



KUDU FUND

EMERGING EUROPE, MIDDLE EAST, AFRICA

MONTHLY REPORT NOVEMBER 2008

KUDU

Monthly Report

On New Year's Eve in December 1974, Cazenove, then as now London's bluest blooded brokerage, was required to ask the London Stock Market to suspend trading in the shares of Burmah Oil. Burmah was one of Britain's largest and best-known companies, but a combination of dire trading conditions and managerial incompetence had led it to near collapse. This company, like General Motors, Chrysler, Fanny Mae and AIG in 2008, was deemed too big to fail, and the British government stepped in with a rescue package.

When trading resumed in the new year of 1975, stock market sentiment was universally bearish. Brokers continued to receive a steady flow of sell orders as investors, both individual and institutional, tried to exit the market. With economic conditions in Britain and abroad so depressed and uncertain, most commentators and analysts agreed on little apart from the wisdom of holding cash and selling shares.

But then, oddly and perversely, the stock market edged higher. The first uncertain rises rolled together until, after ten days, the market rally began to attract attention. At first, observers dismissed the move as a bear market rally, a dead-cat bounce, but then, as prices started to move ahead more abruptly, a buying panic began. Investors, who just a few weeks or even days before had been placing redemption orders and sell notices, began to clamour to re-buy their holdings. Prices leapt ahead, day after day, forcing buyers to buy back shares they had recently sold, at higher and higher prices.

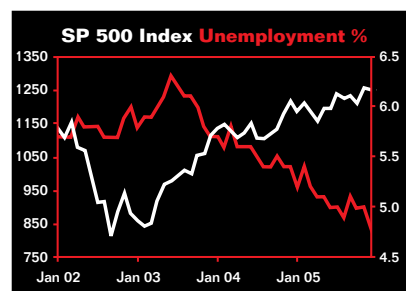
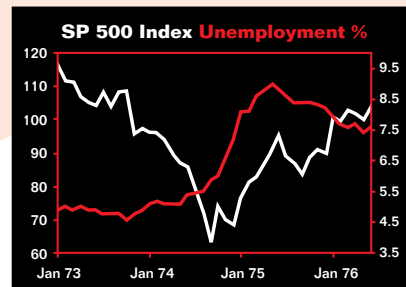
By the end of February 1975, just eight weeks from the Burmah Oil debacle, the UK blue chip index almost doubled. Many second line shares and international issues – what we today would describe as emerging market shares – had more than tripled in price. Some analysts refused to accept the rally as sustainable, and advised investors to wait for shares to pull back or dip to more reasonable levels. It proved to be a long wait. Over the next three years the UK market continued to rally, never again dropping to the levels seen in late 1974.

The eight week doubling of the UK market in early 1975 serves as a reminder that after long periods of market pessimism, sentiment

can change very abruptly. The Kudu fund watches and monitors the market very closely at all times – conditions can, and do change very fast.

Many investors today feel sure that they are best served by holding cash. The demand for cash is so great, that in early December, the yield on a 30 day US Treasury Bill briefly dropped into negative territory. Investors were prepared to accept a small but definite loss, for the apparent security of lending their money to the US government for four weeks. In December, foreign buyers of US T Bills were rewarded for their caution by a 12% collapse in the value of the Dollar priced against the Euro. The market volatility of 2008 shows no sign of abating.

Given the intensity of the rally in January of 1975, and of other sharp rallies after long market declines and economic slowdowns, it would be helpful if these unusual occurrences shared common features, which might offer profitable guidance in current markets.



There is one noticeable correlation which occurred in previous economic crises: as the percentage rate of US unemployment has risen above 6%, the stock market has first stabilised, and then begun a substantial rally. In serious recessions such as these, the rate of unemployment continues to rise long after the 6% mark at which the stock market begins its next bull market phase. In 1982,

unemployment reached its worst at 10.5%, but the stock market had already risen sharply by that time.

