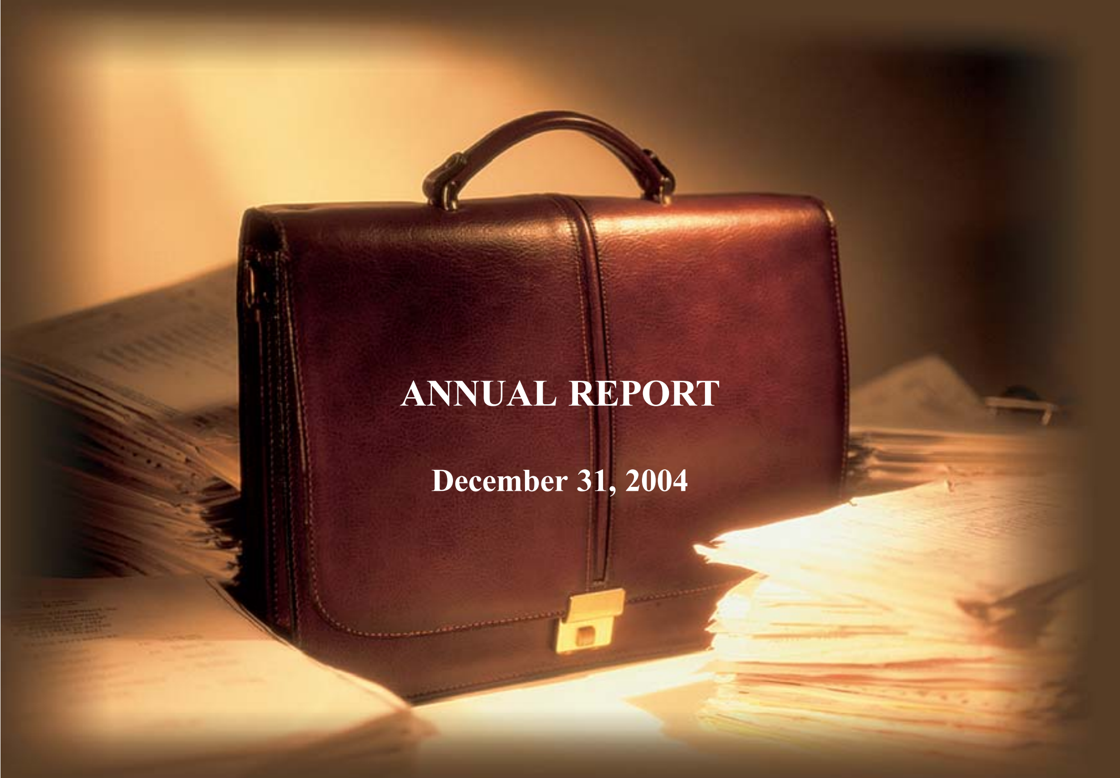
NSEL 30 INDEX FUND



ANNUAL REPORT

December 31, 2004

Numerous independent studies have shown that indexing provides greater returns than most of actively managed mutual funds over time with less risk and lower fees. More than half the active money managers underperform their benchmark indices. Since most active managers are not able to beat the market, then investors should try to match the market at the lowest cost.

Index mutual funds are designed to track the performance of a securities index or benchmark by investing substantially all of its assets in the securities contained in that index. NSEL 30 Index Fund attempts to replicate the performance of NSEL 30 Index. This is an index of 30 companies that have the highest free-float based market capitalization that are traded on the Vilnius Stock Exchange.

Lithuania is an emerging market and the early stages of emerging markets represent tremendous investment opportunities. However, like anywhere in the world, some investors do not have time or enough investment knowledge to follow markets, do research, and make buy and sell decisions. Such investors can simply choose to replicate the performance of the aggregate market by indexing. Indexing provides investors with the market average return for a low fee.

One of the most significant advantages of the index fund in a thinly traded emerging market is that it provides liquidity for investors.

