

Dark autumn

October added gloomier shadows to the already dark stock market autumn. Almost all stock markets in the world and most debt security issues were in red by the end of the month. The harsh fall in the price of raw materials continued.

World equity markets' performance (2008.10.31)*

Country/Region	Month	YTD
World	-11.28%	-32.49%
Western Europe	-15.80%	-42.69%
North America	-9.24%	-24.76%
Japan	-5.61%	-24.92%
Emerging Markets	-19.69%	-47.19%
Asia ex. Japan	-16.01%	-48.16%
CEEC ex. Russia	-26.51%	-46.97%
Russia	-28.30%	-60.37%
Latin America	-24.46%	-43.07%
GCC ex. S. Arabia	-15.68%	-18.68%

*Morgan Stanley indices, in euro
Source: MSCI Barra

Banking crisis morphed into currency crisis

If in September attention was fixed on countries in need of supporting the bank systems, then in October the chain of events put the countries themselves in trouble. As so many times before, we could see the transformation of banking crisis to currency crisis, e.g. in Iceland where the whole banking system was taken over by the state. This led to collapse of local currency. New problems began to arise in Hungary and Ukraine as these countries are characterized by the weak external balance. The domestic enterprises were financed with a lot of foreign capital, but as the access to money has become significantly stricter such countries are naturally threatened thereafter.

The previous month has demonstrated an emerging power of developing economies. Different pieces of evidence could be found to support it: a concerted slashing of interest rates by the main central banks including also the People's Bank of China; Iceland begging for a lifeline from Russia and government of UK imploring the Gulf countries to invest in the City.

Movers and shakers in October 2008



- The US Congress approved 700 bn USD package to bail out US financial sector
- FED, ECB, Bank of England jointly cut interest rates by 0.5 pp to fight the crisis
- EU states agreed to guarantee bank deposits up to 100 th. EUR
- USA secondary housing market sales in September unexpectedly rose by 5.5%
- USA 3rd quarter GDP came in better than expected: fell by 0.3% instead of 0.5%

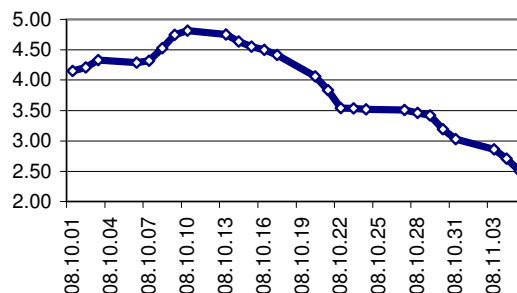


- Iceland was forced to nationalize remaining private banks Landsbanki and Kaupthing
- Nationalization of cross border banks Fortis and Dexia as well as the biggest German mortgage bank
- USA stocks sank to 5-year low
- USA manufacturing activity index fell to a 26-year low from 43.5 in September to 38.9 in October

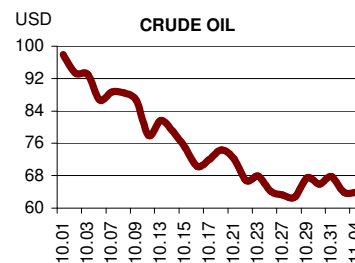
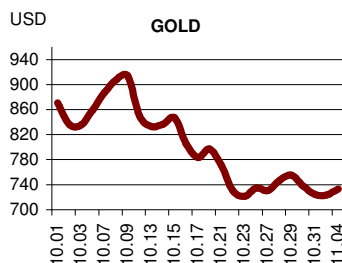
Liquidity crisis has peaked in October

The bankruptcy of Lehman Brothers has led to sudden withdrawal of short-term financing from money markets. The commercial paper and bank bond market has grinded to a halt. The banks have lost a cheap source of short-term financing. Furthermore, near collapse of several key European banks has dramatically increased the counterparty risk of inter-bank lending. Mistrust and fragility of banks' balance sheet has led to skyrocketing of inter-bank lending rate, which has peaked at 4.82%. Only massive intervention of ECB and FED has calmed the markets somewhat and led to a gradual decline of the price of money.

Dynamics of 3-month LIBOR rates from October



Source: Bloomberg



LHV World Equities Fund

31-Oct-08

Monthly Return

-16.99%

NAV of A unit

EUR 6.1730

NAV of B unit

EEK 61.7300

Fund Size

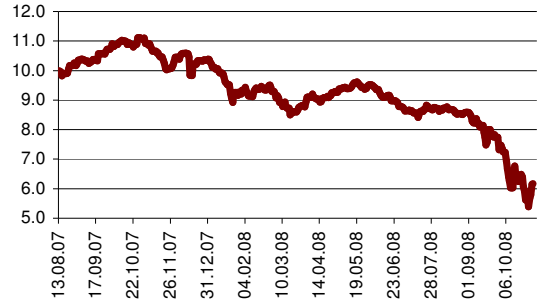
EUR 419,928

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.

