

In December Western Europe stabilized

December still brought bad news about economy, but stock markets didn't react as negatively as they did earlier. Several stock markets were almost flat over November, e.g. Asia and Western Europe. Commodities-driven countries performed weakly due to decreasing oil and raw materials prices. In North America euro based losses were caused by weakening dollar.

World equity markets' performance (2008.12.31)*

Country/Region	Month	YTD	Cur.
World	1.19%	-40.94%	Local
Western Europe	0.17%	-46.58%	Local
North America	0.67%	-38.11%	Local
Japan	8.02%	-30.52%	Local
Emerging Markets	7.60%	-54.75%	USD
Asia ex. Japan	9.79%	-53.65%	USD
CEEC ex. Russia	-5.48%	-54.75%	EUR
Russia	-7.83%	-74.16%	USD
Latin America	2.44%	-52.78%	USD
GCC ex. S. Arabia	-12.79%	-54.00%	USD

*Morgan Stanley indices
Source: MSCI Barra

Numerous news about contraction of industry production and cancelled orders appeared during the month. It showed that credit crisis was fully affecting the real economy.

The role of the state rose

December was marked by an increasing role of governments. Several banks were nationalized and private companies were injected state money. Will this state involvement help the real economy to stabilize and to fuel new growth is still questionable. But for the short term it certainly gives some liquidity to the market. For the longer term the biggest danger is that governments would have to cover rising obligations by printing more money and/or raising tax levels. Increasing taxes is not very popular and depresses consumer expectations. So this is not the best way to restart economy. Printing large amounts of money inevitably leads to depreciation of the value of money.

Movers and shakers in December 2008



- ECB cut interest rates by 0.75 pp to 2.5% and Britain's central bank sliced them by 1 pp till 2.0%
- FED lowered its interest rate to 0-0.25%
- USA agreed about short-term financial support to car producers and is considering long-term restructuring
- Annual euro-zone inflation dropped below ECB target of 2% reaching 1.6% in December from 2.1% in November
- German investor confidence index rose from -53.5 to -45.2 in December



- China's exports fell in November for the first time in seven years by -2.2% m/m
- Russia's ruble fell against EUR and USD by accordingly 13% and 3% in December
- B. Madoff defrauded numbers of banks and funds of USD 50 billion in a giant Ponzi scheme
- Unemployment in the UK rose by 75,700 in November reaching 1.072 million
- Sterling sank to a record low of 98.05p against the euro

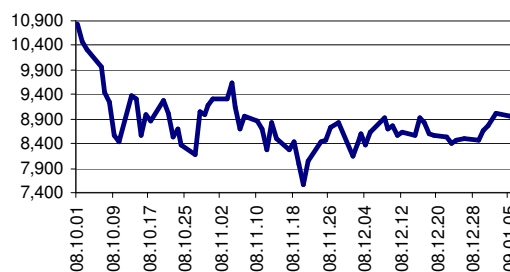
Economic conditions are uncertain for 2009

We have not seen so rapid economic freezing at least for 60 years. This makes forecasting of the future a complicated task.

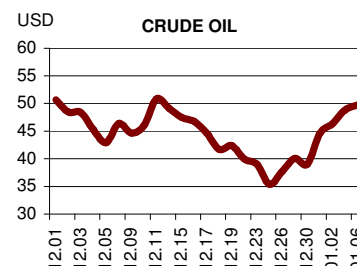
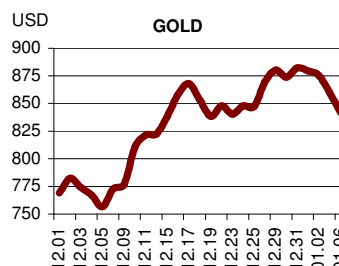
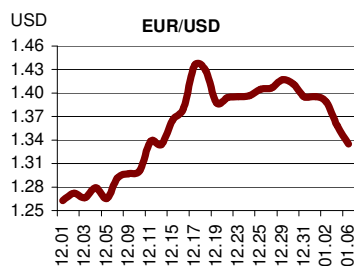
As the severity of the credit crisis is difficult to project and recovery of the stock markets depends on the level of investor confidence, we are not rushing with new investments in equities.

We are ready to reduce risks if the market offers better exit prices and also invest cash if the markets prices come down even more.

