

Monthly Report March 2010

The Kudu fund performed well during March. Long positions in Russian coal-miners, Turkish banks, and South African clothes retailers, in particular moved up in value.

Over the last year, all three sectors have spent long periods with flat or falling share prices, before re-rating sharply in a matter of weeks.

One of the features of financial markets in the aftermath of the 2008 crisis, is that the time horizon of most investors has shortened noticeably. Current earnings are given more weight in company valuations than possibly uncertain future results.

Investors – bruised and disillusioned by the volatility of 2008 - are wary of investment returns which will take time to deliver. Any sign of share price weakness, and equity investors are inclined to sell first – and find out why later.

This sentiment is reinforced by the behaviour of investment and hedge funds. If a sector under-performs for a few weeks, funds feel obliged to sell, to avoid having their returns held down by market lagging shares.

Of course, if a weak sector announces good news of its own, the negative move is swiftly reversed – with funds jumping to buy back into a rising market.

This is hardly a new situation. Keynes devoted a chapter of his General Theory to the subject, comparing stock market trading to a game of “Snap, Old Maid or Musical Chairs”, a rush to outwit the other players, by buying what is going up, or selling what is going down.

Given that Keynes was writing in the aftermath of the 1929-1933 stock market crash, it is perhaps unsurprising that his descriptions should feel so apt today.

This kind of market offers two clear opportunities for profit:

- 1) Anticipate the ‘unexpected’ earnings surprises – and changes in investor sentiment - which are driving cyclical stocks higher in the short term. In this group the fund has owned, amongst others – Eastern European Real Estate - Immoeast; Russian steel - Evraz, Severstal; South African iron ore - Kumba; and Turkish cement - Akcansa, Cimsa.
- 2) Buy shares in strong companies with market-leading positions exposed to the structural drivers of emerging market growth, whose valuations are temporarily depressed by the shift towards cyclical recovery.

In this second section lie large-capitalization high dividend yield companies with a sustainable competitive advantage and superior rates of return on capital. The Goldman Sachs research team have created a core list – called GS SUSTAIN, which seeks to identify businesses fulfilling these criteria, which will help deliver sustained investment outperformance.

Goldman Sachs are particularly positive about EMEA mobile telephone companies, which the Kudu fund has been acquiring on trading weakness this year, as

cyclical mining stocks have been the centre of attention.

With penetration rates of mobile phone ownership in emerging markets converging to developed world levels, there is less growth excitement about the sector than there used to be. However, EMEA mobile stocks are still efficient cash-rich companies, with low capital expenditure requirements, a close relationship to consumer growth rates, and user growth from rising local populations.

There is also core organic profit growth in the sector. As mobile users become richer – along with their home countries - they use more minutes of talk, send more texts, and use more high value data products from sophisticated new mobile devices.

Vimpelcom and Mobile Telesystems in Russia, are two of the players in the three-company cartel (with the unlisted Megafon), which controls the Russian mobile market. Both shares trade on valuations of 8 x 2011 net earnings, with a yield of over 7%. Mobinil in Egypt – one of the few countries yet to reach saturation ownership of mobiles, trades on 9 x 2011 earnings. These multiples are too low - for strong companies, with dominant positions and brands.

As stock market volatility continues, the Kudu fund will continue to balance lowly-valued investments in core long-term stocks, with more cyclical positions in recovery sectors.

■ **George Case**

TOP 5 LONG POSITIONS ATTRIBUTION %

MOBILE TELESYSTEMS	3.88%
RASPADSKAYA	3.64%
KUZBASSRAZREZUGOL	3.49%
PHARMSTANDARD	2.41%
SBERBANK	2.20%

TOP 5 CONTRIBUTORS YTD ATTRIBUTION %

RASPADSKAYA	1.28%
KUZBASSRAZREZUGOL	0.43%
PHARMSTANDARD	0.32%
SIBIRSKIY CEMENT	0.20%
IMMOEAST	0.13%

TOP 5 CONTRIBUTORS MTD ATTRIBUTION %

RASPADSKAYA	0.97%
PHARMSTANDARD	0.43%
MAGNIT	0.18%
WOOLWORTHS HOLDINGS	0.16%
DIXY GROUP	0.16%

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

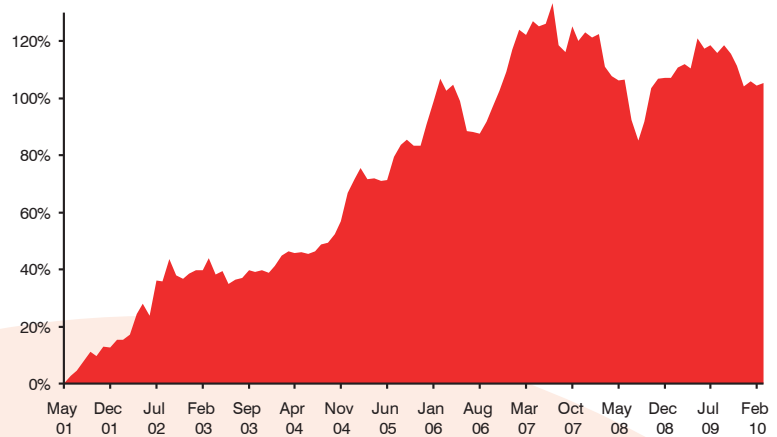
Management Company: Kudu Emerging Markets

Limited Subscriptions: Up to last business day of month



NAV per redeemable share: Class A: \$75.17 £75.38 Class B: \$163.23 £164.07 €156.36				
Performance	On Month	YTD	Rolling 12 months	Since Launch
Class B€:	3.24%	1.94%	10.17%	77.36%
Class AS:	3.19%	1.83%	10.27%	-24.83%

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	3.24										1.94

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

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