

**Investment Fund**  
**CBL Baltic Sea Equity Fund**  
**PROSPECTUS**

The Fund is registered in the Republic of Latvia

Registered with the Financial and Capital Market Commission:

Registration date of the Fund: 07.03.2013

Registration number of the Fund: FL 127

Amendments to the Prospectus of the Fund:

Registered on 11.07.2013, in effect from 11.07.2013

Registered on 14.12.2013, in effect from 16.12.2013

Registered on 21.07.2014, in effect from 21.07.2014

Registered on 19.03.2015, in effect from 30.03.2015

Registered on 19.05.2015, in effect from 19.05.2015

Registered on 12.10.2015, in effect from 12.10.2015

Registered on 19.08.2016, in effect from 19.08.2016

Registered on 16.09.2016, in effect from 16.09.2016

Custodian: Citadele Banka AS

Auditor of the Fund: KPMG Baltics SIA

The Prospectus of the Fund, Rules of the Fund, Key Investor Information, annual and semi-annual reports of the Fund, information on the Fund Value and sales and redemption price of Share Certificates, as well as other information on the Fund and the Company is available free of charge at the office of CBL Asset Management IPAS at the following address:

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

Custodian and distributor of the Share Certificates:

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

## IMPORTANT INFORMATION

The Investment Fund “CBL Baltic Sea Equity Fund” is established as an investment fund under the Law on Investment Management Companies of the Republic of Latvia. The Fund operates in accordance with Directive 2009/65/EC as well as other applicable European Union law. CBL Asset Management IPAS that manages assets of this Fund operates in accordance with the laws and regulations of the Republic of Latvia.

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

**Prevention of Money Laundering.** According to the laws and regulations of the Republic of Latvia, the Company or the Distributor has the right to request the Investors to submit documents confirming their legal capacity as well as the identity of the Investor and his/her representative or copies of such documents duly certified 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 the Share Certificates without explanation. Further information about such requirements is available at the Company.

**Unfair Trade Practice.** The Company does not allow unfair transactions and market manipulation with financial instruments, as a result of which the Investors' rights or legitimate interests are affected.

**Market Timing.** The Company deliberately prevents performance of transactions with the Share Certificates which 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 the reflection of such changes in the value of the Unit of the Fund. The Company uses various methods to reduce the risk of market-timing, e.g.:

- monitoring frequent purchase/sale transactions of the of the Share Certificates;
- detailed investigation of sampled cases involving active trade with the Share Certificates of the Fund.

In application of the above methods to reduce the risk caused by market timing, the Company is striving to take into account the interests of the Investors. The Company cannot ensure that it has sufficient information to identify the market-timing practice. Notwithstanding that the Company strives to detect market-timing practices, it cannot guarantee that such practice is completely eliminated.

**Data Protection.** The investor (private individual) agrees that the Company, the Custodian or the Distributor processes his/her personal data, inter alia, requests and receives the Investor's personal data from any third party and databases established in accordance with the procedure stipulated in the laws and regulations of the Republic of Latvia and/or a country where the Share Certificates are distributed, if the Company, the Custodian or the Distributor deems it necessary for ensuring compliance with the requirements stipulated by the laws and regulations of the Republic of Latvia, for establishing legal relationship between the Investor and the Company, the Custodian or the Distributor or for ensuring compliance fulfillment of obligations.

**Distribution of the Share Certificates of the Fund.** The Share Certificates will 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 cannot be regarded as a public offer or an advertisement in the countries where the Fund is not registered or where the relevant state authorities have not been duly informed about the distribution.

Customer identification, investigation, compliance, data exchange and any other procedures as specified in the legislation as regards:

- Prevention of money laundering and terrorism financing;
- Investment services and non-core services, incl. assessment of suitability and appropriateness of the Fund for the interests of the Investor (incl. compliance with European Parliament and Council Directive 2004/39/EC (MIFID);
- FATCA (U.S. Foreign Account Tax Compliance Act); and
- CRS (OECD Standard for Automatic Exchange of Financial Account Information),

are ensured by the Investor's account holder. The Company only follows the above requirements and procedures to the extent required by the directly applicable laws and regulations.

### RISK NOTE

Notwithstanding the fact that the Company operates in accordance with the principle of diversification and other risk mitigation concepts, general risks related to the activities of investment companies and investments into financial instruments remain. The Investors should be aware that specific investment strategy aimed at investments in the countries of the Baltic Sea Region includes specific risks, especially significant liquidity, currency, counterparty and market concentration risks. The investors should carefully study the information on risks presented in this Prospectus and take it into account when purchasing the Share Certificates of the Fund. Prior to making investments, Investors without relevant experience should consult with an independent financial adviser to make an informed decision on the Fund's offered investment strategy and ensure that the Fund's strategy, including potential risk, is appropriate for the Investor's financial standing. The investments in the Fund are subject both to the risk of not earning any profit and of partial loss of the value of the initial investment. The Company does not guarantee any profit from the investments in the Fund. The historical performance does not guarantee the same performance in the future.

### NOTIFICATION TO THE INVESTORS

The value of the Unit of the Fund is highly volatile.

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## ABBREVIATIONS AND TERMS USED IN THE PROSPECTUS

**Account holder**

A financial institution which, according to the Financial Instrument Market Law and the LCD regulations, is entitled to open, hold and close financial instrument accounts; or a legal entity which can ensure custody of financial instruments in the LCD through interbank or central depository correspondent relationship.

**AS** abbreviation for “akciju sabiedrība”, which is a term used to describe a “Joint-Stock Company” established under the laws of the Republic of Latvia.

**Auditor of the Fund**

KPMG Baltics SIA

**Base currency**

The currency in which the Fund’s value and the value of the Unit of the Fund is expressed. The base currency of the IF “CBL Baltic Sea Equity Fund” is the Euro.

**Base currency of the Fund** EUR.

**Baltic Sea Region**

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

**Company**

“CBL Asset Management” IPAS

**Custodian**

AS “Citadele banka” is responsible for custody of, accounting for and executing transactions with the Fund’s assets as well as for other obligations stipulated by the laws and regulations of the Republic of Latvia and the Custody Agreement signed with the Company.

**Custody Agreement**

A written agreement between the Company and the Custodian according to which the Custodian holds the Fund’s assets, performs transactions with the Fund’s assets and services Fund’s accounts in accordance with the laws and regulations of the Republic of Latvia, the Custody Agreement, the Prospectus and the Company’s instructions.

**Debt Securities**

Securities representing the issuer's liabilities to the security holder (e.g. bonds, promissory notes, etc.).

**Derivatives**

Financial instruments the value of which changes depending on the stated interest rate, security price, currency exchange rate, price or interest rate index, credit rating or other variable; and by which one or several financial risks inherent to a derivative primarily underlying the financial instrument are transferred among individuals participating in the transaction. No or minor initial investment is required to purchase a derivative compared to other contracts that also depend on the changing market conditions. Moreover, the settlement according to the contract takes place in the future.

**Equity securities**

Financial instruments representing ownership interest in the issuer’s capital (e.g. shares).

**ETF** Shares of collective investment undertakings which are traded on a regulated market and the fund management company takes all the measures to ensure that the market price of the shares does not differ essentially from the value of the Units of the Fund.

**EU** European Union.

**EUR** Euro: the currency of the European Monetary Union.

**Financial and Capital Market Commission of the Republic of Latvia and/or the Commission**

An authorized autonomous public authority supervising 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 the laws and regulations of the Republic of Latvia and is responsible for their execution.

**Financial instruments**

An agreement, which concurrently creates financial assets for one person, but financial liabilities or equity securities for another person.

**Foreign country** – any country other than the Republic of Latvia.

**Fund** the IF “CBL Baltic Sea Equity Fund”, which is established and managed by “CBL Asset Management” IPAS

**Fund Manager**

The Investment Committee appointed by the Management Board of the Company to perform the functions of the fund manager in compliance with the provisions of the Prospectus, resolutions of the Management Board of the Company, the investment policy of the Fund and the procedures specified in the laws and regulations effective in the Republic of Latvia and the Fund Rules.

**Fund’s Ongoing Charge**

Payments made from the Fund’s assets notwithstanding the fact whether they are the mandatory payments that are necessary to ensure the activities of the Fund or fees payable to third parties who are related to the activities of the Fund or render services to the Fund.

**Fund’s Ongoing Charge Figure**

The Fund’s Ongoing Charge Figure is defined as a ratio between the Fund’s total ongoing charges and the Fund’s average annual net asset value. It is expressed in percentage terms.

**Fund’s value**

The Fund’s net asset value (which is the value of the assets of the Fund) less the value of the Fund’s liabilities.

**Group of Ten**

The group of countries which have agreed to participate in the General Arrangements to borrow with the International Monetary Fund.

**IF** Investment fund.

**Interested parties of the Company**

The Members of the Council and officials of the Company, the Company’s shareholders who own 10 and more percent of the voting shares of the Company, as well as spouses, parents or children of such persons.

**Interested parties of the Custodian**

The Members of the Management and Supervisory Boards of the Custodian, the shareholders who own 10 and more percent of the voting shares of the Custodian, as well as spouses, parents or children of all such persons.

**Intermediary**

A legal entity such as a brokerage company, depositary, bank or other person carrying out transactions with financial instruments and engaged by the Company to perform the management of the Fund or a Custodian holding the assets of the Fund and/or executing the Company’s order to perform transactions with the Fund’s assets.

**Investment Fund**

An investment fund aimed at aggregating of publicly acquired money resources to invest in transferable securities and other liquid financial instruments in compliance with the risk mitigation principle and investment limitations. The respective investment management company is obliged to redeem the Share Certificates at the request of the Investors.

**Investor**

A private individual or a legal entity who/which owns the Share Certificates of the Investment Fund.

**IPAS** The abbreviation for “*ieguldījumu pārvaldes akciju sabiedrība*”, which is the term used to describe the “Investment Management Joint Stock Company” established under the laws of the Republic of Latvia.

**Latvia** The Republic of Latvia.

**Latvian Central Depository and/ or LCD**

A company which is responsible for booking of and accounting for financial instruments that are in public circulation in the Republic of Latvia and provides for financial instrument and cash settlements in transactions with financial instruments on the regulated market as well as financial instrument settlements among financial instrument account holders.

**Law** The Law on Investment Management Companies.

**Main activity**

The activity of the Company which generates the major part of the Company’s revenue as well as other activities, which are not related to investments and financing.

**Member State**

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

**Money market instruments**

Liquid short-term debt securities the value of which can be determined at any time (e.g. promissory notes, certificates of deposit, commercial papers, etc.) and that are usually traded on the money market.

**MTF** Multilateral Trading Facility.

**Nominal account**

A financial instruments account opened by the Company with a credit institution in order to account for the share certificates of the Fund held by the Company. In case such nominal account is opened, identification information of the account states that this is a nominal account and the financial instruments in this account are not owned by the Company.

**OECD** Organization for Economic Cooperation and Development.

**Prospectus / Prospectus of the Fund**

The Prospectus of the Fund, including the effective and applicable additions and amendments, that provide information on the Fund required by the Law and that should not be considered marketing material.

