

Parex Caspian Sea Equity Fund

May 2010



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Caspian Sea Region

The Story in Brief



Caspian Sea Region

In Focus

- 8 countries, total population of 77 mln
- Total area of 4.2 mln m2, equivalent to more than 11× that of Germany
- Abundant in natural resources – energy, minerals, and land
- Can help Europe meet its energy security and supply needs
- Borders China, the “super-commodity consumer” and the world’s most populous nation
- Connecting Europe and Asia
- Economies in transition
- Kazakhstan – the region’s biggest economy
- Strong Presidential power



	S&P	Moody's	Fitch
Armenia		Ba2 (stable)	BB- (stable)
Azerbaijan	BB+ (positive)	Ba1 (stable)	BB+ (stable)
Georgia	B (stable)		B + (stable)
Kazakhstan	BBB- (stable)	Baa2 (negative)	BBB -(stable)
Turkmenistan		B2 (stable)	



Equity Market Overview

Accessing the Markets

Tbilisi Stock Exchange

of issuers: 5 (lists A&B)
MCap: USD 873.0 mln,
Weekly turnover: USD 0.05 mln

Foreign listed stocks:

of issuers: 1 (BoG)
MCap: USD 347.4 mln

No access to the market NASDAQ OMX Armenia:

of issuers: 11
MCap: USD 125.0 mln
Weekly turnover: USD 0.005 mln

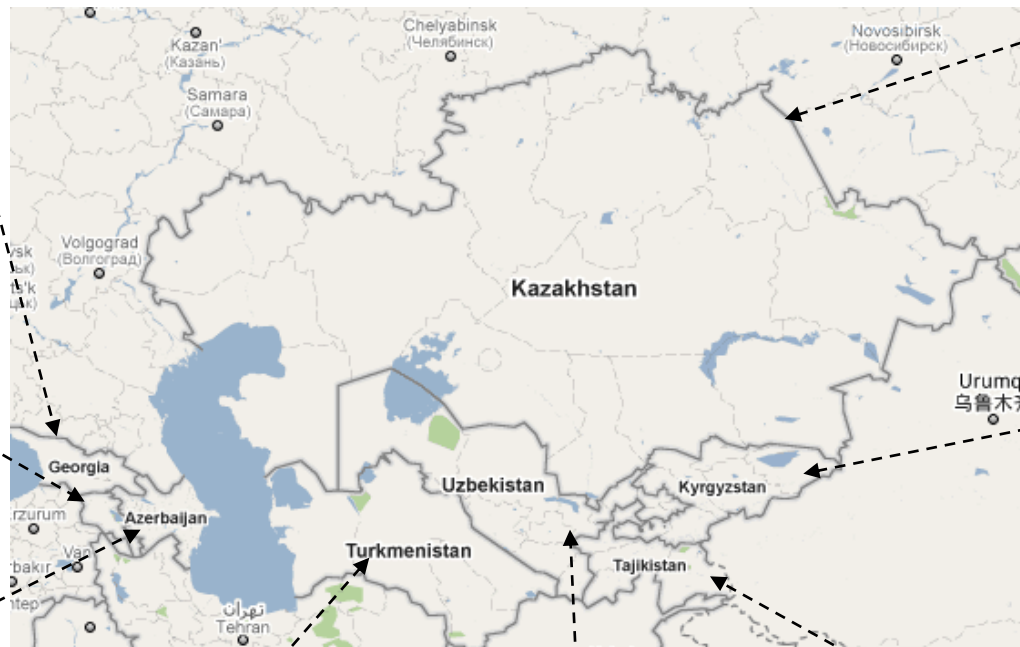
No foreign listed stocks

Baku Stock exchange

No equities listed

Foreign listed stocks:

of issuers: 2
MCap: USD 28.3 mln



No local exchange

Foreign listed stocks:

of issuers: 1 (Dragon Oil)
MCap: USD 3786.4 mln

Tashkent Stock Exchange:

of issuers: 8 (listed)
MCap*: USD 1.8 bn,
Weekly turnover*: USD 1.6 mln

Foreign listed stocks:

of issuers: 1 (Oxus Gold)
MCap: USD 41.7 mln
Remarks: no access to local market

Kazakh Stock Exchange:

of issuers: 12 (first list)
MCap: USD 63.3 bn,
Weekly turnover: USD 70.3 mln

Foreign listed stocks:

of issuers: 27
MCap: USD 64.5 bn
Remarks: most issuers overlapping

Kyrgyz Stock Exchange:

of issuers: 8 (listed)
MCap*: USD 71.4 mln,
Weekly turnover*: USD 1.3 mln

Foreign listed stocks:

of issuers: 6
MCap: USD 3257.4 mln
Remarks: no access to local market

No local exchange

Foreign listed stocks:

of issuers: 1 (Kryso Resources)
MCap: USD 28.5 mln

Source: FEAS, local exchanges, Bloomberg, own estimates. All data as of 31 Mar 2010.

