

**OPEN-END INVESTMENT FUND
PAREX STRATEGIC ALLOCATION FUNDS**

**Sub-fund
Parex Balanced Strategy Fund - EUR**

**ANNUAL REPORT
FOR THE PERIOD 24 AUGUST 2007 (INCORPORATION DATE)
THROUGH 31 DECEMBER 2008**

**PREPARED IN ACCORDANCE WITH
FCMC REGULATIONS ON ANNUAL REPORTS OF INVESTMENT FUNDS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT**

Riga, 2009

AIF Parex Balanced Strategy Fund - EUR
Annual report for the period 24 August 2007 (incorporation date) through 31 December 2008
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AIF Parex Balanced Strategy Fund - EUR
Annual report for the period 24 August 2007 (incorporation date) through 31 December 2008
General information

Name of the fund:	Parex Strategic Allocation Funds
Type of fund:	Open-end investment fund with sub-funds
Name of the sub-fund:	Parex Balanced Strategy Fund - EUR
Registration date of the fund:	24 August 2007
Number of the fund:	06.03.05.098/36
Name of the investment management company:	Parex Asset Management IPAS
Registered office of the investment management company:	Zigfrīda Annas Meierovica bulvāris 14, Rīga LV - 1050, Latvia
Registration number of the investment management company:	40003577500
Licence number of the investment management company:	06.03.07.098/181
Name of the custodian bank:	AS Parex banka
Registered office of the custodian bank:	Smilšu iela 3, Rīga LV-1522, Latvia
Registration number of the custodian bank:	40003074590
Names and positions of Council and Board Members:	<p><i>Council of the investment management company:</i></p> <p>Chairman of the Council – Nils Melngailis – appointed on 17/04/2009</p> <p>Council Member – Roberts Stugis – appointed on 25/02/2008</p> <p>Council Member – Breiding R. James - appointed on 17/04/2009</p> <p>Council Member – Anatolijs Fridmans - appointed on 17/04/2009</p> <p>Chairman of the Council – Gene Zolotarev – resigned on 25/02/2008</p> <p>Council Member – Ēriks Brīvmanis – resigned on 05/06/2008</p> <p>Council Member – Gatis Kokins – resigned on 25/02/2008</p> <p>Council Member – Leonīds Jamroziks – resigned on 25/02/2008</p> <p>Chairman of the Council – Mārtiņš Jaunarājs – resigned on 18/03/2009</p> <p>Council Member – Glenn Frank Woo - resigned on 18/03/2009</p> <p>Deputy Chairman of the Council – Valdis Birkavs – resigned on 17/04/2009</p> <p>Council Member – Arvīds Sīpols – resigned on 17/04/2009</p> <p>Council Member – Raits Černajs - resigned on 17/04/2009</p> <p>Council Member – Deniss Grigorenko - resigned on 17/04/2009</p> <p><i>Board of the investment management company:</i></p> <p>Chairman of the Board/ President – Roberts Idelsons – appointed on 30/11/2005</p> <p>Board Member – Elena Coleman – appointed on 30/03/2007</p> <p>Board Member – Edgars Makarovs – appointed on 30/03/2007</p> <p>Board Member – Zigurds Vaikulis – appointed on 30/03/2007</p> <p>Board Member – Igors Petrovs - appointed on 22/05/2008</p> <p>Board Member – Sergejs Medvedevs - resigned on 22/05/2008</p> <p>Board Member – Rems Kargins – resigned on 15/01/2009</p>
Names of Fund Managers:	<p><i>Fund Managers (Members of the Investment Committee):</i></p> <p>Roberts Idelsons</p> <p>Sergejs Medvedevs</p> <p>Edgars Makarovs</p>

AIF Parex Balanced Strategy Fund - EUR
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General information

Auditors:

Diāna Krišjāne
Certified Auditor
Certificate No. 124

SIA Ernst & Young Baltic
Muitas iela 1, Riga
Latvia, LV – 1010
Licence No. 17

AIF Parex Balanced Strategy Fund - EUR
Annual report for the period 24 August 2007 (incorporation date) through 31 December 2008
Investment management company report

The assets of the sub-fund Parex Balanced Strategy Fund - EUR of the open-end investment fund Parex Strategic Allocation Funds (hereinafter – the Fund) are managed by the asset management company Parex Asset Management, registered office at Zigrīda Annas Meierovica bulvāris 14, Rīga, LV-1050, unified registration number 40003577500, holding licence No. 06.03.07.098/181 to operate as an asset management company (last re-registered on 5 December 2005).

