LHV Persian Gulf Fund

Annual Report 2014

(Translation of the Estonian original)

LHV Persian Gulf Fund

Annual Report	**01.01.2014 – 31.12.2014**

Fund name	LHV Persian Gulf Fund
Fund type	Common fund
Fund Manager	Joel Kukemelk
Main activity	Investment of fund assets, EMTAK 64301
Legal address	Tartu mnt. 2, Tallinn 10145
Phone	(372) 6 800 400
Fax	(372) 6 800 402
Fund Management Company	LHV Asset Management
Commercial Register no. of Fund Management Company	10572453
Managers of Fund Management Company	Mihkel Oja Joel Kukemelk (since 17.12.2014) Kerli Lõhmus (until 2.02.2015)
Auditor	AS PricewaterhouseCoopers

The annual report comprises the Fund's management report, financial statements and its Notes, statements of investments, statement of transaction and commission fees, and the independent auditor's report.

Table of Contents

MANAGEMENT REPORT

LHV Persian Gulf Fund is a public open-end common investment fund founded by LHV Asset Management on 10 January 2008. The Fund is in compliance with the EU Council directive 2009/65/EÜ and the legislation of the Republic of Estonia regarding UCITS. The Fund was registered with the Financial Supervisory Authority on 23 January 2008 and the Fund commenced investment activities on 5 March 2008.

The objective of the Fund's activities is long-term growth of the Fund's assets. The Fund invests in securities that are traded on regulated markets in countries located in the Arabian Peninsula and Persian Gulf region (mostly GCC (Gulf Cooperation Council) member states, including the United Arab Emirates, Qatar, Saudi Arabia, Oman, Kuwait and Bahrain).

The year 2014 began with a booming equity markets rise of GCC countries in a sound economic environment, but the extensive decline of energy prices that started in the second half of the year began to weaken the investor sentiment of the region and in the last months of the year the stock markets underwent a substantial fall. Nevertheless LHV Persian Gulf Fund returned +11,9% in 2014 net of all expenses. During the same period the MSCI GCC ex-Saudi Arabia Index grew by +22,8% measured in euros and +11,9% in local currency and the MSCI GCC Index grew by +15,0% measured in euros and +10,4% in local currency. During the year the euro weakened against the US dollar by 12,0% (from €1,37 to €1,21). As LHV Persian Gulf Fund hedges the currency risk against the dollar (the currencies of GCC countries are pegged to the US dollar or are strongly dependent on it), then above all it is important to compare the Fund's results to market returns in local currencies. Looking at GCC countries individually, MSCI country index returns net in local currency in 2014 were +17,0% in Qatar, +16,5% in the United Arab Emirates, +5,1% in Kuwait, +4,0% in Oman and -31,1% in Bahrain. The Saudi Arabian Tadawul index rose by +9,1% during the year measured in local currency.

At the end of 2014 the WTI oil price was $53 per barrel compared to $98 at the end of 2013 and Brent oil was $57 per barrel compared to $111 the year before. The prices dropped mainly due to United States' increasing production volume of shale oil drilling to which OPEC responded with a price war in order to maintain the market share. Since the drop in energy prices happened in the second half of the year, then overall the GCC countries ended the year with a decent budget surplus. With current oil prices in order to continue with the large-scale implementation of the government investment programs in the subsequent years the GCC countries must start using some of their large reserves (the 6 countries in the GCC region have a total of 2 trillion dollars in reserves) or raise additional capital from the bond markets (public debt burdens in the region are very low). The GCC countries have given the indication that the fall in energy prices is not considered to be permanent and now is the right time to use these reserves. Thus, despite the low energy prices the economic activity in the region should continue through the implementation of large government investment programs.

During 2014, the Fund's investments in the United Arab Emirates decreased from 36,9% to 35,3% and investments in Qatar from 27,1% to 21,6%. Investments in Saudi Arabia grew from 18,7% to 21,8%, investments in Bahrain from 2,6% to 7,4% and investments in Kuwait from 3,8% to 6,1%. Investments in Oman stayed on the same level, making up 6,6% of the Fund's assets. In May 2014 the United Arab Emirates and Qatar were added to the MSCI Developing Markets Index for the first time and in November the weight of these countries in the index was raised from 1,2% to 1,6%. These developments will help bring more international capital to the region.

From the positive side we expect the oil prices to stabilize in 2015, Saudi Arabia stock market to be opened to qualified foreign investors (this should happen in the first half of 2015), better relations between the Western countries and Iran (coming to agreement on the nuclear program, loosening or cancellation of Western sanctions on Iran), more vigorous implementation of Kuwaiti government investment programs, more attention on the preparations and other activities related to the Dubai EXPO 2020 project and growing activities and investment volumes related to the World Cup 2022 in Qatar. The GCC stock markets would react negatively to any escalation in geopolitical tension (e.g. a deterioration of the confrontation between Iran and Israel after the nuclear program is agreed, expansion of ISIS throughout the Middle East) and a new decline in energy prices.

As at the end of December 2014, the LHV Persian Gulf Fund had been attributed a high four star rating in the "Middle East and Africa Equity Funds" category by Morningstar for the results of both the last three and five years, the fund manager Joel Kukemelk had been attributed a high A rating by Citywire. In June 2014 LHV Persian Gulf Fund was awarded the "Best Equity GCC Fund" title from Zawya Thomson Reuters for a second year in a row and in November 2014 the "Fastest Growing GCC Equity Fund" title from the International Finance Magazine.

As at the year-end of 2014, the Fund's assets under management totalled EUR 32,7 million.

Comparison of Fund's return with MSCI indices of different regions*

	NAV 31.12.2013	NAV 31.12.2014	Change in period
MSCI GCC countries index ex Saudi Arabia	620,305	761,464	+22,76%
MSCI GCC countries	637,640	733,259	+15,00%
LHV Persian Gulf Fund	**12,2650**	**13,7201**	**+11,86%**

** in euros, according to the official daily price. Source: www.mscibarra.com*

Signatures of the Fund Management Company's Management Board members to the 2014 Annual Report of LHV Persian Gulf Fund

LHV Asset Management, the Management Board of the Fund Management Company has compiled the Annual Report 2014 of the LHV Persian Gulf Fund that comprises of a management report, financial statements, statements of investments, statement of transaction and commission fees, and an independent auditor's report.