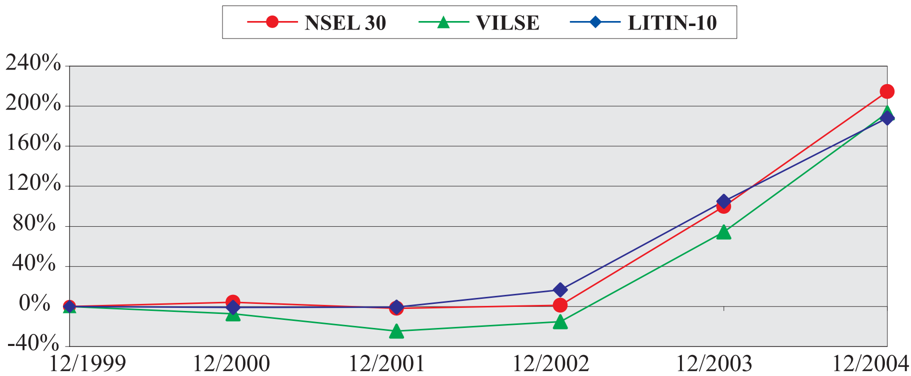
The main data about the Fund is provided in the following table:

	2001.12.31.	2002.12.31.	2003.12.31.	2004.12.31.
Net asset value, Lt.	1,266,316	1,316,997	11,171,022	37,542,949
Net asset value per share, Lt.	891.14	895.92	1,646.91	2,457.00
Number of investors, in units	15	18	170	486

Past performance does not guarantee future results.

NSEL 30 INDEX PERFORMANCE

NSEL 30 Index Fund follows the NSEL 30 Index which greatly outperforms the VILSE and LITIN-10 indices. Moreover, VILSE and LITIN-10 are sometimes contradictory to each other.



Index	2000	2001	2002	2003	2004
NSEL 30*	+4.20%	- 5.75%	+3.05%	+97.53%	+57.42%
VILSE**	-7.30%	-18.49%	+12.20%	+105.80%	+68.18%
LITIN - 10***	-0.90%	+0.21%	+17.39%	+75.97%	+40.55%

* NSEL 30 Index is a cap-weighted index of 30 largest free-float capitalization companies listed on the Vilnius Stock Exchange. Dividends paid by companies are included in the Index.

** VILSE Index is a cap-weighted index of all companies listed on the Vilnius Stock Exchange. Dividends paid by companies are included in the Index.

*** LITIN-10 Index is an equal weighted index of 10 the most actively traded companies on the Vilnius Stock Exchange. Dividends paid by companies are not included in the Index.

ANNUAL REPORT 2004

January 13, 2005

Dear Shareholder,

We are pleased to report another year of spectacular success for our fund. The net asset value per share of our fund rose 49.19%. This was the best performance of any fund in Lithuania. It also outperformed every fund in the 12 country Euro zone. Not bad for an index fund.

The theoretical index itself did better; 57.42%. A discussion of the difference is in the next paragraph. After commissions, our actual portfolio did 54.82%.

The fund increased in assets from 11,171,021 LTL at year end 2003 (170 shareholders) to 37,542,949 LTL and 486 shareholders.

An excellent study was published in the January 2005 issue of The Financial Review; "Reflection on the Efficient Market Hypothesis: 30 years later" by Burton G. Malkiel (Professor of Economics, Princeton University). This study shows index funds outperform most of actively managed funds in international as well as domestic markets. Over a 10 year period ending December 31, 2002, 84% of European equity fund managers (109) failed to outperform the MSCI Europe Index. (Morgan Stanley Capital International) Only 16% did better (21 funds). My own measurements of professional managers in a study I did for the Virginia Retirement System in the 1980's in the USA are as follows:

An index of matching style outperforms:

- 75% of professional investors in 5 years
- 90% of professional investors in 10 years
- 95% of professional investors in 20 years

Index and Index Fund Differences

The Lithuanian Securities Commission (LSC) continues to make decisions that seriously harm the investors of our fund. Not only have the decisions caused unnecessary legal costs and brokerage commissions, but they have seriously hurt performance.