The objective of the Fund is to achieve long-term capital gains through investments in certificates (shares) of investment funds that are registered mainly in Latvia and other EU Member States as well as the Member countries of the OECD (the Organisation for Economic Cooperation and Development) and similar securities.

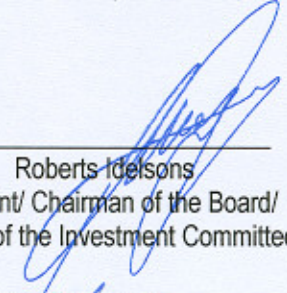
The situation on the global financial markets changed for the worst over the year. Most of the countries entered the recession phase (GDP drop, slowing production and rising unemployment), the inflation pace slowed down, and raw material prices dropped critically. All these factors lead to the global flight from risky assets, equally on both developed and emerging corporate bond markets. Bond markets saw the drop in both investment grade and high yield segments, which is evidenced by the fall of the Barclays Capital Global Aggregate Credit Index, which lost 11.2% in 2008. The only bond segment which reported positive performance was developed government bonds: EFFAS Euro Government Bond Index (all above one year) grew by 9.29% over the year.

The Fund was registered on 24 August 2007, and its first investment certificates were issued on 20 September 2007. As at the period end, the Fund's net assets were LVL 237,262. The value per Fund's share since inception declined by LVL 2.25, from LVL 7.03 to LVL 4.78. The Fund's performance for the period was negative, amounting to -26.02% in Latvian lats and -25.980% in euros (the base currency).


At the end of the period, the Fund's investments were diversified among bond and stock funds having different risk levels. Most of the Fund's assets (47.3%) are invested in bond funds; stock funds also account for a major share of 21.7%. As at 31 December 2008, the investments in money market and balanced funds (14.0% and 9.0% respectively) were featured in the Fund's structure. All the funds are registered in the EU Member States. The funds incorporated in Luxembourg have the largest share in the total Fund's assets – 61.4%. The Fund's structure also includes funds registered in Ireland (7.3%) and Lithuania (4.0%), and 19.3% of the Fund's assets are invested in Latvian funds. Idle funds as at the period end amounted to 6.2%, but derivative financial instruments were 1.8%.

In the reporting period, the management fee was paid from the Fund's assets in the amount of EUR 6,430, or 1.27% of the average asset value for the period, which does not exceed the maximum expense limit fixed in the Prospectus, i.e. 3.00%.

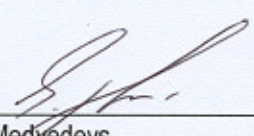
It is still too early to speak of the economic recovery, and the Fund Manager will continue to pursue the prudent investment strategy, investing part of the assets in money market funds, while the stock proportion will not be increased materially over the upcoming months.



Roberts Idelsons
President/ Chairman of the Board/
Member of the Investment Committee



Edgars Makarovs
Member of the Investment Committee



Sergejs Medvedevs
Member of the Investment Committee

Rīga,
21 April 2009

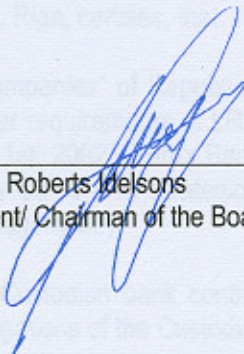
AIF Parex Balanced Strategy Fund - EUR
Annual report for the period 24 August 2007 (incorporation date) through 31 December 2008
Statement of responsibility of the Board of the investment management company

The Board of the investment management company (hereinafter – the Company) is responsible for the preparation of the financial statements of the investment fund Parex Balanced Strategy Fund - EUR (hereinafter – the Fund).

The financial statements set out on pages 9 to 20 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2008 and the results of its operations for the period 24 August 2007 through 31 December 2008.

The financial statements are prepared in accordance with laws of the Republic of Latvia, the Regulations of the Financial and Capital Market Commission (FCMC) on Annual Reports of Investment Funds, and International Financial Reporting Standards as adopted in the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The Board of the Company is responsible for the maintenance of proper accounting records, the safeguarding of the assets of Parex Balanced Strategy Fund - EUR and the prevention and detection of fraud and other irregularities in the Fund. They are also responsible for operating the Fund in compliance with the Law of the Republic of Latvia on Investment Management Companies, regulations of the Financial and Capital Market Commission, and other laws and regulations of the Republic of Latvia.