The significance of this correlation probably lies in the fact that, when the US economy has slowed enough for the unemployment rate to have reached 6%, the Federal Reserve and the central government will have already moved to use the huge monetary and fiscal weapons at their disposal in an attempt to revive business conditions. The fact that the lead time of monetary policy and the stock market are approximately the same – around nine months to one year – probably explains the apparently unlikely phenomenon of stocks rising along with unemployment, and terrible headlines in the media.

Since the US unemployment rate dropped to 6.7% for November of 2008, the Kudu fund is keenly monitoring the stock market in both the US and in EMEA for any unusually positive moves. Given the limited number of previous recessions and market recoveries, and the particularly abrupt and intense nature of the current global crisis, it may be that on this occasion, the correlation between the 6% unemployment rate and a potential market upturn will fail to materialize.

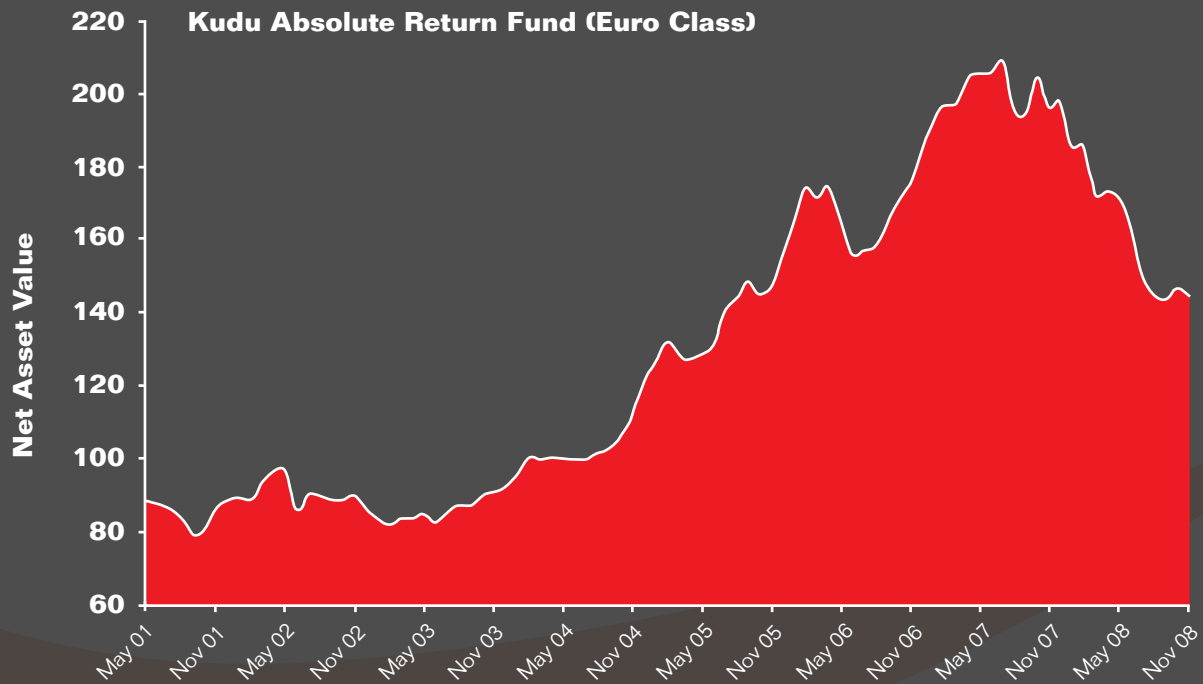
On balance it seems likely to expect a US stock market rally to begin sooner rather than later. The stock market peaked in October of 2007, thirteen months ago, and the US economy has already been in recession for over a year. However, in spite of these historically significant parallels, there is little chance of global equity markets turning up until foreign exchange and credit markets show signs of stabilising, consequently the Kudu fund continues to hold a high proportion of funds in cash.

From historical and recent experience, shares in EMEA markets move with a noticeable lag to changes in core markets at key turning points. The reasons for this are various, but include the fact that the EMEA region is the least followed and researched in global emerging markets. The Kudu fund has continued to track and research EMEA markets throughout the current global crisis, and the fund stands ready to move decisively when market conditions change.