Our objectives are clear:

1. provide liquidity;
2. minimize risk;
3. minimize transaction costs;
4. minimize expenses.

The Securities Commission has forced us to violate all 4 objectives.

We want to track the free float NSEL 30 Index as closely as possible, but the decision not to recognize the index prevents us.

In the preparation of the new Law of Collective Investment Undertakings, we had worked with Parliament to provide an exception for our fund. Therefore in the law is an exception for index funds (we are the only one) from the following diversification rule:

Maximum weight of all companies with weight from 5% to 10% is 40% of the fund's assets.

To comply with this rule, the fund must invest in smaller companies. Smaller companies are more risky and less liquid.

What is really bad is that we now have many additional transactions. Every time a stock goes up over 5% weight or a stock with 5% or more goes up, we can violate the rule. <u>That means we have to sell our winners and buy more of our losers!</u> That is exactly what you are not supposed to do as a professional manager!

According to our calculations, we had 14,500 LTL of unnecessary transaction costs and our investors lost over 450,000 LTL of gains we should have had.

For almost a year on 4 separate attempts we have tried to get the LSC to approve our index; explaining and detailing every calculation of it. Finally we had to go to court to get them to tell us the reasons. The court agreed they had to tell us.

Their reply was that the SEC has a right but not an obligation to recognize the Index even if the Index satisfies all requirements. (The Parliament has directly provided for our Index and Index fund, but the LSC ignores it.) Can you imagine what would happen if agencies can pick and choose who should get what under the law? Sorry, you can't own your house, because we don't have an obligation to let you do it.

The other reason given is: “NSEL 30 Index Fund is both the compiler and consumer of the NSEL 30 Index what makes a possibility for a conflict of interests and do not warrant conditions for objective calculation of the Index. It is because under such conditions the complier of the Index is an interested person and the opportunity to calculate the Index in the way that it would be serve the existing portfolio is not removed. Also, the threat to investors’ safety arises.”

This is nonsense. What conflict? Why wouldn’t we want to construct the best Index and try to achieve it? Furthermore, the rules are all published and the LSC is always checking that we follow the rules. It is the “chicken or egg” problem. It is not possible to try to match the Index to the existing portfolio because the portfolio is formed only after the Index is constructed or calculated. This is like trying to change the actual results for the year to meet an annual report you wrote before the beginning of the year and before any results at all! It is not possible. The Index is calculated once a quarter and then we adjust the portfolio to try to match it. To our regret, and your loss, we have not been able to do so because of the LSC.

We note that the leading calculation of stock market indices in the world is MSCI, Morgan Stanley Capital International which is owned by two investment management firms, Morgan Stanley and The Capital Group Companies who also invests their clients in funds according to the indices. No one has even claimed this is a conflict.

To add insult to injury the LSC has fined the management company 2,000 LTL for not meeting the diversification rule while we were waiting for the court decision that was in our favor. We have appealed that fine.

This diversification rule itself deserves a comment. Apparently somebody got together and thought it sounded good and made it up. There is no statistical evidence or academic paper that proves such a rule reduces risk. There is a large body of literature that says a market capitalization index is the most efficient for risk and that concept won a Nobel prize. Furthermore this rule ignores 55 years of modern portfolio theory and mathematics that prove that it is the correlation, not the weight of the security that is important. You can have a riskless portfolio with two securities with a 50% weight each if they are perfectly negatively correlated. So the rule is arbitrary in the first place.

The Lithuanian Stock Market

In 2004, our NSEL 30 Index (57.42%) did better than all the developed stock markets of the world. Austria was close with a 57.02% gain. After that was Norway at 36.21%. Hungary was the best in Europe with a 63% gain (MSCI Index). The best performing stock in the NSEL 30 Index was Lietuvos elektrinė (LELK); up 235%. There were 11 stocks that went up more than 100%. The worst performing stock in the Index was Dvarčionių keramika; -39.28%.