Roberts Idelsons
President/ Chairman of the Board

Riga,
21 April 2009

CUSTODIAN BANK REPORT

For holders of
OIF "Parex Strategic Allocation Funds"
„Parex Balanced Strategy Fund – EUR”
Investment fund applications

Nr. 2.3.10.- 04/026

With this Parex Bank JSC, which is registered in LR Enterprise register on May 14, 1992 with No. 40003074590 and located at Smilšu str. 3, Riga, certifies, that:

According to the law "On investment companies" of Republic of Latvia, regulations of Financial and Capital Market Commission (FCMC), other requirements of LR legislation and contract with Custodian bank, which is concluded on the August 1st, 2002., Parex Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for OIF "Parex Strategic Allocation Funds" (further in the text – Fund) founded by IPAS "Parex Asset Management";

Custodian is responsible for fulfilling of Custodian bank contract and requirements of LR legislation related to custodian banks. The main obligations of the Custodian are the following:

- to store assets of the Fund, as well as documents, which confirm title according to the requirements of LR legislation;
- to ensure maintenance of the Fund account, reception and execution of Company's orders, as well as performance of transactions according with requirements of LR legislation and current market practice;
- to ensure the Company with regular reports on assets of the Fund and its value (prices of the securities);
- to follow the correctness of the value of the Fund and its certificates set by the Company and its conformity with LR legislation acts;
- to follow the correctness and legal status of issuing, sales and repurchasing of investment certificates performed by the Company;

Issuing, sales and repurchasing of the investment certificates is performed according to the requirements of the law "On investment companies", fund prospect and Fund management regulations;

Storage of the Fund assets is performed according to the requirements of the law "On investment companies" and Custodian bank contract;

Calculation of the net value of the Fund assets is performed according to the requirements of the law "On investment companies", regulations of Financial and Capital Market Commission (FCMC), Fund prospect and Fund management regulations;

Orders of the Company, as well as transactions with the assets of OIF "Parex Strategic Allocation Funds" „Parex Balanced Strategy Fund – EUR” are performed according to the requirements of the law "On investment companies", Fund prospect and Fund management regulations and Custodian bank contract .

In the accounting period no mistakes and illegal matters were observed in performance of the Company with Fund assets. Parex bank JSC is very satisfied with co-operation in performing of the functions of Custodian bank.



Nils Melngailis
Chairman of the Board, p.p.

Riga, February 16, 2009



AIF Parex Balanced Strategy Fund - EUR
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 Statement of assets and liabilities
 (LVL)

Notes	31/12/2008
Assets	
3	Demand deposits with credit institutions 14,961
	Financial assets held for trading 1,099
4	Investment certificates of investment funds and similar securities 218,233
5	Derivatives 4,374
	Total assets 237,568
Liabilities	
6	Accrued expense (306)
	Total liabilities (306)
	Net assets 237,262



 Roberts Idelsons
 President/ Chairman of the Board

Riga,
21 April 2009

AIF Parex Balanced Strategy Fund - EUR
 Annual report for the period 24 August 2007 (incorporation date) through 31 December 2008
 Statement of income and expense
 (LVL)

Notes	24/08/2007 - 31/12/2008
	<u>Net assets as at the beginning of the period</u>
	Income
	Net assets as at the end of the period
	(101,695)
7	Interest income 1,898
	Dividends 196
	<u>Total income</u> 2,094
	Expense
	Remuneration to investment management company (3,899)
	Remuneration to custodian bank (621)
	Other fund management expense (79)
	<u>Total expense</u> (4,599)
	(Decrease) in investment
8	Realised (decrease) in investment value (28,144)
9	Unrealised (decrease) in investment value (68,066)
	<u>Total (decrease) in investment</u> (96,210)
	Foreign currency revaluation (loss) (2,980)
	<u>(Decrease) in net assets from investment</u> (101,695)



 Roberts Idelsons
 President/ Chairman of the Board

Riga,
21 April 2009

AIF Parex Balanced Strategy Fund - EUR
Annual report for the period 24 August 2007 (incorporation date) through 31 December 2008
Statement of changes in net assets
(LVL)