Trading turnover for last 52wks.

*As of 28 Feb 2010.



Equity Market Overview

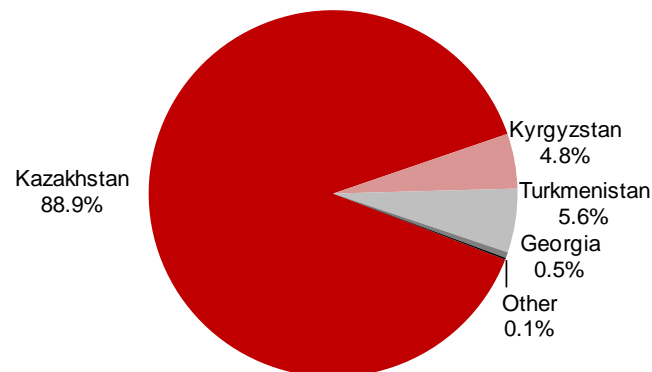
Investment Universe Snapshot

- Total Market Cap of the Universe USD 67.5 bn (non-overlapping)
- 30 issuers with Market Cap USD 25 mln<
- Limited sectoral and geographic diversification possibilities
- Despite rapid price growth in last 12 mo, the market still considerably below its peaks reached in May08

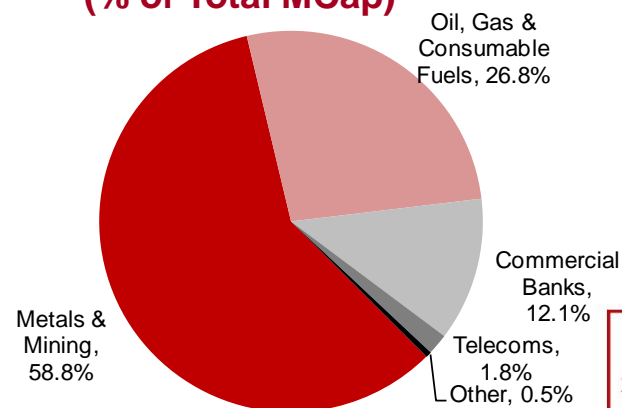
RenCap Central Asia Index (Indexed)



Investment Universe by Country of Operations* (% of Total MCap)



Investment Universe by Industry* (% of Total MCap)



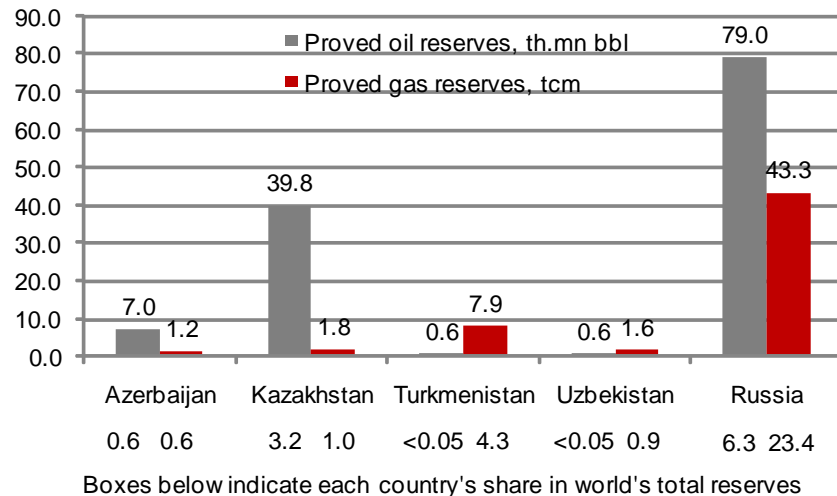
*Own estimates, based on data from Bloomberg and company webpages

Why Caspian Sea?