Dynamics of Dow Jones index from October



Source: Bloomberg



LHV World Equities Fund

08-Dec-31

Monthly Return

3.09%

NAV of A unit

EUR 5.9907

NAV of B unit

EEK 59.9070

Fund Size

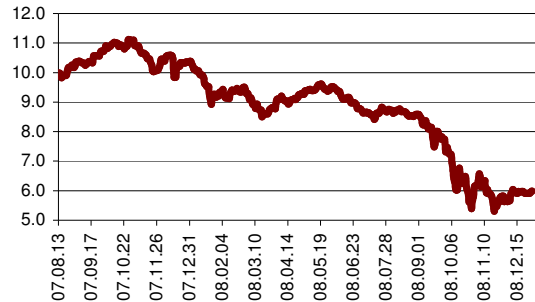
EUR 417,590

Investment Objective

The Fund's investments are diversified geographically among different world financial markets. The Fund invests in developed markets (e.g. contracting state of the European Economic Area, the United States of America and Japan), as well as in emerging markets (e.g. Asia, Latin America and Eastern Europe).

The Fund is for investors who want to invest globally without preferring any specific region. As the Fund is already globally diversified you can choose it as your only stock-based investment. The Fund is for long term investors.

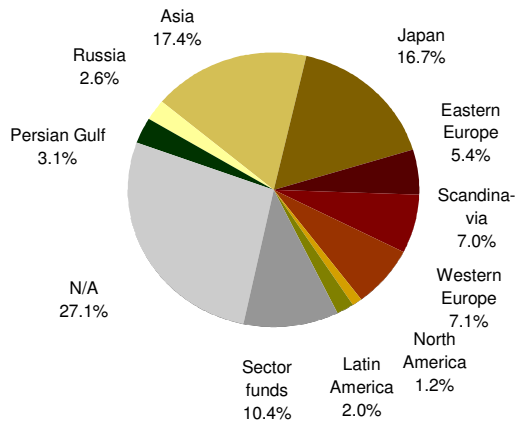
Performance History



Historical Returns

	1 month	3 months	6 months	12 months	YTD	Since Inception	Since Incep. p.a.
Fund	3.09%	-19.44%	-31.75%	-42.27%	-42.27%	-40.09%	-30.92%

Geographical Breakdown



Top 10 Investments

Name	% of Assets
iShares MSCI Japan Index Fund	9.14%
Fenno 28/03/10	4.87%
JF Asia Diversified A (acc)	4.70%
HSBC GIF Japanese Equity Fund	4.48%
MS Emerging Markets Debt	3.71%
JPM Germany Equity A (dist)	3.50%
Pictet Water P Cap	3.37%
Pictet FDS - Clean Energy Fund	3.35%
JPMF Japan Select Equity A (acc)	3.11%
LHV Persian Gulf Fund B share	3.08%
Value of TOP 10 Investments	43%
Total Number of Investments	35

Fund Manager's Comment

The year ended with more positive tones. Negative news about real economy or companies was expected by investors and no selling pressure followed. Central banks are definitely supporting the markets by increasing the money supply (record-low dollar interest rate and liquidity injection).

In December, the biggest positive effects to the fund's performance came from investments in Asia, Japan and Scandinavia.

While using higher price levels we exited from some investments by reducing investments risks towards China, South-Korea and Brazil. We also take profits from Deutsche Telekom shares.

We still prefer defensive sectors; however we are ready to reduce investment risks further if the markets should offer good exit opportunities.



Andres Viisemann

Fund Details

Type: UCITS
 ISIN of A-unit: EE3600092417 (EUR)
 Registrar of A-units: LHV
 ISIN of B-unit: EE3600097499 (EEK)
 Registrar of B-units: EVK
 Fund Manager: Andres Viisemann
 Depository: Hansabank (Swedbank)

Issue Fee: 1.0%
 Management Fee: 2.0%
 Redemption Fee: 1.0%

Established: 2007.04.27
 Launched: 2007.08.13

LHV Emerging Europe Alpha Fund

08-Dec-31

Monthly Return

-4.10%

NAV of A unit

EUR 2.8045

NAV of B unit

EEK 28.0450

Fund Size

EUR 286,142

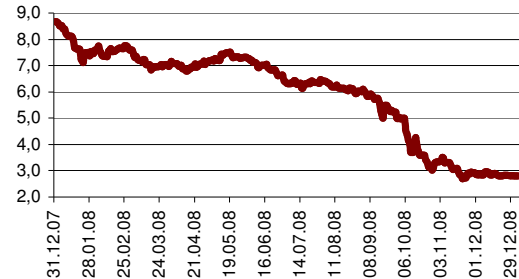
Investment Objective

The Fund aims to benefit from EU convergence trends and rising consumer spending in emerging Europe.

The Fund invests actively in listed final consumer oriented companies that gain from increasing household income and emergence of middle class in Eastern Europe, including Russia and Ukraine.

The Fund picks companies with profitable operations, strong brand identity, distribution reach and pricing power mostly from the following industries: retail, banks, finance, real estate, construction, and entertainment.