	24/08/2007 - 31/12/2008
Net assets as at the beginning of the period	-
(Decrease) in net assets from investment activities	(101,695)
Transactions with investment certificates:	
<i>Inflow from sale of investment certificates</i>	725,785
<i>Outflow of redemption of investment certificates</i>	(386,828)
Increase in net assets from transactions with investment certificates	338,957
Increase in net assets for the period	237,262
Net assets as at the end of the period	237,262
Issued investment certificates as at the beginning of the period	-
Issued investment certificates as at the end of the period	49,669
Net asset value per investment certificate as at the beginning of the period	-
Net asset value per investment certificate as at the end of the period	4.78

The accompanying notes form an integral part of these financial statements.

AIF Parex Balanced Strategy Fund - EUR
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Statement of cash flows
(LVL)

	24/08/2007 - 31/12/2008
Interest income	1,898
Dividend income	196
Investment management expense	(4,293)
(Acquisition) of financial assets	(712,101)
Disposal of financial assets	397,002
Foreign currency conversion result	(7,200)
(Decrease) in cash from operating activities	(324,498)
Inflow from sale of investment certificates	725,785
Outflow of redemption of investment certificates	(386,828)
Increase in cash from financing activities	338,957
Increase in cash	14,459
Cash as at the beginning of the period	-
Result of revaluation of cash denominated in foreign currencies	502
Cash as at the end of the period	14,961

The accompanying notes form an integral part of these financial statements.

AIF Parex Balanced Strategy Fund - EUR
Annual report for the period 24 August 2007 (incorporation date) through 31 December 2008
Notes
(LVL)

1. General information

Name of the fund:	Parex Strategic Allocation Funds
Type of the fund:	Open-end investment fund with sub-funds
Fund's business activity:	Investments mainly in investment certificates (shares) of open-end investment funds registered in Latvia, other EU Member States, and the OECD Member countries and similar securities
Name of the sub-fund:	Parex Balanced Strategy Fund - EUR
Sub-fund's business activity:	Under normal market circumstances, from 30% to 70% of the Sub-fund's assets may be invested, directly or indirectly, in equity or similar securities, while other assets – mainly in debt securities and money market instruments
Name of the investment management company:	IPAS Parex Asset Management, Zigfrīda Annas Meierovica bulvāris 14, Rīga, LV 1050, Latvia

2. Summary of significant accounting policies

Basis of preparation

The financial statements of AIF Parex Balanced Strategy Fund - EUR have been prepared in accordance with laws of the Republic of Latvia, the Regulations of the Financial and Capital Market Commission (hereinafter - FCMC) on Annual Reports of Investment Funds, and International Financial Reporting Standards as adopted in the European Union.

The financial statements are prepared on a historical cost basis, as modified for the measurement at fair value of held-for-trading securities.

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 24 August 2007 through 31 December 2008.

Income and expense recognition

Interest income and expense items are recognised on an accrual basis. Interest income is recognised according to the effective interest method.

Dividend income is recognised upon receipt.

Foreign currency translation

The Fund's functional currency is euros but, according to the FCMC requirements, the Fund ensures accounting also in Latvian lats. These financial statements are prepared based on transaction accounting in Latvian lats.

Transactions denominated in foreign currencies are recorded in Latvian lats at the official exchange rate established by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats at the official exchange rate established by the Bank of Latvia at the last day of the reporting period. Any gain or loss resulting from a change in exchange rates is included in the statement of income and expense as gain or loss from the revaluation of foreign currency positions.

The exchange rates established by the Bank of Latvia (LVL to 1 foreign currency unit) and mainly applied when preparing the statement of assets and liabilities of the Fund can be specified as follows:

<u>Currency</u>	<u>31/12/2008</u>
USD	0.495

AIF Parex Balanced Strategy Fund - EUR
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Notes
(LVL)

2. Summary of significant accounting policies (cont'd)

Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for the Latvian lat against the euro, i.e. 0.702804. From this moment the Bank of Latvia will also ensure that the market rate will not differ from the official rate by more than 1%. Therefore, the Fund's future profit or loss due to fluctuations of the euro exchange rate will not be material as far as the Bank of Latvia maintains the above mentioned fixed rate.

Cash

Cash comprises Fund's demand deposits with credit institutions.

