 8. SALE OF INVESTMENT CERTIFICATES

Investment certificates are issued in public circulation after registration of the investment fund Citadele Baltic Sea Equity Fund, which is founded by IMJSC Citadele Asset Management, with the Financial and Capital Market Commission and after the booking of investment certificates with the Latvian Central Depository and receipt of identification attributes (ISIN code) from the Latvian Central Depository.

The number of and time period for the issued investment certificates of the Citadele Baltic Sea Equity Fund are not limited.

Investment certificates representing whole shares of the Fund can be divided with up to four decimals. The following rules shall be applied for rounding the Fund shares:

- if the fifth decimal is 4 or less – the fourth decimal remains the same;
- if the fifth decimal is 5 or more – the fourth decimal is rounded up by one unit.

### 8.1. Procedures for and Places of Submitting Applications for Purchase of Investment Certificates of the Open-end Investment Fund

Each investor can apply for an unlimited number of investment certificates. The minimum purchase amount is the value of 1 (one) investment certificate.

Applications for purchase of investment certificates of the Fund may be submitted at the office of the Company at 2A Republikas laukums, Riga, LV-1010, tel. (+371) 67010810, fax (+371) 67778622 or by contacting the Distributors.

The Distributor of investment certificates of the Fund in Latvia is:

- JSC Citadele banka, address: 2A Republikas laukums, Riga, LV-1010, Tel. (+371) 67010000, fax (+371) 67010001;

as well as

- branches and customer service centres of JSC Citadele banka. Addresses of branches and customer service centres are available at the office of the Company, by calling JSC Citadele banka, or on the website of the bank: [www.citadele.lv](http://www.citadele.lv).

Applications for purchase of investment certificates of the open-end investment fund may be submitted to the Company or the Distributors on each business day during their business hours.

If the Company has received and accepted the application until 17.30 Latvian time, it is executed at the price of investment certificates of the Fund, which is determined after 17.30, for the day when the Application was received.

If the Company has received and accepted the Application after 17.30 Latvian time, such Application can be regarded at discretion of the Company as received on the next business day.

The Distributors shall be entitled to engage third parties for organising the distribution of investment certificates of the Fund, including Intermediaries, dealers and other persons authorised to provide this type of services. The Distributor shall organise and ensure that the sale and redemption of investment certificates of the Fund is carried out in accordance with provisions of the legal acts of the RL and/or country in which investment certificates of the Fund are sold, the Prospectus and the Fund Rules. Delegation of the Distributor's duties to third parties shall not release the Distributor from responsibility defined in legal acts of the RL.

In order to apply for investment certificates of the Fund, an Investor shall open a financial instrument account with an account holder who is a member of the Latvian Central Depository (if investment certificates of the Fund are purchased in Latvia), or with an account holder who can ensure, through inter-bank or central depository correspondent relationships, that financial instruments are kept with the LCD. An investor shall fill in and submit an application for Purchase of Investment Certificates of the Open-End Investment Fund to the Company or Distributor. By signing the application the Investor certifies that he has studied the Prospectus and Fund Rules and agrees with their provisions.

The application for purchase of investment certificates shall contain information stated in Paragraph 8.2 of the Fund Rules.

In the application for purchase of investment certificates of the open-end investment fund an investor shall indicate at his discretion his preferred *purchase mode*: fixed number of investment certificates or designated amount of money for the purchase of investment certificates.

Applications for purchase of investment certificates of the open-end investment fund are accepted and registered in accordance with the Fund Rules.

The Company shall be obliged to execute only accurately filled in and prepared applications for purchase of investment certificates of the open-end investment fund. The Investor shall be responsible for the accuracy and completeness of the stated information.

## **8.2. Methods for and Frequency of Calculating the Sales Price of Investment Certificates**

The sales price of investment certificates of the Fund is variable and is determined on each business day simultaneously with the Fund share value.

The **sale price of the investment certificate** consists of the Fund share value and sales commission.

The Fund share value is determined on each business day, and information about it is available at the office of the Company, or by calling telephone numbers of the Company during its business hours. Such information is also available from the Distributors, at the stated Distributor's address, or by calling the Distributor's telephone numbers stated in Paragraph 8.1.

Calculations of the sales price of investment certificates are based on the Fund share value, which was determined on the day when the application for purchase of investment certificates of the open-end investment fund was received, but which is published on the next business day.