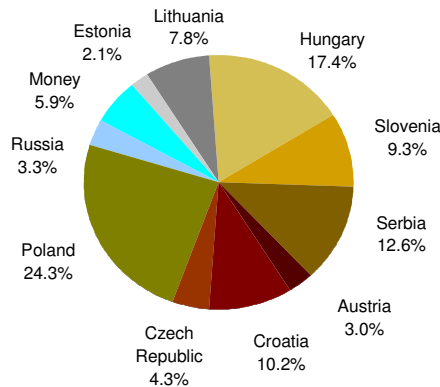
Performance History



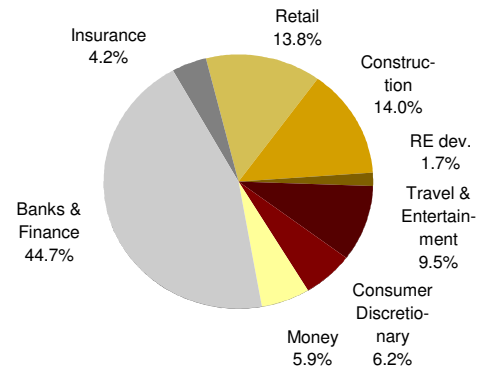
Historical Returns

	1 month	3 months	6 months	12 months	YTD	Since Inception	Since Incep. p.a.
Fund	-4.10%	-43.72%	-57.72%	-67.63%	-67.63%	-71.96%	-54.30%

Country Breakdown



Industry Breakdown



Top 10 Investments

Name	% of Assets
Danubius Hotels (HU)	6.64%
OTP Bank (HU)	6.47%
BRE Bank (PL)	6.15%
PKO Bank Polski (PL)	6.02%
LPP SA (PL)	5.80%
Mercator (SI)	5.53%
AB Ūkio bankas (LT)	5.24%
Mostostal-Export SA (PL)	4.57%
AIK Banka (YU)	4.47%
Zwack Unicum Plc. (HU)	4.26%
Value of TOP 10 Investments	61%
Total Number of Investments	23

Fund Manager's Comment

December has seen a mixed performance. The total fall of Fund unit price by about 4% conceals big regional differences: Russian Sberbank has depreciated by a whopping -18.5%, whereas Serbian market has given a combined return of 6.38%. This month Austria (-10.85%), Slovenia (-8.52%) and Poland (-8.02%) have shown weak results. Whereas Croatia (+5.10%) and Baltic (+4.77%) have been on a stronger side. The big variation of stock returns across the region is a healthy sign which implies the sanity is returning to the capital markets. Investors no longer dump all the shares simultaneously across the region. They discriminate between good and bad companies and analyze the prospects of each market individually.

During the month the portfolio was rebalanced a bit: exposure to Hungarian and Polish markets was reduced by several percentage points, whereas Croatian holdings have been increased again.

Fund Details

Type: UCITS
 ISIN of A-unit: EE3600090593 (EUR)
 Registrar of A-units: LHV
 ISIN of B-unit: EE3600097507 (EEK)
 Registrar of B-units: EVK
 Fund Manager: Romanas Bulatovas
 Depository: Hansabank (Swedbank)

Issue Fee: 2.0%
 Management Fee: 2.5%
 Redemption Fee: 0.0%

Established: 2007.04.12
 Launched: 2007.05.18

LHV Persian Gulf Fund

08-Dec-31

Monthly Return

0.24%

NAV of A unit

EUR 5.5806

NAV of B unit

EEK 55.8057

Fund Size

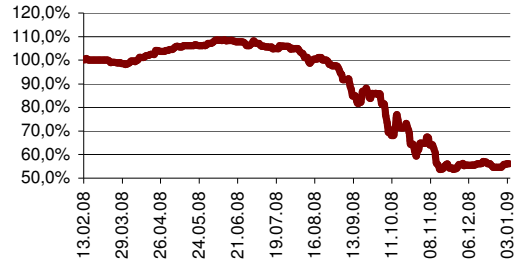
EUR 3,433,258

Investment Objective

LHV Persian Gulf Fund invests in listed equities in the GCC (*Gulf Cooperation Council*) region: mostly Qatar, Kuwait, United Arab Emirates, Bahrain and Oman.

As growth and opportunity is seen outside the energy sector, the majority of the Fund's assets are invested in banking, insurance, infrastructure, communication, construction, power and water sectors.