The Economy

Again the Lithuanian economy was excellent. GDP growth was over 6%. Real wages increased by huge amount. In 2003 it was the best in Europe and 2004 was more of the same. Retail sales are up 9.5% for the first 10 months of 2004. Pre tax profits in the 3rd quarter of 2004 increased by a remarkable 1.5 times the prior year. Everywhere there is construction, remodeling, and improvements. New shopping centers and stores are opening everywhere as all the products of the world now become available to lithuanians. Unemployment fell to new lows.

Political Review

Stability returned to Lithuanian politics as Mr. Valdas Adamkus became President. Lithuania also joined the European Union May 1, 2004. This immediately added import taxes and duties on goods coming from outside the EU, but broke the borders to the rest of Europe for Lithuania. Meanwhile a new Labor party with no experience and many radical socialist ideas won the most votes with great promises; but not a majority. Unfortunately many of those new ideas are not well thought out for their damage to the economy, employment, business, capital and even personal freedom. Many of the proposals I have seen have negative consequences.

Fund Performance and Expenses

During 2004 we agreed with the LSC to change our expense structure to no longer reflect actual expenses but to restrict it to 0.5% as an additional fee by the management company. As the size of our fund has grown quickly, the expense ratio has dropped sharply. It was 0.96%* of assets at year end of 2003 and now it is 0.40%*. There is a 1% management fee and the custodial fee (0.30% +30 LTL for every transaction) so the total impact in the future is 1.83%* on the performance of the fund.

* Excludes brokerage commissions

We maintain a cash balance for liquidity and this of course affects performance. If the markets goes up a lot, we will trail the index by the amount of cash and also arriving new money. If the market goes down, we will do better than the index because of the cash. This was another remarkable year for the stock market and also the growth of the fund (up more than 200%) so the cash balance and timing of inflows had an impact.

Theoretical portfolio	57.42%
Live portfolio (no cash balance) after brokerage commissions	54.82%
Net Asset Value	49.19%

As reported in last year's Annual Report, there was a very substantial performance gap at the beginning of the year when the new law took effect when our fund was suspended. We were forced to sell certain positions to meet the diversification rule as the LSC did not approve our Index and we could not invest these funds or the new money we received until we got a license. During that time in January, the market had its best run, then we had to turnaround and buy back the securities we were forced to sell at much higher prices and incurring double commissions. The Securities Commission has been the major cause of our shortfall against the Index not to mention high legal fees incurred by the fund.

During the brief time of suspension, redemptions were not possible and this was most upsetting to me as investors should always be able to get their money back when they want. The LSC can penalize the management company, but never should it harm investors. I personally offered to redeem any shares at the market price. The LSC objected to this but our lawyers said they cannot interfere as owners can do what they want with their shares. No one accepted my offer and I am pleased to say that all investors from that time have enjoyed our fund's success.

Lemons?…………..Lemonade

There is an American business saying that when you are unexpectantly served lemons, you should make lemonade. If the LSC won't let us be an index fund, then we have no choice but to actively manage the fund. We can't buy the full weight of the stocks we need so we have to choose what stocks do we buy more of. When we started our index fund in 2001, we knew little about what stocks do better in this market. Our team spent 3 years building a historical data base on Lithuanian stocks and we measured everything; especially our own proprietary variables we have used successfully for investing in other markets.

Using the most advanced optimization mathematics of Modern Portfolio Theory, we constructed the best model for risk and return and have been measuring it live since the third quarter of 2002. The live performance of the model has been excellent, comparable to the performance on the backtested period to 1998. We still want to be an index fund, but where we must make decisions, we will use our model. We have implemented this at year end. It affects only about 2% of the weighting of the portfolio for now as we will use it only when we must sell to meet the diversification rule.

