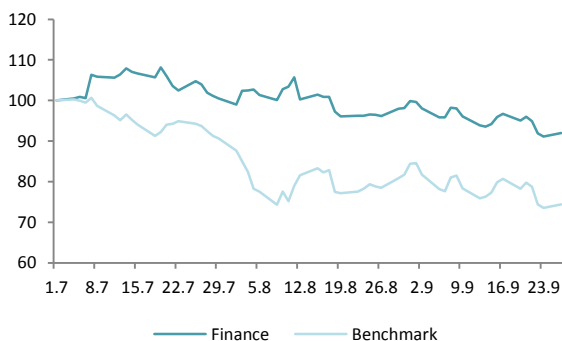


# KY Finance – Portfolio Report – Q3 2011

## Economic outlook

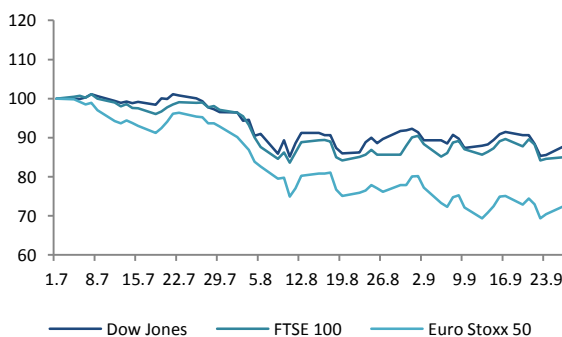
In July, Europe moved towards the Greek loan package arrangement. However, the market had become very suspicious regarding any of this to be an adequate solution, and therefore distrust and fears of the problems spreading to the larger economies Spain and Italy in early August increased considerably. The U.S. political drama on debt ceiling, Standard & Poor's decision to cut the U.S. historically intact AAA credit rating, and clearly weakening economic prospects and uncertainty towards global economic recovery started a storm in the beginning of August – situation reminded surprisingly well fall 2008. During September the very same fears of slowing economic growth combined with concerns about the state's debt crisis management and the contagion of Italy and Spain by the Greek financial problems kept the market nervousness at a high level.

- ❖ Greek loan package arrangement
- ❖ Political battle in U.S. regarding the debt ceiling
- ❖ U.S credit rating cut from AAA by Standard & Poor's
- ❖ Increasing fears of financial contagion in the South Europe's larger economies



## KY-Finance portfolio performance

The third quarter continued to be extremely interesting in the macro level. The increasing fears of wider sovereign debt crisis and slowing economy pushed stocks down towards the end of July and especially early August while Finance portfolio was compensated by remained position in Nokia sell warrants. In the beginning of August Finance was 20 % units ahead of the benchmark, at best. Towards the end of quarter Finance took more of a bystander role and stock position was decreased significantly as time available for active management was scarce and markets were in serious turmoil. At the close, the stock allocation had been decreased to 43 %. However, one interesting new stock was purchased. More on that company and its performance in the following page.

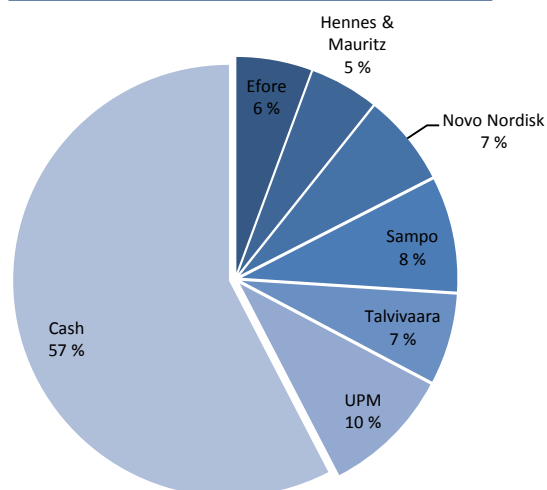


Talvivaara, the rising sun of Finnish national retail investors had good prospects despite the difficulties with production in the spring and concern with environmental issues the company managed to refinance its 80 EURm revolving credit facility to ensure liquidity during the extended ramp up phase. The stock price was depressed by poor economic prospects and it seemed that the company was valued below the fundamental value. Further, the decision of Talvivaara to buy 4 % of Outokumpu's minority shares in the operative Talvivaara Sotkamo company implied equity value of 1,5 bln EUR or share value of 6,1 EUR for the operations. At this stage, the trust for Pekka Perä being able to keep up with using the purchase option to buy the remaining 16 % minority and start investments to Nickel processing extension was solid. Therefore, Finance decided to hook in at the price of 4 EUR in September. However, later in the Autumn Pekka Perä announced his resignation and while overall economy was still struggling the share price fell to around 2 EUR. By then it was obvious that any extension plans nor option executions were quite unlikely to happen due to equity price and stagnant operative cash flow. Despite drawbacks, Finance sees Talvivaara as a good investment. The horizon just needs to be extended as it might still take a year or two to get the mine completely up and running.

## Investment policy

Portfolio is managed on a monthly basis using FIM Direct services and is composed of stock component (50-70 %) invested in mid to large cap companies with strong fundamentals listed in Nordic stock exchanges and derivatives component to increase the risk exposure. Essentially, there are no restrictions to particular investment products, leverage or shortselling and the objective is to achieve superior return over short to mid term horizon. The gains may be realized as needed and used to enhance KY Finance activities.

HOLDINGS Q3 CLOSE



## Outlook for the rest of the year

By early November the stock market volatility index VIX had slightly calmed from the third quarter's yearly hikes. However, the bail out of Dexia bank and fears for the whole European banking system, the anticipations for further cut on U.S. Government debt rating, increasing speculation of Eurozone crisis spreading to the Italy where bond yields hike close to seven percent and decreased economic growth expectations cause severe problems that will not be overcome in the near future. For now, nervousness in the market is likely to remain while the focus is on the European and overall economy as well will be on the capitalization of banks and governments. Hopefully the fear will not feed the rising borrowing rates too much to seize any further liquidity or refinancing problems.