## **8.3. Procedure for Settlements**

Investment certificates are issued only against full payment of the price of certificates in cash.

Investment certificates of the Fund are sold for the price determined for that day when the Company received and accepted the application for purchase of investment certificates of the open-end investment fund.

In accordance with Paragraph 8.1 of the Prospectus, the Company or the Distributor calculates, depending on the *purchase mode* chosen by the Investor, the number of investment certificates corresponding to the designated amount of money or the amount of money corresponding to the designated number of investment certificates.

Within five business days after submission of the application for purchase of investment certificates of the open-end investment fund to the Company or Distributor, the Investor shall pay the price for investment certificates to the account of the Fund with the Custodian. If within the prescribed time period the relevant amount of money for purchase of investment certificates has not been credited to the settlement account of the Fund, the application is considered to be void.

If the Custodian holds settlement and financial instruments accounts for the Investor, submission of the application for purchase of investment certificates of the open-end investment fund to the Company or Distributor shall be equivalent to the order to purchase financial instruments. The Custodian, on the basis of the Application for purchase of investment certificates of the open-end investment fund, shall effect cash and securities settlements. The Custodian shall debit the amount of money necessary for purchase of investment certificates from the Investor's account and shall credit it to the settlement account of the Fund with the Custodian. After receipt of the money on the settlement account of the Fund with the Custodian, the Company shall issue new investment certificates and immediately credit them to the Investor's financial instruments account with the Custodian.

If the Investor's settlement and financial instruments accounts are held with another account holder, the Investor shall personally credit the amount of money necessary for purchase of investment certificates of the Fund to the settlement account of the Fund with the Custodian. The Investor can choose to receive a transaction confirmation containing exact amount of money that Investor shall credit to the settlement account of the Fund with the Custodian either at the office of the Company or by fax, or from the Distributor in accordance with its procedures.

The Company shall issue new investment certificates only after the Investor has credited the amount of money necessary for purchasing investment certificates to the account of the Fund with the Custodian. Investment certificates are credited to the Investor's financial instruments account not later than within three business days after their receipt on the settlement account of the Fund.

Settlement for investment certificates is effected in the base currency of the Fund (EUR).

Other procedure for settlement with investment certificates may be agreed:

- upon mutual agreement between the Investor and the Company or Distributor;
- upon request of the Company, where the money to be invested in the Fund by the Investor exceeds 5% of the Fund net asset value.

All expenses incurred by the Investor with regard to purchase of investment certificates (bank charges for operations with settlement and financial instrument accounts, etc.) shall be borne by the Investor. If the Investor fails to credit to the account of the Fund with the Custodian the amount of money

necessary for full payment of the price of investment certificates, the Investor shall cover all costs and losses to the Fund incurred as a result of failure to execute the application for purchase of investment certificates of the open-end investment fund.

#### **8.4. Secondary Circulation of Investment Certificates**

The investment certificates of the Fund may be purchased or sold in the over-the-counter market in according to legal acts of the RL. The Company does not determine prices for transactions with the investment certificates of the Fund on the secondary market, and the Company shall not be held responsible for fluctuations on the secondary market in the price of the investment certificates of the Fund it has issued.

## 9. REDEMPTION AND REPURCHASE OF INVESTMENT CERTIFICATES

### 9.1. Procedure for Submitting Applications for Redemption of Investment Certificates

The Company shall redeem investment certificates upon request from the Investor.

The Company redeems investment certificates in the order in which applications for redemption are submitted and registered.

In order to request redemption of investment certificates of Citadele Baltic Sea Equity Fund the Investor shall submit to the Company or the Distributor the application for redemption of investment certificates of the open-end investment fund.

The Investor may submit applications for redemption of investment certificates of the open-end investment fund to the Company or the Distributors at the addresses referred to in Paragraph 8.1 during their business hours.

If the Company has received and accepted the Application until 17.30 Latvian time, it is executed at the price of the investment certificates of the Fund, which is determined after 17.30, for the day when the Application was received.

If the Company has received and accepted the Application after 17.30 Latvian time, such Application can be regarded at discretion of the Company as received on the next business day.

The application for redemption of investment certificates shall contain information stated in Paragraph 8.6 of the Fund Rules.

In the application for redemption of investment certificates of the open-end investment fund the Investor shall indicate at his discretion the preferred *redemption mode*: fixed number of investment certificates to be redeemed or designated amount of money for the redemption of investment certificates.