Management Board of the Fund Management Company:

Mihkel Oja
Member of the Management Board /signed/

Joel Kukemelk
Member of the Management Board /signed/

Tallinn, 31.03.2015

FINANCIAL STATEMENTS

Balance sheet
(in euros)

Assets	Note	31.12.2014	31.12.2013
Current assets			
Cash and cash equivalents		2 679 516	2 362 089
Financial assets at fair value through statement of income and expenses			
Shares	5	25 110 228	20 135 988
Fund shares	5	2 945 307	1 386 146
Derivatives	5	4 178 675	3 597 340
Accrued income	7	41 335	166 398
Total assets		**34 955 061**	**27 647 961**

Liabilities and net asset value (NAV)	Note	31.12.2014	31.12.2013
Financial liabilities at fair value through statement of income and expenses:			
Derivatives	5	825 070	0
Current liabilities			
Liabilities to unit holders		1 344 394	42 449
Liabilities to Fund Management Company	8	53 124	36 327
Liabilities to depositary		20 105	12 636
Liability to purchase securities		0	1 237 824
Total current liabilities		**1 417 623**	**1 329 236**
Total liabilities		**2 242 693**	**1 329 236**
Fund's net asset value (NAV)	6	**32 712 368**	**26 318 725**
Total liabilities and Fund's net asset value (NAV)		**34 955 061**	**27 647 961**

The notes on pages 11-23 are an integral part of these financial statements.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials E.K
Kuupäev/date 31.03.15
PricewaterhouseCoopers, Tallinn

Statement of income and expenses

(in euros)

	Note	31.12.2014	31.12.2013
Income			
Interest income		568	396
Dividend income		2 199 879	665 979
Net profit/loss from financial assets at fair value through statement of income and expenses			
Shares		8 862 416	2 887 722
Fund shares		307 773	129 822
Derivatives		-6 392 679	687 390
Net gain/loss on foreign exchange change		169 817	-28 149
Total Income		**5 147 774**	**4 343 160**
Operating expenses			
Management fees	8	874 658	279 871
Depositary fees		269 894	86 360
Transaction fees		337 292	173 810
Other operating expenses		448	243
Total operating expenses		**1 482 292**	**540 284**
Net result of the Fund		**3 665 482**	**3 802 876**

The notes on pages 11-23 are an integral part of these financial statements.

Statement of change in net assets

(in euros)

	Note	01.01.2014 -31.12.2014	01.01.2013 -31.12.2013
Net assets of the Fund at the beginning of the period		**26 318 725**	**3 984 448**
Cash received upon subscription of A units		63 259 655	40 735 049
Cash received upon subscription of B units		584 107	293 807
Cash paid upon redemption of A units		60 600 052	22 132 087
Cash paid upon redemption of B units		515 549	365 368
Net result of the Fund		**3 665 482**	**3 802 876**
Net assets of the Fund at the end of the period	6	32 712 368	26 318 725
Number of A units outstanding at the end of the period		2 248 263	2 015 231
Number of B units outstanding at the end of the period		207 659	204 429
NAV of unit A at end of the reporting period	6	**13.7392**	**12.2649**
NAV of unit B at end of the reporting period	6	**8.7793**	**7.8372**

The notes on pages 11-23 are an integral part of these financial statements.

Statement of cash flows

(in euros)

	2014	2013
Cash flows from operating activities		
Interest received	568	396
Dividends received	2 193 804	661 625
Net of purchases and sales of financial investments	-3 512 156	-17 601 998
Operating expenses paid	-2 695 850	779 549
Net cash flows from operating activities	**-4 013 634**	**-16 160 428**
Cash flows from financing activities		
Proceeds from the issuance of units	63 974 900	40 866 812
Paid for the redemption of units	-59 813 656	-22 497 455
Net cash flows from financing activities	**4 161 244**	**18 369 357**
Total cash flows	**147 610**	**2 208 929**
Change in cash and cash equivalents	**147 610**	**2 208 929**
Cash and cash equivalents at the beginning of the accounting period	2 362 089	181 309
The effect of exchange rate differences	169 817	-28 149
Cash and cash equivalents at the end of the accounting period	2 679 516	2 362 089

The notes on pages 11-23 are an integral part of these financial statements.

Notes to the financial statements

Note 1 General information about the Fund

LHV Persian Gulf Fund is a public open-end common investment fund established at 10.01.2008 and started investment activities in March 2008. The Fund invests in securities that are traded on regulated markets in countries located in the Arabian Peninsula and Persian Gulf region (mostly GCC (Gulf Cooperation Council)) member states, including Bahrain, Oman, Qatar, Kuwait, the United Arab Emirates and Saudi Arabia).
LHV Persian Gulf Fund is managed by LHV Asset Management, with its place of business at Tartu mnt. 2, Tallinn.

The financial statements reflect the Fund's economic activities during the period from 01.01.2014 to 31.12.2014.
The statements have been prepared in euros.
These financial statements have been approved by the Management Board on 31.03.2015.

Note 2 Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of LHV Persian Gulf Fund have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (IFRS EU). Financial reporting principles of investment funds are set out by the Investment Funds Act, Accounting Act and Regulation of the Minister of Finance of 13 April 2011 "Requirements for investment fund reports subject to disclosure". The financial statements have been prepared taking into account the regulation of determining the net asset value of the Fund, adopted pursuant to the Investment Funds Act § 142 subsection 2 and § 204 subsection 1.

Application of new or revised standards and interpretations

The following new or revised standards and interpretations became effective for the Fund from 1.01.2014:

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. Application of the standard did not have a material effect on information disclosed in the Fund's 2014 annual report.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2014, that would be expected to have a material impact on the Fund.

New accounting pronouncements

Certain new or revised standards and interpretations have been issued that are mandatory for the Fund's annual periods beginning on or after 1 January 2015, and which the Fund has not early adopted.

IFRS 9, Financial Instruments : Classification and Measurement (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the European Union).

Key features of the new standard are as follows:

Financial assets are required to be classified into three measurement categories:

- those to be measured subsequently at amortised cost
- those to be measured subsequently at fair value through other comprehensive income
- those to be measured subsequently at fair value through profit or loss (in regard to the Fund through statement of income and expenses).

Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

LHV Asset Management is currently assessing the impact of the standard on the Fund's financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Fund.

2.2 Management estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the management of the Fund Management Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Although judgments are based on the management's best knowledge, actual results may differ from the estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

No such estimates have been applied during the accounting period.

2.3 Foreign currency transactions

Foreign currencies are all currencies other than the euros. Assets and liabilities denominated in a foreign currency at the balance sheet date have been revalued into euros on the basis of the purchase (bid) exchange rates for transfers prevailing at depositary bank Swedbank as at the moment of valuation. Gains and losses on foreign currency transactions are recognised in the statement of income and expenses as income and expenses for the period.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials E.K
Kuupäev/date 31.03.15
PricewaterhouseCoopers, Tallinn

2.4 Classification of financial assets and financial liabilities

The Fund classifies financial assets and financial liabilities into the following categories:

- financial assets at fair value through statement of income and expenses – recognised initially at fair value through statement of income and loss – shares, investment units, bonds, derivatives with positive fair value;
- loans and receivables - cash and cash equivalents, term deposits, receivables from transactions recognised at trade date, interests and dividends receivables. Loans and receivables are recognised at amortised cost
- financial liabilities recognised at fair value through statement of income and expenses – derivatives with negative fair value;
- financial liabilities at amortised cost – payables from transactions recognised at trade date, liabilities to Fund Management Company and to depository. These financial liabilities are recognised at amortised cost.

Financial assets and financial liabilities that are recognised at fair value through statement of income and expenses are held for trading, i.e. acquired or incurred principally for the purpose of selling or repurchasing.

Loans and receivables are with fixed or determinable payments that are non-derivative financial assets and not quoted in a securities exchange.

