

### The economy is facing stagflation

After a few months of positive sentiment, stock markets again took a hit in June. The hopes for the economy to start improving and the hard times for banks to be over, once the Bear Sterns was helped out, were dashed. Therefore, investors started to pull their money out from the markets, which led to some grand losses throughout the month. All the main stock markets in the world finished the month on the minus side.

World equity markets' performance (2008.06.30)\*

Country/Region	Month	YTD
World	-9.59%	-18.22%
Western Europe	-11.82%	-22.71%
North America	-9.16%	-17.27%
Japan	-8.14%	-13.19%
Emerging Markets	-11.38%	-19.01%
Asia ex. Japan	-13.28%	-27.69%
CEEC ex. Russia	-7.32%	-15.80%
Russia	-8.72%	-9.84%
Latin America	-8.98%	0.20%
GCC ex. S. Arabia	-1.85%	9.78%

\*Morgan Stanley indexes, in Euro

Source: MSCI Barra

In June talks arose about the possibility of stagflation, when together with recession in economy there is also a very high level of inflation. The world markets face an awkward situation at the moment: while the economy is slowing down, companies can not raise wages and with high inflation people's real purchasing power decreases. As the consumer is one of the main drivers of economy (in the US the consumer costs constitute 68% of GDP), the economical activity can not progress further. The only factor that could actually help in this situation is if the prices of raw materials declined. That would slow down the inflation and give consumers more financial freedom to spend money on some other goods. It is difficult to predict when it could happen, but it is highly likely that we will see some slowing down of the rapidly growing raw materials prices.

### Movers and shakers in June 2008



- During Q1 Euro zone economics grew by 0.8% due to increased investment and consumer expense level in Germany
- UK retail sales ascended by 3.5% in May against expected decline of 0.1%
- China's export jumped by 28.1% in May
- FED left interest rate at 2% level
- US retail and food-service sales rose by 1% in May exceeding analysts' expectations more than double

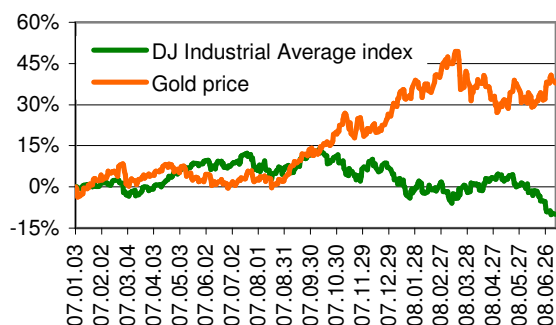


- German wholesale prices climbed 8.1% y-o-y in May
- Jean-Claude Trichet announced that threat of inflation can cause a rise of interest rates already in July
- CB of China raised reserve-requirement ratio for commercial banks to 17.5%
- Japan faced unexpected fall of household expenses
- Unemployment level in US jumped by 0.5 percentage point to 5.5% in May

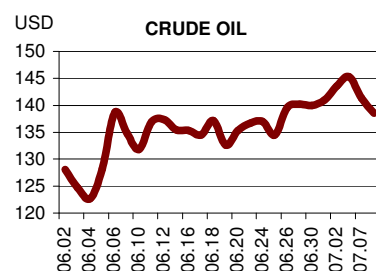
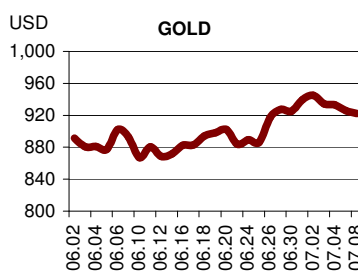
### Forecasts

Although markets are taking bearish turns at the moment, they do give some good investment opportunities from time to time. We predict that the markets are ready for a new bounce upwards. As the economical situation in the world overall is quite vulnerable we would not suggest investing 100% into stocks. We believe that with informed and skilled judgment, even on bearish market, there are possibilities to make profitable deals, but the risks are much higher than on a bullish market. Overall there is little hope for stock markets to recover in 2008 therefore some of the money should be held in bonds or bank deposit.