Only correctly filled in Applications are valid. The Investor shall be responsible for the accuracy and completeness of the stated information.

### 9.2. Methods for and Frequency of Calculating Redemption Price for Investment Certificates

The **redemption price for investment certificate** is equal to the investment Fund share value determined for the day when the Company has received and accepted the application for redemption of investment certificates of the open-end investment fund.

The Fund Value and Fund share value are determined on each business day, and information about them is available at the office of the Company, or by calling the telephone numbers of the Company during its business hours. Such information is also available from the Distributors, at the stated Distributor's address, or by calling the Distributor's telephone numbers stated in Paragraph 8.1.

The redemption price for investment certificates is paid in the base currency of the Fund (EUR).

No commission is applied to the redemption of investment certificates.

### 9.3. Procedure for Settlements

The investment certificates of the Fund are redeemed at the price determined for the day when the Company has received and accepted the Application for redemption of the open-end investment fund investment certificates.

In accordance with Paragraph 9.1 of the Prospectus, the Company or the Distributor calculates, depending on the *redemption mode* chosen by the Investor, the amount of money corresponding to the designated number of investment certificates or the number of investment certificates corresponding to the designated amount of money.

Within five business days after submission of the application for redemption of investment certificates of the open-end investment fund to the Company or to the Distributor, the Investor shall credit the redeemable investment certificates to the issue account of the Fund with the LCD. If within the prescribed time period the number of redeemable investment certificates has not been credited to the issue account of the Fund, the Application is considered to be void.

If the Custodian holds settlement and financial instruments accounts for the Investor, submission of the Application for redemption of investment certificates of the open-end investment fund to the Company or to the Distributor shall be equivalent to the order to sell financial instruments. Upon the Application for redemption of investment certificates of the open-end investment fund, the Custodian performs securities and cash settlement. The Custodian debits from the Investor's account the redeemable investment certificates and credits them to the issue account of the Fund with the LCD. After receipt of investment certificates on the issue account of the Fund with the LCD, the Company shall immediately

redeem them and within six business day the Company shall credit to the Investor's current account the relevant amount of money in the base currency of the Fund that corresponds to the number of redeemed investment certificates.

If the Investor's settlement and financial instruments accounts are held with another account holder, the Investor shall personally credit the number of redeemable investment certificates stated in the application to the issue account of the Fund with the LCD. If the Investor has stated in the application the amount of money to be received for redeemable investment certificates, then the Investor can receive transaction confirmation containing the exact number of redeemable investment certificates that the Investor shall credit to the issue account of the Fund with the LCD at his discretion at the office of the Company or by facsimile, or from the Distributor in accordance with the Distributor's prescribed procedure. After receipt of investment certificates on the issue account of the Fund with the LCD, the Company shall immediately redeem them and within six business days shall credit to the Investor's current account the relevant amount of money in the base currency of the Fund that corresponds to the number of redeemed investment certificates.

All expenses incurred by the Investor with regard to redemption of investment certificates (bank charges for operations with securities/cash settlement accounts, etc.) shall be borne by the Investor.

Where the Investor or Investors within 3 business days submit applications for redemption of investment certificates of the open-end investment fund that on aggregate exceed 10% of the Fund net asset value and their execution may substantially affect the interests of other Investors, the settlement period for redemption may be prolonged to ten business days.

The Company shall be bound to fulfil only those requests that precisely contain all necessary information. The Investor shall be responsible for the accuracy and completeness of the stated information.

If the Investor fails to credit to the issue account of the Fund with the LCD the redeemable investment certificates in accordance with procedure and within the time period referred to in this paragraph, the Investor shall cover all costs and losses to the Fund incurred as a result of the failure to execute the application for redemption of investment certificates of the open-end investment fund.

After redemption of investment certificates the Investor loses all rights associated with the ownership of investment certificates, excluding the right to redemption price of investment certificates.

An investment certificate of the Fund is a transferable security, and investors can dispose of them without limitations. The Company has no right to determine the price of investment certificates in the secondary market, and the Company is not responsible for fluctuations in the price of issued investment certificates in the secondary market.

#### **9.4. Procedures and Rules for Repurchase of Investment Certificates**

If data of material importance for the valuation of investment certificates stated in the Prospectus and documents enclosed thereto is incorrect or incomplete due to fault of the Company, the Investor shall be entitled to demand that the Company repurchases his investment certificates and reimburses him for all losses incurred thereof.