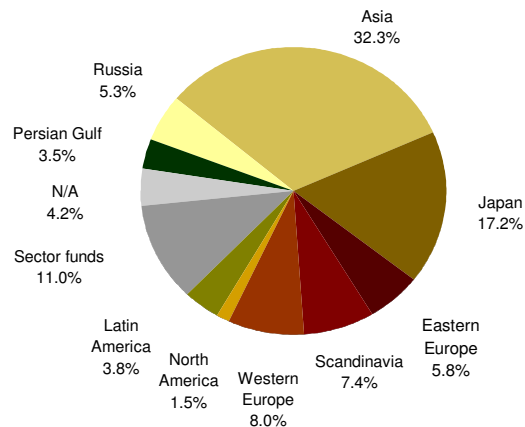
Performance History



Historical Returns

	1 month	3 months	6 months	12 months	YTD	Since Inception	Since Incep. p.a.
Fund	-16.99%	-29.16%	-34.15%	-44.42%	-40.52%	-38.27%	-32.68%

Geographical Breakdown



Top 10 Investments

Name	% of Assets
iShares MSCI Japan Index Fund	9.38%
Asia Pacific Fund Inc.	5.45%
Fenno 28/03/10	4.83%
JF Asia Diversified A (acc)	4.73%
HSBC GIF Japanese Equity Fund	4.66%
iShares FTSE/XINHUA China 25	4.05%
MS Emerging Markets Debt	3.84%
Pictet Water P Cap	3.67%
JPM Germany Equity A (dist)	3.61%
Pictet FDS - Clean Energy Fund	3.49%
Value of TOP 10 Investments	48%
Total Number of Investments	40

Fund Manager's Comment

In October situation in financial markets which are under attack from banking crises got even worse and developed towards currency crises (Iceland). Money was flowing into safer assets (government bonds, dollar, yen) and stock markets suffered decline close to 20% (less in industrial countries and more in developing world).

Financial assets which include risk are currently influenced mainly by supply and demand and to lesser degree by fundamentals. Liquidity is highly valued and investors who have liquidity can currently buy number of securities cheaply.

During the month we positioned ourselves towards more stable and bigger companies (Deutsche Telekom, Nestle, Johnson & Johnson, Novartis), at the same time lowering exposure in Western Europe in general and Malaysia and Singapore. Also we purchased closed end emerging market bond fund as liquidity crises lead fund price significantly below net asset value.

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: 04/27/2007
 Launched: 08/13/2007

LHV Emerging Europe Alpha Fund

31-Oct-08

Monthly Return

-33.01%

NAV of A unit

EUR 3.3382

NAV of B unit

EEK 33.3820

Fund Size

EUR 349,599

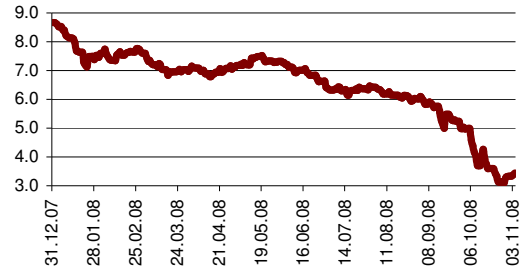
Investment Objective

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.

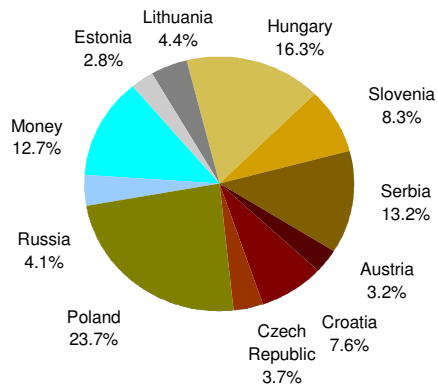
Performance History



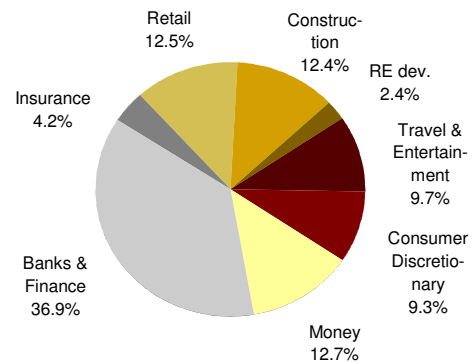
Historical Returns

	1 month	3 months	6 months	12 months	YTD	Since Inception	Since Incep. p.a.
Fund	-33.01%	-48.16%	-53.14%	-65.53%	-61.47%	-66.62%	-52.92%

