

KUDU

KUDU FUND

EMERGING EUROPE, MIDDLE EAST, AFRICA

Monthly Report October 2009

During October, equity markets gave up most of the positive gains of the last few months. There is a two-way argument in equity markets at present - between, on the one hand, those who believe extremely low interest rates will boost company earnings and stock valuations, and on the other hand, the pessimists who are nervous of the continuing weakness of the US economy.

This disagreement over the future is reflected in the movement of share prices. For all the apparent recovery in the world economy, by early November, European markets stood just 5% higher than the level they reached in the first week in January - and this gain has been eked out through considerable volatility.

Whenever opinions form so clearly into two camps, the answer often confounds them both. After long experience, the economist Maynard Keynes concluded that frequently the future direction of business and the economy is, in probability terms, 'uncertain', and that no amount of analysis can change this state of affairs.

Faced with macroeconomic uncertainty, the best reward in the stock market

comes from identifying specific business themes and developments which lie beneath the main current of the world economy.

One area which benefits from continued low Dollar interest rates is the Gulf. The countries of the Gulf Co-operation Council, which include Oman, peg their currencies and - necessarily - their interest rates to the US system, but their economic circumstances are very different to America's. The region has a large Dollar surplus from oil and gas sales, and suffered until recently from high inflation.

In spite of some local problems, most of the Gulf economies have rebounded from the recent global shock. The Omani Central Bank allocated \$2 Billion to stabilise the local banking system, but has spent just \$300 million, citing a recovery in local demand.

Oman, in particular offers specific investment opportunities. The country is a stable kingdom, with a favourable geographic position close to areas of strong economic growth - the Gulf and India. The Sultan is committed to diversifying and strengthening his

country's economy with infrastructure spending, since Oman enjoys very limited reserves of oil and gas, compared to its neighbours. The effect of all this government investment is to create a Keynesian multiplier. For every dollar spent on a new project, more money circulates in the rest of the economy, and more credit is created by local banks.

Kudu's holdings in Oman are in companies exposed to local demand: food and flour, cement, ceramic tiles, contracting and engineering, and oil services. In the contracting and service sector, local companies benefit from the regulatory policy of 'Omanisation' - which favours businesses employing a high proportion of local employees.

After a sharp market fall last year, Omani shares are priced in general at less than 10 times depressed 2009 earnings. If economic growth rebounds in 2010 to around 6% as the IMF predict, then company earnings could deliver surprising growth.

■ George Case



TOP 5 LONG POSITIONS

ATTRIBUTION %

| | |
|--------------------------|-------|
| KUZBASSRAZREZUGOL | 2.43% |
| PHARMSTANDARD | 2.10% |
| IMPALA PLATINUM HOLDINGS | 1.95% |
| VSMPO-AVISMA CORP | 1.95% |
| SIBIRSKIY CEMENT | 1.62% |

TOP 5 CONTRIBUTORS YTD

ATTRIBUTION %

| | |
|--------------------------|-------|
| RASPADSKAYA | 2.31% |
| TURK HAVA YOLLARI | 2.09% |
| TURKIYE VAKIFLAR BANKASI | 1.65% |
| SBERBANK | 1.49% |
| NORILSK NICKEL | 1.49% |

TOP 5 CONTRIBUTORS MTD

ATTRIBUTION %

| | |
|-------------------|-------|
| SIBIRSKIY CEMENT | 0.50% |
| ROSNEFT | 0.31% |
| GAZPROM | 0.31% |
| TURK HAVA YOLLARI | 0.30% |
| LUKOIL | 0.26% |

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

Nicola O'Neil +353 1436 7292

Auditors: Ernst and Young

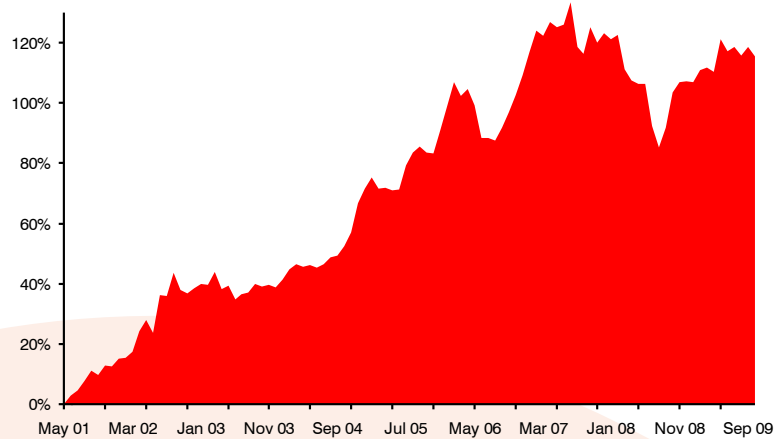
Management Company: Kudu Emerging Markets

Limited Subscriptions: Up to last business day of month



| NAV per redeemable share: Class A: \$76.69 £77.07 Class B: \$166.18 £167.39 €159.47 | | | | |
|---|----------|--------|-------------------|--------------|
| Performance | On Month | YTD | Rolling 12 months | Since Launch |
| Class B€: | -2.38% | 11.14% | 8.86% | 80.88% |
| Class AS: | -2.45% | 11.11% | 8.53% | -23.31% |

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 | 3.74 | 0.08 | 2.42 | -2.38 | | | 11.14 |

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

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