OUTLOOK

In April of 2001, I made a public forecast that the Lithuanian stock market would triple (200%) in 5 years. We are there. The gain of 97.53% of 2003 and 57.42% this year is 211%. And this indeed is attainable performance by investors (before commissions) since our index really does reflect what you can make with an efficient portfolio. Other indices do not measure the litas in your pocket. Our fund did 174% during the same two year period; differences and reasons being noted above. As we have a large number of new investors, many without any experience and this is their first equity investment, I wish to tell you a story about forecasting.

The Price of Gold

From the time Franklin Roosevelt was US President until President Nixon, Americans were not allowed to own gold. This was one of many economic freedoms that were taken away by Roosevelt after the depression of 1929. The price of gold was pegged at $35 to the ounce. At last in 1975, the price of gold was about to become free.

I was a senior financial analyst at Mellon Bank, a major regional bank with a 135 offices at the time and millions of customers. No one had any experience with gold. The bank decided to give me the task of advising clients as I was the theoretical expert on investments per my education.

I carefully did my analysis using the best of microeconomic demand and supply curves and marginal prices. I found that the price of gold had to quickly increase to $300 to be in equilibrium! Bank management was upset with this forecast and my creditability suffered. Even the most radical forecast in the press were for only $100! Nevertheless, the bank reluctantly put out the report to a few selected clients and told all the branches that all questions on gold should be directed to me.

Once free, the price of gold soared quickly to $100. Then to $200 and when it reached $300, I dutifully reminded in a new report that this was the equilibrium price and it was time to sell. This time the bank sent my report to everyone with enthusiasm. When gold hit $600, my friend and dentist stopped talking to me. (Gold filings for teeth were still used.) I also lost a lot of creditability at the bank. When gold went over $800 an ounce, my dentist wouldn't take my appointment and I got hate mail. Then the price of gold collapsed to $300 and would remain there for almost 30 years until recently when the dollar became weak.

You can be absolutely brilliant in your forecasts but still have clients hate you. Asset prices can rise and go to extremes beyond reason and can also be huge bargains.

I have had remarkable success forecasting oil, the dollar, stock markets, etc. A very nasty habit being right when there are mostly uncontrollable random events. If I tell you now to be cautious or take some profits when the stock market will double from here, it might be the story of the price of gold repeated.

Increasing Risk

With the higher levels of the stock market, we have increasing risk and volatility. Last year there was almost no volatility. The market almost went straight up. Normally an emerging market has a standard deviation of nearly 30%. That means a 30% drop in the market is "normal". Of concern is also the possibility that a bubble will take place. The crowd could drive stock prices to far higher levels until risk happens. Therefore, it is folly to try to predict exactly what will happen because we cannot know people's behavior.

If Europeans discover this stock market, the growth and relative evaluations will look very good to them and their own country markets. As of now Lithuania doesn't even get mentioned in the world financial press. There is no acceptable stock market index for comparison. (VILSE, Vilnius Stocks Exchange index is a big improvement over the LITINs but not free float, etc.) So there is plenty of untapped demand. Only a small percentage of lithuanians own stocks; less than 1%; compared with 12% in Europe and my estimate of 30% in the USA. But you should not borrow to invest in stocks unless you can sit comfortably for some time. You also need diversification in other markets and assets. Contact us for diversification ideas or speak with your VB banker.

Valuations

Earnings of companies have been soaring. Using earnings through the third quarter and company estimates for the 4th quarter, the 2004 earnings of the NSEL 30 are projected to increase 108% over 2003. Return on equity is still pitiful however. Nevertheless, many losing companies are now profitable in 2004. While some individual stocks could be considered speculative, our basic measure of the whole market shows no speculation at all. We have an excellent quantitative measure that captures how much speculation there is and it is very reliable. Stocks are now fairly priced on trailing earnings, no longer selling at huge discounts to cash flow, earnings and book value as they were less than 2 years ago. What is not reflected in the market is the future growth and improvement of earnings. Our theory of stock prices (G.R.A.P.E.S.) allows us to evaluate companies as though they were privately owned. Based on year end 2004 valuations and forecast for 2004 earnings as companies are just now reporting their 4th quarter, we find this market as of year end marketcap is still undervalued by a large amount, it needs to go up 122% to reach a fair value relative to an alternative investment in long term Lithuanian Government securities that yield only 3.95%.