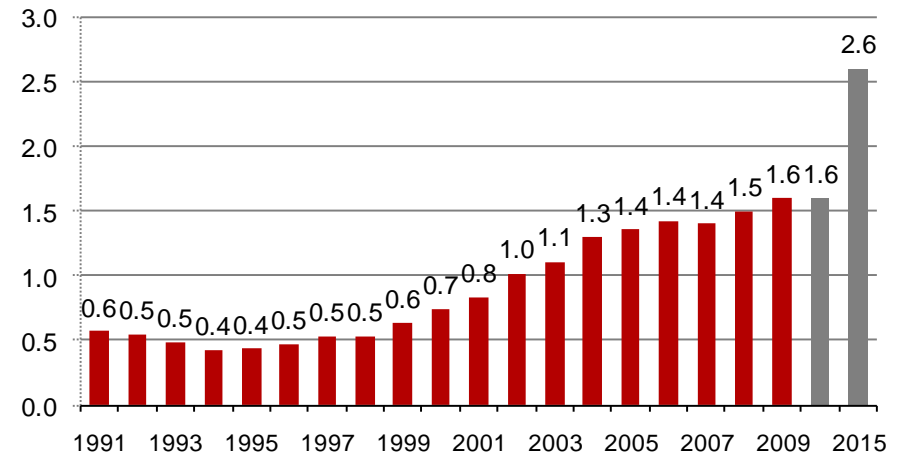
Emerging Commodity Powerhouse next-door to China (1/2)

- Major untapped oil and gas region in the world
 - During the Soviet times focused on better located and easier-to-access fields in Western Siberia
- Strong production growth outlook
- High sensitivity to oil price
 - Significant interest from foreign players in the region's assets

Central Asia's Proven Oil and Gas Reserves (2008)



Kazakhstan's Oil Production Trends, MMbopd



- Major recent discoveries
 - Kashagan field among world's largest discoveries in last 30 years. Capacity to cover about 10% of Europe's energy needs at peak production
 - South Yolotan-Osman field (Turkmenistan) among the world's 5 largest gas fields
- International majors present in the region include Shell, Eni, Chevron, Total, CNPC

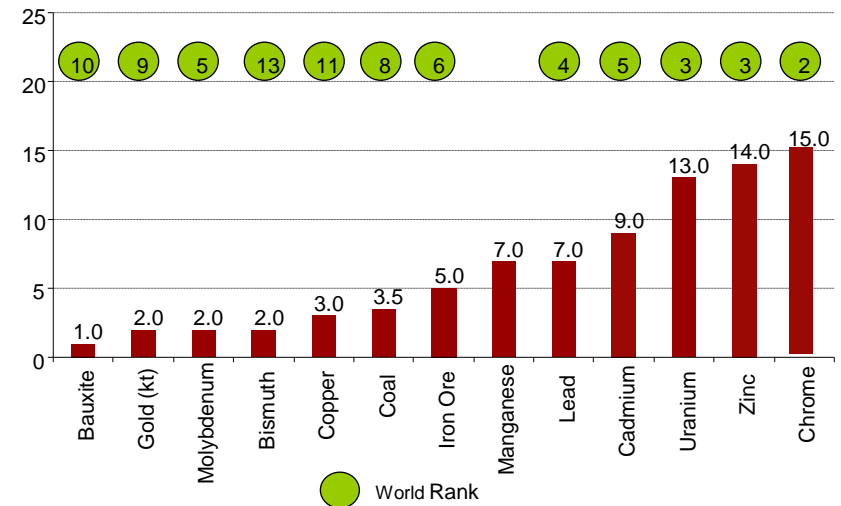


Why Caspian Sea?

Emerging Commodity Powerhouse next-door to China (2/2)

- Kazakhstan holds more than 90% of the elements from the Periodic table
 - The life of reserves for most minerals is long compared to other countries
- Tien Shan Gold belt the 2nd largest gold province in the world
 - Stretching from Uzbekistan, through Kyrgyzstan, Tajikistan and Southern Kazakhstan to Western China
 - Uzbekistan's Muruntau gold mine the world's largest open-pit gold mine
 - Uzbekistan: #5 globally by gold reserves
- A major producer of cotton and wheat
 - Uzbekistan and Turkmenistan among world's top 10 producers of "white gold"
- Borders the world's "super-commodity consumer" China
 - China represents ca. 30-60% of world's demand for the majority of commodities*