Initial recognition and further measurement

Financial assets at fair value through statement of income and expenses are recognised initially on the trade date, which is the date that the Fund becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities at fair value through statement of income and expenses are recognised initially at fair value, which is acquisition cost of purchase or sale. The transaction costs are expensed in the line item "Transaction fees" in the statement of comprehensive income. Other financial assets and financial liabilities not at fair value through statement of income and expenses are recognised initially at fair value plus transaction costs directly related to their acquisition.

Subsequent to initial recognition financial assets are measured at fair value.

Subsequent recognition of financial liabilities is done by using the amortised cost method (except financial liabilities acquired for the purpose of re-sale and derivatives with negative fair value that are recognised in their fair value). Amortised cost of short-term financial liabilities is generally equal to their nominal value, therefore short-term financial liabilities are recognised in the payable amount. Financial liability is classified as short-term if its due date is within 12 month from the balance sheet date.

Gains and losses arising from changes in assets' fair value, except dividend and interest income/ dividend and interest expense, are recognised in the statement of comprehensive income in the line item "Net profit/loss on financial assets at fair value through statement of income and expenses."

Derivatives

Derivatives (forwards) are initially recognised in the balance sheet at fair value net of transaction costs at the trade date and are subsequently valued at fair value through the statement of income and expenses. If derivatives are quoted on an active market, market value is used as the fair value. Otherwise, valuation techniques are used to find the fair value.

Derivatives are carried in the balance sheet as assets, if their fair value is positive and as liabilities, if the fair value is negative. The fair values of derivative assets and liabilities recorded in the balance sheet are not netted. The Fund does not use hedge accounting to account for its derivative financial instruments.

Profits and losses from derivatives are recognised as income or expense of the period in the statement of income and expenses in the line item "Net profit/loss on financial assets at fair value through statement of income and expenses."

Amortised cost

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method or any difference between the initial amount recognised and the maturity amount and minus any reduction for impairment.

Fair value measurement

Fair value is the amount of which an asset could be exchanged between willing parties in an arm's length transaction on the measurement date. For the exchange-traded assets and liabilities (for example: shares, investment fund units, bonds, derivatives) the fair value is based on market close price. Fund recognises all investments into securities at fair value through statement of income and expenses, except investments which fair value cannot be found. According to the standard IFRS 13 "Fair Value Measurement" exchange-traded financial assets and liabilities are measured at market close price if it remains within the bid-ask spread. If the close price does not fall in this spread, the management will determine value within the bid-ask spread, which most accurately reflects the fair value of specific security.

The net asset value of the Fund is determined pursuant to "The Procedure of Determining Net Asset Value of Funds" as approved by the management board of LHV Asset Management. These rules determine principles of measuring exchange-traded assets, non-traded assets and other assets and liabilities of the Fund.

Fund units and shares that are listed on the regulated markets shall be determined in the same way as other exchange-traded assets. Mutual fund shares that are not listed on the regulated market shall be determined according to last known redemption price or if this price is not available then according to the Fund's NAV. The value of exchange-traded debt securities will be determined according to the last known selling price (last bid-price).

If the fair value of the assets cannot be estimated reliably they can be recognised at acquisition cost or the fair value will be determined by management using valuation techniques. The valuation techniques include using recent arm's length transactions between willing parties, references to the current fair value of other instruments that are substantially the same, discounted cash flow analyses, option pricing models and other techniques based on market information as much as possible and as little as possible company's own inputs.

Derecognition of financial assets

Financial assets are derecognised and removed from the Fund's balance sheet when the contractual rights to the cash flows of the financial assets have expired or when the financial assets with all risks and rewards have been transferred.

Upon derecognition of financial assets, the difference between the carrying amount and the sale price of a financial asset is carried in the income statement line "Net profit/loss on financial assets at fair value through statement of income and expenses". Transaction costs are carried in the line "Transaction fees". When most of the risks and rewards of ownership of a financial asset have been transferred, the transferred financial asset shall not be derecognised.

Derecognition of financial liabilities

The Fund derecognises financial liabilities when the contractual obligations are discharged, cancelled or expire.
Differences between the carrying amount of financial liabilities and cleared or transferred value is recognised in the statement of income and expenses.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.5 Impairment of financial assets

If the Fund has financial assets that are not recognised at their fair value through statement of income and expenses, it is assessed at each reporting date whether there is objective evidence of impairment compared to initial recognition of that asset. The following may indicate impairment of financial assets:

- financial difficulties of issuers, indications to the possible bankruptcy of the issuer
- interest or principal payments default or late payment by the issuer
- disappearance of an active market of the financial asset
- other significant events that may indicate impairment.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount is reduced by loss, which is recognised in the statement of comprehensive income. Interest on the impaired asset, measured at amortised cost, continues to be recognised. When the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through statement of income and expenses.

2.6 Interest

Interest income and expenses are recognised in the statement of income and expenses using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument but shall not consider future credit losses. Interest income on financial assets classified at fair value through statement of income and expenses are reported on a separate line "Interest income".

2.7 Dividends

Dividends are initially recognised at the date at which shares are traded ex-dividend (ex-dividends date), considering the dividend rate declared, the number of shares held by the Fund at the date of fixing the list of shareholders and the applicable tax rate. Dividends are removed from assets when the respective amount is collected by the Fund. Overpaid dividends are included within assets until the amounts are collected by the Fund. Dividend income from financial assets recognised at fair value through statement of income and expenses are reported on a separate line "Dividend income".

2.8 Accrued income

Accrued income generally includes dividends receivable (see the accounting policy "Dividends"), accrued but uncollected income, incl. interest and receivables with interest features, and sales transactions whose settlement date is later than the balance sheet date.

2.9 Cash and cash equivalents

Cash and cash equivalents includes the balances of demand deposits on bank accounts, the balances of overnight deposits and term deposits with original maturities of three months or less.

In previous year term deposits with maturities of over three months were classified as cash and cash equivalents, as the costs of premature termination of the deposit were immaterial and the deposit was available for use as cash without any significant restrictions. Starting from year 2014 the financial resources presumably needed for the Fund's daily operational activities are placed in term deposits with maturities of three months or less and funds that are not expected to be used for theoperational activities in the subsequent period, are placed in term deposits with longer maturities for investment purposes. Consequently, as at 31.12.2014 term deposits with maturities of over three months are not classified as cash and cash equivalents in the balance sheet, but on a separate line "Term deposits".

The interest received on overnight deposits is reported on the line "Interest income" in the statement of income and expenses.

2.10 Calculation of net asset value of the investment fund

The Fund's net asset value (NAV) is determined on the basis of the Investment Funds Act, the procedure for determination of net asset value of investment funds established by the Minister of Finance, internal procedure rules of LHV Asset Management (Fund Management Company), and the terms and conditions of the Fund.

To determine the Fund's net assets' value (NAV), the market value of total assets of the Fund is calculated from which the liabilities of the Fund are deducted. The NAV of the unit is calculated by dividing the total NAV by the number of units outstanding. For calculating the NAV of an A-unit, the share of the NAV of the fund attributable to the holders of A-units is calculated and divided by the number of A-units. For calculating the NAV of a B-unit, the share of the NAV of the fund attributable to the holders of B-units is calculated and divided by the number of B-units.