**Publicly Available Information**

Detailed information on the Fund, the Company and the Custodian available to all the Investors according to the Law of the Republic of Latvia. Publicly Available Information includes the Prospectus, Fund Rules, Key Investor Information Document, annual and semi-annual reports of the Fund, time and places of distribution of the Share Certificates, the total value of the Fund and the Unit of the Fund, sales and redemption prices of the Share Certificates, information about the Company and information about the Custodian.

**Redemption**

Redemption of the Share Certificates on the request of the Investors at the price determined in accordance with Paragraph 9.2 of the Prospectus.

**Regulated market**

A set of organizational, legal and technical measures, which makes entering into open and regular transactions with financial instruments possible.

**Repurchase**

Repurchase of the Share Certificates by the Company with compensation for damage (where the Company and/or the Distributor and/or the Intermediary is liable for presenting incorrect or incomplete data in the prospect).

**Rules / Fund Rules**

Include the effective and applicable additions and amendments, which provide the information on the Fund required by the Law and which should not be considered marketing material.

**Sales price of the Share Certificates**

The Sales Price of the Share Certificates consists of the value of the Share Certificates of the Fund to be purchased by the Investor and the entry charge for the Share Certificate issuance.

**Share Certificate**

A transferable security that confirms the Investor's participation in the Investment Fund and the rights arising from such participation.

**Trading venue**

A regulated market, MTF or a Systematic Internalizer that in such status or system functions similarly to a regulated market or MTF outside the EU. A Systematic Internalizer is an investment brokerage company or a credit institution that, on its account and in an organized way, frequently and systematically performs transactions for the execution of customers' orders outside a regulated market or a multilateral trading facility.

**Transferable securities**

Securities the alienation rights of which are not restricted, including debt securities, equity securities and Share Certificates.

**Unit of the Fund**

A unit of the Fund representing the right of claim attributed to one Share Certificate in proportion to the Fund's net asset value.

**Value of the Unit of the Fund**

The value of the Unit of the Fund is the Fund's value divided by the number of the Share Certificates of the Fund in circulation.

## 1. INVESTMENT POLICY AND INVESTMENT LIMITATIONS

### 1.1 The Fund's Activity and Investment Objective

The objective of the investments of the Investment Fund "CBL Baltic Sea Equity Fund" is long-term capital appreciation by primarily investing in equity securities of the issuers which are registered or whose main activity is carried out in the Baltic Sea Region without any industry limitations. Revenues of the Fund are composed of appreciation of equity securities and distribution of dividends.

### 1.2 The investment policy of the Fund implies the following allocation of the investment portfolio

- Up to 100% of the Fund's assets may be invested in equity securities issued by commercial companies. No less than two thirds of the Fund's assets will be invested in equity securities issued by commercial companies registered or carrying out their main activity in the Baltic Sea Region;
- Up to 25% of the Fund's assets may be invested into deposits with credit institutions;
- Up to 25% of the Fund's assets may be invested into debt securities issued or guaranteed by central and local authorities and credit institutions as well as into debt securities issued by commercial companies;
- Up to 25% of the Fund's assets may be invested into money market instruments issued or guaranteed by central and local authorities and credit institutions as well as into money market instruments issued by commercial companies;
- Up to 10% of the Fund's assets may be invested in Share Certificates of investment funds or similar or equivalent collective investment undertakings or in equivalent securities (hereinafter – IF Share Certificates), incl. ETFs, which mainly invest in financial instruments issued in the Baltic Sea Region.

### 1.3 Investment Targets and Types

The Fund's assets may be invested into the following financial instruments:

- 1) Equity securities issued by commercial companies registered in the Baltic Sea Region or the OECD Member States provided that the place of the main activity of the commercial companies registered in the OECD Member States is a country of the Baltic Sea Region;
- 2) Debt securities and money market instruments issued or guaranteed by central banks, central and local authorities of the Baltic Sea Region, Member State or the OECD Member



States provided that the place of the main activity of the commercial companies registered in the OECD Member States is a country of the Baltic Sea Region;

- 3) Debt securities and money market instruments issued or guaranteed by central and local authorities of the Baltic Sea Region;
- 4) Debt securities and money market instruments issued or guaranteed by credit institutions or issued by commercial companies of the Baltic Sea Region, Member State or the OECD Member States provided that the place of the main activity of the commercial companies registered in the OECD Member States is a country of the Baltic Sea Region;
- 5) Deposits with credit institutions licensed in a Member State or in an OECD Member State included in the Group of Ten;
- 6) Share Certificates (units) of investment funds or equivalent collective investment undertakings and ETFs registered in the Member States or other countries on condition that their investment policy provides for investments in equity securities issued by commercial companies which are registered or whose Main activity is carried out in the Baltic Sea Region or in debt securities and money market instruments issued or guaranteed by central and local authorities, central banks, credit institutions and commercial companies of a country of the Baltic Sea Region.
- 7) For hedging against the risk of fluctuations in the market value of the Fund's assets that may arise due to changes in the respective asset price or currency exchange rates, the Fund Manager has the right to invest in derivatives at the expense of the Fund. The Fund Manager is entitled at the expense of the Fund to carry out derivative transactions with an aim to generate profit. For information on additional risks arising from transactions in derivatives, see Chapter 2 "RISK PROFILE OF THE FUND AND RISKS RELATED TO THE INVESTMENTS";
- 8) The Fund Manager has the right to hold part of the Fund's assets in liquid assets, including cash, if necessary for the operations of the Fund.

### 1.3.1 Investments in Transferable Securities and Money Market Instruments

1. Investments of the Fund may 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 of a Member State or on another trading venue of a Member State;
  - 2) They are admitted to official stock-exchange listing of the countries of the Baltic Sea Region or the OECD Member States or are traded on the trading venue of these countries;
  - 3) They are neither admitted to official stock-exchange listing nor traded on the regulated markets; however, the rules governing the issue of such securities and money market instruments provide that they will be admitted to official stock-exchange listing or traded on regulated markets referred to in Paragraph 1.3.1, Sub-paragraph 1, Clauses 1) and 2) hereof and that these securities or money market instruments will be admitted or traded there within one year from the start of the subscription to these securities or money market instruments;
2. The Fund's assets may be invested in money market instruments that are not traded on Regulated markets, if these are freely transferable (there are no conditions restricting such transactions) and one of the following conditions is met:
  - 1) They are issued or guaranteed by a Member State or a local authority of a Member State, another country (in a federal country – one of the regional authorities of such federation) or an international financial institution if one or several Member States are its members;
  - 2) They are issued or guaranteed by the Central Bank of a Member State, the European Central Bank or the European Investment Bank;
  - 3) They are issued by a commercial company whose securities are traded in accordance with the procedure specified in Paragraph 1.3.1, Sub-paragraph 2, Clauses 1) and 2) hereof;
  - 4) They are issued or guaranteed by a credit institution that is registered in a Member State and whose operations are monitored by a competent financial supervisory authority in accordance with the EU requirements; or an issuer, whose operations are

governed by the regulatory requirements that are at least as strict as those determined by the EU and which also meets at least one of the following requirements:

- a) It is registered in an OECD Member State belonging to the Group of Ten;
  - b) It has an investment-grade credit rating;
  - c) An in-depth analysis of the legal framework of the issuer's operations confirms that the regulative requirements governing its activity are at least as strict as those determined by the European Union.
- 5) They are issued by a commercial company whose capital and reserves amount to or exceed EUR 10 million and which prepares and publishes an audited annual report in conformity with financial reporting requirements that are equal to the ones adopted in the EU. Such commercial company is in the same group with one or several commercial companies whose shares are traded on a Regulated market and which is established to attract funding to the group or such commercial company is a special purpose entity specialized in securitization operations, and which has signed an agreement on ensuring liquidity with such bank that meets the requirements for a credit institution specified in Paragraph 1.3.1, Sub-paragraph 2, Clause 4) hereof. The investments in such money market instruments are subject to the investor protection equivalent to the protection referred to Paragraph 1.3.1, Sub-paragraph 2, Clauses 1), 2), 3) and 4) hereof.
3. If the invested amount does not exceed 10% of the Fund's assets, the Fund's investments may be made in transferable securities and money market instruments other than those referred to in Paragraph 1.3.1.

### **1.3.2 Deposits with Credit Institutions**

1. The Fund's assets may be deposited with a credit institution that has obtained a license for credit institution operations in a Member State or an OECD Member State belonging to the Group of Ten.
2. The Fund's assets may be deposited with credit institutions if such deposits are repayable on demand or have the right to be withdrawn prior to the expiry of the respective term and maturing in no more than 12 months.

### **1.3.3 Investments in Share Certificates of Funds**

1. The Fund's assets may be invested in the Share Certificates or units of an investment fund or equivalent collective investment undertaking registered in a Member State or in an OECD Member State whose operations are governed by regulatory requirements equivalent to the provisions of the Law.
2. The Fund's assets may be invested in the Share Certificates or units of an investment fund or equivalent collective investment undertaking of a foreign country if such investment fund meets the following requirements:
  - 1) It is registered in a country whose laws and regulations provide for the supervision of such undertakings which is equivalent to the supervision specified in the Law, and the supervisory body of the respective foreign country cooperates with the Commission;
  - 2) The regulatory requirements governing its operations, including investor protection, investment and transaction restrictions and limitations, are equivalent to the provisions of the Law regarding the operations of the investment funds;
  - 3) It prepares and publishes semi-annual and annual reports to allow the assessment of its assets, liabilities, income and operations over the reporting period.
3. The Fund's assets may be invested in the Share Certificates (units) of the investment fund or collective investment undertaking referred to in Paragraph 1.3.3, Sub-paragraphs 1 and 2 if the Prospectus, the Rules or equivalent documents of the respective investment fund or collective investment undertaking specify that investments in other investment funds or collective investment undertakings may not exceed 10 percent of the assets of the investment fund or collective investment undertaking.

### 1.3.4 Transactions with Derivatives

1. The Fund's assets may be invested in futures, plain vanilla options and swaps which are traded on the markets referred to in Paragraph 1.3.1, Sub-paragraph 1 hereof or are traded on a regulated market, if the following requirements are met:
  - 1) Their underlying asset is the financial instruments referred to in Paragraphs 1.3.1, 1.3.2 and 1.3.3 hereof, financial indices, interest rates, exchange rates or currencies in which it is intended to invest the Fund assets in accordance with the Prospectus or the Rules;
  - 2) The counterparty to the transaction with derivatives not traded on the regulated market is a credit institution that meets the requirements of Paragraph 1.3.2, Sub-paragraph 1 hereof or an investment brokerage company whose capital and reserves amount to or exceed EUR 10 million and which is registered in a Member State or an OECD Member State belonging to the Group of Ten and whose operations are monitored by a competent financial supervisory authority;
  - 3) Reliable and verifiable valuation of the derivative not traded on the regulated market takes place on a daily basis; and the derivative can be sold or liquidated at its fair value at any time at the initiative of the Company or a transaction can be performed as a result of which the respective position (receivables or liabilities in respect to the financial instrument) is closed.

