



KUDU FUND

EMERGING EUROPE, MIDDLE EAST, AFRICA

MONTHLY REPORT MAY 08

KUDU

Monthly Report

The Kudu fund fell by 0.88% in May, a month characterised by sharp swings in prices and widespread uncertainty about the outlook for the world's economy.

Although there are obvious problems in both the global macro outlook, and in some areas of EMEA, there are many sectors and countries doing better or worse than others, which offer opportunity to a fund with long and short positions.

The Kudu long portfolio is now concentrated around two economically growing and vibrant regions: Russia and the CIS, and the Gulf Co-operation Council states and their close trading partners. On the short side, the fund has focused on South Africa and Turkey, which both suffer from trade deficits and a toxic mixture of inflation, energy prices and domestic political crises.

In South Africa, the effective president elect, Jacob Zuma, faces imminent trial for corruption, and in Turkey the Supreme Court is giving serious consideration to a law suit to have the ruling AKP party declared illegal because of its anti-secularist policies.

Until these various problems have been resolved, there seems to be little logic in trying to pick the exact bottom in the continuing downward trend in many domestic South African and Turkish asset prices. After falls of 50-60%, prices and valuations are very low, and at some point will offer EMEA investors a new bull market, when a new cycle of domestic growth begins but, in the meantime, many shares continue to fall in value.

By contrast Russia and the Gulf offer relative stability at present. There is an unpleasant truth that for the financial investor, totalitarian stability is so often favoured over the rough and tumble of democratic politics.

Russia is growing strongly at present, and more importantly for an equity investor, this growth is spread across a wide variety of sectors and regions, from the current boom in Russian-made movies to a new strength in agriculture. Russian workers have enjoyed wage rises of around 30% for the last two years. Even allowing for inflation of 12%, most Russians feel hugely better off now than at any time since the fall of the Soviet system. It is hardly surprising that Putin and Medvedev currently enjoy high levels of popular support.

Russia has benefited from the commodity boom of the last few years since the Russian economy is only just now beginning to develop an internal economic strength of its own.

The price of oil is often cited as a potential source of instability for Russia, but unless oil falls well below \$90, it is unlikely to have any slowing effect on the Russian economy. Gazprom's international gas sales are mainly contracted at long term prices, and domestic gas sales will benefit from rising prices for many years to come as domestic prices rise to international levels as part of Russia's harmonisation with WTO regulations.

The Kudu fund is positioned in a wide variety of Russian sectors from regional banking to food, retailing, pharmaceuticals, steel and fertilizers. Uralkali is the largest pure-play potash producer in the world. Potash is the key source of potassium in fertilizers and demand is growing as producers are under pressure to increase yields. The potash industry is particularly attractive due to its high concentration of players, with the top 6 producers effectively controlling global supply. This oligopolistic industry creates the strong pricing trends that currently dominate the market, driven in particular by the high cost of new capacity and lower profitability of the marginal production. In addition, Uralkali is the player with the ability to add significant capacity on the cheapest basis versus global peers, and is increasing capacity by some 30% over the coming years. These dynamics will transform the profitability of the company, and industry, for many years to come.

The Gulf is also an area of great opportunity, but offers a more complex challenge for equity investors. The countries of the region are surprisingly different in history, culture and economic activity. Prior to the energy boom, countries like Qatar or even Saudi Arabia, had very undeveloped economies, and had lived for centuries on the periphery of the Ottoman Empire.

Saudi Arabia's stock markets are currently technically closed to non-GCC investors, though this rule appears to be widely avoided with no official displeasure, but the country may soon be officially opened to global investors, a move that will bring a major change of interest in this large market.

Saudi Arabia is the dominant stock market in the GCC region, with recent daily trade volume in the region of \$3 billion, compared to volume of \$350 million in Abu Dhabi and only \$45 million in Oman. The country's enormous wealth, together with its large population – 30 million, compared with 300,000 native Qataris, and its cultural and religious importance, cement its position as a natural leader in the Islamic world.

The Kudu fund has invested for some time in a range of companies in the GCC and Middle East North Africa (MENA) region, from Arab Potash in Jordan to Galfar Engineering in Oman, and a range of holdings in the UAE. The fund is researching the Saudi market in detail and will gradually invest.

The fund currently takes a cautiously positive view on the UAE. The stock markets of Abu Dhabi and Dubai are dominated by real estate, whether through companies like Emaar and Aldar, or the mortgage lenders Tamweel and Amlak, and the cooling utility Tabreed. The banks are effectively drawn into the real estate story by their large loan books in that sector.

