

# LHV equity funds

## Monthly Overview

January 2009

### Continuing turmoil

The gloomy mood of year-end continued to prevail on stock markets in January as participants were guessing whether numerous bailout packages could manage to revive the economy. All the main regions remained largely in red last month except Latin America, which fell by less than half percent. The largest correction was seen in GCC countries.

World equity markets' performance (2009.01.30)\*

Country/Region	Month	YTD	Cur.
World	-6.80%	-6.80%	Local
Western Europe	-6.96%	-6.96%	Local
North America	-7.91%	-7.91%	Local
Japan	-7.66%	-7.66%	Local
Emerging Markets	-6.62%	-6.62%	USD
Asia ex. Japan	-5.60%	-5.60%	USD
CEEC ex. Russia	-14.64%	-14.64%	EUR
Russia	-11.63%	-11.63%	USD
Latin America	-0.32%	-0.32%	USD
GCC ex. S. Arabia	-17.81%	-17.81%	USD

\*Morgan Stanley indices

Source: MSCI Barra

Probably the most important indicator in January was Americans' growing savings for the first time during the last 30 years. Although it seemed to be a temporary trend triggered by 2008 tax rebates, now it appears to be taking hold a lasting course. It is not surprising since financial investments and property which created wealth for many people have substantially depreciated and unemployment rate increased. More savings mean less consumption, which in turn indicates that a stimulus to revive stagnating economy will have to come from government spending or export earnings. In a shorter perspective the solution is already found and accepted in the form of bailout packages, in a longer term the hope rests on the export growth.

The latter though leads to the possibility that even though the US entered the economic crisis first, it will not start recovering from it in the same sequence. The reason is that in order to increase export, some countries of the world have to recover and demonstrate an increased demand for import.

### Movers and shakers in January 2009



- US President Barack Obama's economic stimulus plan (775 bn USD) including tax cuts and growing government expenses
- Despite earlier statements ECB cut its interest rate by 0.5 p.p. to 2.0%
- Germany's business climate index rose to 83 in January from a record low of 82.7 in December
- According USA plan Federal Deposit Insurance Corp. will buy „toxic“ assets from banks by creating „bad bank“
- US economy contracted by a 3.8% y/y in '08 4Q (-5.5% y/y expected)

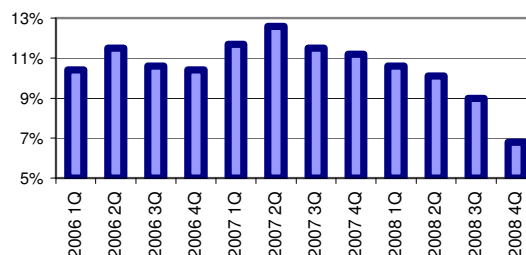


- 1.1 mn of workers lost jobs in USA during '08, unemployment rate up to 7.2%
- Russia's ruble fell to record low since 1998 (36.6675 RUB for USD)
- Gas war between Russia and Ukraine
- EC forecasts that the euro-zone economy will shrink by 1.9% in 2009
- Japanese industrial production fell a record 9.6% in December

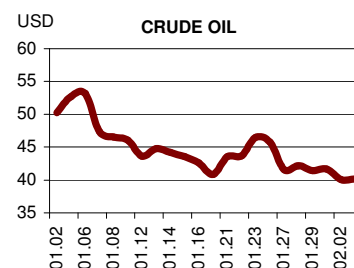
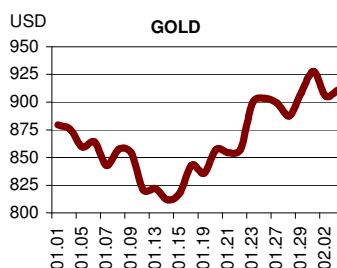
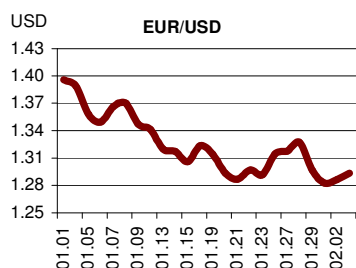
### Export will save all?

Export is turning popular in general. One can hear about it to be the main driver of economy. The truth is though that each country's export is some other country's import meaning that everyone cannot base their hopes and plans on the inflows from international trade, at least not in a few years perspective. Therefore, the drive behind a new cycle has to come from countries that are able and need to grow household consumption. These are developing countries, primarily China, Brazil and India. As long as there are no signs of this, we make new investments trying to capitalise on short-term opportunities.