### 1.3.5 Investments in a Currency other than the Base currency of the Fund

In addition to the base currency of the Fund – the euro, investments may be made in currencies other than the base currency of the Fund, such as NOK, SEK, DKK, PLN, USD and GBP, and in some cases in other currencies observing the investment limitations stipulated in the Prospectus.

## 2. RISK PROFILE OF THE FUND AND RISKS RELATED TO INVESTMENTS

**The Fund's net asset value is highly volatile.**

### 2.1 Risk Profile of the Fund

Investments in the Fund are related to a risk or a possibility that the Investor can suffer a loss. The performance of the Fund can be either positive or negative. Appreciation or preservation of the Fund's value is not guaranteed. The historical performance of the Fund does not guarantee that the Investor will achieve similar performance in the future.

**When investing in the Fund, the Investor should take into account the risks involved in making the investment. The performance of the Fund can be affected by various risks. The Company advises that the list of the risks listed in Paragraph 2.2 hereof cannot be considered as complete – only the most significant risks related to making the investment are described. The Investor assumes all the risks related to the investments in the Share Certificates of the Fund. Before taking any decision to invest in the Share Certificates of the Fund, the Investor should read this Prospectus and rely on the assessment of the investment and related risks carried out by himself/herself or by his/her external consultant.**

The Fund was set up for professional and experienced Investors as well as for those Investors who are not familiar with the capital market opportunities and whose aim is to generate profit on capital markets. This strategy comprises significant risks that can adversely affect the value of the Units of the Fund or the value of the Share Certificate of the Fund, including specific issuer, liquidity, foreign investment risks (including increased political, economic, currency, information, legal risks, the risk of holding financial instruments issued in foreign countries), intermediary and counterparty risks. According to the Fund's long-term strategy, the Fund is more suitable for the Investors who intend to make investments for a period of at least 5 years.

### 2.2 Investment-related Risks

Potential risks to which the investment in the Share Certificates of the Fund might be exposed can be grouped in several categories indicating potential sources of loss. The operations of the Fund involve risks that arise from various factors. Each type of risk can adversely affect the performance of the Fund and, thus, each of the Units of the Fund. In this context, the following

risks must be considered and taken into account by the Investors when making a decision to invest in the Share Certificates of the Fund:

**General market risk** – a risk that the price of securities or other financial instruments as well as their income may change due to the factors related to the interest rate changes (in case of debt securities) or extensive changes in the capital market (in case of equity securities) and these changes are not related to a particular issuer. Adverse changes in market conditions can reduce the value of the investments made by the Fund.

**Specific issuer risk** – a possibility to suffer loss if the price of a security changes due to the factors related to the issuer of securities or, in case of financial derivatives, to the issuer of the security underlying the respective derivative. The operations of the issuer of the securities or other financial instruments held in the Fund's portfolio can be affected by such factors as issuer's management expertise, economic situation and changes in the industry segment of the issuer, inter alia, the issuer can fail to fulfil its obligations specified in the terms and conditions of the respective issue. Such adverse events can have negative effect on the value of the Fund's investments.

**Liquidity risk** – a risk that it will not be possible to sell, alienate or deal with the financial instruments held in the Fund's investment portfolio within desired time and extent without substantial losses, as a result of which the respective position will be closed; and a risk that the fulfillment of the requirement of redemption of the Share Certificates by the Investment Fund will be suspended or otherwise restricted. It is possible that the Fund might not sell its assets for an acceptable and reasonable price.

**Counterparty risk** – a risk that the Investors can suffer loss if a counterparty defaults on its obligations before the payment of the transaction's final cash flow. In planning the investment policy of the Fund, the Company takes into account the safety of investments and holding thereof in each particular country and the safety of investing in specific financial instruments and/or term deposits, i.e. it analyses the credit ratings of each country, bank or commercial company. Materialization of counterparty risk may result in partial or full default on liabilities with respect to a particular financial instrument, cause full or partial loss and sustained unavailability of financial instruments, consequently making the execution of orders difficult or impossible and the impossibility of exercising the rights related to financial instruments (e.g. voting rights). The counterparty with whom an agreement on the transaction has been signed may default; the counterparty may also transfer the required funds or financial instruments in insufficient amounts or not transfer them at all notwithstanding the fact that the Fund has fulfilled all its contractual obligations towards the respective counterparty.

**Intermediary risk** - a risk of loss that may result from an act or omission by the Intermediary, incl. fraud, negligence, and improper performance on the part of the Intermediary or improper execution of orders by the Intermediary or improper accounting for financial instruments and/or funds held by the Intermediary and the like. The Company does not begin or terminates cooperation with the Intermediary, if, in the opinion of the Company, the following risks may arise: default risk, reputation risk or risk related to money laundering and terrorism financing.

**Intermediary insolvency risk and risk related to the insolvency regimes of other countries** – full or partial loss of the Fund's assets, lasting unavailability, impossible or hindered dealing *with them*, including the impossibility to exercise the rights related to financial instruments (incl. voting rights), inability to access information due to insolvency (bankruptcy) of the Intermediary holding the financial instruments or involved in the execution of orders or a process similar to insolvency which restricts or suspends operations of the Intermediary. In case of insolvency of the Intermediary and other equivalent regimes, there is a risk to recover neither financial instruments nor their monetary value. It should be taken into account that holding of financial instruments included in the Fund's assets and the Intermediary's insolvency process may be subject to laws and market practice of a foreign country which may essentially differ from those existing in Latvia. The rights to financial instruments may be affected by unpredictable decisions made by the legislator, executive bodies or courts of the respective country. The Company may not be able to recover the financial instruments; however, under the Intermediary's insolvency proceedings their value may be compensated (or partially compensated) in cash. In the insolvency proceedings the value of the financial instruments is determined according to the laws and regulations of the respective country. In case of materialization of the Intermediary insolvency risk and the risk related to insolvency regimes of other countries, there is a possibility that neither the financial instruments nor their monetary value is recovered.

**Custodian risk** – Custodian’s inability to operate, erroneous activities or malpractice may adversely affect the Fund and reduce the value of the Fund’s assets. The inability of the Custodian to operate effectively may result from its insolvency, bankruptcy, negligence or deliberate illegal activity, as well as other activities without legal basis.

**Market concentration risk** - as up to 100% of the Fund’s assets can be invested in a certain region (equity securities of the companies of the Baltic Sea Region), market concentration risk inherent to the Fund is higher than that of geographically more diversified funds.

**Financial risk** - financial risk inherent to investment funds is primarily related to situations when, due to external factors (factors beyond the Company’s control), the Investors simultaneously request redemption of their Share Certificates which results in decreased efficiency of the Fund’s operations.

**IPO (initial public offering) risk** – a risk related to potential investments of the Fund in initial public offerings (IPOs). A risk that the IPO stock market value may be volatile due to such factors as lack of historical market, novel trading, limited number of shares available for sale and limited information on the issuer.

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

**Derivative transactions may result in insolvency and encumber the Fund’s assets without a possibility to determine the amount of possible loss in advance.**

**Other risks** – *Force Majeure*, incl. natural disasters, strikes, riots, criminal activities, disruptions in communication media and information systems, as well as other risks that cannot be predicted or controlled by the Company.

**Main Foreign Investment Risks:**

- **Political risk** – a risk related to the involvement of a country/countries of investment in military conflicts and warfare, as well as to adverse changes in the political environment, e.g. violent overthrow of the government, upheavals or other events affecting the economic or political stability - or further development of this country (region), including the changes in the government’s course or its priorities of the respective country (warfare, nationalization, confiscation, introduction of restrictions and embargo). This risk is especially typical of the countries which still lack a stable regulatory and legal system, business traditions and culture, among them being certain countries of the Fund’s Investment Region. Such factors usually have a major impact on the economic and political stability and financial markets of the respective country and, thus, may affect the performance of the Fund.
- **Economic risk** - a risk related to changes in the economic situation of investment regions, such as economic recession, excessive inflation, banking crisis, etc.
- **Currency risk** - a risk that a holder of Share Certificates of the Fund may suffer loss from unfavorable fluctuations in exchange rates. The base currency of the Fund is the euro; however, the Fund’s assets may be also placed in financial instruments denominated in other currencies, as a result of which foreign currency fluctuation risks relative to the Fund’s base currency arise.
- **Information availability risk** – a risk that there is a lack of true and complete securities market information on the issuer’s actual situation or such information is not accessible.

**Given that not all of the countries of the Fund’s Investment Region have common disclosure standards, there is an increased risk that despite prudent management, the Fund Manager may obtain incomplete information and as a result can make an unfavorable investment decision.**

- **System risk** – a risk to suffer loss due to the impossibility to make settlements or transfers caused by the dysfunction of settlement institutions or systems.
- **Legal or regulatory risk** - a risk that may inflict additional expenses and/or loss related to amendments to foreign laws, in case of execution of any decisions/acts by the executive bodies, legislator or judicial power. This may result in imposition of seizure or other restrictions

on the financial instruments and/or cash forming the Fund's assets (including those held by an Intermediary) whereby free alienation thereof is prohibited. **Accounting and double taxation risk** – a risk related to the use of different accounting principles in securities accounting and registration systems in different countries which may cause additional burdens on investments, such as higher tax rates set for non-resident investments; thus, the Fund's assets may be burdened more than if investments were made in the local market.

- **Risk of holding financial instruments issued in foreign countries** – a risk related to accounting of the financial securities and monetary funds owned by the Fund held and recorded by the Intermediary in a foreign country as well as to accounting for the rights related thereto. The Investor must be aware that an act or omission and consequent responsibility of such Intermediaries are subject to the laws and market practice in the country of registration of the intermediary which may be less favorable for the Investor and may essentially differ from the laws and regulations of the Republic of Latvia and market practice related to holding of financial instruments and the rights related thereto.

### 2.3 Possible Risk Mitigation Measures

The Company manages the Fund in the interests of the Investors and will make every effort, to the extent possible, to avoid potential risks or mitigate them; however, the Company does not guarantee that it will be possible to completely avoid such risks. In order to decrease investment risks, the Fund is managed in compliance with 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 targets, as well as monitors the financial and economic situation of the issuers of the financial instruments in which the Fund's assets are or will be invested.

When developing Fund's investment strategy and determining investment limitations within Fund's investment policy framework as specified in this Prospectus, the Company analyses the Fund's investments by maturity, geographical spread, industries, currencies, etc. assessing the risk level of each of these factors. The Company strictly observes the standards and restrictions specified in the Prospectus, the Fund Rules, and the laws and regulations of the Republic of Latvia.

For risk mitigation purposes the Company carries out the following:

- Country assessment according to the ratings assigned by international credit rating agencies;
- Overview of the current political situation of the country;
- Analysis of the current economic situation of the country.

The Company and the Custodian, within the framework of their competence, will apply all the necessary skills and prudence in selecting, appointing and monitoring their local Intermediaries. Notwithstanding the measures taken by the Company and the Custodian, it is not possible to fully avoid the risk related to action, omission or default by the Intermediary.