Such claim shall be lodged within 6 months from the date when the Investor has learned that such data is incorrect or incomplete and within three years from the date of purchase of such investment certificates at the latest.

Repurchase of investment certificates shall not be considered as redemption of investment certificates.

#### **9.5. 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 financial instruments) or due to other events of uncontrollable nature, the Company may temporarily suspend trading in the investment certificates of the Fund. The Company shall immediately inform every investor directly or shall publish announcement on the Distributor's website [www.citadele.lv](http://www.citadele.lv).

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

Redemption and repurchase of investment certificates is prohibited after start of liquidation of the Fund.

Upon liquidation of the Fund, claims of creditors and investors of the Fund shall be satisfied in accordance with procedures prescribed by legal acts.

## **10. DISTRIBUTION OF THE FUND INCOME**

Income received from the property of the Fund is reinvested in the Fund.

The Investor participates in the distribution of income derived from transactions with the property of the Fund 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 investment certificates of the Fund. The Fund share value is determined on each business day in accordance with legal acts of the RL and provisions of the Prospectus and Fund Rules.

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



## **11. LIQUIDATION OF THE FUND**

The liquidation of the Fund shall be conducted in accordance with the Law. The Fund shall be liquidated by the liquidator. The liquidator may be the Company itself, the Custodian, or a person appointed by the Commission.

The Company may initiate the liquidation of the fund if investors have been informed thereof at least three months in advance.

The liquidation of the Fund is also carried out if:

- on the next day after expiry of the Custody Agreement a new Custody Agreement has not taken effect;
- within a year after the foundation of the Fund no investment certificates have been issued in circulation;
- all Investors of the open-end Fund have exercised the right to request the redemption, and the Company resolves to liquidate the Fund;
- the Commission has made a decision of commencement of liquidation of the Fund.

The Liquidator shall immediately inform the Commission about the initiation of liquidation and shall publish an announcement to that effect in the official periodical 'Latvijas Vēstnesis' and/or shall make an announcement in accordance with requirements of legal acts of the country where the investment certificates of the Fund are sold.

If the Company or Custodian does not initiate the liquidation of the Fund within a month from the day when the liquidation should have been initiated, the Commission shall appoint the liquidator of the Fund. Such liquidator shall have all the same rights as the Company if it was performing the liquidation.

The liquidator shall have the right to take only those actions that are related to the liquidation. During the liquidation it is prohibited to issue investment certificates and to distribute to the Investors the income of the Fund, if any, referred to in the Prospectus.

The liquidator shall act in the interests of creditors and Investors. The liquidator is fully liable to Investors and third parties for losses caused during the liquidation, if the liquidator deliberately or inadvertently breaks the law or the Fund Rules, or negligently performs his duties.

Upon initiation of the liquidation, the liquidator shall organise and perform the sale of the property of the Fund, except for the cash in the Fund.

The Custodian or liquidator shall distribute the proceeds derived from the sale of property of the Fund in liquidation as well as the cash in the Fund (liquidation proceeds) in the following order:

- 1) claims of the secured creditors;
- 2) claims of creditors who lodged their claims within the term prescribed in the liquidation announcement;
- 3) claims of creditors who lodged their claims after the term prescribed in the liquidation announcement but prior to distribution of the liquidation proceeds.

If liquidation proceeds are insufficient to satisfy the above claims, unsatisfied claims shall be satisfied from the property of the investment Company, except for the claims incurred after the expiry of the management rights of the Company.

If liquidation proceeds are insufficient to satisfy the above claims incurred during the period when the Custodian exercised the management rights, the Custodian shall satisfy them. The remaining liquidation proceeds shall be distributed among the Investors in proportion to the number of investment certificates held.

All payments to creditors and Investors shall be made in cash.

Liquidation expenses shall be covered from the property of the Fund and they shall not exceed two per cent from liquidation proceeds.

**12. TAXES AND DUTIES**

According to legal acts of the RL, investment funds are not subject to corporate income tax, thus, no corporate income tax shall be levied on funds accumulated by the Investors in the Fund and on property owned by the Fund. If legal acts of the RL envisage the tax application to investment objects, or to transactions with the property of the Fund, the Company shall cover the tax payments from assets of the Fund.