Dynamics of DJI index and gold price since 2007



Source: Bloomberg



## LHV World Equities Fund

30-Jun-08

Monthly Return

-7.80%

NAV of A unit

EUR 8.7780

NAV of B unit

EEK 87.7803

Fund Size

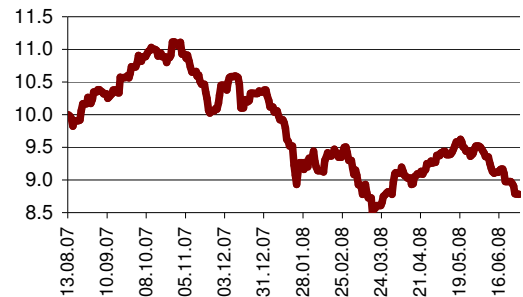
EUR 634,200

### 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, Latina-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.

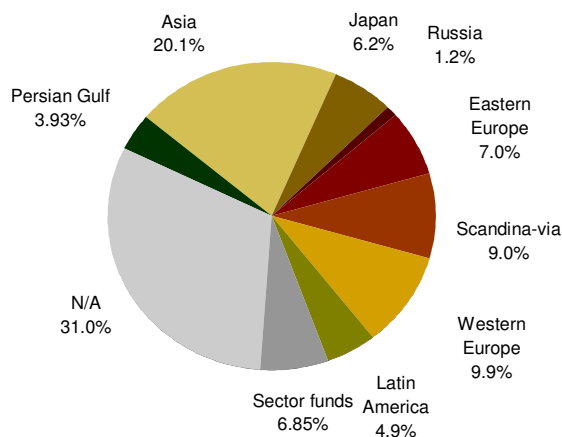
### Performance History



### Historical Returns

	1 month	3 months	6 months	12 months	YTD	Since Inception	Since Incep. p.a.
Fund	-7.80%	-2.04%	-14.68%	-	-15.41%	-12.22%	-

### Geographical Breakdown



### Top 10 Investments

Name	% of Assets
JF Asia Diversified A (acc)	4.76%
Pictet FDS - Clean Energy Fund	4.02%
LHV Persian Gulf Fund B share	3.93%
HSBC GIF Japanese Equity Fund	3.69%
JPM Germany Equity A (dist)	3.24%
HSBC GIF Thai Equity	3.18%
Fenno 28/03/10	3.16%
Ishares Msci South Korea Index	2.91%
Pictet Water P Cap	2.83%
HSBC GIF Asia ex Japan Equity Small	2.78%
Value of TOP 10 Investments	34%
Total Number of Investments	29

### Fund Manager's Comment

During the month all the main stock markets experienced an inevitable downswing, starting with -7.3% in CEE region (without Russia) to -13% in developing Asia. In the last decade there have been many investment bubbles, which are bursting lately. It is quite probable new bubbles are forming right now (e.g. industrial and agricultural commodities). The pace of inflation is speeding up all over the world and investment terms are not improving any time soon.

At the end of June we decided to take advantage of underpriced markets by increasing Fund's positions in Asian fund (APB) and acquiring attractively priced stocks of Swedish and US banking sectors, namely Swedbank and Morgan Stanley, which was much less affected by USA credit crisis. In June we also made investment into Persian Gulf region and we are prepared to make changes in our current portfolio – e.g. we consider reduce the weight of Western Europe. Yet investing environment is confusing and it is very hard to find investments that will not depreciate over medium term.



Andres Viisemann

### Fund Details

Type: UCITS  
 ISIN: EE3600092417  
 Fund Manager: Andres Viisemann  
 Depositary: Hansabank (Swedbank)  
 Registrar: LHV

Issue Fee 1.0%  
 Management Fee 2.0%  
 Redemption Fee 1.0%  
 Established: 04/27/2007  
 Launched: 08/13/2007

## LHV Emerging Europe Alpha Fund

30-Jun-08

Monthly Return

-9.38%

NAV of Unit

EUR 6.6339

Fund Size

EUR 760,115

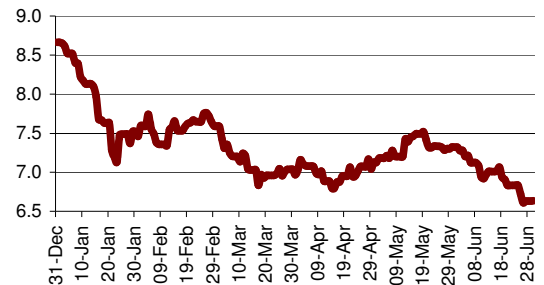
### Investment Objective

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.