The risks referred to in the Prospectus are mitigated, inter alia, by the activities of the Financial and Capital Markets Commission of the Republic of Latvia which monitors and inspects the Company and the circulation of Share Certificates in the Republic of Latvia and in other countries on a regular basis and protects Investor interests through various provisions.

The investment strategy of the Fund is developed to minimize, as far as possible, the risks referred to in Paragraphs 2.2 and 2.3 hereof; however, the Company does not guarantee that it will be possible to fully avoid these risks in the future.

## 3. INVESTMENT LIMITATIONS AND DESCRIPTION OF THE INVESTING PRACTICE OR METHOD USED IN THE FUND MANAGEMENT

### 3.1 General Investment Limitations

1. The Fund's investments, excluding the Fund's investments referred to in Paragraph 3.1, sub-paragraph 2 hereof, in transferable securities or money market instruments of a single issuer may not exceed 5 percent of the Fund's assets. The above limit may be raised to 10 percent of the Fund's assets; however, in such case, the total value of the investments exceeding five percent may not exceed 40 percent of the Fund's assets.
2. The Fund's investments in transferable securities of a single issuer can be increased up to 25 percent of the Fund's assets if they are debt securities issued by a credit institution registered in a Member State and if the terms of such debt securities provide that the

acquired funds will be invested in assets that during the entire duration of the debt security fully secure the liabilities arising out of such a debt security, and such liabilities must be settled on a priority basis if the issuer becomes insolvent.

3. If the value of debt securities of a single issuer mentioned in Paragraph 3.1, Sub-paragraph 2 owned by the Fund exceeds 5 percent of the Fund's assets, the total value of the Fund's investments that exceeds five percent may not exceed 80 percent of the Fund's assets.
4. The Fund's investments in a single credit institution may not exceed 20 percent of the assets of the Fund. Such limitation does not apply to claims on-demand against the Custodian.
5. Investments of the Fund's assets in Share Certificates of a single investment fund may not exceed 10 percent of the Fund's assets. The total investments of the Fund in share certificates (units) of collective investment undertakings referred to in Paragraph 1.3.3, Sub-paragraph 2 of this Prospectus may not exceed 10 percent of the Fund's assets.
6. The total risk arising from transactions in derivatives, inter alia, in the derivatives included in transferable securities or money market instruments may not exceed the Fund's net asset value. In calculating the total risk, the value of the underlying assets of the derivative, counterparty risk, future changes in the market and the time required for closing the relevant position must be taken into account. **In assessing the total risk of the Fund**, the Company applies the commitment approach.
7. Risk position in transactions with over-the-counter derivatives with each counterparty may not exceed:
  - 1) Ten percent of the Fund's assets if the counterparty is a credit institution that has obtained a license for credit institution operations in a Member State or OECD member state that is included in the Group of Ten;
  - 2) Five percent of the Fund's assets if the counterparty is an investment brokerage company whose capital and reserves amount to EUR 10 million or more and which is registered in a Member State or OECD member state that is included in the Group of Ten and the operation of which is monitored by a competent financial supervisory authority.
8. Considering that derivative transactions with an aim to generate profit may be carried out at the expense of the Fund, the limitations set forth in paragraph 3.1 apply to the underlying asset of the derivative financial instrument.
9. Disregarding the investment limitations separately specified in Paragraph 3.1, Sub-paragraphs 1, 4, 6 and 7, the total Fund's investments in transferable securities and money market instruments, the Fund's deposits and transactions with derivatives, the issuer or guarantor, investment attractor or transaction counterparty of which is one and the same person may not exceed 20 percent of the Fund's assets. In applying the investment restriction specified in Paragraph 3.1 of the Prospectus, commercial companies belonging to one group must be considered as a single person.
10. The investment limitations separately specified in Sub-paragraphs 1, 2, 3, 4, 6 and 7 of this Paragraph may not be combined and, thus, the total investments of the Fund in transferable securities and money market instruments, the Fund's deposits and transactions with derivative financial instruments the issuer or guarantor, investment attractor or transaction counterparty of which is one and the same person, may not exceed 35 percent of the Fund's assets.

### **3.2 Investment Restrictions with regard to a Single Issuer**

1. The investments of the Fund in separate assets may not exceed the following criteria:
  - 1) 10% of the par value of the shares (without voting rights) of a single issuer;
  - 2) 10% of the total amount of debt securities issued by one issuer;
  - 3) 10% of the total value of the money market instruments issued by a single issuer;
  - 4) 25 % of the number of Share Certificates of a single investment fund or collective investment undertaking.

2. Neither the total investments of all the funds managed by the Company, nor investments of one single fund may exceed 10 percent of any of the following indicators:
  - 1) share capital of one issuer;
  - 2) total voting rights of one issuer.
3. The Fund's assets may not be disbursed in loans or invested in real estate, precious metals and derivatives, the underlying asset of which are precious metals or commodities.

### 3.3 Loans at the Expense of the Fund

To satisfy requests to redeem Share Certificates or to meet other liabilities of the Fund, including covering such expenses of the Fund that, if not paid on time, may cause losses to the Fund, the Company may borrow on the Fund's account in total up to 10 percent of the Fund's net asset value, but only for a short-term up to three months.

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

### 3.4 General Provisions for Transactions

The Company carries out transactions with the Fund's assets in accordance with the Law, this Prospectus, Fund Rules, and other applicable laws and regulations of the Republic of Latvia

The Company has no right to assume liabilities at the expense of the Fund's assets, if these liabilities are not directly attributable to the Fund. The Company may not carry out transactions with the Fund's assets without consideration. The balances due from the Company may not be offset by the receivables of the Fund.

The Fund's assets may not be pledged or otherwise encumbered except in the cases specified in the Law and herein.

The Company is not allowed to sell securities or assume commitments regarding the sale of the securities on the Fund's account if, at the time of the transaction, these securities do not constitute the Fund's assets.

In assessing the compliance of the Fund's investment portfolio with the investment limitations, the investment value determined under the procedure described in Chapter 12 "METHODS AND PROCEDURES FOR DETERMINING THE FUND'S VALUE" is used.

### 3.5 Selection of Investment Targets

1. Investment targets are chosen in accordance with the principles of the investment policy of the Fund and investment limitations stipulated herein as well as in accordance with the procedure stipulated by the Fund Rules and in compliance with the principles of diversification and risk reduction.
2. In making investments on the Fund's account, the Company is obliged to invest only in the investment targets specified herein, comply with the investment limitations stipulated herein, obtain sufficient information on potential or existing investment targets as well as constantly monitor and analyze the financial and economic standing of the entities in whose securities or money market instruments the Fund's assets have been or will be invested.
3. In managing the Fund and receiving collateral according to the signed financial collateral agreements, receiving guarantees, carrying out repo transactions as well as borrowing or lending securities or performing other transactions with transferable securities and money market instruments of the Fund, the Company ascertains that the above transactions ensure efficient management of the Fund's investment portfolio.
4. In carrying out the transactions referred to in Paragraph 3.5, Sub-paragraph 3 of this Chapter, the Company ensures efficient management of the Fund's portfolio satisfying the following transaction criteria:
  - 1) Their use is economically reasonable and cost-effective;
  - 2) Their use is intended for at least one of the following purposes:
    - Risk mitigation;
    - Cost reduction;
    - Increase in the Fund's net value or income in accordance with the investment risk profile of the Fund and the investment limitations set;
  - 3) The related risks are duly included in the risk management process of the Fund.



5. The decisions on dealing with the Fund's assets are made and the instructions to the Custodian are given by the Investment Committee appointed by the Management Board of the Company which performs the functions of the manager of the Fund in compliance with the provisions of the Prospectus, the investment policy of the Fund and the procedure stipulated by the applicable laws and regulations of the Republic of Latvia. The procedure for decision-making and giving instructions is laid down in the Fund Rules.

### **3.6 Exceeding of Investment Limitations**

Investment limits may be exceeded if it is due to exercising subscription rights pertinent to transferrable securities or money market instruments contained in the Fund's assets or other circumstances which the Company has not been able to foresee. In order to rectify exceeding the investment limits the Company must carry out sales transactions in line with the risk mitigation principle and in the best interest of Investors.

## **4. RIGHTS AND LIABILITIES OF INVESTORS**

### **4.1 Rights of the Investors**

1. Without any limitation, through a Stock Exchange or over-the-counter market, to alienate their Share Certificates.
2. To participate in the distribution of income derived from the transactions with the Fund's assets in proportion to the number of the Share Certificates.
3. To participate in the distribution of income derived from the liquidation of the Fund in proportion to the number of the Share Certificates.
4. To request the redemption of their Share Certificates by the Company.
5. To request the Company to repurchase the Share Certificates issued by the Company, if due to the Company's fault the information presented in the Prospectus of the Fund, which is essential for the evaluation of the Share Certificates, is incorrect.
6. To request and receive free of charge annual and semi-annual reports of the Fund, to have access to all publicly available information about the parties related to the activities of CBL Asset Management IPAS and the Fund. The scope of this information and the procedure for obtaining it are provided in the Fund Rules.
7. The Investor is not entitled to request unbundling of the Fund. This also applies to the holder of the Investor's pledge, creditors or administrator in case of the Investor's insolvency.

Rights and obligations of the owners of the publicly issued Share Certificates are specified according to the Law, the Financial Instrument Market Law, and other laws and regulations of the Republic of the Latvia.

### **4.2 Limitations of the Investor's Liabilities**

1. The Investor is not responsible for the liabilities of the Company. The liability of the Investor regarding the claims in respect to the Fund's assets is limited only to the Share Certificates owned.
2. Any arrangement which contravenes the provisions of the above paragraph is not valid as of the date of its signing.
3. Any claim against the Investor concerning his/her liabilities may be directed against his/her Share Certificates, but in no case against the Fund's assets.

Terms and conditions of this Prospectus become binding to the Company and the Investor as soon as the Investor acquires the Share Certificates under the procedure specified in this Prospectus and Fund Rules.

## **5. TYPICAL INVESTOR'S PROFILE**

The Fund was set up for professional and experienced Investors as well as for those Investors who are not familiar with the capital market opportunities and whose aim is to generate profit on capital markets. According to the Fund's long-term strategy, the Fund is more suitable for the Investors who intend to invest for a period of at least 5 years.

## 6. TAXES AND DUTIES APPLICABLE TO THE INVESTORS OF THE FUND

The Investor pays the applicable personal/corporate income tax or any other applicable taxes, duties or similar charges himself/herself. The Company does not assume any responsibility for the payment of taxes, duties and similar charges applicable to the particular Investor unless it is required by the laws and regulations of the Republic of Latvia or foreign law or international agreements applicable to it.

According to the applicable laws and regulations of the Republic of Latvia, the Investment Fund does not have to pay corporate income tax; therefore, the capital accumulated by the Fund and the Fund's assets are not subject to corporate income tax. If, according to the laws and regulations of the Republic of Latvia, investment targets and transactions with the Fund's assets are subject to taxation, the Company pays such taxes from the Fund's assets. The above does not constitute the Company's commitment to pay taxes, duties or similar charges in place of the Investor unless it is required by the laws and regulations of the Republic of Latvia or foreign law or international agreements applicable to it.