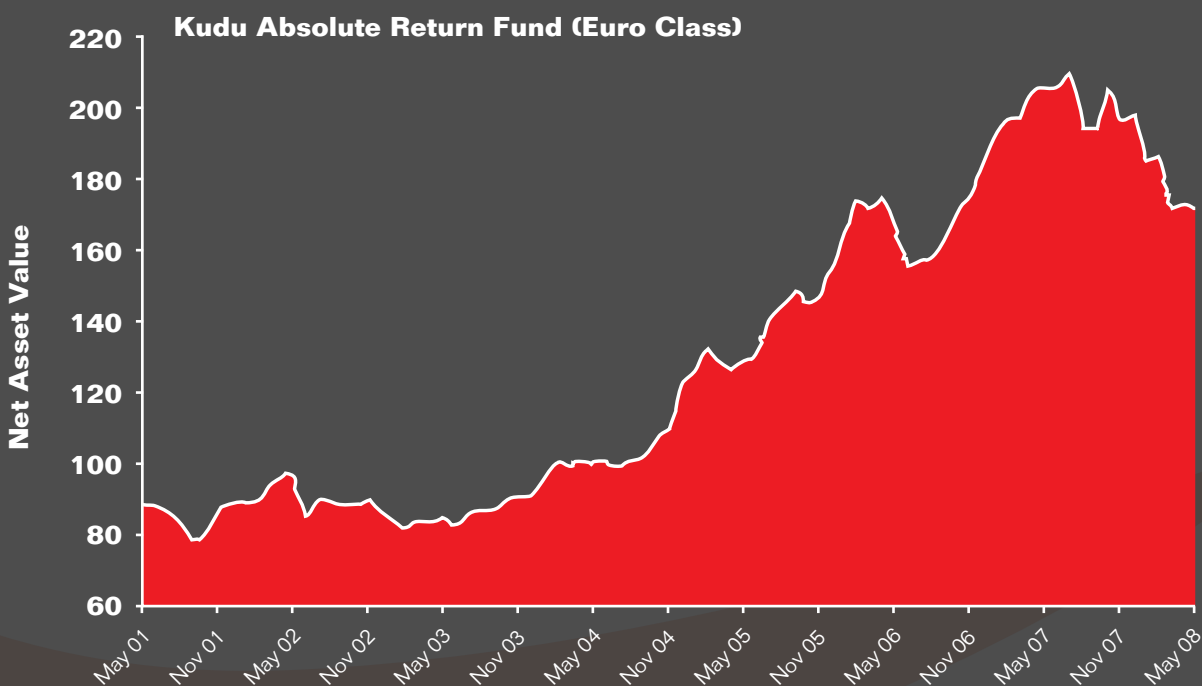
At a time of caution and nervousness in real estate worldwide, the UAE's property story invites a degree of international scepticism. However, with the notable exception of Dubai, the growth of real estate in the region reflects the rapidly growing local population and the huge migration into the region from India and Pakistan as well as from the entire Arab world. The fund will continue to monitor local real estate prices in Abu Dhabi, but, in the meantime, continues to invest in a limited range of banks and one direct property developer.

At a time of continued market volatility, and high global uncertainty about inflation, currency exchange rates and growth, the Kudu fund continues to operate with caution, maintaining a low level of gross long and net long positions. There are still considerable opportunities to be found on both the short and the long side of the market, but until stability returns to the underlying relationships between one stock and another and between individual sectors and the wider market, it remains sensible to commit less capital to investments requiring Beta hedging or balancing positions of some kind.

■ **George Case**
 ■ **Jon Bond**
 ■ **Malcolm Levy**

NAV per redeemable share: Class A: \$83.12 £84.02 €87.37 Class B: \$178.77 £181.23 €171.83

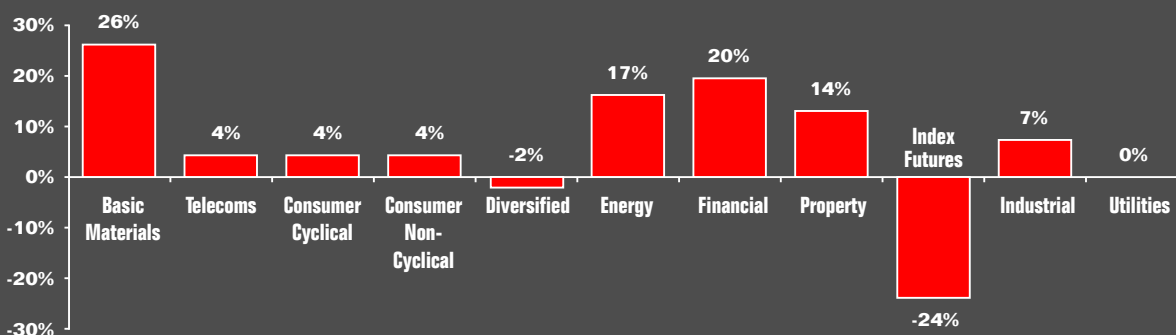
| Performance | May | YTD | Rolling 12 months | Since Launch |
|-------------|--------|---------|-------------------|--------------|
| Class A\$: | -1.05% | -13.87% | N/A | -16.88% |
| Class B€: | -0.88% | -12.98% | -16.30% | 94.90% |



