

# OPERATION OF INVESTMENT MANAGEMENT COMPANIES AND INVESTMENT FUNDS

## GENERAL INFORMATION

At end-2009, there were 16 investment management companies in the Republic of Latvia that managed 32 investment funds (23 open-end and nine closed-end funds). The number of investment certificates issued in the reporting year slightly decreased and was 61.4 million.

At the end of reporting year, 10 investment management companies offered also 27 State-funded pension scheme investment plans, whereas authorisation for public circulation of investment certificates of investment funds in the territory of the Republic of Latvia was granted to 18 foreign investment fund management companies.

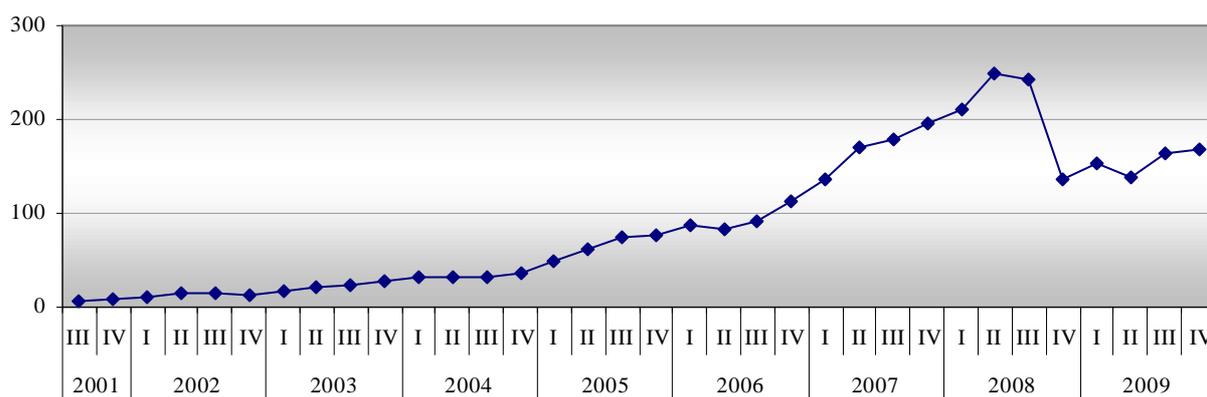
In the reporting year total assets of investment management companies grew by 2.8% and at the end of December totalled 17.5 million lats.

In 2009, investment management companies earned the total of 2,941 thousand lats<sup>1</sup> after tax (compared to 2,943 thousand lats in 2008), whereas the average return on assets (ROA) of investment management companies was 4.2%, but average return on equities (ROE) – 4.8% (compared to 4.6% and 5.0% on 31 December 2008).

## INVESTMENT FUNDS

Following a steep decline in assets at end-2008, total investment fund assets grew by 33.4 million lats in 2009, or by 24.7%, and their share at end-December 2009 totalled 169.0 million lats (See Figure 1).

*Figure 1*  
**INVESTMENT FUND ASSETS**  
(million lats)



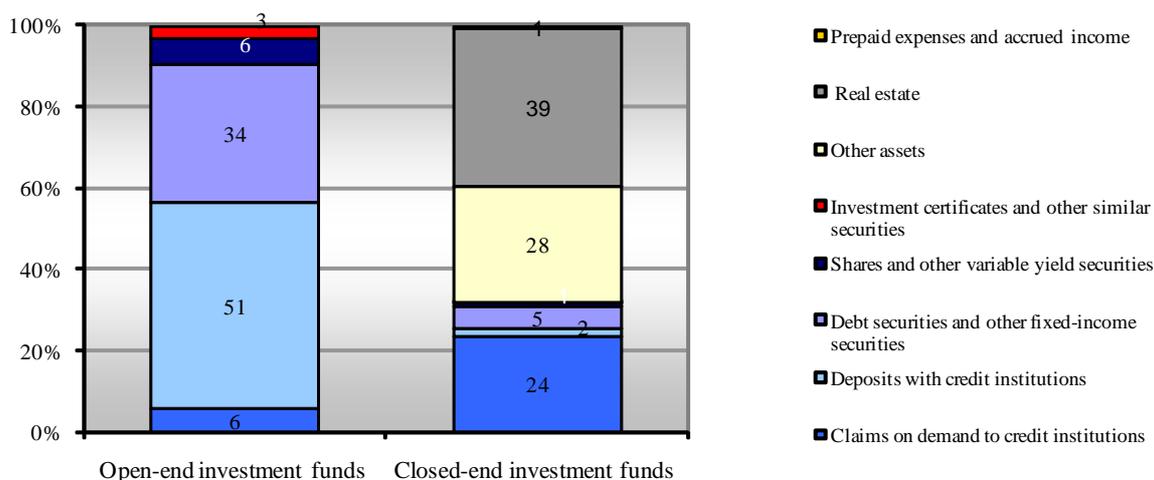
The structure of investment fund assets reflects the types of investments authorized for the funds, namely, permission to invest fund assets in financial instruments and deposits with credit institutions, while for the closed-end funds – to invest also in real estate. The share of open-end fund assets in total investment fund assets at the end of reporting year made up 76.5% (compared to 83.5% on 31 December 2008). Open-end investment funds' investments