As prescribed by the Law on Personal Income Tax and the Law on Corporate Income Tax of the Republic of Latvia or any other laws and regulations that may in the future replace the above laws and related regulations, the Investors pay personal income tax or corporate income tax by themselves.

The information provided in this paragraph gives a general overview of current Latvian tax laws and regulations effective at the time of registration of the most recent amendments to this Prospectus. The Company bears no responsibility for tax treatment of each particular Investor. In case of uncertainty, the Investor must contact his/her tax advisor.

The Investor must take into account that taxes, duties or similar charges can significantly differ depending on the following:

- The place/country of residence of the Investor – namely, the fact that the income derived from the sale of the Share Certificates is not/is subject to taxation in the Republic of Latvia does not mean that such an income would not/would be subject to taxation in the country of residence of the Investor who is not a resident of the Republic of Latvia according to the law of the relevant country;
- The legal status of the Investor – the application of taxes/duties to private individuals and legal entities may differ; it also depends on the type of activity (whether the Investor is a foundation, association, religious organization, trade union, political party, state/self-government authority or authority financed by the state/self-government, etc.);
- Additions and amendments to the tax law of the particular country, namely, the provisions specified in the tax laws, regulations and international agreements can change from time to time.

## 7. SUMMARY OF TRANSACTIONS WITH SHARE CERTIFICATES AND FUND MANAGEMENT FEE

The purpose of this information is to give the Investor a general overview of the collective costs he/she will have to incur directly or indirectly, when acquiring the Share Certificates. More detailed information on determining these costs and the payment procedure is provided further in the Prospectus.

### 7.1 Charges for Transactions with Share Certificates

The entry charge for the Share Certificates is calculated as a percentage of the value of the Unit of the Fund. The entry charge for the CBL Baltic Sea Equity Fund is determined up to 3.0% of the value of the Unit of the Fund.

There is no exit charge for the Share Certificates.

The charge specified in Paragraph 7.1 hereof is not applied when the Investor purchases or sells the Share Certificates on a secondary market.

## 7.2 Management fee

The management fee is determined as a percentage of the Fund's average net asset value per annum

Name	Fee amount
Company	2.00%
Custodian	0.18%*
Auditor of the Fund	0.10%
Maximum expense ratio	4.00%

\* The total amount of the Custodian fee, including other charges, may not exceed 0.50% of the Fund's average net asset value per annum.

## 7.3 Other Payments Covered from the Fund's Assets

Other expenses are covered from the Fund's assets if substantiated by source documents and if such payments are stipulated in the laws and regulations of the Republic of Latvia governing the activities of investment management companies and investment funds as well as the accounting procedure of such entities.

Other payments include such expenses as transaction fees, brokerage fees, interest on loans; the fee for registration of amendments to the Prospectus and/or the Fund Rules, for the supervision of the Fund and similar payments, fee for holding financial instruments (incl. the fee for holding the Fund's assets by Intermediaries), for admittance to official stock-exchange listing, for legal and other professional consultations; the costs related to distribution of the Share Certificates of the Fund of the Sub-fund as well as other similar costs.

The transaction processing fee is determined according to Custodian's valid pricelist.

## 7.4 Other Payments Covered at the Investor's Expense

According to the provisions laid down in Chapter 10 hereof, the Investor must cover all expenses related to the purchase of the Share Certificates (bank charges for operations with financial instruments/settlement accounts, transactions, holding , etc.); in case the Investor fails to pay for the Share Certificates in full according to the procedure and within the term stipulated in this Prospectus, the Investor must cover all Fund's expenses and losses related to non-execution of the submitted application for the purchase of the Share Certificates.

According to the provisions laid down in Chapter 11 hereof, the Investor must cover all expenses related to the redemption of the Share Certificates (bank charges for operations with financial instruments/settlement accounts, transactions, holding, etc.).

The charges specified in this chapter are incurred and paid by the Investor personally; and the amount of the respective fee is determined by the credit institution or financial institution at which the Investor has opened a financial instrument account and holds the Share Certificates.

## 8. INFORMATION ON THE AUDITOR OF THE FUND

<b>Name of the Auditor:</b>	<b>KPMG Baltics SIA</b>
<b>Registration number:</b>	40003235171
<b>Legal address:</b>	7 Vešetas iela, Rīga, LV-1013, Latvia

The location of the executive body of KPMG Baltics SIA is the same as its legal address.

**Licenses:** License No 55 for auditing services issued by the Latvian Association of Certified Auditors.

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

### Procedure for Calculation and Payment of the Fee to the Auditor of the Fund

The expected annual fee payable to the Auditor of the Fund is gradually included in the valuation of the Fund's asset value on a daily basis – in equal parts every day. In calculating the fee payable to the Auditor of the Fund for the current day, the Company assumes that the reporting year of the Fund is 365 days.

The audit fee is accrued and paid to the Auditor of the Fund once a year.

## 9. GENERAL INFORMATION ON THE INVESTMENT FUND

**This investment fund** is an aggregate of assets formed by investments made in return for Share Certificates, as well as assets obtained in transactions with investment fund property.

The Fund does not have any sub-funds, nor does it have Share Certificates of different categories – all owners of the Share Certificates of the Fund have equal rights arising from the Share Certificate.

The **base currency** of the CBL Baltic Sea Equity Fund is the euro (hereinafter – EUR).

According to the Law, the CBL Baltic Sea Fund is an investment fund and operates according to European Union law. The Company that manages the Fund is obliged to redeem the Share Certificates upon the request of the Investors.

The Fund's assets are a joint property of the Investors and must be held, booked and managed separately from the property of the Company, other Funds under its management and the Custodian.

If the Custodian uses Intermediaries for holding the financial instruments, then taking into account the specifics of the law of the particular foreign country governing property rights and related accounting, the ownership of the financial instruments may be registered in the name of the Custodian, the Intermediary, the Company or a third party, inter alia, in the name of a third party engaged by the Intermediary. The Custodian accounts for the ownership of such financial instruments belonging to the Company/Fund according to the laws and regulations of the Republic of Latvia.

The Fund's assets may not be included in the property of the Company or the Custodian if the Company or the Custodian is declared insolvent or is liquidated.

## 10. SALE OF SHARE CERTIFICATES

The Share Certificates are released for public circulation after the investment fund “CBL Baltic Sea Equity Fund”, established by CBL Asset Management IPAS, is registered with the Financial and Capital Market Commission of the Republic of Latvia and after the registration of the Share Certificates with the Latvian Central Depository and the receipt of identification attributes (ISIN code) therefrom.

The number of Share Certificates issued by “CBL Baltic Sea Equity Fund” and the issuance period are not limited.

In certain countries and jurisdictions, the distribution of the Share Certificates is restricted by the law. Therefore, the person who has acquired the Share Certificates in accordance with the Prospectus is responsible for the compliance with the requirements and/or prohibitions valid in the particular jurisdiction. The Prospectus should not be considered to be a proposal or proposition to purchase the Share Certificates in the country and jurisdiction where such proposal or proposition as well as purchase of the Share Certificates are unlawful. We recommend that, before making investments in the Fund, the Investors acquaint themselves with the legislative requirements effective in their country of residence and the potential consequences of purchasing the Share Certificates of this Fund (incl. prevention of money laundering and terrorism financing, investment services and non-core services, incl. assessment of suitability and appropriateness of the Fund for the interests of the Investor, as well as the requirements of the FATCA (U.S. Foreign Account Tax Compliance Act) and the CRS (OECD Standard for Automatic Exchange of Financial Account Information)), as well as with all the effective currency exchange provisions and applicable taxation.

Share Certificates, representing a whole Unit of the Fund, can be fractioned up to a maximum of four decimal points. The rounding off of the Unit of the Fund is carried out as follows:

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

### 10.1 Place and Procedure of Application for the Share Certificate Acquisition

Each Investor may apply for an unlimited number of the Share Certificates. The minimum purchase amount is the price of 1 (one) Share Certificate.

The Investors can apply for purchasing Share Certificates of the Fund at the Company's office at Republikas laukums 2A, Riga, LV-1010, Phone: (+371) 67010810, Fax: (+371) 67778622 or at the Distributors.

The Distributor of the Share Certificates of the Fund in Latvia is:

- AS Citadele Banka address: Republikas laukums 2A, Riga, LV-1010,  
Phone: (+371)67010000, Fax: (+371)67010001;

as well as

- the branches and customer service centers of AS Citadele Banka. Addresses of the branches and customer service centers are available at the office of the Company or by calling AS Citadele Banka during its office hours or on the website of AS Citadele Banka: [www.citadele.lv](http://www.citadele.lv).

Applications for the purchase of the Share Certificates may be submitted to the Company or to the Distributors on each business day during their working hours.

In making investments in the investment funds managed by the Company, in addition to the application for the acquisition of the Share Certificates, the Investor, at the request of the Company, must submit to the Company, the Distributor or the Account Holder all the necessary identification documents referred to in Paragraph 9.1 of the Fund Rules.

If the Company has received and accepted an application before 17:30 (Latvian time), it is processed for the price of the Share Certificates of the Fund stated for the day of the receipt of the application and which is determined after 17:30.

If the Company has received and accepted the application after 17:30 (Latvian time), such application, at the Company's discretion, may be considered submitted on the next business day.

The Distributors are entitled to engage third parties to organize the distribution of the Share Certificates of the Fund, including intermediaries, dealers, and other persons authorized to provide this type of services. The Distributor organizes and ensures that the sale and redemption of the Share Certificates of the Fund are carried out according to the provisions of the laws and regulations of the Republic of Latvia and/or the country in which the Share Certificates of the Fund are sold and according to the Prospectus and the Fund Rules. Delegation of the Distributor's duties to third parties does not release the Distributor from the responsibility defined by the laws and regulations of the Republic of Latvia.

In order to apply for the Share Certificates, the Investor of the Fund must open a financial instrument account with an account holder who is a member of the Latvian Central Depository (if the Share Certificates of the Fund are purchased in Latvia) or with an account holder who can ensure, through an interbank or central depository correspondent relationships, that the financial instruments are held with the LCD.

The Investor must complete and submit to the Company or the Distributor an application for the acquisition of the Share Certificates of the Fund. By signing the application, the Investor certifies that he/she has read the Prospectus and the Fund Rules and agrees with their provisions and acknowledges their binding nature.

The Company or the Distributor ensures that the application for the acquisition of the Share Certificates includes the information specified in Paragraph 9.1 of the Fund Rules.

In the application for the acquisition of the Share Certificates of the Fund the Investor at his/her discretion indicates the preferred acquisition option: a fixed number of the Share Certificates or a specific amount of money for the acquisition of the Share Certificates.

The applications for purchase of the Share Certificates of the Fund are accepted and registered according to the provisions of the Fund Rules.

The Company is obliged to execute only the applications for purchase of the Share Certificates that have been properly completed. The Investor is responsible for the accuracy and completeness of the stated information.