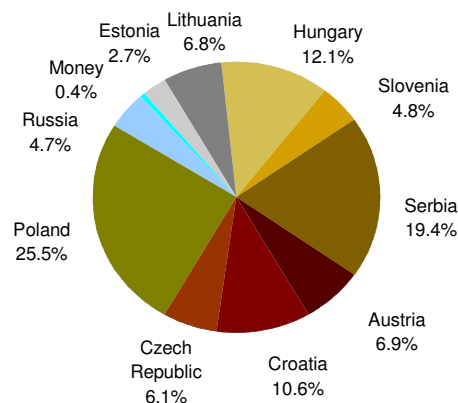
### Performance History



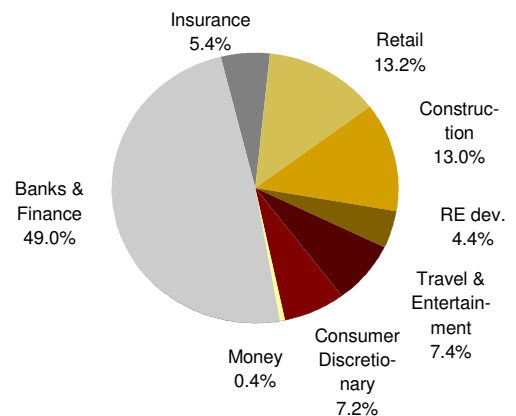
### Historical Returns

	1 month	3 months	6 months	12 months	YTD	Since Inception	Since Incep. p.a.
Fund	-9.38%	-4.76%	-22.32%	-34.75%	-23.44%	-33.66%	-30.04%

### Country Breakdown



### Industry Breakdown



### Top 10 Investments

Name	% of Assets
PKO Bank Polski (PL)	7.01%
AIK Banka (YU)	6.09%
Metals Banka AD (YU)	5.54%
IGH (HR)	5.23%
BRE Bank (PL)	5.12%
Komerčni Banka (CZ)	5.05%
Raiffeisen Intl Bank Holding (AT)	4.81%
Zwack Unicum Plc. (HU)	4.75%
Sberbank (RU)	4.70%
LPP SA (PL)	4.27%
Value of TOP 10 Investments	53%
Total Number of Investments	27

### Fund Manager's Comment

Record-high commodities prices have brought gloom and doom to the world equities markets in June. CEE region has also suffered a lot: almost all liquid markets have suffered losses above 10%.

The worst affected was Polish market, where Fund's holdings have depreciated by staggering 17.12%, only marginally better were Austria (-16.90%) and Croatia (-16.38%). On the other hand, our second biggest market – Serbia – has demonstrated a surprising resilience and was the only one which managed to climb +6.76% in such a challenging environment. Relatively strong were also Slovenia (-1.94%) and Hungary (-2.34%).

During the month the Fund has gradually increased its position in Hungary, where economy has clearly turned the corner after several years of austerity measures by the government. The exposure to Serbian banks has been decreased a bit and a new consumer-discretionary position with an interesting growth story to tell was entered into.

### Fund Details

Type: UCITS  
 ISIN: EE3600090593  
 Fund Manager: Romanas Bulatovas  
 Depository: Hansabank (Swedbank)  
 Registrar: LHV

Issue Fee 2.0%  
 Management Fee 2.5%  
 Redemption Fee 0.0%  
 Established: 04/12/2007  
 Launched: 05/18/2007



## LHV Persian Gulf Fund

30-Jun-08

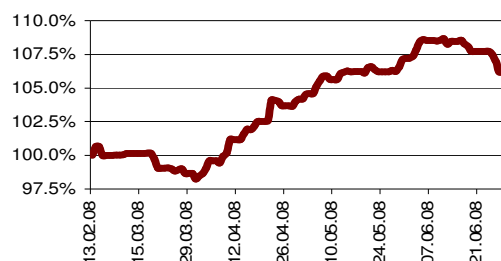
Monthly Return **-0.45%**  
 NAV of A unit **EUR 10.6714**  
 NAV of B unit **EEK 106.7137**  
 Fund Size **EUR 6,479,924**