Dynamics China's GDP growth since 2006



Source: Bloomberg



## LHV World Equities Fund

30-Jan-09

Monthly Return

-1.25%

NAV of A unit

EUR 5.9159

NAV of B unit

EEK 59.1590

Fund Size

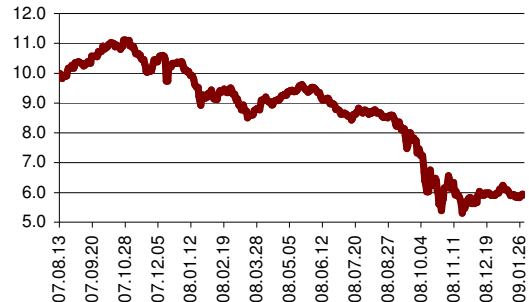
EUR 416,597

### 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.

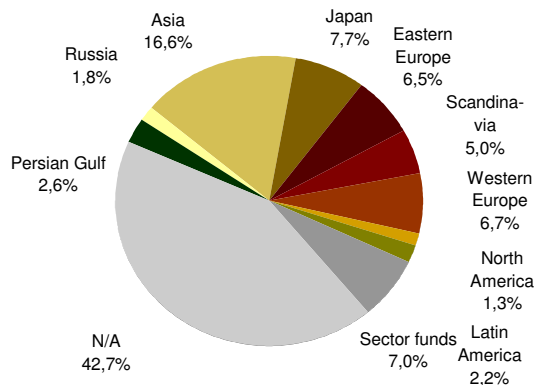
### Performance History



### Historical Returns

	1 month	3 months	6 months	12 months	YTD	Since Inception	Since Incep. p.a.
Fund	-1.25%	-4.16%	-32.43%	-42.99%	-1.25%	-40.84%	-30.07%

### Geographical Breakdown



### Top 10 Investments

Name	% of Assets
Fenno 28/03/10	4.93%
JF Asia Diversified A (acc)	4.88%
HSBC GIF Japanese Equity Fund	4.52%
Pictet Water P Cap	3.51%
Pictet FDS - Clean Energy Fund	3.49%
JPM Germany Equity A (dist)	3.22%
JPMF Japan Select Equity A (acc)	3.17%
HSBC GIF Thai Equity	2.93%
LHV Persian Gulf Fund B share	2.65%
HSBC GIF Asia ex Japan Equity Small	2.55%
Value of TOP 10 Investments	36%
Total Number of Investments	31

### Fund Manager's Comment

At the very start of the month we used higher prices and lowered positions in different investments – selling Asian, Russian, Japanese and Scandinavian stocks. Besides that we take profit by selling closed end bond fund as discount to NAV had contracted significantly.

Strong beginning of the year was followed by weak end of the month so fund benefited from lower stock exposure.

At the same time we bought Lithuanian telecom (TEO) stocks as at current level dividend yield close to 15% could be expected.

At the end of the month higher than average weighting in the fund was given to cash. February however begun for the fund with increasing positions in Asia and Russia.



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

30-Jan-09

Monthly Return

-9.36%

NAV of A unit

EUR 2.5421

NAV of B unit

EEK 25.4210

Fund Size

EUR 260,968

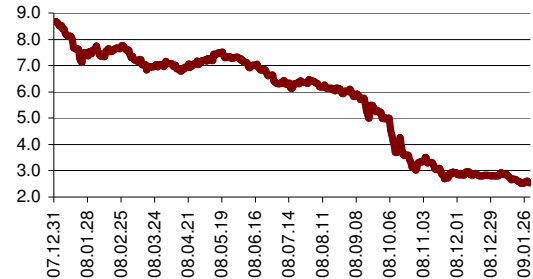
### Investment Objective

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.

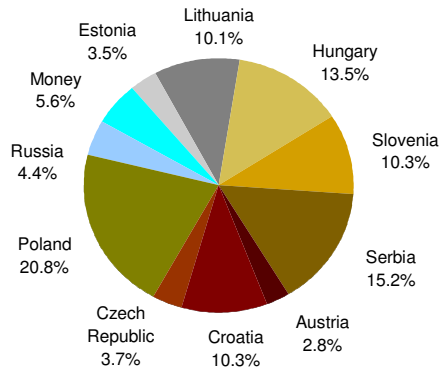
### Performance History



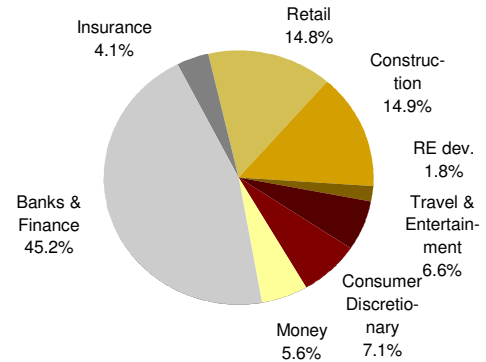
### Historical Returns

	1 month	3 months	6 months	12 months	YTD	Since Inception	Since Incep. p.a.
Fund	-9.36%	-23.85%	-60.52%	-65.92%	-9.36%	-74.58%	-55.20%