Kazakhstan's Positions in Mineral Resources, as % of World's Reserves



Source: ENRC

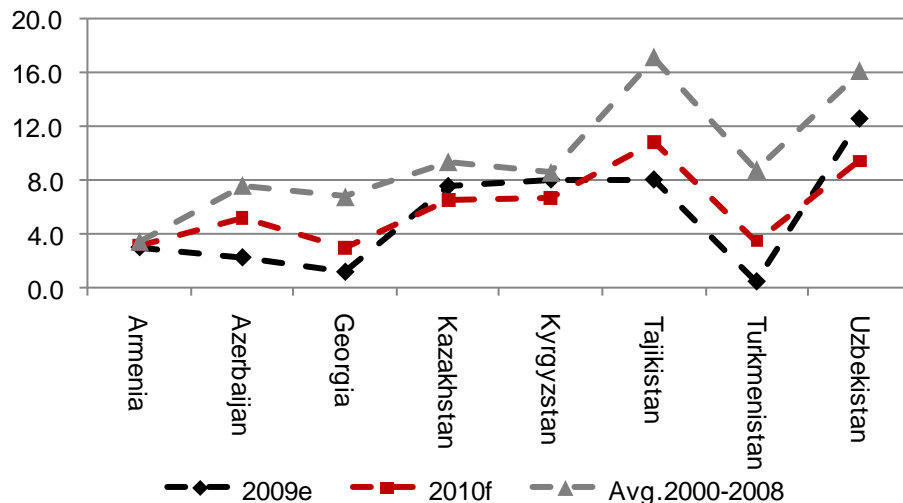


Why Caspian Sea?

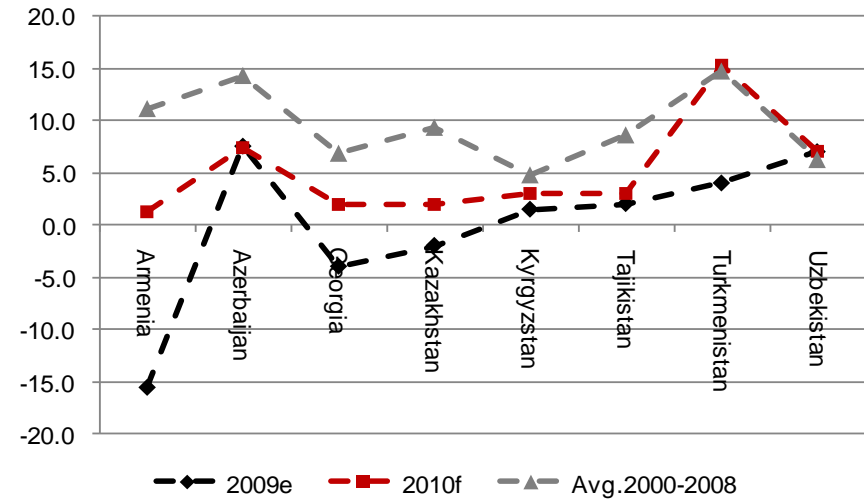
One of the Fastest Growing Regions Globally

- The Region's GDP growth in excess of 10% p.a. over 2004-2008
 - Extraction sectors the major growth drivers
 - The rapidly developing resources sector creates growth spill-overs to other economic sectors
 - Successful economic and political reforms, fostering FDI inflows

Annual Average Consumer Price Inflation, %



Real Economic Growth Rates, % yoy



- Double digit CPI as side effect of rapid economic growth and rising food and fuel prices
 - Inflation pressures have weakened as a result of the crisis
- IMF expects Turkmenistan to rank among world's fastest growing economies in 2010

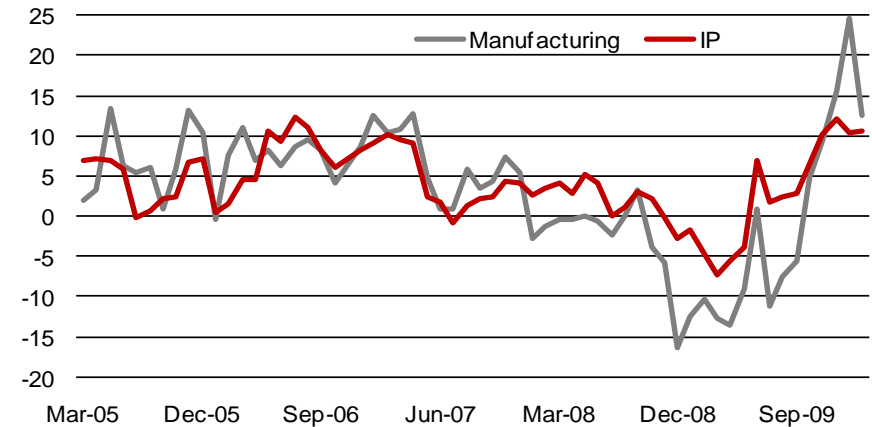


Why Caspian Sea?