The Fund has two types of units. A-units are called LHV Persian Gulf Fund A, with nominal value of 10 euros and B-units are called LHV Persian Gulf Fund B, with nominal value of 6,39 euros. The register for A-units is held by AS LHV Pank, B-units are registered in Estonian Central Register for Securities that is held by AS Eesti Väärtpaberikeskus.

2.11 Management fee

The management fee is a fee payable to the Fund Management Company for the management of the Fund. The annual rate of the management fee is 1.75% of the Fund's assets' market value. The management fee is deducted from the Fund's net assets' value on a daily basis and is paid latest at the last banking day of a month following the reporting month.

2.12 Transaction fees

In the statement of income and expenses, transactions fees include settlement expenses and service fees directly related to transactions made on account of the Fund.

2.13 Subscription of units

Subscription of units is carried out in accordance with the terms described in the Fund's prospectus of emission.

2.14 Payments to unit holders, subscription and redemption fee

The maximum subscription fee for units is 5% of the unit's NAV and the maximum redemption fee is 1% of the unit's NAV. These fees are to be paid to the Fund Management Company on account of the unit holder that acquired or redeemed the unit. Subscription for and redemption of units takes place according to the terms and conditions established in the prospectus of emission.

2.15 Fund units

The fund has two types of units (hereinafter: "Type 1" and "Type 2"). Terms related to units of different types do not differ. At the request of the unit owner, the fund manager must redeem the unit; unit owners have the right to exchange units for cash on a daily basis (except on Fridays). Fund units give unit owners the right for their pro-rata share of the Fund's net assets upon the Fund's liquidation when the term is reached. Units do not involve other contractual obligations besides their redemption upon liquidation of the Fund. Units are classified as equity because the following IAS 32 criteria are met:

- Units provide owners with a right to receive a pro-rata share of the Fund's net assets (or net asset value) upon the Fund's liquidation. The fund's net asset value is determined by subtracting the Fund's liabilities from the market value of the Fund's assets. A pro-rata share is calculated as follows: the Fund's net asset value is divided by the number of units issued and the result is multiplied by the number of units owned by each unit owner.
- Units are subordinate to all other debt and other instruments issued by the Fund.
- The rights arising from all units (to receive payment in accordance with a pro-rata share in net assets) are identical.

- The Fund has no other financial instruments or contracts whose cash flows are largely based on profit, changes in net assets or fair value change in net assets accounted for on the balance sheet/ off-balance sheet, as a result of which the income of unit owners would be substantially limited or fixed.

If the terms related to units change so as to cause the criteria listed above to be no longer met, the units shall be classified as financial liabilities from the date that such conditions are no longer met. A financial liability is recognised at the fair value of the transaction date. In the event of a difference arising between the carrying amount of an equity instrument and the fair value of a liability, the difference is recognised in equity.

Direct expenses related to the issuance of new units are recognised in equity as a reduction of the amount paid-in for units. If the Fund repurchases its own units, the equity attributable to unit owners is reduced by the payment received, less costs to sell.

Note 3 Risk management

The Fund invests its assets according to the Fund's investment goals in various securities, derivatives, deposits.

Various risks arise from investment in fund that may affect the return of the investment. Past return of fund are not indicative of future return of the Fund. The net asset value of the unit may fluctuate as a result of the Fund investment policy. Fund may generate both profits and losses. Investors should take into account that they may not recover from the Fund in the future the full amount they invested in the Fund. The shorter the investor’s duration of the investment Fund, the more probable is a loss.

The fund manager invests Fund assets in accordance with the Fund's investment objectives, in consideration of the restrictions imposed by the Investment Funds Act and Fund terms. Adherence to investment limits are monitored on a daily basis, in case the investment restrictions are exceeded, the fund manager shall take measures to liquidate them.

As a result of the fund's investment policy, the Fund is subject to the following risks:
market risk
credit risk
liquidity risk
capital risk

3.1 Market risk

Market risk expresses potential loss that can be caused from the changes in fair value of future cash flows of financial investments due to changes in interest rates, exchange rates and share prices.

In order to mitigate market risk, investments are diversified between various issuers, countries and regions and derivatives may be used.

The events of the securities markets are monitored on a daily basis. In the event of changes in market conditions, changes may be made to investments, such as reducing or increasing the weight of equities in the total investment portfolio of the Fund.

The Fund's investments as at the reporting date are provided in the Statement of the Fund’s investments.

Interest rate risk
Interest rate risk is the risk that changes in interest rates influence future cash flows or the fair value of a financial instrument. Although the Fund can invest in debt instruments, it has not done so in recent years. The Fund held no term deposits as at the end of 2013 or 2014. Therefore the potential interest rate risk results from currency forward and futures contracts.

The table below sets out analysis of the Fund's exposure to the interest rate risk. The Fund's assets and liabilities are recognised at fair value and caterogised by the re-pricing times of the interest rate as follows.

31.12.2014	**Up to 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Assets				
Cash and cash equivalents	2 679 516	0	0	0
Financial assets at fair value through statement of income and expenses	-825 070	0	0	0
Total	**1 854 446**	**0**	**0**	**0**

31.12.2013	**Up to 3 months**	**3-12 months**	**1-5 years**	**More than 5 years**
Assets				
Cash and cash equivalents	2 362 089	0	0	0
Financial assets at fair value through statement of income and expenses	39 645	16 536	0	0
Total	**2 401 734**	**16 536**	**0**	**0**

Currency risk

Currency risk is the risk that the value of the financial instruments changes as a result of the fluctuation in exchange rates. The Fund makes most of the investments in local currencies that are pegged to USD and mitigates the EUR/USD currency risk, but remains exposed to the risk that the exchange rate of the local currency to USD changes. To mitigate the currency risk resulting from changes in the USD exchange rate, the Fund uses currency forward and futures contracts.

31.12.2014	**EUR**	**USD**	**AED**	**BHD**	**KWD**	**OMR**	**QAR**	**SAR**
Assets exposed to currency risk								
Cash and cash equivalents	202 281	2 477 235	0	0	0	0	0	0
Shares	0	1 714 333	9 821 004	2 403 367	1 973 143	2 153 179	7 045 202	0
Fund shares	0	0	0	0	0	0	0	2 945 307
Derivatives	32 500 000	0	0	0	0	0	0	4 178 675
Accrued income	30 906	0	0	0	0	0	0	10 429
Total assets exposed to currency risk	**32 733 187**	**4 191 568**	**9 821 004**	**2 403 367**	**1 973 143**	**2 153 179**	**7 045 202**	**7 134 411**
Liabilities exposed to currency risk								
Derivatives	0	-33 325 070	0	0	0	0	0	0
Other liabilities	-1 417 623	0	0	0	0	0	0	0
Total liabilities exposed to currency risk	**-1 417 623**	**-33 325 070**	**0**	**0**	**0**	**0**	**0**	**0**
Open currency position	**31 315 564**	**-29 133 502**	**9 821 004**	**2 403 367**	**1 973 143**	**2 153 179**	**7 045 202**	**7 134 411**

31.12.2013	EUR	USD	AED	BHD	KWD	OMR	QAR	SAR
Cash and cash equivalents	1 103 375	1 258 714	0	0	0	0	0	0
Shares	0	750 109	8 954 137	676 542	994 013	1 635 110	7 126 076	0
Fund shares	0	0	0	0	0	0	0	1 386 146
Derivatives	23 919 305	0	0	0	0	0	0	3 541 159
Accrued income	162 044	0	0	1182	0	0	0	4 354
Total assets exposed to currency risk	**25 184 724**	**2 008 823**	**8 954 137**	**677 724**	**994 013**	**1 635 110**	**7 126 076**	**4 931 659**
Liabilities exposed to currency risk								
Derivatives	0	-23 863 124	0	0	0	0	0	0
Other liabilities	-91 376	-36	-269 816	0	0	0	-772 173	-195 835
Total liabilities exposed to currency risk	**-91 376**	**-23 863 160**	**-269 816**	**0**	**0**	**0**	**-772 173**	**-195 835**
Open currency position	**25 093 348**	**-21 854 337**	**8 684 321**	**677 724**	**994 013**	**1 635 110**	**6 353 903**	**4 735 824**

Derivatives are shown in contractual amounts as off-balance-sheet assets and off-balance-sheet liabilities. Fair value of derivatives is the difference between off-balance-sheet assets and off-balance-sheet liabilities.

