

## Monthly Report September 2010

September was a month dominated by global macroeconomic trends. The Dollar continued its gradual devaluation, falling by 7% against the Euro. This decline was caused by further statements and guidance from the US Federal Reserve Bank, to the effect that it would prefer to see higher inflation. Apart from public encouragement, the principal monetary lever to achieve higher inflation is a second round of quantitative easing – effectively printing more money to buy assets in public financial markets.

At other times, this situation might have been seen as a sign of desperation, but with economic growth in many emerging economies still strong, equity valuations relatively low, and money leaving the Bond market in search of yield, the renewed Dollar weakness and prospect of higher inflation, caused a rise in US and world stock markets. The fund enjoyed a positive month, with rises in most markets where the fund invests.

One of the most notable trends of the last few years has been the strong economic performance of Turkey. Just ten years ago, Turkey went through a catastrophic banking crisis, which saw the collapse of several large commercial banks and the bankruptcy of some over-

leveraged local conglomerates. During the 2000-2001 Turkey crisis, Portugal, Italy, Greece and Spain, the so-called PIGS countries, were all enjoying a continuing Eurozone boom, fuelled by low interest rates and bond yields.

Ten years on, the situation is completely reversed. Turkey is growing strongly, whilst much of southern Europe is stuck in recession. Earlier this year, Greece was forced to seek a bailout from Germany. Turkey now enjoys lower Credit Default Swap rates, a sign of market confidence, than Italy.

Turkey is a large and youthful country, with a population of 70 million, forecast to reach 90 million in the next decade. It is also a business-minded nation, with a strong tradition of hard work and self-reliance.

Turkey has benefited enormously from the end of the Cold War. Turkey was a frontline state, with the Russian border effectively closed to trade and commerce – it was the movement of US missiles to Turkey that triggered the Cuban missile crisis. This political backdrop gave the military power and prestige – which they used to dominate Turkish politics for a generation.

One of the side benefits of the fall of the Berlin Wall was to send the

Generals back to their barracks, and usher in a period of strong civilian rule. Turkey has been governed for the last two parliamentary terms by the conservative Islam-friendly AK party. Strong civilian government has led to stable economic policies, and the end of hyper-inflation. Lower interest rates have caused a sustained rise in local consumer demand.

Turkey has a strong and transparent stock market culture, with good corporate governance - closer to Germany than Russia. The Kudu fund has investments in a broad range of Turkish companies, from banking to consumer goods, travel and food supermarkets. The fund also holds a number of Pair trades - related trades, where the fund is short one company, and long another.

The fund continues to invest with some caution - this year has seen a series of market rallies, followed by sharp reverses, and equity price volatility remains high. There are wide differences in the business and economic prospects of different sectors and countries. The fund continues to restrict its investments to regions where the economic and market outlook is strong or improving.

■ **George Case**

## TOP 5 LONG POSITIONS ATTRIBUTION %

YAPI KREDI BAKASI	2.04%
CHARLEMAGNE CAPITAL	1.63%
KUZBASSRAZREZUGOL	1.03%
SIBERSKY CEMENT	0.96%
URALKALI	0.82%

## TOP 5 CONTRIBUTORS YTD ATTRIBUTION %

RASPADSKAYA	0.43%
IMMOEAST	0.28%
COMMERCIAL INTERNATIONAL BANK	0.22%
CHARLEMAGNE CAPITAL	0.20%
WOOLWORTHS HOLDINGS	0.17%

## TOP 5 CONTRIBUTORS MTD ATTRIBUTION %

CHARLEMAGNE CAPITAL	0.42%
SIBERSKY CEMENT	0.18%
COMMERCIAL INTERNATIONAL BANK	0.06%
COMMERCIAL BANK OF QATAR	0.05%
YAPI KREDI BAKASI	0.04%

## 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

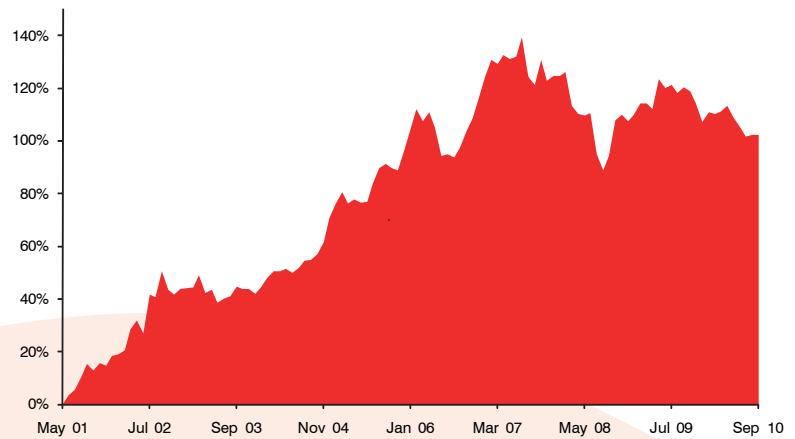
Management Company: Kudu Emerging Markets

Limited Subscriptions: Up to last business day of month



NAV per redeemable share: Class A: £69.97 Class B: \$152.04 £152.69 €144.95				
Performance	On Month	YTD	Rolling 12 months	Since Launch
Class B€:	1.9%	-5.5%	-11.3%	64.4%

Kudu % Relative Return to Euro Stoxx 50 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	3.2	-0.2	-5.3	-2.4	0.0	-1.4	1.9				-5.5

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

For more information contact George Case: [george@kudufunds.com](mailto:george@kudufunds.com) Tel: +44 (0)1491 638 125

Issued and approved by Kudu Emerging Markets Limited, which is authorised and regulated by the Financial Services Authority. This material is for information only and does not constitute an offer or recommendation to buy or sell any investment, or subscribe to any investment management or advisory service. It is not, under any circumstances, intended for distribution to the general public. The Funds that may be referred to in this document are unregulated collective investment schemes for the purposes of Section 238 of the Financial Services and Markets Act 2000. Accordingly, this document is only being communicated to persons to whom it may lawfully be issued under The Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes)(Exemptions) Order 2001 and COBS 4.12 of the FSA's New Conduct of Business Sourcebook.

No part of this document may be reproduced in any manner without the written permission of Kudu Emerging Markets Limited. We do not represent that this information, including any third party information, is accurate or complete and it should not be relied upon as such. Opinions expressed herein reflect the opinion of Kudu Emerging Markets Limited and are subject to change without notice.