Kazakhstan – on Track for Recovery

- Kazakhstan entered the credit crisis earlier than other CIS economies
 - Heavy reliance of its banking system on external financing
- Strong economic recovery in 2h09, driven by revival in export industries
 - 1% GDP growth in 2009
 - Gradual positive spillovers to domestic demand driven sectors
 - Kazakh Government forecasts 1.2-2% GDP growth in 2010
- Inflation under control
 - NBK targets 6-8% inflation in 2010
 - 10-15% growth in electricity and heat tariffs in 2010
- KZT devaluation in Feb 09 by 18% helped the exporters
 - Slight KZT appreciation expected in 2010

Kazakh IP and Manufacturing, % yoy



Source: Statistics Agency of Kazakhstan

- Situation in Kazakh banking sector has stabilised. New lending remains subdued
 - Expect moderate lending growth in 2010 due to excess liquidity in some banks
 - NPLs and provisions close to their peaks. NPL coverage of 128% (Jan 2010)
- FDI holding up well, driven by progress on major oil & gas projects
 - Kashagan alone has a total capex budget of USD136 bn



Parex Caspian Sea Equity Fund

Fund Overview



Investment Objective and Strategy

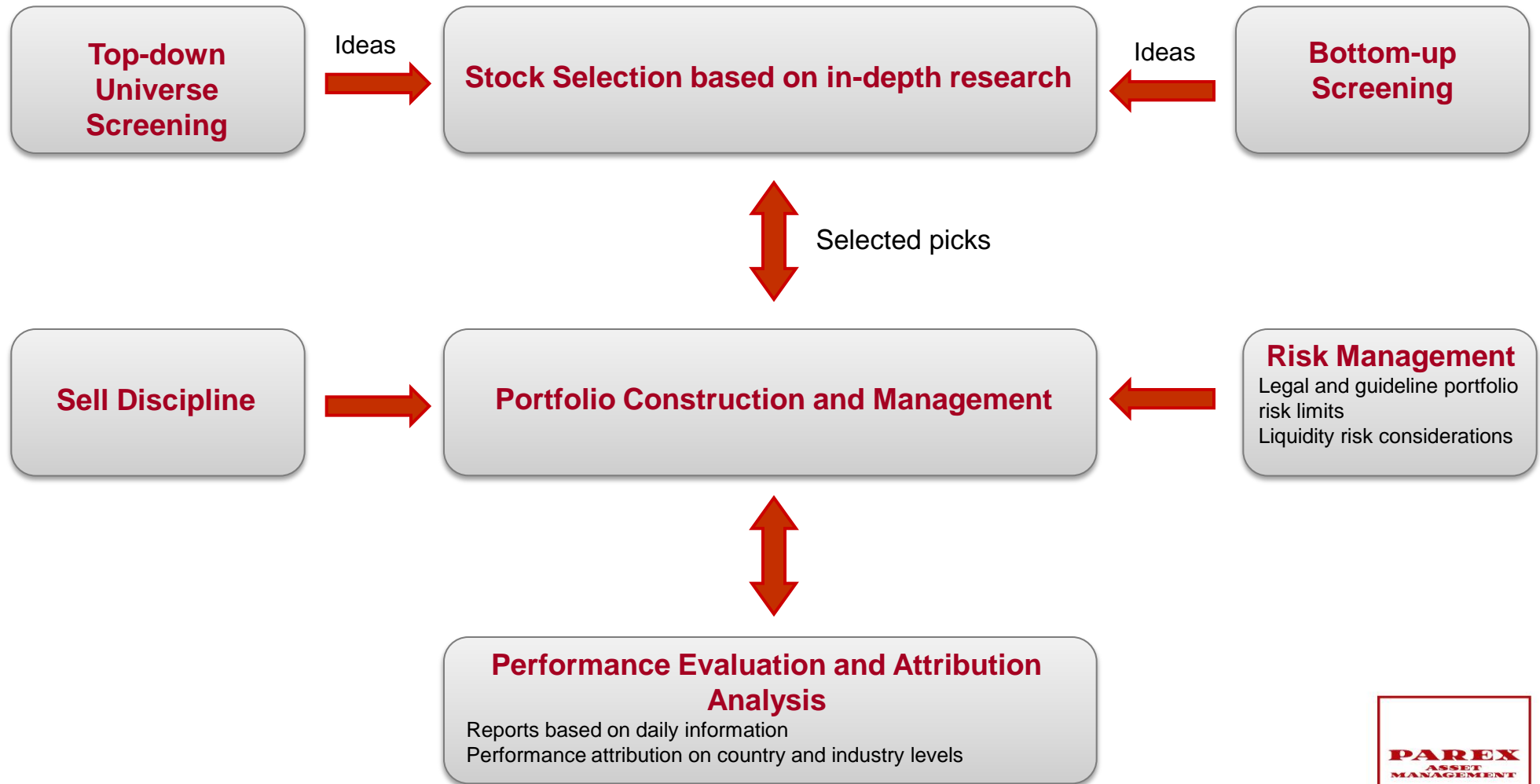
Long-term Focus

- The Fund aims to achieve long-term growth by investing in the shares of companies with operations in the following countries of the Caspian Sea Region and Central Asia:
 - Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.
- The Fund can invest both in locally listed equities, as well as in foreign listed equities and ADRs / GDRs of companies with main operations in the region
- The Fund will seek securities that are:
 - Undervalued relative to their peers &/or mispriced relative to their intrinsic value
 - Likely to face value-accretive corporate events



Investment Process

Schematic Overview



Investment Process

Step 1: Investment Idea Generation

- Top-down universe screening
 - Identification of attractive investment themes
 - Macro and sector research
 - Valuation screens
 - Overall desired risk level considerations
- Bottom-up identification of individual investment cases
 - Fund management team
 - Representative office in Almaty
 - Strong contact base in the region