The sensitivity analysis below provides the impact of potential reasonable changes to the statement of income and expenses.

Impact on statement of income and expenses	Exchange rate change	2014	Exchange rate change	2013
USD exchange rate	+/- 10%	+/- 139 681	+/- 10%	+/- 142 121

Equity price risk

Equity price risk reflects potential loss that results from unfavourable changes in the fair value of shares or derivatives related to shares resulting from changes in share indices or prices of individual stocks. The Fund mitigates this risk by diversifying its investments between different markets and by limiting concentration by countries and economic sectors. The Fund has the following investment restrictions:

- maximum investment in one instrument: 10% of NAV;
- maximum weight of securities issued by one consolidation group: 20% of NAV;
- maximum weight of a consolidated position with concentration over 5%: 40% of NAV;
- maximum permitted weight in a commercial entity: 10%.

Sensitivity analysis shows the impact on the Fund's profitability in case of fluctuations of the MSCI GCC countries excluding Saudi Arabia USD index provided that all other variables are constant. The analysis is based on the assumption that in a year the MSCI GCC countries excluding Saudi Arabia USD index increased by 10% (same price change as in 2013) and decreased by 5% (same price change as in 2013). Calculations are based on historic data, based on the monthly price changes in the Fund unit's NAV and the MSCI USD Index. For assessing the impact of market fluctuations on the Fund's performance, the Beta for the Fund's positive and negative periods for the previous five years has been calculated. In case of positive market movements, the Fund's Beta is 0.48 (2013: 0.57). In case of negative market movements, the Beta is 0.75 (2013: 0.84). The estimated changes in the applicable MSCI Index are potential reasonable market movements that may not comply with the actual performance of the stock markets of GCC countries. The table below shows the financial impact of the price changes of the MSCI GCC countries excluding Saudi Arabia USD index on the Fund.

Impact on statement of income and expenses	Change	2014	Change	2013
MSCI Index	+10%	1 571 158	+10%	1 494 597
MSCI Index	-5%	-1 227 247	-5%	-1 105 640

In reality, trading performance may significantly differ from this sensitivity analysis since, in addition to the market sensitivity, part of the Fund's profit depends on the specific risk of investments, i.e. selection of securities. MSCI GCC countries index excluding Saudi Arabia USD index has been used only as an example, it is not the Fund's benchmark index nor the basis for developing the investment strategy. The sensitivity analysis is made as at 31.12.2014. The calculation methodology of the sensitivity analysis has been revised compared to the one used in the annual report of year 2013. In order to maintain the comparability of the current and previous years' data, the comparative figures of year 2013 have been restated in the annual report of year 2014 according to the new calculation methodology.

3.2 Liquidity risk

Liquidity risk is the risk that the Fund faces difficulties in meeting its obligations once the unit-holders wish to express or redeem units.
The Fund manages liquidity risk according to the following criteria:

- Share of the free cash from the Fund's assets is minimally 0.5%;
- The Fund invests mainly in marketable securities that can be easily sold;
- The Fund invests at least 95% of NAV in liquid securities. Illiquid securities include bonds of commercial undertakings with sub-investment grade credit rating (with total debt less than 1 billion euros), stocks that are not traded on the market and units of closed funds that are not traded on the market;

The Fund's manager monitors the Fund's liquidity position on a daily basis. In case of insufficiency of liquid funds, the Fund manager notifies without delay the risk management unit and the Management Board. Monthly reports of the risk management unit to the Management Board include the abovementioned liquidity-related positions. The Fund held no illiquid investments at the end of 2013 and 2014.

Since the Fund has no financial liabilities with fixed maturity, no report has been prepared on the structure of the Fund's liabilities and the assets held as security for these liabilities by maturity.

3.3 Credit risk

Credit risk is potential loss that may be caused as a result of the failure of the counterparty of the financial instrument to fulfil its obligations. The Fund follows internal procedural rules in selecting counterparties and the Fund's manager regularly monitors credit ratings of counterparties, news-flow and financial reports.
In addition, the following investment restrictions are monitored:

- The Fund may deposit up to 5% of its NAV in deposits of a credit institution with credit rating below investment grade.

The table below provides the Fund's maximum exposure to the credit risk, based on the carrying amounts of instruments and derivatives being presented in net amount (the table does not reflect equity investments which are not exposed to credit risk). The Fund has not pledged its financial assets.

	31.12.2014	31.12.2013
Cash and cash equivalents	2 679 516	2 362 089
Receivable from sale of assets	30 906	162 044
Accrued income	10 429	4354
Derivatives	3 353 605	3 597 340
Total	**6 074 456**	**6 125 827**

The Fund's financial assets are concentrated in the following countries:

	31.12.2014	31.12.2013
Estonia*	1.32%	4.71%
Finland*	0.00%	0.06%
Qatar	21.57%	27.08%
United Arab Emirates	35.31%	36.87%
Saudi Arabia	21.81%	18.72%
Oman	6.59%	6.21%
Kuwait	6.04%	3.78%
Bahrein	7.36%	3%
Total	**100%**	**100%**

* In Estonia and Finland, exposure concerns only cash and cash equivalents

The Fund's financial assets are concentrated in the following industries:

	31.12.2014	31.12.2013
Cash and cash equivalents	1.32%	4.77%
Services	19.30%	24.10%
Financial sector	32.12%	28.18%
Industrial sector	20.17%	13.92%
Insurance	4.39%	1.51%
Real estate	10.44%	19.04%
Telecommunications	3.24%	3.23%
Regional funds	9.02%	5%
Total	**100%**	**100%**

Note 4 Capital management

The Fund's capital consists of its net assets (see also Note 6 Statement of comparison of the Fund's net asset's value) which comprises of the money received from issuing the Fund's units and the Fund's profit. The Fund's capital changes regularly due to the issuing of new fund units. With the objective of ensuring sufficient liquidity buffer for the redemption of units, the fund manager monitors expected cash inflows and outflows.