As prescribed by the Law on Personal Income Tax and Law on Corporate Income Tax of the RL or other legal acts that may in future replace the mentioned laws and the legal acts adopted on the grounds of the mentioned laws, the investors shall independently pay their personal income tax or corporate income tax.

The information provided in this paragraph gives a general survey of the Latvian tax legislation in force as of the date of registration of the latest amendments to the Prospectus of the Fund. The Company bears no responsibility for procedures of tax application to each specific Investor. The Investor should contact a tax advisor to clarify taxation issues.

**13. CERTIFICATION OF AUTHENTICITY OF INFORMATION INCLUDED IN THE PROSPECTUS BY THE EXECUTIVE BOARD OF THE COMPANY:**

*"We hereby certify that information contained in this Prospectus is authentic, and no facts that might be detrimental to the interests of possible Investors have been concealed."*

IMJSC Citadele Asset Management  
Chairman of the Executive Board

U.Upenieks

IMJSC Citadele Asset Management  
Member of the Executive Board

Z.Vaikulis

# Citadele Baltic Sea Equity Fund

Historical performance of the fund as of 31-Jan-14

**Citadele**

## Fund Overview

Management Company	Citadele Asset Management
Fund Managers	Elchin Jafarov Kristiana Janvare, CFA Igor Lahtadir, CFA
Inception Date*	24/08/2004
Base Currency	EUR
Fund Size	3.3 mln
NAV	41.15
Management Fee	2.0% p.a.
Front Load Fee	Up to 2.0%
Issue/redemption	Daily
Distribution Status	Accumulative
Legal Status	UCITS IV, Latvia
ISIN	LV0000400794
Bloomberg Code	CITBSEF LR

\*The data before November 20, 2013 relates to „Citadele Baltic Sea Countries Equity Fund“ (ISIN LT0000950008), which was fully transferred at par into newly established „Citadele Baltic Sea Equity Fund“ (ISIN LV0000400794) with the identical investment strategy.

## Investment Objective

BSEF investments are concentrated on equities with a long-term growth perspective. The Fund has a geographical focus on countries of the Baltic Sea region, namely Baltic States, Germany, Norway, Sweden, Finland, Denmark, Poland and Russia.

## Investment Process

- Top-down asset allocation
- Bottom-up individual stock selection
- Daily market monitoring
- Monthly result evaluation
- Country and industry diversification

## Manager's Commentary for January

In January, investors witnessed a sharp downside correction in global equity markets. Pressure came from the continued reduction of the amount of asset purchases by the Fed, as the Senate earlier confirmed Janet Yellen as the Fed's 15th chairman; and substantial decline in China's preliminary manufacturing data. Overall better than expected US corporate earnings and rather mixed results coming out of the European 4Q'13 reporting season failed to counter market correction, whereas STOXX Europe 600 dropped by 1.7%. Within the Fund's investment universe, the only positive markets were the Baltics (+4.6%) and Denmark (+5.1%), while the rest was in red, bounded in the range from -1.9% (Poland) to -9.8% (Russia). The Fund had a minor negative currency effect as a result of fluctuations of NOK, PLN and USD against EUR. Overall, the Fund has started the year with a 2.7% loss in January.

In terms of sector breakdown, only Healthcare and Industrials delivered positive returns, as strong contribution came from both Danish (Coloplast, Novo Nordisk) and Baltic (Olainfarm, Grindeks) companies. Despite the considerable negative contribution from Deutsche Post and Siemens, Industrials managed to stay above the water, as Lufthansa surged on lower fuel and restructuring costs news. Baltic companies (Tallink, City Service, Valmieras Fiberglas) also helped the sector to deliver positive results. The largest negative contributors to the Fund's performance were Materials, Financials, Energy, and Consumer Discretionary. Materials were dragged down by Linde, Severstal and Polska Miedz, while Financials fell mainly because of poor performance of Sberbank, Allianz and Polish PZU. Within the Energy sector, none of the companies managed to deliver positive contribution, as earnings reports in the sector continued to be downbeat. Within the Consumer Discretionary sector, the losses came from lagging German companies Hugo Boss, Adidas and Volkswagen; while the main negative contributor was Swedish Electrolux that missed consensus forecasts in addition to currency headwinds and quite bleak outlook.