 - New equity issues
 - Sell side research



Quarterly Investment Committees
(participants: all PMs, analysts, top management)
Weekly Conference Calls of Eastern European Team (tactical ideas)

Investment Process

Step 2: Stock Selection

- In-house fundamental analysis seeks companies with:
 - Strong / improving fundamentals
 - Significant underlying growth potential
 - Clear catalysts for value realization
 - Strong / predictable management and corporate governance practices
 - Tolerable business risk profile
- Valuation
 - Fair price guidance derived from a combination of relative and absolute valuation tools
- Basis of research
 - All publicly available relevant information on the issuer
 - Communication with top management (company visits, conference calls)
 - Communication with local market professionals
 - Third party research



Investment Process

Step 3: Portfolio Construction and Management

- No benchmark
- Stock positions sized on conviction
- Portfolio of 25-30 positions
- Low portfolio turnover
- Ongoing company monitoring for early signs of change
- Portfolio limits
 - Legal portfolio limits
 - No sector or country limits
 - Limits imposed, based on inherent risk profile of the issuer
 - Limits imposed, based on liquidity considerations
- Sell Discipline
 - Undesirable changes in fundamentals
 - Changing sector or country dynamics
 - Fair price target achieved/ exceeded
 - Relatively more attractive issuer identified



Parex Caspian Sea Equity Fund

Portfolio Characteristics and Performance

Fund Characteristics

Type of the Fund	Open-ended
Compliance status	UCITS III
Domicile	Latvia
Currency	EUR
Investment Manager	Parex Asset Management
Fund Size	EUR 3.93 mln
Management Fee	2.5% per annum
Load fee	up to 5%
Custodian	Parex Banka
Inception date	14 February 2007
ISIN	LV0000400273
Listing	NASDAQ OMX Riga
Liquidity	Daily

Indexed performance since inception



Performance

30/04/10

YTD	16.49%
1m.	0.00%
3m.	8.13%
6m.	28.05%
1 year	67.41%
Since Inception *	-54.80%
Annualized Since Inception **	-21.93%



* The performance is calculated as the fund share price change compared to its value in the start of the defined period.