Note 5 Fair value of financial assets and financial liabilities

The carrying amount of the Fund's financial assets and financial liabilities mostly corresponds to their fair value, taking into consideration the differences in valuation techniques used. The table below provides an overview of valuation techniques used depending on assets measured at fair value:

31.12.2014	Level 1	Level 2	Level 3	Total
Shares	25 110 228	0	0	25 110 228
Fund shares	2 945 307	0	0	2 945 307
Derivatives	4 178 675	-825 070	0	3 353 605
Total financial assets	**32 234 210**	**-825 070**	**0**	**31 409 140**

31.12.2013	Level 1	Level 2	Level 3	Total
Shares	20 135 987	0	0	20 135 987
Fund shares	1 386 146	0	0	1 386 146
Derivatives	3 541 159	56 181	0	3 597 340
Total financial assets	**25 063 292**	**56 181**	**0**	**25 119 473**

Financial assets are recognised at fair value through the statement of income and expenses. Financial investments are categorised into three levels depending on their revaluation:

Level 1 – price quoted in active markets

Level 2 – valuation techniques based on observable inputs (prices and interest curves of similar transactions)

Level 3 – other valuation techniques (i.e., discounted cash flow method) based on unobservable inputs

The value of securities traded on the active market is the most recent available closing price on the regulated market that in most cases falls between the bid-ask spread. The management of the Fund Management Company believes that the fair value of financial assets measured at amortised cost does not differ substantially from the carrying value, because the financial assets are short-term.

Note 6 Statement of comparison of the Fund's net assets' value

Beginning of activities: January 2008

	Value of Fund's net assets	NAV of unit A	NAV of unit B
31.12.2008	3 437 768	5.5878	3.5714
31.12.2009	4 205 909	6.2301	3.9817
31.12.2010	4 974 950	7.4898	6.2301
31.12.2011	4 257 215	7.3134	4.6741
31.12.2012	3 984 448	8.2088	5.2464
31.12.2013	26 318 725	12.2650	7.8374
31.12.2014	32 712 368	13.7392	8.7793

Note 7 Accrued income

As at 31.12.2014 accrued income includes uncollected cash for the fund units subscribed for in the amount of 30 906 euros and uncollected dividends in the amount of 10 429 euros. As at 31.12.2013 accrued income included uncollected cash for the fund units subscribed for in the amount of 162 044 euros and uncollected dividend receivables in the amount of 4 354 euros.

Note 8 Related parties

For the purposes of these financial statements, related parties include the Fund Management Company LHV Asset Management and other investment and pension funds under the management of the Fund Management Company as well as other companies belonging to the same consolidation group with the Fund Management Company. LHV Persian Gulf Fund pays a monthly management fee to the Fund Management Company. In 2014 the fees totalled 874 658 euros, as at the balance sheet date, the payables to the Fund Management Company made up 53 124 euros. In 2013 the fees totalled 279 871 euros, payables as at 31.12.2013 made up 36 327 euros.

Note 9 Subsequent events

Merger of LHV Persian Gulf Fund into SEF-LHV Persian Gulf Fund

On February 18, Management Board of the Estonian Financial Supervision Authority with its decision no 4.1-1/12 authorised the merger of LHV Persian Gulf Fund (The "Merging Fund") into SEF-LHV Persial Gulf Fund (the "Receiving Fund"). The Receiving Fund is a sub-fund of SEF which is a SICAV, registered in Luxembourg. The management company of the Receiving Fund is Swedbank Management Company S.A. LHV Asset Management will remain responsible for the investment management of the portfolio of the fund and no changes are expected in the function of the portfolio management. The merger will not have a material effect on the investment policy or strategy of the Merging Fund.

The merger will take place on April 13, 2015 at the unit value to be calculated on April 9, 2015. The unit-holders of the Merging Fund who have not duly exercised their redemption right will be considered as participating in the merger and will receive the shares of the Receiving Fund. As the Receiving Fund has one share class, each participating unit-holder will receive shares of the Receiving Fund on the basis of the following exchange rate to be calculated on April 9, 2015:

- each Class A unit of the Merging Fund is exchanged for one share of the Receiving Fund;
- each Class B unit of the Merging Fund is exchanged for a fraction of the share of the Receiving Fund based on the formula: number of shares of the Receiving Fund = number of Class B units x Class B unit net asset value/Class A unit net asset value.

Statement of transaction and commission fees

2014	Number of transactions	Volume of transactions	Total commissions	Weighted average commission %
AS Swedbank	61	205 466 450	46 060	13.66%
Nordea Bank AB Estonia Branch	1	2 919 305	0	0.00%
EFG-Hermes MENA Securities Ltd.	297	76 619 204	229 247	67.97%
Morgan Stanley	40	10 545 763	61 985	18.38%
Total	**399**	**295 550 722**	**337 292**	**100.00%**

2013	Number of transactions	Volume of transactions	Total commissions	Weighted average commission %
AS Swedbank	85	59 208 249	27 187	15.64%
Nordea Bank AB Estonia Branch	3	7 276 486	0	0.00%
EFG-Hermes MENA Securities Ltd.	303	39 677 911	116 248	66.88%
Morgan Stanley	38	4 353 620	30 375	17.48%
Total	**429**	**110 516 266**	**173 810**	**100.00%**

Statement of the Fund's investments as at 31.12.2014

(in euros)