Country Breakdown



Industry Breakdown



Top 10 Investments

Name	% of Assets
Danubius Hotels (HU)	6.61%
Zwack Unicum Plc. (HU)	6.32%
PKO Bank Polski (PL)	6.27%
BRE Bank (PL)	5.49%
Mercator (SI)	5.43%
Mostostal-Export SA (PL)	5.09%
Dalekovod (HR)	4.52%
LPP SA (PL)	4.49%
Sberbank (RU)	4.13%
AIK Banka (YU)	3.76%
Value of TOP 10 Investments	52%
Total Number of Investments	23

Fund Manager's Comment

October was a tumultuous month comparable only to the events of the Great Depression. The stocks kept falling; several world's biggest financial institutions escaped bankruptcy only through nationalization. The daily swings of indices even of "safe" developed markets reached unseen 10% scale. Iceland as a state went bust, its króna became a first western currency to become unconvertible since the times of WWII. All this have had a dramatic effect on the Fund performance as there were no "safe" investments that have not suffered. On a positive note, the global leaders have swiftly realized the gravity of situation of the world markets. Thus, the intervention was decisive and swift, huge amounts of cash were infused into banks by the key central banks. The blind panic of the first half of the month has led to a calmer last week, when the inter-bank interest rate has dramatically fallen and the shares strongly recovered. The Fund management stays cautiously optimistic about the development in the remaining two month of the year.

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: 04/12/2007
 Launched: 05/18/2007

LHV Persian Gulf Fund

31-Oct-08

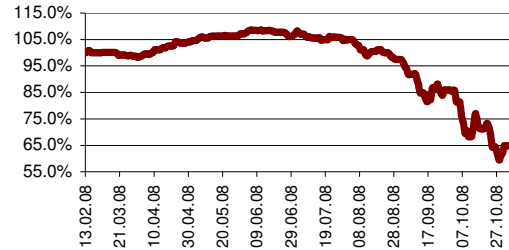
Monthly Return -24.35%
NAV of A unit EUR 6.4720
NAV of B unit EEK 64.7204
Fund Size EUR 4,043,261

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.

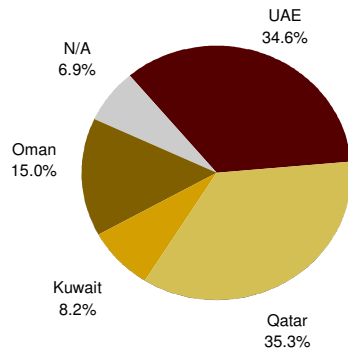
Performance History



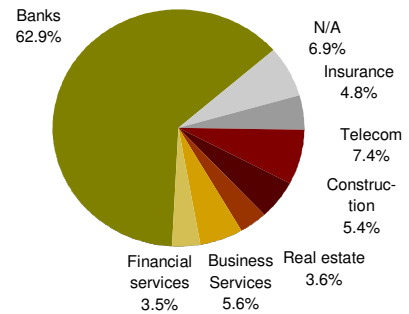
Historical Returns

	1 month	3 months	6 months	12 months	YTD	Since Inception	Since Incep. p.a.
Fund	-24.35%	-38.36%	-38.12%	-	-35.28%	-35.28%	-

Country Breakdown



Industry Breakdown



Top 10 Investments

Name	% of Assets
Qatar National Bank (QA)	8.68%
Commercial Bank of Qatar (QA)	7.85%
First Gulf Bank (AE)	7.23%
National Bank of Abu Dhabi (AE)	6.96%
Bank Muscat (OM)	5.82%
Aldar Properties (AE)	5.37%
Qatar Insurance Company (QA)	4.83%
Qatar Fuel Company (QA)	4.56%
Qatar Islamic Bank (QA)	4.44%
Commercial Bank of Kuwait (KW)	4.14%
Value of TOP 10 Investments	59.9%
Total Number of Investments	25

Fund Manager's Comment

Persian markets fell 20-25% on average in October. Credit problems have raised cost of financing and investors are questioning the ability to finance planned projects.

Qatari Prime Minister confirmed that country has no intention of scaling down \$130-150 billion investment plans in energy sector and infrastructure projects. The liquidity position remains strong and there is no need for capital injection for Qatari banks. In UAE the government has injected long term deposits into banking system and currently banks have used only 15% of Dh50 billion emergency funding facilities. Falling commodity prices allow governments to concentrate on growth besides inflation.

Earnings season started in October and although growth has been slower than 1H2008, it has been strong. Several companies and their managements have started buying back shares and few mergers have been announced.

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

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.

- Go to investment portal www.lhv.ee
- 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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