Given that analysis, I guess I will not sell a single share of the fund that I own. Nothing goes straight up, so corrections are inevitable. But we can say that this market can still go up a lot and not be overpriced.

The Good

The National Stock Exchange of Lithuania has become the Vilnius Stock Exchange (VSE) and privately owned. We met the Stock Exchange officials and they are excellent. Privatization does make a difference! Many of the problems of the market have been solved and the ones that are not, they are aware of them. This is a major leap forward. We still need more transparency in reporting. The VSE officials are bright, talented and know their job. They only need to be encouraged to look out for shareholders.

The Bad

We had one company, Kauno tiekimas, report great earnings one quarter and the stock price doubled and it qualified for the NSEL30 Index. Then in the next quarter they reported a terrible loss without explanation and the stock fell more than 50%. The manager left on vacation and it was weeks before we got a reply as to what happened. The reply said nothing that was understandable and our accountant could not figure out from the financial statement what was going on with this company. Company managers need to understand they have to explain to their owners large losses and not just say nothing.

In preparing the year end rollover for 2005, we discovered that Ekranas had again given shares to insiders well below the market. To us this is stealing from other shareholders. The last time they did it we sued them but lost as the court was in their home town. Sadly the Lithuanian Securities Commission did not support our lawsuit. They should have been looking out after shareholders interests. We apparently were the only one cared. What Ekranas did before and now again is illegal in the US. You cannot give shares to insiders below the market price unless you offer it to all shareholders.

The Ugly

There remains far too much bureaucracy and interference with economic freedom. Meanwhile there are a host of shortcomings with society and economy and trying to do business here and to invest. For example, existing laws do not permit stock options, they block or prevent bonuses and financial rewards, there is no automatic ex dividend procedure, no quarterly dividends, and no required quarterly reporting. There is a very long list, but at the top is the failure of government officials to know the purpose of their job which is to protect and not harm investors while promoting the formation and growth of financial markets and the future of Lithuania.

IPV Team

Our management company team supporting your fund is very strong. We have 11 employees which includes 3 brokers. Almost all have been with us more than 4 years and almost all have master's degrees and professional degrees. Six have been trained in the USA for 6 months or more. They are dedicated to serving you.

We will continue to fight for your rights as shareholders of the fund and to help improve the market itself and to better educate investors.

I remain one of the largest shareholders of the fund and I look forward to our continued success as the economy of Lithuanian is strong and the future is bright and only a lot of bad decisions by government will derail this powerful train going down the tracks.

We are at your service.

Max Zavanelli,
Chairman of the Supervisory Board of the Fund
Chairman of the Board of Management Company

FINANCIAL STATEMENTS

The following financial statements are prepared in accordance with the Business accounting standards, the Securities Commission's Decision No.11 "Rules of preparing and providing information for management companies and investment variable capital companies which assets are not transferred to management companies". Statements of previous years are prepared using Business accounting standards and the "Order of bookkeeping and accounting for pension funds" confirmed by Government on January 13, 2004. Statements are in Lithuanian litas and are audited by the auditors.

Balance Sheet

No.	**ASSETS**	12/31/2004	12/31/2003
I.	CASH AND EQUIVALENTS	894,164	729,594
II.	TERM DEPOSITS		
III.	INVESTMENTS	36,562,278	10,475,372
1.	Debt securities		
1.1.	Debt securities issued or quaranteed by government and central banks		
1.2.	Other debt securities		
2.	Equity securities	36,562,278	10,475,372
3.	Investment units of collective investment subjects		
4.	Other investments		
IV.	ACCOUNTS RECEIVABLE	565,418	384,351
1.	Accounts receivable for sold securities	256,653	235,071
2.	Other accounts receivable	308,765	149,280
	TOTAL ASSETS	38,021,860	1,589,317