Issuer/Title of securities	Country of location	ISIN-code	Nominal value	Currency	Quantity	Average acquisition cost in currency	Total acquisition cost in EUR	Market price per unit as at 31.12.2014 in currency*	Market value in EUR	Share in the net value of the Fund's assets
1. Securities							**25 141 010**		**31 409 140**	**98.50%**
Shares [1]							**22 821 299**		**25 110 228**	**78.75%**
Securities of the United Arab Emirates	**UAE**						**11 403 567**		**11 535 337**	**36.18%**
Air Arabia		AEA003001012	1.00	AED	1 000 000	1.44	289 914	1.50	336 602	1.06%
ARAMEX		AEA002301017	1.00	AED	384 510	1.76	128 440	3.10	267 482	0.84%
Dubai Financial Market		AED000901010	1.00	AED	1 000 000	3.45	682 258	2.01	451 047	1.41%
Dubai Islamic Bank		AED000201015	1.00	AED	750 000	6.79	1 030 486	6.90	1 161 277	3.64%
Emaar Properties		AEE000301011	1.00	AED	1 500 000	8.13	2 420 829	7.26	2 443 731	7.66%
Emirates NBD		AEE000801010	1.00	AED	100 000	6.90	137 823	8.89	199 493	0.63%
Emaar Malls Group		AEE001501015	1.00	AED	123 195	2.90	76 378	2.68	74 089	0.23%
First Gulf Bank		AEF000201010	1.00	AED	300 000	17.29	1 027 209	17.00	1 144 447	3.59%
Ras Al Khaimah Ceramics		AER000301013	1.00	AED	3 000 000	3.52	2 088 594	3.00	2 019 613	6.33%
Union National Bank		AEU000401015	1.00	AED	1 324 000	6.23	1 635 998	5.80	1 723 223	5.40%
Depa		AEDFXA0NFP81	0.40	USD	4 000 000	0.64	1 885 638	0.52	1 714 333	5.38%
Securities of Bahraini issuers	**Bahrain**						**2 098 043**		**2 403 367**	**7.54%**
Aluminium Bahrain		BH0006000044	0.10	BHD	2 000 000	0.50	1 955 774	0.52	2 251 858	7.06%
Bahrain Telecommunications		BH0060713458	0.10	BHD	210 000	0.34	142 269	0.33	151 509	0.48%
Securities of Kuwaiti issuers	**Kuwait**						**1 816 135**		**1 973 143**	**6.19%**
Agility Public Warehousing		KW0EQ0601041	0.10	KWD	500 000	0.68	873 538	0.74	1 040 788	3.26%
Burgan Bank		KW0EQ0100077	0.10	KWD	216 567	0.53	305 051	0.48	292 411	0.92%
National Bank of Kuwait		KW0EQ0100010	0.10	KWD	250 000	0.99	637 546	0.91	639 944	2.01%
Securities of Omani issuers	**Oman**						**1 870 397**		**2 153 179**	**6.75%**
Bank Muscat		OM0000002796	0.10	OMR	1 000 000	0.62	1 172 739	0.58	1 245 986	3.91%
Oman Telecom		OM0000003026	0.10	OMR	250 000	1.49	697 658	1.70	907 193	2.84%
Securities of Qatari issuers	**Qatar**						**5 633 157**		**7 045 202**	**22.09%**
Commercial Bank of Qatar		QA0007227752	10.00	QAR	50 000	69.88	730 120	68.50	775 238	2.43%
Doha Bank		QA0006929770	10.00	QAR	25 000	64.64	320 264	57.00	322 544	1.01%
Industries Qatar		QA000A0KD6K3	10.00	QAR	7 500	184.94	276 044	168.00	285 197	0.89%
Al Meera Consumer Goods		QA000A0YDSW8	10.00	QAR	15 000	190.11	593 271	200.00	679 040	2.13%
Qatar Insurance Company		QA0006929838	10.00	QAR	70 000	57.12	799 507	90.60	1 435 491	4.50%
Qatar Electricity Water		QA0006929812	10.00	QAR	7 500	183.55	273 193	187.50	318 300	1.00%
Qatar Fuel Company		QA0001200771	10.00	QAR	28 152	190.59	1 101 741	204.30	1 301 823	4.08%
Qatar National Bank		QA0006929895	10.00	QAR	40 000	191.15	1 539 017	212.90	1 927 569	6.04%

[1] Listed securities

Issuer/Title of securities	Country of location	ISIN-code	Nominal value	Currency	Quantity	Average acquisition cost in currency	Total acquisition cost in EUR	Market price per unit as at 31.12.2014 in currency*	Market value in EUR	Share in the net value of the Fund's assets
Fund shares							**2 319 711**		**2 945 307**	**9.24%**
Equity funds							**2 319 711**		**2 945 307**	**9.24%**
EFG-Hermes Saudi Arabia Equity	Saudi Arabia	XC000A1W4DX3	-	SAR	1 000 000	11.18	2 319 711	13.41	2 945 307	9.24%

Issuer/Title of securities	Country of location	ISIN-code	Nominal value	Currency	Quantity	Average acquisition cost in currency	Total acquisition cost in EUR	Market price per uni tas at 31.12.2014 in currency*	Market value in EUR	Share in the net value of the Fund's assets
Derivatives									**3 353 605**	**10.52%**
Forward and futures contracts (currency derivatives)									**- 825 070**	**- 2.59%**
EURO FX FUTURE						EUR		16.03.2015	- 825 070	- 2.59%
Warrants (purchase rights for securities)									**4 178 675**	**13.10%**
Dar Al Arkan Real Estate Development CERTIFICATE	Citigroup				500 000	Dar Al Arkan Real Estate Development aktsia		24.07.2017	892 524	2.80%
Fawaz Abdulaziz Alhokair CERTIFICATE	Citigroup				22 500	Fawaz Abdulaziz Alhokair aktsia		24.07.2017	489 027	1.53%
United Electronics CERTIFICATE	Morgan Stanley				25 000	United Electronics aktsia		13.01.2106	441 761	1.39%
Samba Financial Group CERTIFICATE	Morgan Stanley				125 000	Samba Financial Group aktsia		01.10.2015	1 059 392	3.32%
Savola CERTIFICATE	Morgan Stanley				75 000	Savola aktsia		03.09.2015	1 295 971	4.06%

Issuer/Title of securities	Deposit type	Country of location	Rating	Rating agency	Underlying asset	Deposited amount	Interest	Market value EUR	Share in the net value of the Fund's assets
2. Deposits								**2 679 516**	**8.40%**
Swedbank	Demand deposit	Estonia	A1	Moody's Investor Service	EUR	202 281	0.06-0.10%	202 281	0.63%
Swedbank	Demand deposit	Estonia	A1	Moody's Investor Service	USD	3 005 630		2 477 235	7.77%
3. Other assets								**41 335**	**0.13%**
Dividend receivables								10 429	0.03%
Accrued income								30 906	0.10%
TOTAL ASSETS								**34 129 991**	**104.33%**
Liabilities								**-1 417 623**	**- 4.33%**
FUND'S ASSETS' NET VALUE								**32 712 368**	**100.00%**

* Unit's market value in currency includes accrued interest as at 31.12.2014

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials E.K
Kuupäev/date 31.03.15
PricewaterhouseCoopers, Tallinn

LHV

Statement of the Fund's investments as at 31.12.2013

(in euros)

Issuer/Title of securities	Country of location	ISIN-code	Nominal value	Currency	Quantity	Average acquisition cost in currency	Total acquisition cost in EUR	Market price per uni tas at 31.12.2013 in currency*	Market value in EUR	Share in the net value of the Fund's assets
1. Securities							**19 718 387**		**25 119 474**	**95.44%**
Shares [1]							**18 411 600**		**20 135 988**	**76.51%**
Securities of the United Arab Emirates	**UAE**						**8 128 751**		**9 704 246**	**36.87%**
Air Arabia		AEA003001012	1.00	AED	3 000 000	1.29	793 403	1.55	918 882	3.49%
Aldar Properties		AEA002001013	1.00	AED	75 000	2.35	35 883	2.76	40 905	0.16%
ARAMEX		AEA002301017	1.00	AED	309 510	1.42	81 507	3.04	185 932	0.71%
Dubai Financial Market		AED000901010	1.00	AED	4 000 000	1.95	1 588 761	2.47	1 952 376	7.42%
Emaar Properties Limited		AEE000301011	1.00	AED	1 600 000	6.09	1 980 595	7.64	2 415 572	9.18%
First Gulf Bank		AEF000201010	1.00	AED	400 000	15.67	1 290 307	18.80	1 486 019	5.65%
Ras Al Khaimah Ceramics		AER000301013	1.00	AED	1 000 000	2.83	561 445	3.14	620 492	2.36%
Union National Bank		AEU000401015	1.00	AED	1 150 000	4.91	1 157 064	5.87	1 333 959	5.07%
Depa		AEDFXA0NFP81	0,40	USD	1 500 000	0.59	639 786	0.69	750 109	2.85%
Securities of Bahraini issuers	**Bahrain**						**692 718**		**676 542**	**2.57%**
Aluminium Bahrain		BH0006000044	0.10	BHD	555 040	0.49	550 449	0.52	561 024	2.13%
Bahrain Telecommunications		BH0060713458	0.10	BHD	200 000	0.36	142 269	0.30	115 518	0.44%
Securities of Kuwaiti issuers	**Kuwait**						**1 041 777**		**994 013**	**3.78%**
Agility Public Warehousing		KW0EQ0601041	0.10	KWD	400 000	0.70	743 467	0.69	712 074	2.71%
Burgan Bank		KW0EQ0100077	0.10	KWD	180 000	0.57	271 448	0.55	255 418	0.97%
National Bank of Kuwait		KW0EQ0100010	0.10	KWD	11 550	0.95	26 861	0.89	26 521	0.10%
Securities of Omani issuers	**Oman**						**1 655 354**		**1 635 110**	**6.21%**
Bank Muscat SAOG		OM0000002796	0.10	OMR	750 000	0.61	898 003	0.64	899 321	3.42%
National Bank of Oman		OM0000001483	0.10	OMR	113 625	0.34	77 582	0.32	68 981	0.26%
Oman Telecom		OM0000003026	0.10	OMR	235 000	1.47	679 768	1.50	666 808	2.53%
Securities of Qatari issuers	**Qatar**						**6 892 999**		**7 126 077**	**27.08%**
Barwa Real Estate Co		QA000A0KD6J5	10.00	QAR	150 000	27.46	839 454	29.80	891 006	3.39%
Commercial Bank of Qatar		QA0007227752	10.00	QAR	5 000	70.33	72 509	70.80	70 563	0.27%
Doha Bank		QA0006929770	10.00	QAR	65 000	53.51	712 233	58.20	754 066	2.87%
Industries Qatar QSC		QA000A0KD6K3	10.00	QAR	30 000	165.48	1 009 827	168.90	1 010 007	3.84%
Qatar Insurance Company		QA0006929838	10.00	QAR	30 000	58.77	353 979	66.50	397 664	1.51%