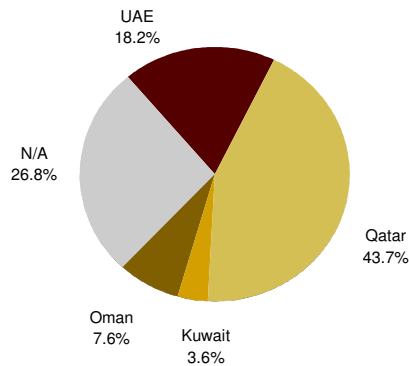
Performance History



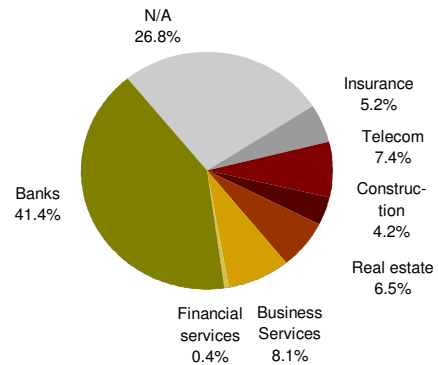
Historical Returns

	1 month	3 months	6 months	12 months	YTD	Since Inception	Since Incep. p.a.
Fund	0.24%	-34.77%	-47.70%	-	-44.19%	-44.19%	-

Country Breakdown



Industry Breakdown



Top 10 Investments

Name	% of Assets
Commercial Bank of Qatar (QA)	10.00%
Qatar National Bank (QA)	9.20%
Qatar Fuel Company (QA)	7.44%
Qatar Insurance Company (QA)	5.16%
National Bank of Abu Dhabi (AE)	4.52%
Al-Dar Properties PJSC (AE)	4.16%
Nat Mobile Telecom (KW)	3.56%
First Gulf Bank (AE)	3.63%
Qatar Real Estate (QA)	3.30%
National Bank of Oman (OM)	3.12%
Value of TOP 10 Investments	54.1%
Total Number of Investments	21

Fund Manager's Comment

Stock markets in GCC were nervous during December as dropping oil price and job cuts after layoffs in Dubai real estate sector due to cancelling some real estate projects were affecting investor sentiment. OPEC confirmed that it will cut oil production by 2.2m bpd in addition to the 2m bpd cuts agreed previously.

Stock markets lost 7-17% of their value in December. The worst performing market was Dubai and the only market to register positive return was Qatar rising 10%. Qatar Investment Authority (QIA) says they are prepared to acquire 20% stakes in all Qatari banks to support banking sector.

Dubai and Saudi Arabia are planning to boost public spending double digit in 2009 to support their strategic investments. We expect the same from Qatar.



Oliver Ait

Fund Details

Type: UCITS
 ISIN of A-unit: EE3600095287 (EUR)
 Registrar of A-units: LHV
 ISIN of B-unit: EE3600095295 (EEK)
 Registrar of B-units: EVK
 Fund Manager: Oliver Ait
 Depository: Hansabank (Swedbank)

Issue Fee: 2.0%
 Management Fee: 1.75%
 Redemption Fee: 1.0%
 Success fee: 15% over 10% hurdle
 Established: 2008.01.10
 Launched: 2008.02.13

LHV – Your guide to financial world

LHV offers its clients a spectrum of investment services, including securities brokerage, personal advisory and wealth management services. Access to over 70 market centers worldwide accompanied with investment strategy and support makes us the first choice for beginners and educated investors.

Although our main channel of communication and service is the internet, we are always ready to meet you in person, discuss your needs and how we could help you to find the best investment-solutions. LHV is present in Estonia, Latvia and Lithuania.

Investing in LHV funds

LHV World Equities Fund, LHV Emerging Europe Alpha Fund and LHV Persian Gulf Fund are publicly offered in Estonia, Latvia and Lithuania.

Investors can invest in LHV funds through:

- A-units (denominated in euros, register maintained by LHV) or;
- B-units (denominated in EEK, register maintained by Estonian Central Securities Depository (ECSD)).

In order to buy **A-units** investor needs an investment account with LHV.

- Go to investment portal www.lhv.ee / www.lhv.lv / www.lhv.lt
- Log in with your personal user data
- Select "Funds" -> "LHV World Equities Fund", "LHV Emerging Europe Alpha Fund" or "LHV Persian Gulf Fund"
- From right-hand menu click on "BUY"
- Enter invested amount and confirm the trade

In order to buy **B-units** investor needs a securities account with ECSD.

Investment can be made in the form of an ordinary payment.

Requisites for LHV equity funds:

- Beneficiary's name: **EVK** (ECSD in Estonian)
- Beneficiary's account (ECSD's account in Bank of Estonia):
 - LHV World Equities Fund: **30100974909**
 - LHV Emerging Europe Alpha Fund: **30100975089**
 - LHV Persian Gulf Fund: **30100952963**
- Amount: amount in Estonian kroons
- Details:
 - LHV World Equities Fund B purchase
 - LHV Emerging Europe Alpha Fund B purchase
 - LHV Persian Gulf Fund B purchase
- Reference number: investor's securities account number with ECSD

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