Investments in securities

All investments in securities are classified as held-for-trading securities, i.e. securities are acquired for generating a profit from short-term fluctuations in price or dealer's margin.

Held-for-trading securities are initially recognised at cost and subsequently re-measured at fair value based on available market prices. The result of re-measuring held-for-trading securities at fair value is included in the statement of income and expense as increase/ (decrease) in investment.

Securities are revaluated on the basis of Bloomberg's financial information on the bid prices of respective securities. Unlisted securities are evaluated on the basis of the custodian bank's information on transactions, but in case such information is not available, respective securities are evaluated at their cost. Securities purchase and sale transactions are recognised on the date of settlements. The cost of securities sold is defined on a FIFO (first in, first out) basis.

Fair values of financial assets and liabilities

The fair value of financial assets and liabilities represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis.

Taxes

The Fund's income is subject to income tax in the country of its origin. Basically, the Fund's income is exempt from income taxes. The Fund is not a Latvian corporate income tax payer, and upon annulment of the Fund's investment certificates, no income tax is charged on increase in value.

3. Demand deposits with credit institutions

	31/12/2008	% of total assets as at 31/12/2008
Demand deposits with credit institutions - AS Parex banka	14,961	6.31%
Total demand deposits	14,961	6.31%

The Fund receives interest on demand deposits at a floating rate fixed as EONIA - 0.5%. The interest rate changes daily.

On 1 December 2008, the Republic of Latvia Cabinet and the Financial and Capital Market Commission adopted their joint resolution on restricting the fulfilment of obligations by AS Parex banka. According to this resolution, the bank shall not perform any debit transactions with the Fund's assets in excess of LVL 350,000.00 per calendar month.

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Notes
(LVL)

4. Investment certificates of investment funds and similar securities

	31/12/2008	% of net assets
Investment certificates of investment funds		
OECD investment funds	162,895	68.66%
Latvian investment funds	45,741	19.28%
Non-OECD investment funds	9,597	4.04%
Total investment certificates of investment funds and similar securities	218,233	91.98%

All investment certificates of investment funds and similar securities are classified as held-for-trading securities.

All the Fund's investment certificates of investment funds and similar securities are traded on regulated markets.

The table below presents investment certificates of investment funds and similar securities by the issuer's country of residence:

Financial instrument	Amount	Acquisition value	Carrying amount as at 31/12/2008	% of net assets as at 31/12/2008
Financial instruments traded on regulated markets		290,197	218,233	91.98%
Investment certificates of Luxembourg investment funds		168,952	145,699	61.41%
NESTOR OSTEUROPA BOND FUND (LU0182187632)	350	19,909	18,495	7.80%
FIDELITY ASEAN FUND (LU0048573645)	2,420	29,533	15,549	6.55%
JULIUS BAER ABSOLUTE RETURN BOND FUND (LU0186678784)	250	20,387	19,780	8.34%
SGAM MONEY MARKET EURO FUND (LU0011957437)	1,030	19,038	19,626	8.27%
DWS GLOBAL AGRIBUSINESS EQUITY FUND (LU0273158872)	300	19,418	11,900	5.02%
FRANKLIN MUTUAL BEACON FUND - A - ACC (LU0070302665)	500	9,377	8,017	3.38%
SWISSCANTO LU BD IN M/T EU-B (LU0161532816)	229	19,190	19,672	8.29%
DEXIA BONDS EURO GOVERNMENT (LU0157930404)	16	18,625	19,174	8.08%
MORGAN STANLEY EURO LIQUIDITY (LU0106251654)	1,500	13,476	13,486	5.68%
Investment certificates of Latvian investment funds		81,431	45,741	19.28%
PAREX EASTERN EUROPEAN BALANCED FUND (LV0000400174)	3,549	34,025	21,452	9.04%
PAREX CASPIAN SEA EQUITY FUND (LV0000400273)	2,172	14,056	3,204	1.35%
PAREX EASTERN EUROPEAN BOND FUND (LV0000400125)	4,093	26,322	17,809	7.51%
PAREX UKRAINIAN EQUITY FUND (LV0000400422)	2,710	7,028	3,276	1.38%
Investment certificates of Irish investment funds		16,141	17,196	7.25%
MELLON EUROLAND BOND FUND (IE0032722260)	20,000	16,141	17,196	7.25%
Investment certificates of Lithuanian investment funds		23,673	9,597	4.04%

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(LVL)

Financial instrument	Amount	Acquisition value	Carrying amount as at 31/12/2008	% of net assets as at 31/12/2008
PAREX BALTIC SEA EQUITY FUND (LT0000950008)	584	23,673	9,597	4.04%
Total investment certificates of investment funds		290,197	218,233	91.98%

Due to the fact that the Company does not possess enough detailed specification of assets of these investment funds, which are managed on the behalf of investors by financial institutions, such assets are not analysed by their ultimate issuer.