[1] Listed securities

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials E.K
Kuupäev/date 31.03.15
PricewaterhouseCoopers, Tallinn

Issuer/Title of securities	Country of location	ISIN-code	Nominal value	Currency	Quantity	Average acquisition cost in currency	Total acquisition cost in EUR	Market price per unit as at 31.12.2013 in currency*	Market value in EUR	Share in the net value of the Fund's assets
Qatar Electricity Water		QA0006929812	10.00	QAR	16 000	157.30	515 408	181.90	580 131	2.20%
Qatar Fuel Company		QA0001200771	10.00	QAR	17 000	236.31	830 495	284.10	962 705	3.66%
Qatar National Bank		QA0006929895	10.00	QAR	42 500	175.05	1 517 787	172.00	1 457 104	5.54%
Qatar Navigation		QA0007227695	10.00	QAR	2 000	61.18	25 978	83.00	33 089	0.13%
Ooredoo		QA0007227737	10.00	QAR	2 500	144.33	74 712	137.20	68 370	0.26%
United Development Company		QA000A0KD6M9	10.00	QAR	200 000	22.84	940 618	22.61	901 372	3.42%

Issuer/Title of securities	Country of location	ISIN-code	Nominal value	Currency	Quantity	Average acquisition cost in currency	Total acquisition cost in EUR	Market price per unit as at 31.12.2013 in currency*	Market value in EUR	Share in the net value of the Fund's assets
Fund shares							**1 306 787**		**1 386 146**	**5.27%**
Equity funds							**1 306 787**		**1 386 146**	**5.27%**
EFG-Hermes Saudi Arabia Equity	Saudi Arabia	XC000A1W4DX3	-	SAR	650 000	10.03	1 306 787	11.02	1 386 146	5.27%

Issuer/Title of securities	Issuer	Rating	Rating Agency	Quantity	Underlying asset	Maturity date	Market value in EUR	Share in the net value of the Fund's assets
Derivatives							**3 597 340**	**13.67%**
Forward and futures contracts (currency derivatives)							**56 181**	**0.21%**
EURO FX FUTURE					EUR	17.03.2014	39 645	0.15%
EURO FX FORWARD	Nordea Pank	Aa3	Moody's Investor Service		EUR	20.06.2014	16 536	0.06%
Warrants (purchase rights for securities)							**3 541 159**	**13.46%**
Dar Al Arkan Real Estate Development CERTIFICATE	Citigroup			400 000	Dar Al Arkan Real Estate Development aktsia	03.11.2014	762 413	2.90%
Aldrees Petroleum CERTIFICATE	Citigroup			6 500	Aldrees Petroleum aktsia	26.01.2015	56 600	0.22%
Fawaz Abdulaziz Alhokair CERTIFICATE	Citigroup			15 000	Fawaz Abdulaziz Alhokair aktsia	08.09.2014	403 460	1.53%
United Electronics CERTIFICATE	Morgan Stanley			60 000	United Electronics aktsia	16.01.2014	1 146 523	4.36%
Saudi Basic Industries CERTIFICATE	Morgan Stanley			5 000	Saudi Basic Industries aktsia	01.10.2015	107 880	0.41%

Samba Financial Group CERTIFICATE	Morgan Stanley	110 000	Samba Financial Group aktsia	01.10.2015	1 064 283	4.04%

Issuer/Title of securities	Deposit type	Country of location	Rating	Rating agency	Underlying asset	Deposited amount	Interest	Market value EUR	Share in the net value of the Fund's assets
2. Deposits								**2 362 089**	**8.97%**
Swedbank	Demand deposit	Estonia	A1	Moody's Investor Service	EUR	1 103 375	0.06-0.10%	1 103 375	4.19%
Swedbank	Demand deposit	Estonia	A1	Moody's Investor Service	USD	1 734 256		1 258 714	4.78%
3. Other assets								**166 398**	**0.63%**
Dividend receivables								4 354	0.02%
Accrued income								162 044	0.62%
TOTAL ASSETS								**27 647 961**	**105.05%**
Liabilities								**-1 329 236**	**- 5.05%**
FUND'S ASSETS' NET VALUE								**26 318 725**	**100.00%**

* Unit's market value in currency includes accrued interest as at 31.12.2013

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of LHV Persian Gulf Fund

We have audited the accompanying annual report of LHV Persian Gulf Fund (the Fund), managed by AS LHV Varahaldus (the Fund Management Company), which comprise the financial statements, statement of the Fund's investments and statement of transaction and commission fees. The financial statements comprise the balance sheet as of 31 December 2014, the statement of income and expense, statement of changes in Fund's net asset value and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

The Fund Management Company's Management Board Responsibility for the Fund's Annual Report

The Fund Management Company's Management Board is responsible for the preparation and fair presentation of this Fund's annual report in accordance with Investment Funds Act, and for such internal control as the Fund Management Company's Management Board determines is necessary to enable the preparation of Fund's annual report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this annual report based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Fund Management Company's Management Board, as well as evaluating the overall presentation of the annual report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual report presents fairly, in all material respects, the financial position of the Fund as of 31 December 2014, and its financial performance and cash flows for the year then ended in accordance with Investment Funds Act.

AS PricewaterhouseCoopers

/signed/	/signed/
Ago Vilu Auditor's Certificate No. 325	Verner Uibo Auditor's Certificate No. 568

31 March 2015

---

* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*