### Country Breakdown



### Industry Breakdown



### Top 10 Investments

Name	% of Assets
AB Ūkio bankas (LT)	7.07%
Mercator (SI)	6.17%
LPP SA (PL)	5.57%
AIK Banka (RS)	5.12%
OTP Bank (HU)	5.09%
Zwack Unicum Plc. (HU)	4.97%
PKO Bank Polski (PL)	4.78%
Sberbank (RU)	4.37%
BRE Bank (PL)	4.34%
Mostostal-Export SA (PL)	4.31%
Value of TOP 10 Investments	52%
Total Number of Investments	24

### Fund Manager's Comment

The first month of new 2009 year did not coddle investors with superb results. Challenges facing the world economy were attenuated by Ukraine-Russia gas conflict. Fleeing increased political risk investors punished Russian Sberbank (-20.91%), Raiffeisen International (-17.10%), which is actively working in Ukraine although the bank could boast of record-high results. Drastically downgraded forecasts for Poland's economy scared away foreign investors. As a result, Fund's Polish positions contracted by almost 22% during last month.

On the other hand, Baltic countries non correlating continued to demonstrate stunning growth. Fund's positions in this region jumped by 13.14%, signs of recovery were seen in Slovenian market (+1.05%), which fell dramatically in December. Serbian market balanced at zero level (-1.76%). In January Fund continued reduction of Hungarian positions, however it increased exposure to Baltic countries and Serbia.

### 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

30-Jan-09

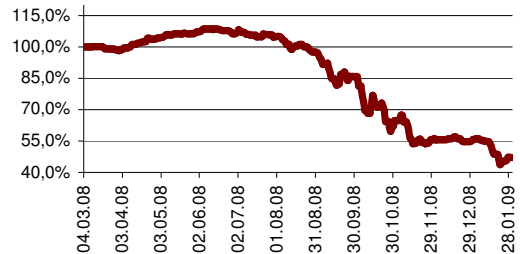
**Monthly Return** -15,61%  
**NAV of A unit** EUR 4,7094  
**NAV of B unit** EEK 47,0935  
**Fund Size** EUR 2 885 397

### 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.

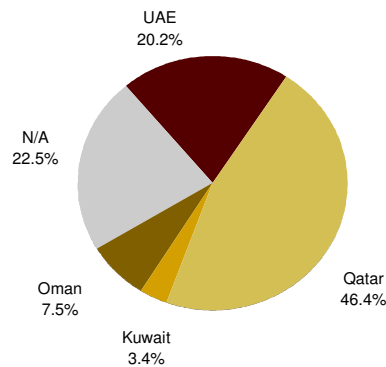
### Performance History



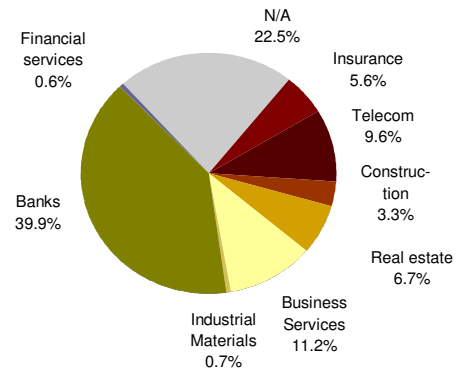
### Historical Returns

	1 month	3 months	6 months	12 months	YTD	Since Inception	Since Incep. p.a.
Fund	-15.61%	-27.23%	-55.10%	-	-15.61%	-52.91%	-

### Country Breakdown



### Industry Breakdown



### Top 10 Investments

Name	% of Assets
Commercial Bank of Qatar (QA)	9.54%
Qatar Fuel Company (QA)	8.93%
Qatar National Bank (QA)	7.89%
Qatar Insurance Company (QA)	5.55%
National Bank of Abu Dhabi (AE)	5.32%
Qatar Islamic Bank (QA)	4.70%
First Gulf Bank (AE)	3.95%
Oman Telecom (OM)	3.45%
Nat Mobile Telecom (KW)	3.43%
Al-Dar Properties PJSC (AE)	3.31%
Value of TOP 10 Investments	56%
Total Number of Investments	22

### Fund Manager's Comment

Persian markets fell 10-20% in January. After healthy rise in December, Qatar was the worst performer as Qatargas-1 was shut down for two weeks due to technical problems and some profit taking before quarterly results. Dubai real estate is keeping investors away from stock markets.

Qatari banks have reported operating results matching expectations but net income has been affected by impairment losses on investments. Loan quality hasn't deteriorated and Qatar National Bank is expecting 20% growth in 2009. Qatari banking sector dividend yield is attractive at 7-14%.

Qatar is planning to announce its largest ever budget for 2009 with focus on education, health, infrastructure projects and real estate to support GDP and continue its strategic development projects.



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](http://www.lhv.ee) / [www.lhv.lv](http://www.lhv.lv) / [www.lhv.lt](http://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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