



# **KUDU FUND**

**EMERGING EUROPE, MIDDLE EAST, AFRICA**

## **MONTHLY REPORT OCTOBER 2008**

# **KUDU**

## Monthly Report

The Kudu fund rose by 2.1% in October in some of the worst market conditions for several decades. Taken together with September, the Kudu fund has delivered a positive performance during a two-month period in which global stock markets experienced severe losses. The Russian market fell by -55%, MSCI European index by -21%, Dubai by -38%, and MSCI EMEA by -42%. The performance of many sectors and less liquid stocks was shocking, with falls of 70-80% being commonplace, as distressed owners attempted to sell into a falling market.

The Kudu fund's gains during this period of economic crisis, which saw the British banking sector effectively nationalised to prevent collapse, shows the value of the fund's investment approach.

With very low cash yields at present: less than 1% for deposits in dollars, and less than 3% in sterling, the Kudu fund offers two benefits: firstly, a fund managed for outright absolute return, taking advantage currently of the recent huge disruptions in world stock markets; secondly an emerging market fund with huge experience able to make the maximum possible gains, as and when markets enter a new upward phase- which in spite of all our current pessimism, will happen at some point, usually when least expected.

The fund moved 95% of its assets into cash in early August, a decision taken in response to a wide range of worrying changes in financial markets. The swift move out of the stock

market was made possible by the fund's commitment to restricting its investment positions to highly liquid stocks.

Liquidity is crucial to risk management in emerging markets. There is no point in knowing you want to exit a stock or a sector, but then realizing that your fund hold's several months' worth of daily traded volume in the stocks concerned. During a bull market smaller stocks typically rise more than larger more liquid equities. On simple analysis, this illiquidity effect looks like stock-picking 'Alpha', and is often touted as such, but in fact, when the total return from small stocks is assessed through the cycle, with the huge losses incurred as markets collapse, this apparent Alpha proves to be nothing more than a leveraged form of emerging market risk - with the added danger of extreme illiquidity in periods of market shock.

The Kudu fund is still currently holding 95% of its assets in cash or government bills. The actual realized volatility in EMEA markets is currently between four and eight times 'normal' markets. In effect, a position size of 1% of the fund has the equivalent effect on the fund's profit and loss as a 5% position a year ago.

This is a time of unprecedented turmoil in the stock markets where the Kudu fund operates, but out of this turmoil, there are now extraordinary opportunities, on both the long and short side of the market. It might appear as if there could not possibly be any further profit available on the short side, but

the economic and market changes of the last few months have been so swift and so abrupt, that some sectors have still not fallen to their appropriate value.

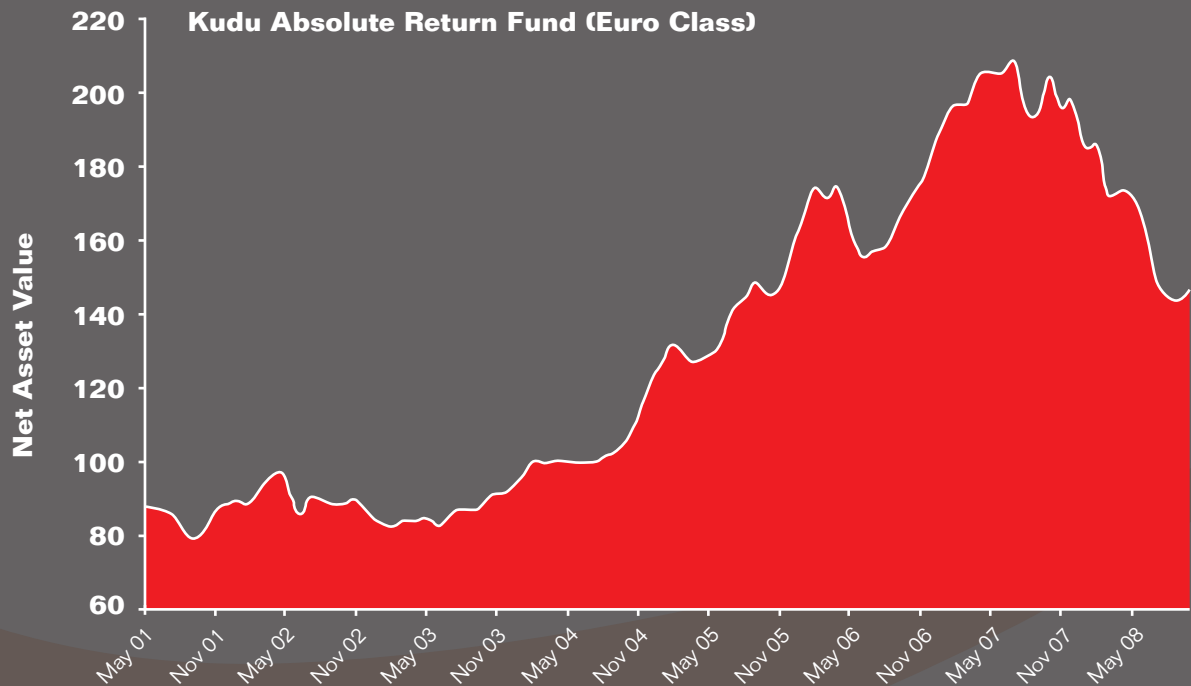
On the long side, there are two distinct areas of opportunity. First, there are the long list of decent, high quality companies, whose shares have fallen anywhere between 60-90%, because their business contains a reasonable degree of cyclical sensitivity. For the time being, it is premature to buy these stocks, however cheap they appear to be, because the duration and scale of the global slowdown is unknowable. At the right time there will be such large profits to be made from these stocks, that there is no point in speculating at this point that the bottom has been reached, either in the stock market or the economic downturn.