The below table presents the Fund's securities portfolio in breakdown by investment objects.

	Carrying amount as at 31/12/2008	% of total assets as at 31/12/2008
Stock funds	51,543	21.72%
Bond funds	112,126	47.26%
Balanced funds	21,452	9.04%
Money market	33,112	13.96%
	218,233	91.98%

5. Derivatives

The below table presents the notional amounts and fair values of forward foreign exchange and currency swap instruments. The notional amount of foreign exchange transactions is stated on the basis of amounts receivable arising thereon.

	31/12/2008		% of net assets as at 31/12/2008	
	Notional amount	Fair value		
		Assets	Liabilities	
Currency swap instruments	44,229	4,374	-	1.84%
Total derivatives	44,229	4,374	-	1.84%

All the derivative contracts are concluded with a Latvian counterparty.

6. Accrued expense

	31/12/2008
Accrued commission fees payable to investment management company	218
Accrued commission fees payable to custodian bank	35
Accrued fees payable for professional services	53
Total accrued expense	306

7. Interest income

	24/08/2007 – 31/12/2008
Interest income from demand deposits with credit institutions	1,898
Total interest income	1,898

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Notes
(LVL)

8. Realised (decrease) in investment value

	24/08/2007 – 31/12/2008
Income from sale of investments	397,274
Acquisition value of investments sold	(425,418)
Total realised (decrease) in investment value	(28,144)

9. Unrealised (decrease) in investment value

	24/08/2007 – 31/12/2008
From investment certificates of investment funds and similar securities	(68,066)
Total unrealised (decrease) in investment value	(68,066)

10. Change in investment assets during the reporting period

	24/08/2007	Increase during the reporting period	Decrease during the reporting period	Foreign currency revaluation result	Fair value revaluation result	31/12/2008
Investment certificates of investment funds and similar securities	-	712,101	(397,002)	(656)	(96,210)	218,233
Derivatives	-	-	-	4,374	-	4,374
Total assets	-	712,101	(397,002)	3,718	(96,210)	222,607

11. Information on holders of investment certificates

The below table specifies the proportion of investment certificates held by related parties out of total investment certificates issued:

	31/12/2008	% of total certificates
Investment certificates held by the shareholder (a/s Parex banka)	4,000	8.1%
Investment certificates held by other persons	45,669	91.9%
Investment certificates issued as at the period end	49,669	100.0%

12. Related party disclosures

The majority of the Fund's investments are acquired with the mediation of the custodian bank AS Parex banka. AS Parex banka receives remuneration as the custodian bank, as disclosed in the statement of income and expense. In addition, the Fund's cash resources are held and derivative contracts are concluded with AS Parex banka.

The remuneration paid to the investment management company during the reporting period is disclosed in the statement of income and expense.

During the reporting period, the Fund had investments in investment funds managed by IPAS Parex Asset Management in the amount of LVL 45,741. As at 31 December 2008, the Fund had investments in an investment fund managed by a related investment company in the amount of LVL 9,597.

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Notes
(LVL)

13. Pledged assets

During the reporting period, no guarantees or collaterals have been issued by the Fund, neither has it pledged or otherwise caused any encumbrance or lien on its assets.

14. Fair values of financial assets and liabilities

The Company's management believes that the carrying amounts of financial assets and liabilities approximate to their fair values. The fair value is determined according to the market quotation method, based on available quotes of stock exchanges and brokers.

15. Risk management

Risks are inherent in the investment process. The risk management process includes risk identification, risk measurement, and directly risk management. The Fund is exposed to market risk (i.e. currency risk, interest rate risk, and price risk), credit risk, liquidity risk and other risks (including operational risk). The investment strategy of the Fund is aimed at minimising the aforementioned risks; however, the Company cannot guarantee that these risks can be completely avoided in the future.