During the month we refrained from actively spending the Fund's decent cash position, and only added BASF, a German industrial chemicals company with diversified business. We believe that the rebound in cyclical sectors, particularly in the auto industry, should translate into earnings growth of BASF. We also expect the stock to offer an attractive dividend yield, and the upcoming financial report to show growth across all business segments. Looking forward, we see further market weakness, although do not rule out the possibility of temporary market rebound. In such environment, we will mostly concentrate on bottom-up stock picking; while probably leaning towards fundamentally attractive cyclical names.

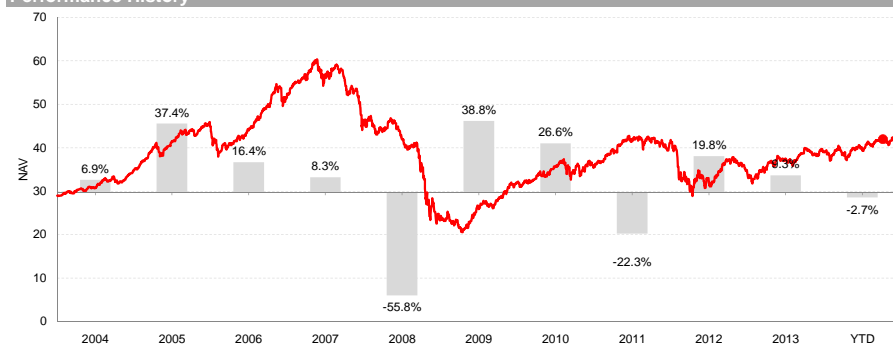
## Contact Information

Citadele Asset Management  
Republikas square 2a  
Riga LV-1010

Tel: (371) 67010801  
Fax: (371) 67778622

asset@citadele.lv  
http://www.citadele.lv/en

## Performance History\*



## Total Return by Period\*

	YTD	1M	3M	6M	1Y	2Y	3Y	5Y	SI	2013	2012	2011
Fund	-2.7%	-2.7%	-1.1%	4.0%	5.9%	8.5%	-0.3%	12.6%	3.8%	9.3%	19.8%	-22.3%

## Top 10 Holdings

Daimler AG	3.2%
Siemens AG	3.0%
Statoil ASA	2.9%
Olainfarm	2.7%
Deutsche Post AG	2.7%
Allianz SE	2.6%
Olympic Entertainment Group	2.4%
Volkswagen AG	2.3%
DNB ASA	2.3%
AP Moeller - Maersk A/S	2.3%
<b>Total</b>	<b>26.3%</b>

## Portfolio Statistics

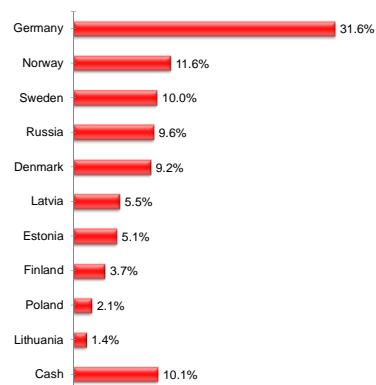
Number of Holdings	51
Average Security Weight	1.8%
Median P/E	13.8
Median P/B	1.9
Median Dividend Yield	3.1%

## Performance Statistics (3Y)\*

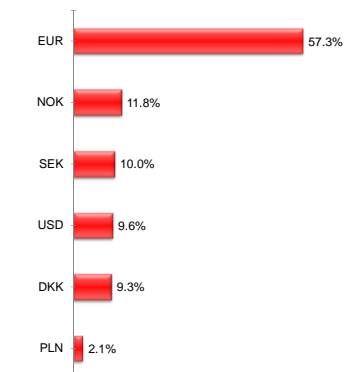
Volatility (Standard Deviation, %)	16.9%
Sharpe Ratio	0.0
Sortino Ratio	-0.2
Value-at-Risk (30d/ 95%)**	9.0%

\*\* historical method is used for calculation

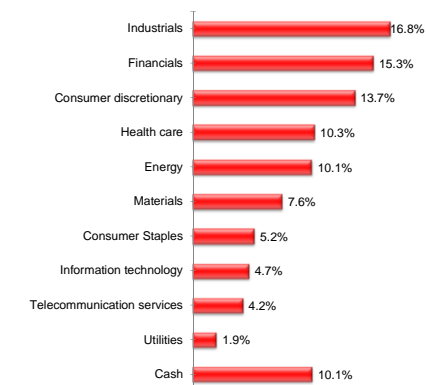
## Country Breakdown



## Currency Breakdown



## Sector Breakdown



## Important

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