### 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.

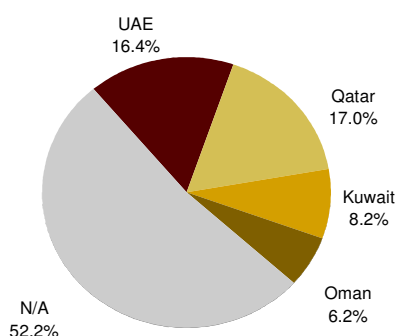
### Performance History



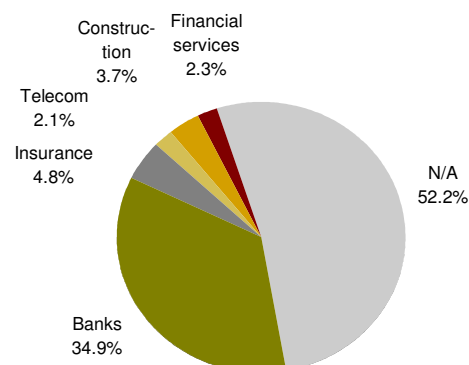
### Historical Returns

	1 month	3 months	6 months	12 months	YTD	Since Inception	Since Incep. p.a.
Fund	-0.45%	8.39%	-	-	6.71%	6.71%	-

### Country Breakdown



### Industry Breakdown



### Top 10 Investments

Name	% of Assets
Commercial Bank of Qatar (QA)	6.19%
First Gulf Bank (AE)	6.09%
Qatar National Bank (QA)	5.93%
Qatar Insurance Company (QA)	4.84%
National Bank of Abu Dhabi (AE)	4.42%
Aldar Properties (AE)	3.66%
Bank Muscat (OM)	3.54%
Commercial Bank of Kuwait (KW)	3.06%
Burgan Bank (KW)	3.02%
Bank Dhofar (OM)	2.70%
Value of TOP 10 Investments	43.4%
Total Number of Investments	12

### Fund Manager's Comment

In June GCC markets were affected by profit taking and most of the markets ended the month lower, bringing valuations to more reasonable levels.

The weakest markets before the up-coming reporting season were Dubai (-5.8%), Abu Dhabi (-3.1%) and Qatar (-2.5%). The only market ending the month in green was Kuwait (+3.2%). Fund's return in June was -0.45%.

M3, the broadest measure of money supply, rose 53% in Qatar and 40% in the UAE y-o-y in Q1, which is the fastest pace in five years. High liquidity is putting more pressure on inflation and central banks are trying to tighten money supply. Rent, the biggest component of CPI, is expected to ease in the end of the year and 2009 as more supply is coming on property market.

Q2 reporting season starts in July and we are expecting strong results from Qatar and Abu Dhabi.

### Fund Details

Type: UCITS  
 ISIN: EE3600095287 (EUR)  
 Registrar: LHV  
 ISIN: EE3600095295 (EEK)  
 Registrar: 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: 01/10/2008  
 Launched: 02/13/2008

## **LHV – Your guide to financial world**

LHV, founded in 1999, is a financial brokerage company, offering professional services of financial intermediation, personal advising and wealth management. 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 finding the best investment goals. The company is represented in Estonia, Latvia and Lithuania.

### **Investing in LHV funds**

LHV Emerging Europe Alpha Fund is publicly offered in Estonia, Latvia and Lithuania.

LHV World Equities Fund and LHV Persian Gulf Fund are publicly offered in Estonia.

Investor 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.

- i. Go to investment portal [www.lhv.ee](http://www.lhv.ee)
- ii. Log in with your personal user data
- iii. Select "Funds" -> "LHV World Equities Fund", "LHV Emerging Europe Alpha Fund" or "LHV Persian Gulf Fund"
- iv. From right-hand menu click on "BUY"
- v. 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 a regular payment.

Requisites for LHV equity funds:

- i. Beneficiary's name: **EVK** (ECSD in Estonian)
- ii. 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**
- iii. Amount: amount in Estonian kroons
- iv. Details:
  - LHV World Equities Fund B purchase
  - LHV Emerging Europe Alpha Fund B purchase
  - LHV Persian Gulf Fund B purchase
- v. Reference number: investor's securities account number with ECSD

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