Risk identification and measurement are the responsibility of an independent unit – the Risk Management Division which prepares and presents information about risks to the Fund Manager who decides specifically whether it would be necessary to minimise risks. The risk measurement process employs several models based on historical data and adjusted to consider for the current economic situation. Specific models are used to forecast changes in risk factors in ordinary and extraordinary market situations.

To mitigate the investment risks, the Fund Manager follows the risk diversification and hedging principles. The Fund Manager acquires sufficient information on potential or current investment objects, as well as supervises the financial and economic position of issuers of the securities in which the Fund's property has been or is to be invested.

The Company, when developing the Fund's investment strategy and stating limits, performs an analysis of the Fund's investments by maturity, geographic and currency profile, as well as assesses the risks inherent to each of the above factors. The Fund Manager acts in strict compliance with the Fund Prospectus, Fund Management Regulations, as well as regulations and restrictions imposed by legislation of the Republic of Latvia.

Market risk

Market risk is a risk that the Fund's value will reduce as a result of changes in any of the following market factors: securities prices, exchange rates, interest rates, etc.

Interest rate risk

The price risk related to fixed income securities (bonds) is to a great extent dependent on fluctuations of market interest rates and changes in the issuer's credit quality. Market interest rate fluctuations affect the attractiveness of securities, as, in fact, it is an alternative source of interest income. With market interest rates growing, the prices of fixed income securities are dropping, and vice versa. Meanwhile, the increase (decrease) in market interest rates produces a positive (negative) effect on coupon rates of fixed income securities bearing interest at floating rates (when the coupon is fixed as a base rate, like Euribor or Libor, plus a margin). After the revaluation (i.e. when a new interest rate is adopted), the coupon rate of such securities increases (decreases), which results in a respective increase (decrease) in interest income.

In selecting the funds, the Fund Manager considers duration as the key index, based on the forecasts made on the fixed income market development. It is impossible to define the accurate duration of the funds because information on duration components is not published simultaneously (the difference may be three months and more).

Equity price risk

Changes in equity prices depend on the following two groups of factors: changes in stock indexes of a respective country (for instance, DAX (German stock index)) and the financial position of the issuer (prospects of earning profits), where the first factor is usually referred to as systematic risk and the second – as specific risk. Systematic risk is managed on the basis of forecasts of the overall economic development in specific geographic regions and industries. Specific risk management is performed by conducting a detailed analysis of the issuer's financial position and profitability, as well as other factors affecting the equity price, based on the published issuer's reports and mass media information. Equity price deviations and correlations are also a matter of particular focus, making it possible to calculate the total risk exposure for all shares of the portfolio on the basis of only equity price history.

In selecting the funds, the Fund Manager chooses most appropriate funds in line with the Fund's strategy, based on the forecasts made on the development of specific geographic regions and industries. It is impossible to define the accurate

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sensitivity to changes in certain market indexes because the respective component information is not published simultaneously (the difference may be three months and more).

The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2008 (based on the country of incorporation).

	Latvia	OECD countries	Other non-OECD countries	Total
Assets				
Demand deposits with credit institutions	14,961	-	-	14,961
Financial assets held for trading				
Investment certificates of investment funds and similar securities	45,741	162,895	9,597	218,233
Derivatives	4,374	-	-	4,374
Total assets	65,076	162,895	9,597	237,568
Liabilities				
Accrued expense	(306)	-	-	(306)
Total liabilities	(306)	-	-	(306)
Net assets	64,770	162,895	9,597	237,262

Currency risk

Currency risk arises when the nominal value of Fund's securities or other instruments differs from the Fund's currency (euros). Exchange rate fluctuations may result in a gain or loss, depending on the trend of the fluctuations and the Fund's currency position. The Fund's exposure to currency risk is managed effectively by entering into currency forward and swap transactions, which results in closing of the existing positions and minimisation of potential risk losses.

The table below shows the Fund's assets and liabilities by currency profile as at 31 December 2008 (based on the Fund's base currency).

	EUR	USD	Total
Assets			
Demand deposits with credit institutions	14,961	-	14,961
Financial assets held for trading			
Investment certificates of investment funds and similar securities	176,858	41,375	218,233
Derivatives	44,230	(39,856)	4,374
Total assets	236,049	1,519	237,568
Liabilities			
Accrued expense	(306)	-	(306)
Total liabilities	(306)	-	(306)
Net assets	235,743	1,519	237,262
<i>% of net assets</i>	99.36%	0.64%	100.00%

In the reporting period, most of the Fund's assets were in euros (other currencies constituted less than 1% of the Fund's net assets). Consequently, the Fund's exposure to currency risk is not significant.

