

KUDU

KUDU FUND

EMERGING EUROPE, MIDDLE EAST, AFRICA

Month End Report February 2010

When the Kudu fund was established nine years ago, emerging markets were still trading under the recent shadow of the Asian economic crisis and the 1998 domestic debt default by Russia. During that time, Asian stock markets dropped 70-90% and the Russian market fell over 95%, prompting most western banks to close their Moscow offices and leave.

As the Kudu fund began investing, there was little enthusiasm for emerging markets stocks. The wider financial markets were dominated by the after-effects of the technology revolution: mobile phones and the internet, which had dominated the bubble stock market of the late 1990s.

However, in November of 2001, Goldman Sachs published a Global economics paper, titled 'Building Better Global Economic BRICs' - which was the first use of the acronym - identifying the growing possibilities of the four leaders of the emerging world economy: Brazil, Russia, India and China.

As it turned out, the research was extraordinarily prescient - the BRICs countries have grown enormously in economic and political power whilst the fibre optic switching companies of the Nasdaq boom are now bankrupt or forgotten.

As emerging markets move centre stage - epitomised by the return from retirement of Anthony Bolton, the doyen of UK investing, to manage a dedicated China fund - it is worth questioning whether this sector of investment will continue to deliver the growth and corporate

profits to justify current levels of optimism.

At present, the widespread enthusiasm by specialist economists and analysts, has yet to be shared at an investment level by global funds. Allocations to emerging market stocks remain a small proportion of the billions invested in western economies in both stocks and bonds.

Similarly, valuations in most emerging markets are not over-stretched. In China, some sectors are highly-priced - but then the opportunities are exceptional as well. In other regions - most notably EMEA, where Kudu invests - valuations remain notably low by all metrics.

In investment terms, emerging markets still offer enormous opportunity.

The economic structure of the world economy is undergoing a period of fundamental change. Emerging market economies now provide 90% of the growth in global energy use, and 50% or more of the world economic growth. At current growth rates China will overtake the US as the world's largest economy by 2050, with clear political, military and cultural implications.

Although not as dominant as China, the EMEA region is hugely powerful, controlling much of the world's energy and metal resources.

Currently, shares in EMEA trade at their lowest valuations for ten years - around 6-10 times last year's depressed earnings. Many stocks pay out a dividend of as much as twice

current Gilt yields - 8% or more a year.

The business outlook across EMEA is reasonably positive. Demand in most business sectors appears to have stabilized, and many companies in South Africa, Russia, Turkey and the Gulf, have released positive trading statements and sales figures above expectations.

Over the short term, there is no clear way of predicting when current low equity valuations will be rewarded by positive share price moves, but if a new sustained up-cycle begins in EMEA, the fund is well-placed to profit as both valuations and company profits rise - the leveraged effect which lies behind equity bull markets.

In the shorter-term, the fund continues to hedge a varying proportion of its longer term investment holdings, with short positions in selected indices - with highly beneficial results this year, in terms of the fund's out-performance and risk management.

In the year to date, Europe is down -6%, India -4%, Turkey -8% and Greece -15%.

These price moves - some quite substantial - are a reminder that although most current data points towards an economic and stock market recovery, the last ten years have delivered enough shocks and reversals to encourage a healthy degree of scepticism and caution, until events unfold in the expected direction.

■ **George Case**

TOP 5 LONG POSITIONS	ATTRIBUTION %
KUZBASSRAZREZUGOL	2.88%
RASPADSKAYA	2.65%
KUMBA IRON ORE	2.18%
PHARMSTANDARD	2.04%
WOOLWORTHS HOLDINGS	1.37%

TOP 5 CONTRIBUTORS YTD	ATTRIBUTION %
KUZBASSRAZREZUGOL	0.45%
RASPADSKAYA	0.36%
SIBIRSKIY CEMENT	0.08%
ORASCOM TELECOM	0.08%
KUMBA IRON ORE	0.07%

TOP 5 CONTRIBUTORS MTD	ATTRIBUTION %
PHARMSTANDARD	0.12%
KUZBASSRAZREZUGOL	0.07%
ORASCOM TELECOM	0.06%
KUMBA IRON ORE	0.06%
RAYSUT CEMENT	0.02%