■ **George Case**

NAV per redeemable share: Class A: \$69.94 £70.65 Class B: \$150.86 £152.75 €145.19

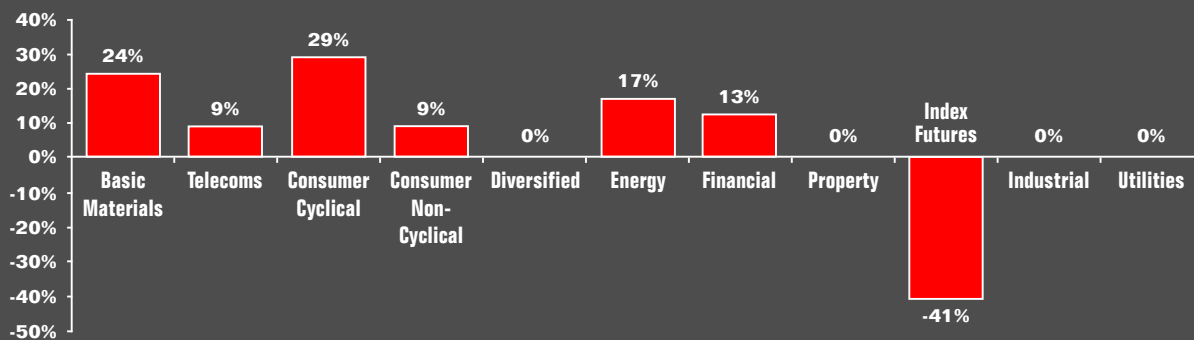
Performance	November	YTD	Rolling 12 months	Since Launch
Class B€:	-0.89%	-26.47%	-25.87%	64.69%
Class A\$:	-1.02%	-27.53%	-26.93%	-30.06%



Geographic Allocation Exposure as % of Fund NAV

Region	Long	Short	Net	Beta Adjusted Net	Performance Attribution
Europe	0.00	0.00	0.00	0.00	-0.04
Greece	1.02	-0.98	0.04	0.02	-0.12
Israel	2.16	0.00	2.16	1.19	0.12
Russia	4.70	-3.89	0.81	0.84	-0.13
Turkey	0.00	0.00	0.00	0.00	-0.01
Africa	3.01	-1.17	1.84	1.14	-0.23
Middle East	0.00	0.00	0.00	0.00	-0.03
Others	2.25	-1.02	1.23	0.71	-0.44
Total	13.14	-7.06	6.08	3.91	-0.89

Net Sector Allocation



TOP 5 LONG POSITIONS ATTRIBUTION %

GAZPROM OAO-SPON ADR	2.01%
SBERBANK-CLS	1.46%
ISRAEL CHEMICALS LTD	1.10%
CELLCOM ISRAEL LTD	1.06%
WOOLWORTHS HOLDINGS LTD	1.02%

TOP 5 CONTRIBUTORS MTD ATTRIBUTION %

NOVOLIPET STEEL-GDR REG S	1.9%
MOBILE TELESYSTEMS-SP ADR	1.3%
SEVERSTAL - GDR REG S	1.1%
ISRAEL CHEMICALS LTD	1.0%
X 5 RETAIL GROUP NV-REGS GDR	0.8%

TOP 5 CONTRIBUTORS YTD ATTRIBUTION %

URALKALI-SPON GDR-REG S	0.87%
SASOL LTD	0.74%
ROSNEFT OJSC-GDR	0.69%
MMC NORILSK NICKEL JSC-ADR	0.66%
COMMERCIAL BANK OF QATAR	0.56%

FUND INFORMATION

CLASS A

ISIN

€ BMG532541270

£ BMG532541197

\$ BMG532541015

SEDOL

£ B1W7LS0

\$ B1W7LR9

BLOOMBERG

£ CLACTAS BH

\$ CLACTAD BH

INVESTMENT AREA:



	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	-4.43	-8.23	-3.58	-1.21	2.06	-0.89		-26.47

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

Domicile: Bermuda

Listing: Irish Stock Exchange

Assets: \$124mln

Start Date: Jun-01

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 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.

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