If the Investor submits the application for the acquisition of the Share Certificates of the Fund through the Intermediary acting in its own name but on behalf of the Investor (but which is not a Distributor within the meaning of this Prospectus), the Intermediary must ensure and is responsible for the identification of the Investor according to its customer identification procedure; moreover, the Intermediary is also responsible for assessing the suitability and compliance of the investments in the Fund with the interests of the Investor according to the regulatory requirements of the residence country of the Investor, the Republic of Latvia or the respective foreign country in which the Share Certificates of the Fund are sold. Observing the principle of legitimate expectations, the Company or the Distributor, when accepting an

acquisition order from an Intermediary which is a licensed financial institution, do not have to identify the beneficial owner of the Share Certificates.

## 10.2 Nominal accounts

In specific cases, if the Investor is a professional customer within the meaning of Directive 2004/39/EC of the European Parliament and the Council and, if the Company has separately agreed on this with the Investor, the Investor needs not to open a financial instrument account according to the provisions of Paragraph 10.1. In this situation, the nominal account of the Investor is opened by the Company with the Custodian of the Fund.

## 10.3 Methods and Frequency of Calculating the Sales Price of the Share Certificates

The sales price of the Share Certificates of the Fund is variable and determined together with the value of the Unit of the Fund on each business day.

**The sales price of the Share Certificates** consists of the value of the Unit of the Fund to be purchased and the entry charge for sale of Share Certificates referred to Paragraph 7.1 hereof.

The sales price of the Share Certificates is based on the value of the Unit of the Fund which is determined on the day of the receipt of the application for the acquisition of the Share Certificates of the Fund and published on the next business day.

## 10.4 Fund Value Calculation Frequency and Information on the Fund's Value

The Fund's value is determined on each business day after the Company receives from the Custodian the statement on the Fund's portfolio which is submitted to the Company on each business day after 17:30.

On each business day, starting at 10:00 am (Latvian time), the Company discloses information on the Fund's value determined for the previous business day; the information may be obtained by calling the phone numbers stated in the Prospectus or directly at the office of the Company or at the Distributors' offices; this information is also published on the websites of the Company and the Distributors.

## 10.5 Payment Procedure

The Share Certificates are issued only upon full payment of the price of the respective certificates in cash.

The Share Certificates of the Fund are sold at the price determined for the day when the Company received and accepted the application for the acquisition of the Share Certificates of the Fund.

According to Paragraph 10.1 of the Prospectus, the Company or the Distributor calculates, depending on the purchase mode chosen by the Investor, the number of the Share Certificates corresponding to the specified amount of money or the amount of money corresponding to the specified number of the Share Certificates.

Not later than within five business days after the submission of the application for the acquisition of the Share Certificates of the Fund to the Company or the Distributor, the Investor must pay the price of the Share Certificates by transferring the respective amount to the Fund's account opened with the Custodian. If, within the prescribed time period, the relevant amount of money for purchase of the Share Certificates has not been credited to the Fund's settlement account, the application is considered to be void. The above does not affect the Investor's obligation to cover the resultant losses incurred by the Fund and the Company.

If the Custodian holds the settlement and financial instrument accounts for the Investor, the submission of the application for the acquisition of the Share Certificates of the Fund to the Company or the Distributor shall be deemed as an order to purchase the financial instruments. On the basis of the application for the acquisition of the Share Certificates of the Fund, the Custodian carries out cash and securities settlements. The Custodian debits the amount of money necessary for purchase of the Share Certificates from the Investor's account and credits it to the Fund's settlement account with the Custodian. After the receipt of the money in the Fund's settlement account opened with the Custodian, the Company issues new Share Certificates and immediately transfers them to the Investor's financial instrument account opened with the Custodian.

If the Investor's settlement and financial instrument accounts are held with another account holder or the Share Certificates being purchased are not held in financial instrument accounts, the Investor must credit in person the amount of money necessary for purchase of the Share Certificates of the Fund to the Fund's settlement account with the Custodian. The Investor can

choose to receive the transaction confirmation containing the exact amount of money that the Investor must credit to the Fund's settlement account with the Custodian either at the office of the Company or by fax or at the Distributor according to its procedures.

The Company issues new Share Certificates only after the Investor has credited the amount of money required for the acquisition of the Share Certificates to the Fund's account with the Custodian.

The Share Certificates are credited to the Investor's financial instrument account not later than within three business days after the money is credited to the Fund's settlement account.

The payments for the Share Certificates are made in base currency of the Fund (EUR).

The payments for Share Certificates may be made according to other procedures:

- Upon a mutual agreement between the Investor and the Company;
- Upon an agreement between the Investor and the Distributor which does not contradict the Prospectus and the agreements signed between the Investor and the Distributor;
- Upon the request of the Company if the amount of money to be invested in the Fund by the Investor exceeds 5% of the Fund's net asset value.

All expenses incurred by the Investor with regard to the purchase of the Share Certificates (bank charges for the operations with financial instrument/settlement accounts, etc.) are borne by the Investor. If the Investor fails to credit to the Fund's account with the Custodian the amount of money necessary for full payment of the price of the Share Certificates, the Investor must cover all costs and losses to the Fund incurred as a result of the failure to execute the application for the acquisition of the Share Certificates of the Investment Fund.

#### **10.6 Payment Procedure by Using Nominal Accounts**

When purchasing the Share Certificates according to the procedure specified in Paragraph 10.2 without opening the financial instrument account, the Investor in person must credit the Fund's settlement account with the Custodian by the amount of money necessary for the purchase of the Share Certificates. The Investor can receive the transaction confirmation containing the exact amount of money the Investor must credit to the Fund's settlement account with the Custodian at the office of the Company at his/her discretion by fax, e-mail or other electronic communication means according to the prior agreed procedure between the Company and the Investor. The Company issues new Share Certificates only after the Investor has credited the amount of money necessary for purchasing the Share Certificates to the Fund's settlement account with the Custodian or according to any other prior agreed procedure between the Company and the Investor.

The Share Certificates are transferred to the Investor's nominal account opened by the Company not later than within three business days after the receipt of the money in the Fund's settlement account.

The Investors are entitled to demand at any time that the Share Certificates owned by them and held in the nominal account of the Company are reregistered in their name. In such case, the Investor must open a financial instrument account with the Custodian and give an order to transfer all the Share Certificates owned by him/her to this account. However, the Company has the right to reject such reregistration if the use of the nominal accounts is bound by some specific compulsory jurisdiction or required due to legal, regulatory or practically unavoidable reasons.

#### **10.7 Sale of Share Certificates on the Secondary Market**

The Share Certificates of the Fund may be purchased or sold on over-the-counter market according to the Financial Instrument Market Law of the Republic of Latvia. The Company does not determine prices for transactions with the Share Certificates of the Fund on the secondary market, and the Company is not to be held responsible for price fluctuations and liquidity of the Share Certificates of the Fund issued by the Company on the secondary market of Share Certificates.

## **11. REDEMPTION AND REPURCHASE OF SHARE CERTIFICATES**

### **11.1 Procedure for Application for Redemption of Share Certificates**

The Company redeems the Share Certificates upon the request of the Investor.

The Company redeems the Share Certificates in the order in which the applications for redemption are submitted and registered.

In order to request redemption of the Share Certificates of “CBL Baltic Sea Equity Fund”, the Investor must submit to the Company or the Distributor the application for redemption of the Share Certificates of the Fund.

The Investor may submit the application for redemption of the Share Certificates of the Fund to the Company or the Distributors at the addresses referred to in Paragraph 10.1 hereof during their business hours.

If the Company has received and accepted the application until 17:30 (Latvian time), it must be executed for the redemption price of the Share Certificates of the Fund stated for the day of the receipt of the application which is determined after 17:30.

If the Company has received and accepted the application after 17:30 (Latvian time), such application, at the Company's discretion, may be considered as submitted on the next business day.

The application for redemption of the Share Certificates must contain the information stated in Paragraph 9.3 of the Fund Rules.

In the application for redemption of the Share Certificates of the Fund, the Investor indicates at his/her discretion the preferred redemption option: a fixed number of the Share Certificates to be redeemed or a specific amount of money for the redemption of the Share Certificates.

Only correctly filled applications are valid. The Investor is responsible for the accuracy and completeness of the stated information. The Company does not bear any responsibility for losses of the Investor caused by incorrect or incomplete application.

#### **11.2 Methods and Frequency of Calculating the Redemption Price of Share Certificates**

**The redemption price of the Share Certificate** is equal to the price of the Share Certificates owned by the Investor to be sold to the Company according to the value of the Unit of the Fund determined for the day when the Company has received and accepted the application for redemption of the Share Certificates of the Fund.

The Fund's value and the value of the Unit of the Fund are determined on each business day, and this information is available at the office of the Company or by calling the indicated telephone numbers of the Company during its business hours. Such information is also available from the Distributors at their stated address or by calling the Distributor's telephone number stated in Paragraph 10.1 hereof. This information is also published on the websites of the Company and the Distributor.

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

No charge is applied for the redemption of the Share Certificates.

#### **11.3 Payment Procedure**

The Share 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 Share Certificates of the Fund.

According to Paragraph 11.1 hereof, the Company or the Distributor calculates, depending on the redemption mode chosen by the Investor, the amount of money corresponding to the specified number of the Share Certificates or the number of the Share Certificates corresponding to the specified amount of money.

Not later than within five business days after the submission of the application for redemption of the Share Certificates to the Company or the Distributor, the Investor transfers the redeemable Share Certificates to the issue account of the Fund opened with LCD. If within the set time period the number of redeemable Share Certificates has not been transferred to the issue account of the Fund, the application is considered to be void. The above does not affect the Investor's obligation to cover the resultant losses incurred by the Fund and the Company.

If the Custodian holds the settlement and financial instrument accounts for the Investor, submission of an application for redemption of the Share Certificates to the Company or the Distributor shall be deemed as an order to sell the financial instrument. Upon the order for redemption of the Share Certificates, the Custodian performs settlements with securities and in cash. The Custodian transfers the redeemable Share Certificates from the Investor's financial instruments account to the issue account of the Fund opened with the LCD. After the receipt of the Share Certificates in the issue account of the Fund with the LCD, the Company immediately redeems them and within six business days the Company transfers to the Investor's settlement



account the relevant amount of money in the base currency of the Fund which corresponds to the number of the redeemed Share Certificates.

If the Investor's settlement and financial instrument accounts are held with another account holder, the Investor transfers in person the number of the redeemable Share 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 the redeemable Share Certificates, then the Investor can receive the transaction confirmation containing the exact number of redeemable Share Certificates which the Investor must transfer to the issue account of the Fund with the LCD at his/her discretion at the office of the Company or by facsimile or from the Distributor according to the Distributor's prescribed procedure. After the receipt of the Share Certificates in the issue account of the Fund with the LCD, the Company immediately redeems them and within six business days transfers to the Investor's settlement account the relevant amount of money in the base currency of the Fund which corresponds to the number of the redeemed Share Certificates.

If the Share Certificates are held in the nominal account with the Company, then the Company immediately redeems the respective Share Certificates and transfers the amount of money corresponding to the number of the redeemable Share Certificates in the base currency of the Fund to the settlement account indicated by the Investor not later than within six business days.