The Kudu fund is well placed to assess when the correct time has come to re-invest in this area of the market, and more specifically in which companies. The growth story of emerging markets in EMEA is clearly enduring a sharp setback, but seen from a longer term perspective, this crisis is unlikely to signal the end of economic development in countries like Russia, Turkey and the Middle East.

### ■ George Case

**NAV per redeemable share: Class A: \$70.66 £ 71.39 Class B: \$152.34 £154.30 €146.49**

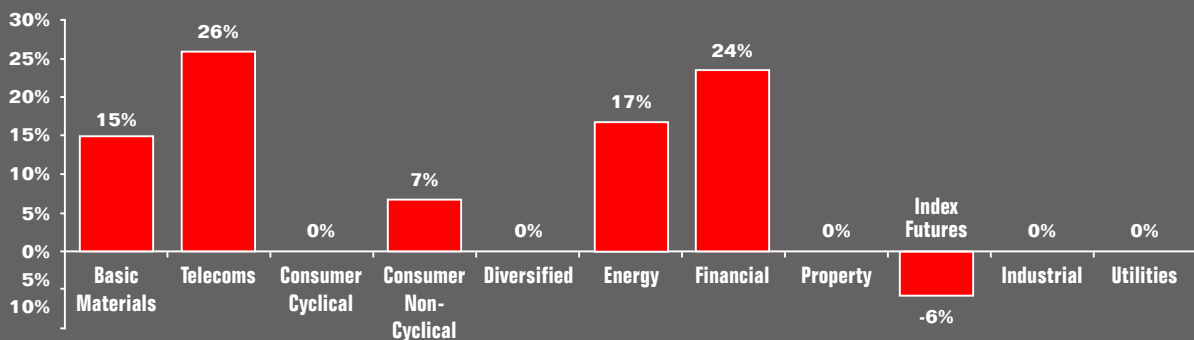
Performance	October	YTD	Rolling 12 months	Since Launch
Class B€:	2.06%	-25.81%	-28.38%	66.16%
Class A\$:	1.87%	-26.78%	-29.36%	-29.34%



**Geographic Allocation Exposure as % of Fund NAV**

Region	Long	Short	Net	Beta Adjusted Net	Performance Attribution
Europe	0.00	-0.08	-0.08	-0.08	0.24
Greece	1.06	0.00	1.06	1.11	-0.12
Israel	1.03	0.00	1.03	1.08	0.11
Russia	10.65	0.00	10.65	11.20	1.96
Turkey	1.09	0.00	1.09	1.15	0.09
Africa	5.19	0.00	5.19	5.46	-0.25
Middle East	0.40	0.00	0.40	0.42	-0.05
Others	0.00	-4.12	-4.12	-4.33	0.08
<b>Total</b>	<b>19.42</b>	<b>-4.20</b>	<b>15.22</b>	<b>16.00</b>	<b>2.06</b>

**Net Sector Allocation**



## TOP 5 LONG POSITIONS ATTRIBUTION %

GAZPROM OAO-SPON ADR	1.69%
SBERBANK-CLS	1.44%
VIMPELCOM-SP ADR	1.09%
TURKIYE VAKIFLAR BANKASI T-D	1.09%
X 5 RETAIL GROUP NV-REGS GDR	1.09%

## TOP 5 CONTRIBUTORS MTD ATTRIBUTION %

MOBILE TELESYSTEMS-SP AD	0.71%
VIMPELCOM-SP ADR	0.66%
SBERBANK-CLS	0.39%
ROSNEFT OJSC-GDR	0.29%
LUKOIL-SPON ADR	0.17%

## TOP 5 CONTRIBUTORS YTD ATTRIBUTION %

URALKALI-SPON GDR	0.87%
ROSNEFT OJSC-GDR	0.82%
SASOL LTD	0.74%
MMC NORILSK NICKEL JSC-ADR	0.66%
COMMERCIAL BANK OF QATAR	0.56%

## FUND INFORMATION

CLASS A

ISIN

€ BMG532541270

£ BMG532541197

\$ BMG532541015

SEDOL

£ B1W7LS0

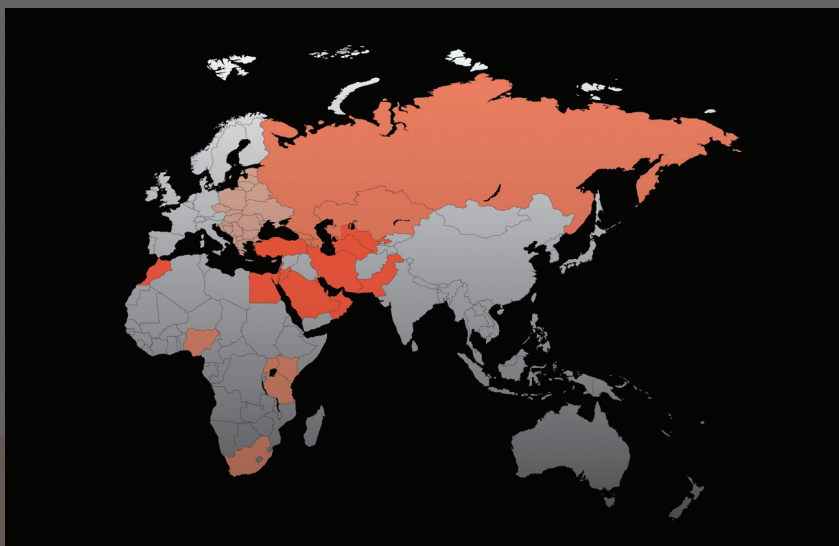
\$ B1W7LR9

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			-25.81

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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