FUND INFORMATION

CLASS A

ISIN

€ BMG532541270

£ BMG532541197

\$ BMG532541015

SEDOL

£ B1W7LS0

\$ B1W7LR9

BLOOMBERG

£ CLACTAS BH

\$ CLACTAD BH

Domicile: Bermuda

Listing: Irish Stock Exchange

Start Date: Jun-01

Administrator: Citi Hedge Fund Services

Mark Jennings +353 1622 8445

Auditors: Ernst and Young

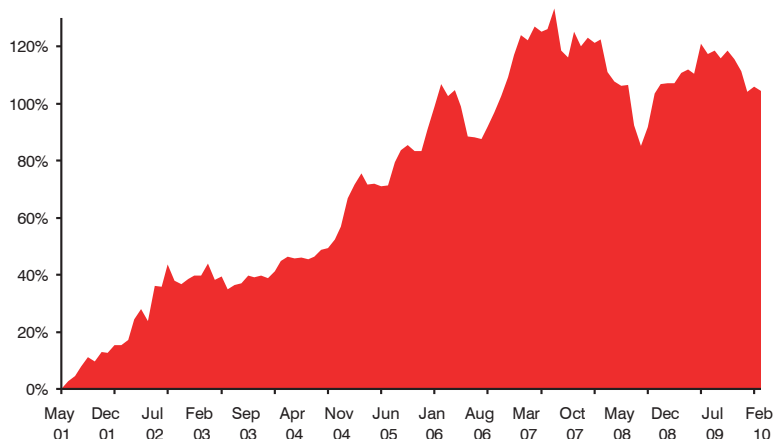
Management Company: Kudu Emerging Markets

Limited Subscriptions: Up to last business day of month



NAV per redeemable share: Class A: \$72.84 £73.06 Class B: \$158.11 £158.95 €151.46				
Performance	On Month	YTD	Rolling 12 months	Since Launch
Class B€:	-1.02%	-1.25%	8.12%	71.80%
Class AS:	-1.04%	-1.33%	8.26%	-27.16%

Kudu % Relative Return to Morgan Stanley MSPE Index



Kudu Emerging Markets Limited is the London based investment advisor to The Kudu Fund, an emerging market absolute return fund. The primary objective of the fund is to achieve long term capital growth by investing in poorly understood markets with high levels of mispricing.

The Kudu Fund takes a fundamental approach to investing and looks to capitalise on valuation discrepancies and developing themes across the regions of Africa, the Middle East, southern and eastern Europe as well as western companies with emerging market exposure.

The Kudu Fund is invested in equities, both long and short, and generally invests with a time horizon of 3–18 months.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
2001						-1.0	-1.3	-3.0	-5.4	2.0	7.4	2.4	0.6
2002	0.6	-0.5	5.3	2.9	0.0	-10.5	4.8	-0.5	-1.5	0.0	1.4	-4.0	-3.5
2003	-2.9	-2.3	2.6	-0.3	1.5	-3.0	3.9	1.7	0.3	3.1	1.2	1.1	6.9
2004	3.9	4.7	-0.1	0.1	-0.1	0.1	-0.2	1.4	1.4	3.5	5.1	8.6	31.8
2005	4.6	4.1	-2.9	-1.0	1.5	1.8	7.1	2.6	3.2	-2.4	1.3	6.3	29.1
2006	6.0	5.0	-1.4	1.5	-5.3	-5.5	0.8	0.8	3.3	4.5	2.6	5.0	17.7
2007	4.6	2.0	0.2	3.7	0.5	0.3	1.5	-6.6	-0.5	5.4	-4.2	0.8	7.3
2008	-6.2	0.1	-7.3	0.8	-0.9	-4.4	-8.2	-3.6	-1.2	2.1	-0.9	-1.2	-27.3
2009	-1.5	-0.9	1.3	2.9	7.9	-2.5	3.7	0.1	2.4	-2.4	-2.0	-1.9	6.9
2010	-0.2	-1.0											-1.3

Total Return [€]
Numbers net of fees [€ class]

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