All expenses incurred by the Investor with regard to the redemption of the Share Certificates (bank charges for operations with the securities/cash settlement accounts, etc.) are borne by the Investor.

If the Investor or Investors within 3 business days submit applications for redemption of the Share Certificates of the Fund which together exceed 10% of the Fund's net asset value and their execution may substantially affect the interests of other Investors, the settlement period for redemption may be extended to ten business days.

The Company is obliged to execute only those applications that precisely contain all the necessary information. The Investor is responsible for the accuracy and completeness of the stated information.

If the Investor fails to transfer the redeemable Share Certificates to the issue account of the Fund with the LCD according to the procedure and within the time period referred to in this paragraph, the Investor covers all costs and losses incurred to the Fund as a result of the failure to execute the application for redemption of the Share Certificates.

After redemption of the Share Certificates the Investor loses all rights associated with the ownership of the Share Certificates, excluding the claims to the extent of the redemption price.

The Share Certificates of the Fund are transferable securities, and the Investors can alienate them without limitations. The Company has no right to determine the price of the Share Certificates on the secondary market, and the Company is not responsible for the price fluctuations and liquidity of the Share Certificates on the secondary market.

#### **11.4 Rules and procedure for Repurchase of Share Certificates**

If information of significant importance for determining the value of the Share Certificates presented in the Prospectus and the accompanying documents is incorrect or incomplete due to the Company's fault, the Investor is entitled to demand that the Company repurchases his/her Share Certificate and reimburses him/her for all losses incurred.

Such a claim must be filed within 6 months from the date when the Investor finds out that such information is incorrect or incomplete, but in any case not later than three years from the date of purchase of the Share Certificate.

Repurchase of the Share Certificates is not to be considered as redemption of the Share Certificates.

The Investor can submit the application for repurchase of the Share Certificates to the Company in writing together with documents certifying the fact that the Investor has suffered loss due to the Company's fault as in the Prospectus and the accompanying documents the Company has presented incorrect or incomplete data of significant importance for determining the value of the Share Certificates.

The Company may temporarily suspend repurchase of the Share Certificates of the Fund in exceptional cases if the repurchase is impossible due to force majeure circumstances which are beyond the control of the Company and the Fund. Repurchase of the Share Certificates can be suspended if the Commission exercises its rights to restrict the Company's rights to alienate the

Fund's assets. The Share Certificates of the Fund may not be repurchased in case the Fund is being liquidated; if the Fund is liquidated, the claims of the Fund's creditors and Investors are satisfied according to the procedure laid down in the laws and regulations of the Republic of Latvia.

### 11.5 Conditions for Suspension of Redemption and Repurchase of the Share Certificates

In case of extraordinary financial markets conditions (temporary shutdown of stock exchanges, banks, brokerages or any other reason preventing transactions in financial instruments) or due to *force majeure*, the Company may temporarily suspend trading of the Share Certificates of the Fund. The Company will immediately inform every Investor directly or publish a respective announcement on the website of the Distributor at [www.cblam.lv](http://www.cblam.lv).

Redemption and repurchase of the Share Certificates may be suspended if the Commission exercises its right to restrict the rights of the Company to manage the Fund's bank accounts, and in the event of liquidation of the Fund.

Redemption and repurchase of the Share Certificates is prohibited after the start of liquidation of the Investment Fund.

If the Fund is liquidated, the claims of the Fund's creditors and Investors are satisfied according to the procedure laid down in the laws and regulations.

## 12. METHODS AND PROCEDURE FOR THE FUND VALUATION

### 12.1 Principles of Fund's Asset Valuation

The accounting records of the Fund are kept according to the Law, the Regulations on Preparation of Financial Statements of Investment Funds issued by the Commission as well as other laws and regulations of the Republic of Latvia. For valuation of the items of financial statements, the International Accounting Standards issued by the International Accounting Standards Board are applied.

The Company ensures that the Fund's accounting records are kept in the base currency of the Fund (EUR). The transactions in foreign currencies are translated in the reporting currency of the Fund at the currency exchange rate published by the news and information agencies "Bloomberg", "Reuters" or similar information sources. The Fund's assets are valued according to the following accounting principles:

- 1) Going concern principle;
- 2) The same asset valuation principles as used in the previous reporting year;
- 3) Prudence principle:
  - The financial statements of the Fund comprise only the income generated up to the date of preparation of the financial statements,
  - All possible expense items are taken into account regardless of the time of their occurrence (i.e. those related to the reporting period and to previous reporting periods);
- 4) Income and expense incurred during the reporting year are taken into consideration irrespective of the payment date or the invoice issuance date;
- 5) All items having a material impact on the evaluation or decision making by the users of the financial statements are disclosed;
- 6) Assets and liabilities items have been valued separately;
- 7) All transactions are recorded and disclosed according to 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 the notes to the financial statements, stating its impact on the assets and liabilities, financial position and financial results of the Fund.

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

**Value of the Unit of the Fund** is the Fund's net asset value divided by the number of the Share Certificates of the Fund in circulation.

**The number of the Share Certificates of the Fund in circulation** is the number of the Share Certificates issued less the number of the Share Certificates withdrawn from circulation upon the receipt of the application for redemption.

The Fund's net asset value, including the value of its assets and liabilities, and the value of the Unit of the Fund are determined on a regular basis – on each business day after 17:30.

According to the requirements specified in the Prospectus and the laws and regulations of the Republic of Latvia, the assets of CBL Baltic Sea Equity Fund may only consist of financial assets (see the definition of the “financial instruments”).

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

- Financial assets held for trading;
- Financial assets held to maturity.

**Financial assets held for trading** are financial assets purchased or acquired mainly with the objective of generating a profit from short-term price fluctuations.

**Financial assets held to maturity** are financial assets with fixed or determinable payments and fixed maturity that an entity has positive intent and ability to hold to maturity.

The Fund Manager is entitled to include financial assets with fixed or determinable payments and fixed maturity in the category of the financial assets held to maturity if it has the positive intent and ability to hold such financial assets to maturity.

The Fund Manager classifies the financial assets with fixed maturity at the time of their acquisition and reviews the asset classification on a regular basis (at the end of each month).

The valuation of the Fund's assets is carried out on a prudent basis. In the valuation of the financial assets the Fund Manager applies the following principles:

- Financial assets held for trading are valued at their fair value. The fair value is the amount of money for which an asset may be exchanged or liabilities may be settled in an arm's length transaction between knowledgeable and willing parties.
- Financial assets held to maturity with fixed maturity are valued at amortized cost using the effective interest method (see Paragraph 12.1.2).

Financial assets are initially recognized in financial statements at cost which is the fair value of consideration given to acquire the asset. The cost includes the transaction costs directly related to the acquired financial asset.

#### **12.1.1 Valuation of Debt Securities Held for Trading**

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

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

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

Debt securities held to maturity and debt securities not publicly traded on stock exchanges or on other regulated markets are valued at amortized cost, which is calculated using the effective interest rate method, i.e. the securities are stated at cost plus amortized discount or premium (*Agio, Disagio*). Income is recognized and the carrying amount is reduced by using the rate that precisely discounts the future cash flow (until the financial asset maturity or the reprising date) to the financial asset present value.

If income from the security is paid out in the form of coupon, the accrued interest or the coupon portion is added to the extent corresponding to the period of time from the starting date of such coupon calculation until the date of calculation of the Fund's value.

#### **12.1.3 Valuation of Equity Securities**

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

Equity securities not listed on stock exchanges or traded on other regulated markets are valued at acquisition cost. Following the prudence principle, such assets are valued at the

lowest price if such is known to the Custodian through the transactions carried out by its customers or on the market. Information on market transactions can be obtained from official and public information sources (e.g. newspapers, news agencies).

#### 12.1.4 Valuation of Share Certificates of Investment Funds

The value of Share Certificates investment funds or similar or equivalent collective investment undertakings is based on the last available redemption price of the Share Certificates on the day of calculation of the Fund's value.

#### 12.1.5 Valuation of Term Deposits

All term deposits are 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's value) to the principal amount of such term deposit.

#### 12.1.6 Valuation of Derivatives

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

Derivatives not publicly traded on stock exchanges or on other regulated markets are valued at their redemption price or at compensatory transaction price confirmed in writing by the transaction partner on the day of calculation of the Fund's value or at a price that is calculated on the basis of the market price of the underlying asset. A compensatory transaction is a transaction that liquidates a derivative.

**Futures** are valued at the market bid price on the respective stock exchange or regulated market where they have been concluded as of the moment of the stock exchange closing on the date of calculation of the Fund's value.

**Currency forwards** are valued at fair value applying the position-closing cost method. The fair value of a currency forward is the difference between the value of the currency purchased and the value of the currency sold, revaluated at the compensatory forward rate at the date of calculation of the Fund's value. If the rate confirmed by counterparty is not available, a transaction shall be valued at price that is calculated on the basis of the market price of the underlying asset, i.e. applying the current exchange rate and market interest rates.

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

#### 12.1.7 Translation of Assets in Currencies Other than the Base currency of the Fund

Assets and liabilities in currencies other than the base currency of the Fund are translated in the base currency of the Fund at the exchange rate of the respective currencies stated by the news and information agencies such as: Bloomberg, Reuters, or other equivalent source of information at the date of calculation of the Fund's value.

### 12.2 Calculation of the Fund's Liabilities

**The value of liabilities** equals the sum of all payments charged to the Fund, including fees payable from the Fund's assets to the Company, Custodian, Auditor and third parties, and the liabilities arising from loans and other liabilities of the Fund.

Liabilities in foreign currencies are translated in the base currency of the Fund at the exchange rate of the respective currencies stated by the news and information agencies: Bloomberg, Reuters or other equivalent source of information at the date of calculation of the Fund's value.

### 12.3 Income and Expense Accounting

Revenues and expenses attributable to the reporting period are disclosed in the income statement of the Fund regardless of the date of receipt or payment thereof. The accrued income is only included in the income statement of the Fund if there is **no doubt regarding its receipt**.

## 13. DISTRIBUTION OF THE FUND'S INCOME

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

The Investor participates in the distribution of the income derived from transactions with the Fund's assets in proportion to the number of the Share Certificates owned.

The income of the Investor is reflected in the increase or decrease in the value of the Share Certificates. The value of the Unit of the Fund is determined on each business day according to the laws and regulations of the Republic of Latvia and the provisions of the Prospectus and the Fund Rules.

The Investor can earn income from the Unit of the Fund in cash by requesting the Company to redeem the Share Certificates or by selling these Share Certificates on the secondary market.

#### 14. BEGINNING AND END OF A REPORTING YEAR OF THE FUND

The reporting period of the Fund is 12 months, and it corresponds to the reporting year of the Company. The reporting year of the Fund corresponds to a calendar year.

The first reporting period of the Fund may cover a shorter or longer period of time, but it may not exceed 18 months. The decision on duration of the first reporting year is made by the Management Board of the Company.