Credit risk

Credit risk is a risk that the Fund's value will decrease from counterparty's or issuer's non-performance or default. Only safe and reliable counterparties are selected for transactions involving the Fund's assets. The Fund Manager monitors the solvency position of the counterparties on a regular basis, analyses their credit rating and financial position, as well as mass media information.

Credit quality of the Fund's assets is managed on the basis of the credit ratings granted by international rating agencies Standard & Poor's, Moody's, and Fitch. In selecting the funds, the Fund Manager analyses both their average credit and management quality ratings.

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Liquidity risk

Liquidity risk is a risk that the Fund will have difficulties in meeting its financial obligations. The Fund Manager strives to maintain such an asset structure which would ensure a possibility of selling securities in due time and with no significant losses. The maturity profile of the Fund's assets and liabilities is provided below.

For liquidity assessment purposes, the balances of assets and liabilities are stated according to their remaining maturities. Investment certificates of investment funds and similar securities are included in the category of most liquid assets, as all the funds are open-end, which permits immediate resale of investment certificates.

The table below shows the Fund's assets and liabilities by maturity profile as at 31 December 2008.

	Within 1 month	1 – 6 months	Total
Assets			
Demand deposits with credit institutions	14,961	-	14,961
Financial assets held for trading			
Investment certificates of investment funds and similar securities	218,233	-	218,233
Derivatives	4,374	-	4,374
Total assets	237,568	-	237,568
Liabilities			
Accrued expense	(280)	(26)	(306)
Total liabilities	(280)	(26)	(306)
Net assets	237,288	(26)	237,262

16. Dynamics of Fund's performance

31/12/2008

Net assets (LVL)	237,262
Number of shares	49,669
Value of shares	4.78
Performance on shares**	-26.02%
Net assets (EUR)*	337,944
Number of shares	49,669
Value of shares	6.80
Performance on shares**	-25.98%

* The net asset value in euros is determined, based on exchange rates fixed at financial markets at the end of each day.

**Performance is calculated starting from the date when the first Fund's investment certificates were issued, i.e. 20 September 2007.

Performance is calculated supposing that a year consists of 365 days.

INDEPENDENT AUDITORS' REPORT

To the holders of investment certificates
of OIF „Parex Strategic Allocation Funds”, „Parex Balanced Strategy Fund-EUR” Investment fund applications

Report on the Financial Statements

We have audited financial statements for the period from 24 August 2007 through 31 December 2008 of opened-end investment fund Parex Strategic Allocation Funds”, „Parex Balanced Strategy Fund-EUR” Investment fund applications (hereinafter – the Fund), which are set out on pages 9 through 20 of the accompanying Annual Report for the period from 24 August 2007 through 31 December 2008 and which comprise the statements of assets and liabilities as at 31 December 2008, the statement of income and expenses, changes in net assets and the statement of cash flows for the period from 24 August 2007 through 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Investment management company's Parex Asset Management management is responsible for the preparation and fair presentation of these financial statements in accordance with the Regulations of the Financial and Capital Market Commission on Preparation of Financial Statements of Investment Funds. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements 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 whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, 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 financial statements 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 management, as well as evaluating the overall presentation of the financial statements.

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

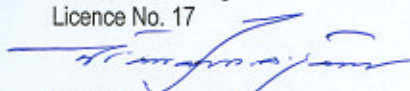
Opinion

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Fund as at 31 December 2008, and of the results of their operations and their cash flows for the period from 24 August 2007 through 31 December 2008 in accordance with the Regulations of the Financial and Capital Market Commission on Preparation of Financial Statements of Investment Funds.

Report on Compliance of the Management's Report

Furthermore, we have read the Management's Report for the year ended 31 December 2008 (included on page 5 – 6 of the accompanying Annual Report for the period from 24 August 2007 through 31 December 2008) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the period from 24 August 2007 through 31 December 2008.

SIA Ernst & Young Baltic
Licence No. 17



Diāna Krišjāne
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 124
Rīga, 21 April 2009