	NET ASSETS AND LIABILITIES		
V.	LIABILITIES	478,911	418,296
1.	Accounts payable for bought securities	386,108	223,101
2.	Management fee for December 2004 and custodian fee for 4th quarter 2004	91,331	35,862
3.	Other accounts payable and other liabilities	1,472	159,333
VI.	NET ASSETS (I+II+III+IV-V)	37,542,949	11,171,021
	TOTAL NET ASSETS AND LIABILITIES	38,021,860	1,589,317

Comments to Balance Sheet:

Fund has no physical assets of its own. Management Company Investicijų portfelių valdymas manages the Fund.

Statement of Changes in Net Assets

	12/31/2004	12/31/2003	12/31/2002
1. Value of shares issued	**19,760,941**	**8,830,725**	**66,495**
2. Value of shares redeemed	**2,073,330**	**462,356**	**14,325**@
3. Investment income:			
3.1. Bank deposit interest	2,152	766	43
3.2. Dividends	370,979	46,726	18,392
Total investment income	**373,131**	**47,492**	**18,435**
4. Realized gain (loss)*	**1,223,017**	**93,852**	**(69,514)**
5. Gain (loss) from securities*	**7,632,049**	**1,488,523**	**90,013**
6. Operating expenses:			
6.1. Marketing	53,558	6,296	
6.2. Road tax	6,021		
6.3. Legal fees and expenses	31,273	8,850	3,186
6.4. Audit	4,000	4,720	4,720
6.5. Investment management fee	242,757	52,181	13,046
6.6. Brokerage fee**	100,123	37,751	3,604
6.7. Custodian fees and expenses	104,189	32,158	5,426
6.8. Other expenses	1,959	3,256	308
6.9. Prepaid expenses			11,133β
Total operating expenses	**543,880**	**145,212**	**40,423**
7. Other operating income		**1,000**	
Net Assets			
Beginning of year	11,171,021	1,316,997	1,266,316
End of year	37,542,949	11,171,021	1,316,997
Net Assets per share			
Beginning of year	1,646.91	895.92	891.14
End of year	2,457.00	1,646.91	895.92

Notes:

@ Shares were redeemed at a profit to the investors.

β Paid by the founder before start of public distribution of the Fund shares.

* Realized gain (loss) and Gain (loss) from securities are before brokerage expenses.

** Standard mutual fund accounting does not consider brokerage fee as part of operating expense.

The reasons to invest in Lithuania:

- **Low P/E's and low valuations to book value**;
- **Very low inflation**;
- **Growth in GDP** (8.9% in 2003);
- **Low currency risk** (Lithuanian currency is linked to the Euro since 2002);
- **Accounting standards are very high** for companies listed on the Vilnius Stock Exchange;
- IMF forecasts Lithuania to have **the highest growth of all EU members**. For emerging market growth, Lithuania is the Baltic Tiger.

The reasons to invest to NSEL 30 Index Fund:

- **Diversification:** Diversification is a popular way for investors to reduce risk by spreading assets across a wide selection of securities and industries. An investment in a fund that holds 30 securities of different companies and industries is likely to be less volatile than a less diversified equity portfolio composed of smaller number of securities.
- **Blue Chip Index:** NSEL 30 is a Blue Chip Index composed of established companies (similar to Dow Jones 30).
- **Efficiency:** Low portfolio turnover will keep portfolio transaction costs down, putting a greater portion of your investment to work for you.
- **Convenience:** Participation in the long-term growth potential of the 30 stocks with one convenient, low cost investment.
- **Automatic Dividend Reinvestment:** Dividends that are paid out by companies in the portfolio are automatically reinvested into the fund.
- **Liquidity:** Investors can sell (redeem) shares at any time.

To determine if the fund is an appropriate investment for you, carefully consider the fund's investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the fund's prospectus, which may be obtained by visiting the fund's website at www.nsel30indexfund.com or from:

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You are very welcome to send us any comments or questions you may have.

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