<sup>1</sup> Non-audited data.

were mainly placed in deposits with credit institutions, 50.6%, in debt securities and other fixed-income securities, 34.0%, as well as claims on demand to credit institutions and in shares and other variable-yield securities, 5.8% and 6.2% (compared to 42.0%, 39.0%, 14.2% and 4.0% on 31 December 2008). Meanwhile investments of closed-end investment funds were mainly made in real estates, 38.9%, claims on demand to credit institutions – 23.6%, debt securities and other fixed-income securities – 5.4% (compared to 67.0%, 6.0% and 16.9% on 31 December 2008) (see Figure 2).

Figure 2

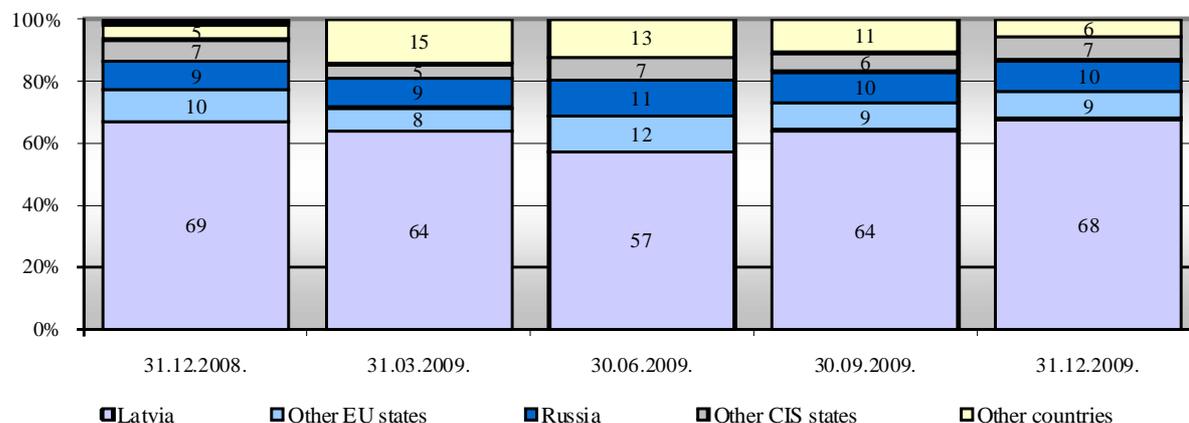
**FINANCIAL INSTRUMENTS PORTFOLIO OF INVESTMENT FUNDS,  
BROKEN DOWN BY TYPE OF FINANCIAL INSTRUMENTS**  
(31.12.2009)



The amount of investments placed in Latvia at end-2009 totalled 107.1 million lats, 68.1% of total investments (see Figure 3). The amount of financial instruments of foreign issuers in investment fund portfolio at the end of 2009 totalled 50.1 million lats, 10% of investments were made in Russia, 9% – in other EU states, 7% – in other CIS countries and 6% – in financial instruments of other countries.

Figure 3

**FINANCIAL INSTRUMENTS PORTFOLIO OF INVESTMENT FUNDS  
IN BREAKDOWN BY COUNTRY**  
(as a percentage)



A major income item of investment funds, interest income (94.9%), in the reporting year fell by 18.8% compared to 2008, while income from rental properties (3.4%) decreased by 72.8% in the reporting period (compared to 88.0% and 9.4%, respectively, on 31 December 2008).

Key expense items of investment fund management, remuneration to the investment management company<sup>2</sup> and other expenses on the fund management, as well as remuneration to the custodian bank<sup>3</sup> at end of 2009 accounted for 63.9%, 20.7% and 14.4%, respectively, of total investment fund expenses. The proportion of those items to total fund assets at the end of the reporting period made up 0.9%, 0.3% and 0.2%, respectively (compared to 1.9%, 0.1% and 0.4%, respectively, on 31 December 2008).

At end of reporting year, an increase in net assets of investment funds arising from investments was 17.9 million lats (on 31 December 2008 it was negative – with a 54.2 million lats decrease).

Average annual return<sup>4</sup> of open-end investment funds was 31.3% on 31 December 2009.

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<sup>2</sup> Remuneration due to the investment company according to the provisions of the fund prospectus.

<sup>3</sup> Commission due to the custodian bank according to the provisions of the fund prospectus.

<sup>4</sup> Changes in investment fund certificate value per annum/investment fund certificate value before 12 months.