#### 15. INVESTMENT MANAGEMENT COMPANY

**Name of the Company:** CBL Asset Management IPAS  
**Legal address:** Republikas laukums 2A,  
 Riga, LV-1010, Latvia  
 Phone: (+371)67010810, Fax: (+371)67778622

The office of the Company's executive body is at the legal address of the company.

**Founded on:** 11 January 2002  
**Unified registration number:** 40003577500  
**Registered and Paid Capital of the Company:** EUR 5,904,918

**Shareholders of the Company:** **Citadele banka AS**  
 Unified registration number: 40103303559  
 Number of shares 5,904,918 with voting rights  
 Equity interest 100.00%

##### Licenses and Special Permits:

License for Investment Management Services No 06.03.07.098/367.

License for Management of State Funded Pension Scheme Assets, issued on 20 September 2002.

Alternative Investment Fund Manager License No 06.13.08.098/369.

#### 15.1 Rights and Obligations of the Fund Management Company

##### Rights

The Company deals with the Fund's assets and related rights in its own name and on behalf of the Investors by investing the Fund's assets in the investment targets specified in the Law and the Prospectus and according to the risk reduction principle.

In managing the Fund, the Company is obliged to act as an honest, attentive and diligent owner and solely in the best interests of the Investors of the Fund, without jeopardizing the financial market stability.

In carrying out Fund management activities, the Company does not need to have Investors' consent.

The Company is entitled to remuneration for the management of the Fund, including charges and compensation of expenses.

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

##### Obligations

The Company is obliged to bring legal action for the Investors against the Custodian or third parties in its own name, if applicable. This, however, is without prejudice to the rights of the Investors to bring legal actions in their own name.

The Company is obliged to notify the Commission in writing of any amendments to the lists of the interested parties of the Company and the Custodian, as well as of any amendments and

supplements to the documents and information submitted to the Commission within a week from the date of making such amendments.

### 15.2 Council of the Company

<b>Juris Jakobsons</b>	Chairman of the Council, Adviser to the Management Board of Citadele banka AS, Head of the Department for Strategic Development of Subsidiaries
<b>Vladimirs Ivanovs</b>	Deputy Chairman of the Council, Head of Private Capital Management Division of AS "Citadele banka"
<b>Peter Meier</b>	Member of the Council, Head of the Centre for Asset Management at Zurich University of Applied Sciences (ZHAW)

### 15.3 Management Board of the Company

<b>Uldis Upenieks</b>	Chairman of the Management Board
<b>Zigurds Vaikulis</b>	Member of the Management Board
<b>Andris Kotans</b>	Member of the Management Board
<b>Lolita Siceva</b>	Member of the Management Board

### 15.4 Fund Manager

The Management Board of the Company appoints the Investment Committee of the Fund consisting of at least three members. The Investment Committee performs functions of the Fund Manager, manages the Fund and is empowered to give orders concerning the assets of the Funds under its management according to the Prospectus, the Fund Rules and the decisions of the Management Board of the Company. The procedures for making decisions and orders of the Investment Committee are governed by the Fund Rules.

The members of the Investment Committee are allowed to work only at one investment management company.

The members of the Investment Committee are **Andris Kotāns**, Head of the Fund Management Department, **Elchin Jafarov** and **Igors Lahtadirs**, employees of the Company's Fund Management Department.

### 15.5 Names of Other Funds Managed by the Company

Investment Fund "CBL Russian Equity Fund",  
 Investment Fund "CBL Global Emerging Markets Bond Fund",  
 Investment Fund "CBL Strategic Allocation Funds",  
 Investment Fund "CBL Eastern European Bond Fund",  
 Investment Fund „CBL Eastern European Select Equity Fund”,  
 Closed-end Alternative Investment Fund „Baltic Pearl Real Estate Fund”,  
 Closed-end Alternative Investment Fund „Baltic Commercial Real Estate Fund”.

### 15.6 Company Fee: Calculation and Payment Procedure

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

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

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

$SA_t$	–	the fee payable to the Company for managing the Fund at the date of the calculation;
$FNAV_i$	–	the Fund's net asset value on the previous day of the calculation of the Fund's value;
$N$	–	the number of calendar days from the last day of the calculation of the Fund's value;
$L_1$	–	the fee rate payable to the Company according to Paragraph 7.2.

**The Fund's net asset value** is calculated according to Paragraph 12.1 hereof.

The amount of the **monthly fee** payable to the Company for managing the Fund is calculated as an amount equal to the total of the daily fees payable to the Company for managing the Fund:

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

- $SA_K$  – the fee for the current month payable to the Company for managing the Fund;  
 $SA_t$  – the fee payable to the Company for managing the Fund for each day of the calculation of the Fund's net asset value;  
 $K$  – the number of days on which the Fund's value was calculated.

## 16. CUSTODIAN

<b>Name of the Custodian:</b>	Citadele Banka AS
<b>Founded on:</b>	30 June 2010
<b>Unified registration number:</b>	40103303559
<b>Licenses:</b>	License for Credit Institution Activities No 06.01.05.405/280
<b>Legal address of the Custodian:</b>	Republikas laukums 2A, Riga LV-1010, Latvia

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

### 16.1 Rights and Obligations of the Custodian

#### Rights

The Custodian acts independently of the Company and only in the best interests of the Investors, if it does not contradict the Law and other effective laws and regulations of the Republic of Latvia, the Commission's regulations, the Prospectus and the Fund Rules.

The Custodian is entitled to a fee for services agreed in the Custody Agreement.

The Custodian has the right to assign to third parties (Intermediaries) the safekeeping of the Fund's assets, servicing of the Fund's accounts and the performance of broker's duties (execution of intermediary transactions on securities market).

The Custodian, in ensuring the holding of the financial instruments and monetary funds included in the Fund's assets by an Intermediary in a Foreign Country, has the right to enter into agreements with such Intermediaries, provided that the Custodian has informed the respective Intermediary that the respective account holds financial instruments owned by the Custodian's customers (incl. the Fund).

#### Transfer of the rights to manage the Fund to the Custodian

If the rights of the Company to manage the Fund expire, such rights are 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 the rights of the Company, except for the rights of issue and/or redemption of the Share Certificates of the Fund under its management.

Within the time period specified in the laws and regulations of the Republic of Latvia from the date of transfer of the rights to manage the Fund, the Custodian transfers the rights to manage the Fund to another investment management company. If the Custodian does not transfer the rights to manage the Fund to another investment management company within the specified term, the Custodian must liquidate the Fund.

#### Obligations

The Custodian ensures the custody of the Fund's assets according to the laws and regulations of the Republic of Latvia and the Custody Agreement.

The Custodian ensures that the Share Certificates are issued, sold and redeemed in the name of the Company and according to the Law, the applicable laws and regulations of the Republic of Latvia, the Prospectus and the Fund Rules.

The Custodian ensures that the Fund net asset value is calculated according to the Law, the applicable laws and regulations of the Republic of Latvia, the Prospectus and the Fund Rules.

The Custodian executes the orders of the Company or persons authorized by the Company, unless they are contrary to the laws and regulations of the Republic of Latvia, the Commission's regulations, the Prospectus, the Fund Rules and the Custody Agreement.

The Custodian ensures that the Fund's income is used according to the Law, the applicable laws and regulations of the Republic of Latvia, the Prospectus of the Fund and the Fund Rules.

The Custodian ensures that the payments related to transactions with the Fund's assets are properly made.

The Custodian brings legal actions for the Investors against the Company in its own name, if applicable. This, however, is without prejudice to the rights of the Investors to bring legal actions in their own name.

The Custodian immediately notifies the Commission and the Company in writing of any activities of the Company which are contrary to the laws and regulations of the Republic of Latvia, the Prospectus of the Fund, the Fund Rules and the Custody Agreement.

### Liability

The Custodian is fully liable to the Investors, the Company and third parties for any losses caused, if the Custodian, willfully or due to negligence, has violated the Law or the Custody Agreement.

Where the Custodian has granted its consent for a transaction that fails to conform to the Law and the provisions of the applicable laws and regulations of the Republic of Latvia or has failed to submit a claim regarding the breach of such provisions, the Custodian and the Company are jointly responsible for losses incurred to the Fund.

The Custodian is not liable for the losses incurred by the Fund and/or the Company due to the insolvency of an Intermediary, including, for example, due to the application of the laws of the respective state related to insolvency, laws on the trading of financial instruments, payment operations, financial instrument and money transfers, currency conversion restrictions and introductions of a special regime or restrictions. Such losses are ascribed to the Fund.

The transfer of the Custodian's obligations to third parties does not release the Custodian from the liability stated in the laws and regulations of the Republic of Latvia and the Custody Agreement.

## 16.2 Custodian Fee: Calculation and Payment Procedure

The fee payable to the Custodian is included in the Fund's asset value calculation on every business day. In calculating the fee payable to the Custodian for the management of the Fund on the **current day**, the Company assumes that the reporting year of the Fund consists of 365 days:

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

- TA<sub>t</sub> – the fee payable to the Custodian at the date of the calculation;
- FNAV<sub>i</sub> – the Fund's net asset value on the previous day of the calculation of the Fund's value;
- N – the number of calendar days from the last day of the calculation of the Fund's value;
- L<sub>1</sub> – the fee rate payable to the Custodian according to Paragraph 7.2.

**The Fund's net asset value** is calculated according to Paragraph 12.1 hereof.

The fee to the Custodian for the custody and supervision of the Fund's asset is paid once a month.

The amount of the **monthly fee** payable to the Custodian is calculated as an amount equal to the total of the fees payable to the Custodian for each day of the Fund's value calculation:

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

- TA<sub>k</sub> – the fee for the current month payable to the Custodian;
- TA<sub>t</sub> – the fee payable to the Custodian for each day of evaluation of the Fund's assets;
- K – the number of days of evaluation of the Fund's value.

## 17. FORM AND PROCEDURE FOR RECEIVING THE ANNUAL AND SEMI-ANNUAL REPORTS OF THE FUND

The Investors can receive annual and semi-annual reports of the Fund at the office of CBL Asset Management IPAS (address: Republikas laukums 2A, Riga, LV-1010, Latvia) on business days from 08:30 till 17:30 or on the Company's website: [www.cblam.lv](http://www.cblam.lv).

Annual and semi-annual reports of the Fund in foreign countries are available according to the legislative requirements of the state where the Share Certificates of the Fund are publicly traded.

## 18. DESCRIPTION OF THE PREVIOUS PERFORMANCE OF THE FUND



The Investors can familiarize with the description of the previous performance of the Fund, including comparative tables of financial performance, for at least last three years at the office of IPAS "CBL Asset Management" (address: Republikas laukums 2A, Riga, LV-1010, Latvia) on business days from 08:30 till 17:30 or on the Company's website under the "Fact sheet" section:

<http://www.cblam.lv/en/investment-funds/equity/cbl-baltic-sea/>

The Company draws the Investors' attention to the fact that historical performance of the Fund does not determine future performance of the Fund.

## **19. CERTIFICATION OF VERACITY OF THE INFORMATION IN THE PROSPECTUS BY THE BOARD OF THE COMPANY:**

***"We hereby certify that the information presented in this Prospectus is true and no facts that might undermine the interests of potential investors have been concealed."***