Geographic Allocation Exposure as % of Fund NAV

| Region | Long | Short | Net | Beta Adjusted Net | Performance Attribution |
|--------------|--------------|---------------|--------------|-------------------|-------------------------|
| Europe | 3.50 | 0.00 | 3.50 | 1.82 | -1.77 |
| Greece | 2.84 | -0.93 | 1.91 | 0.99 | -0.78 |
| Israel | 3.38 | 0.00 | 3.38 | 1.76 | 0.55 |
| Russia | 39.48 | -14.55 | 24.93 | 12.96 | 2.61 |
| Turkey | 1.72 | -1.04 | 0.68 | 0.35 | -0.42 |
| Africa | 19.80 | -2.81 | 16.99 | 8.83 | 1.66 |
| Middle East | 19.69 | 0.00 | 19.69 | 10.24 | -2.01 |
| Others | 6.40 | -15.47 | -9.07 | -4.72 | -0.72 |
| Total | 96.81 | -34.80 | 62.01 | 32.23 | -0.88 |

Net Sector Allocation



TOP 5 LONG POSITIONS

| | % |
|--------------------|-------|
| ANGLO AMERICAN | 3.80% |
| GAZPROM | 3.52% |
| ISRAEL CORPORATION | 3.38% |
| AFI DEVELOPMENT | 3.26% |
| SHUAA CAPITAL | 3.08% |

TOP 5 CONTRIBUTORS MTD

| | ATTRIBUTION % |
|--------------------|---------------|
| ROSNEFT | 0.72% |
| AFI DEVELOPMENT | 0.49% |
| RASPADSKAYA | 0.47% |
| GAZPROM | 0.38% |
| ISRAEL CORPORATION | 0.36% |

TOP 5 CONTRIBUTORS YTD

| | ATTRIBUTION % |
|--------------------|---------------|
| ROSNEFT | 0.90% |
| LUKOIL | 0.85% |
| SASOL | 0.83% |
| MMC NORILSK NICKEL | 0.75% |
| EXXARO RESOURCES | 0.72% |

FUND INFORMATION

CLASS A

| |
|-----------------|
| ISIN |
| € BMG532541270 |
| £ BMG532541197 |
| \$ BMG532541015 |

SEDOL

| |
|------------|
| £ B1W7LS0 |
| \$ B1W7LR9 |

BLOOMBERG

| |
|---------------|
| £ CLACTAS BH |
| \$ CLACTAD BH |

US DELAWARE FEEDER

| |
|----------------|
| \$ US011831071 |
|----------------|

INVESTMENT FOCUS:

OIL AND GAS DEVELOPMENT COMPANY - PAKISTAN

Oil and Gas Development Company (OGDC) is the Pakistan state owned oil and gas exploration and production major in Pakistan, dominating the market with a 61% share of oil production and 25% of gas. Despite abundant reserves and substantial potential for new discoveries in large unexplored regions (only 4% of potential oil reserves are in production), Pakistan is net short oil and gas and is struggling to cope with the combination of high import prices and growing local demand for power and energy. This widening demand-supply gap has encouraged the government to maintain a favourable oil and gas policy regime and encourage aggressive exploration efforts, under which the state purchases all the oil and gas produced under a global market price related formula. As a result management expect a minimum volume of production CAGR of 10% over the next three years. With a healthy net cash position of Pkr25bn, OGDC offers an attractive dividend yield of 9%, compared to the regional average of 2.4%. On our estimates, the stock is trading on an undemanding multiple of 8.9x '09 earnings.

| | 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 | -6.18 | 0.12 | -7.26 | 0.77 | -0.88 | | | | | | | | -12.98 |

Total Return in €
Numbers net of fees (€class)

Domicile: Bermuda and Delaware, USA
 Listing: Irish Stock Exchange
 Assets: \$165mln
 Start Date: Jul-01
 Liquidity: Quarterly
 Lock up: 1 year soft lock up (3% redemption fee)
 Minimum: Class A £/€/ \$100,000
 Performance: 20% with HWM
 Management Fee: 2%
 Administrator: Citi hedge fund services
 Nicola O'Neil +353 1436 7292

Auditors: Ernst and Young
 Management Company: Kudu Emerging Markets Limited
 Subscriptions: Up to last business day of every month

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 miss-pricing.

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.

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