** Per annum. Annualized fund performance is calculated, using ACT/365 method.

Parex Caspian Sea Equity Fund

Portfolio Characteristics and Performance*

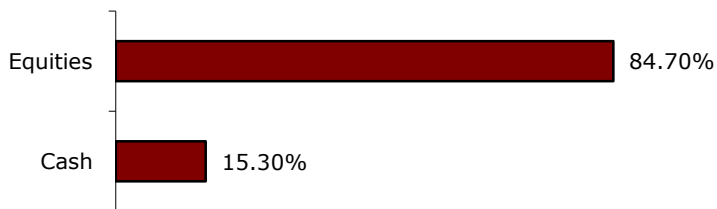
Ratios

Max Drawdown**

1 Year

12.70%

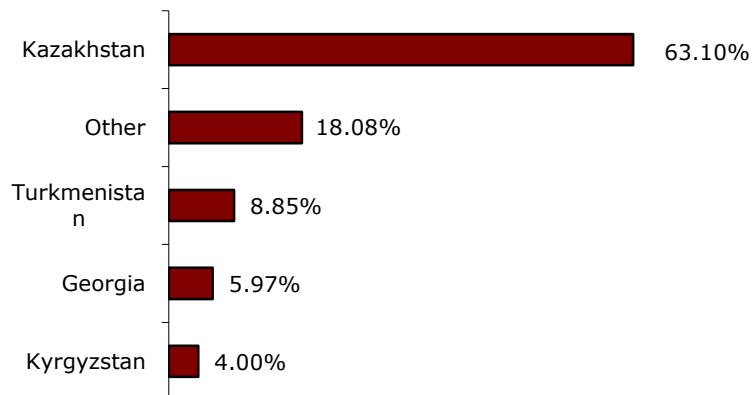
Breakdown by Instrument



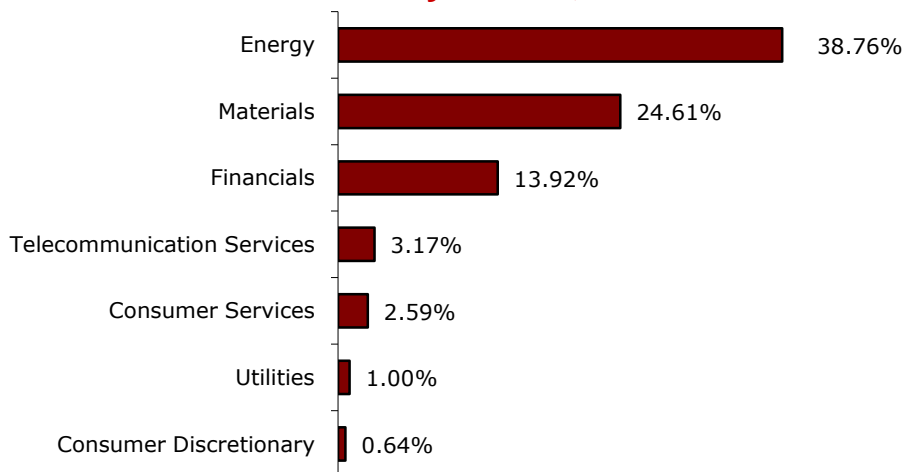
Top 10 Holdings

1	KazMunaiGas Exploration Production	9.42%
2	Dragon Oil Plc	8.85%
3	Eurasian Natural Resources Corp	8.09%
4	Uranium One Inc	5.77%
5	Halyk Savings Bank of Kazakhstan JSC	5.44%
6	Zhaikmunai LP	4.54%
7	Tethys Petroleum Ltd	4.33%
8	JSC Bank of Georgia	4.33%
9	Kazakhmys PLC	4.23%
10	Steppe Cement Ltd	4.22%

Breakdown by Country of Operation, %



Breakdown by Sector, %



*as of 30/04/2010

*** Max Drawdown is calculated as the max drop of 30D roll return



Parex Caspian Sea Equity Fund

1Q10 Fund Highlights

- The Fund added 17% during the quarter, significantly outperforming global EM equities
 - Top contributors: Tethys Petroleum (+108% qoq), ENRC (+30%), Dragon Oil (+25%), Bank of Georgia (+33%), and Centerra Gold (+23%)
 - Bottom detractors: Uranium One (-11% qoq), Caspian Services (-41%), KMG E&P (-1%), and several small caps
- External environment with plentiful liquidity and continued commodity price increases very supportive for Central Asian equities
- Strong performance across all represented sectors, individual out- and underperformance based on company specific factors
- Commodity producers show significant improvements in 2h09 financials, supported by both price and volume recovery
- Junior Oil & Gas E&Ps have restarted drilling activity. First drilling updates very positive
- Banks have ample liquidity but so far have not been able to return to lending growth



Parex Caspian Sea Equity Fund

1Q10 Fund Highlights

- No significant changes in the Fund's strategy during the quarter
 - Slightly increased the Fund's allocation to materials and energy sectors, reducing our allocation to financials
 - Introduced exposure to Mongolian coal mining sector that is directly exposed to Chinese consumption growth story
 - Introduced small positions in two junior gold miners, seeing potential for turnaround in their performance
 - In the resources sector focusing on companies that have near term output growth potential or potential share price catalysts
 - Reduced cash position to 12% of the Fund's assets



Parex Caspian Sea Equity Fund

Near Term Outlook

- Expect 1q10 to bring another set of strong financials
- Many of the region's issuers have significant output growth potential in 2010 both organically as well as via acquisitions
- Recent financing deals (both debt and equity) mostly with Chinese investors have shown that for companies with good quality assets access to funding is not an issue in current market environment
- Despite rapid share price appreciation, valuations are not excessive. Companies trading in line / with discount to their GEM peers
 - From valuation perspective favour energy to mining stocks
- Banks expected to restart lending in 2q10 that could create positive impact on general economic activity.
 - However, lack of good borrowers imposes some limitations to growth
- Re-emergence of political risks
 - While the direct impact from the political unrest in Kyrgyzstan on the region's equities is small (in the Fund only Centerra Gold has operations in KG), the situation could remind investors of general political risks in the region



Fund Management Team



Edgars Makarovs, Head of Portfolio Management

Mr. Edgars Makarovs, has been Head of Portfolio Management since 2002 and is currently supervising the team of client portfolios and funds. He has been with Parex Group since 1999. Mr. Makarov began his career as a financial market analyst in Investment Planning and Strategy Department at Parex banka and was involved in the Bank's proprietary portfolio management. From 2005 he has been a member of Investment Committee for all Parex managed investment funds and pension funds. Edgars holds a MSc in Business Administration from the University of Latvia.



Kristiana Kiete, Portfolio Manager

Ms. Kristiana Kiete is responsible for Eastern European equities, with specialization area in Central Asian Equities. Ms. Kiete has been a member of the management team of Parex Caspian Sea Equity fund since its establishment in February 2007. She joined PAM in June 2006 as Russian equity analyst. Prior to that, she served as financial markets analyst and economist at Swedbank. Ms. Kiete holds BSc in Business and Economics from Stockholm School of Economics in Riga and MSc in Economics from the University of Latvia. She is also CFA Level III candidate.



Parex Asset Management



Why Parex Asset Management?

Established Track Record in the Region

- The leading investment specialist and wealth management service provider in the Baltics
- Established track record in investment products covering Eastern Europe
 - Eastern European fixed income and balanced funds
 - Equity funds in Russia, Baltics, Ukraine
- Local presence in Central Asia for more than 10 years
 - Parex Group has representative offices and leasing subsidiaries in Azerbaijan, Kazakhstan and Uzbekistan
- Wealth management services for regional clients
 - Prime focus on generating absolute returns in all market conditions
- Dominant local player offering full product range to regional institutional and private customers
 - Mutual funds market share in Latvia 35%
- Open architecture platform allows to focus on client needs
 - Products of the leading global asset management companies, covering all investment strategies, asset classes, broad geography and economic sectors
- Team of 70 seasoned professionals with local and international experience
- Subsidiary of Parex banka (main shareholders 75% Latvian Privatization Agency, 25% European Bank of Reconstruction and Development)



Contact Details

President, CEO

Roberts Idelsons

phone +371 6 701 0810

fax +371 6 701 0253

e-mail: Roberts.Idelsons@parex.lv

Board Member

Elena Coleman

phone +371 6 701 0194

fax +371 6 777 8622

e-mail: Elena.Coleman@parex.lv

International Business Development Department

Tatjana Kovalova

phone +371 6 7010989

fax +371 6 7778622

e-mail: Tatjana.Kovaljova@parex.lv



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Past performance is not a guide to future performance.

The opinions expressed are based on Parex Asset Management's internal forecasts and should not be relied upon as indicating any guarantee of return from an investment in our funds.

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Contact us at Parex Asset Management, Republikas square 2A, Riga, LV-1010, Latvia. Tel: +371 67010810, Fax: +371 67778622, Email: pam@parex.lv

