



# **KUDU FUND**

**EMERGING EUROPE, MIDDLE EAST, AFRICA**

**MONTHLY REPORT APRIL 08**

# **KUDU**

## Monthly Report

The Kudu fund rose by 0.8% in April, in highly unusual macroeconomic conditions worldwide.

After a decade of subdued inflationary conditions, prices are now rising fast in both developed and developing economies. A series of interlocking inflationary surges involving food, hydrocarbons, industrial metals, shipping, and wages for both skilled and unskilled labour, threaten to radically shift the allocation of monetary profits between countries and business sectors.

Politicians and business leaders around the world face rapid and dislocating change, which threatens to tear up the post-Cold War geo-political settlement of power and wealth.

The Kudu fund is focused on understanding the effects of today's explosive global economic changes on the markets of EMEA.

There are both winners and losers in the economies of EMEA, and any number of complexities beneath the headline simplicities of current account deficits or surging commodity prices.

Most countries of EMEA have negative real interest rates, that is to say, that once local levels of inflation are subtracted from interest rates the implied rate of interest is negative.

For example, Russia has short term interest rates of 7.2% and an inflation rate of 13.6%, leaving a -6.4% implied interest rate. The figure for the United Arab Emirates and Ukraine is -5%.

If you live in any of these countries, and deposit 100 rubles, dirham or hryvnia in the bank for a year, when you withdraw your money, its purchasing power will have dropped by the negative implied interest rate. As any economically active individual knows to their cost, most inflation data understates the real cost of living, either by political fiddling or by the inherent biases in any basket of assessable goods.

The quickest and most straight forward way to protect yourself from this rapid attack on your savings is to invest your money in a real asset that you trust and understand. For most people, whether oligarch or school teacher, the best inflation proofed asset is real estate. The added kicker in most emerging economies is that there is a chronic shortage of both modern offices and decent residential property.

Today's buyer in Lviv in western Ukraine, or Moscow, or Abu Dhabi, or Cairo, stands to benefit not just from owning an investment hedge in bricks and mortar, but also a commodity with a huge imbalance of demand over supply. Anyone who has followed markets with supply/demand imbalances over the last few years will be familiar with the outcome:- sharp rises in price.

At a local level it is clear that a combination of large negative real interest rates and visible imbalances of supply and demand, are leading to sharp price rises in property in Abu Dhabi, Ukraine, Moscow and Cairo. It might then be fair to assume that shares in local real estate companies are rising fast as well. This is where the mismatch between local fundamentals and sentiment towards emerging market equities, offer an unusual and exciting opportunity.

The global credit crunch, and the collapse in US sub-prime real estate debt, caused a sell-off in just about every share worldwide

with the words real estate or property in the title. Real estate shares fell by between 20-70% from August of 2007 to April of 2008. Emerging market real estate companies, which are poorly followed at the best of times, fell sharply along with the rest of emerging market stocks.

This disconnect, between a sector with outstanding business fundamentals and a huge sentiment driven sell-off, offers fantastic opportunity.

The fund has invested with real confidence in this opportunity and owns Aldar in Abu Dhabi, Twenty First Century in the Ukraine, Talaat Moustafa Group in Egypt, and AFI Development in Moscow.

There are real differences between the companies and their strategies, but the basic opportunity remains the same: negative real interest rates combined with immediate supply/demand imbalances. There is one final attraction, which is that above and beyond any current favourable dynamics, all four companies stand to profit for decades in the creation of modern dynamic countries, with high quality commercial and residential real estate.

Aldar Properties in Abu Dhabi is an integrated property development, investment and management company. The Group's developments include the full range of office, residential properties, retail sites and hotels. The company has a land bank of over 34 million square metres, independently valued by CB Richard Ellis at AED 44.2 billion as at 31 December 2007. The company currently trades on a price to NAV of 0.58x. Importantly, this land was granted by the government at no cost on the understanding that it would be developed for the betterment of the economy and local population.

Abu Dhabi is the capital of the UAE, and geographically the largest of the emirates, accounting for 87% of the land mass. It has the 5th largest oil reserves in the world, and current production of 2.5mb/day can be sustained into the next century. Known reserves are in excess of 100bn barrels. At \$120 oil, 2.5mb/day equates to a phenomenal revenue of \$300m per day that needs to be reinvested.

The Abu Dhabi economy runs substantial budget surpluses (9.6% of GDP in 2006) that are being reinvested into the economy. Numerous government sponsored initiatives are underway to deepen the economic and industrial base of the emirate, develop key infrastructure and encourage the growth of services, mainly tourism. ADIA, the Abu Dhabi Investment Authority, is rumoured to have in excess of \$800bn invested globally, providing a solid underpin to the Abu Dhabi investment story.

Against this fascinating backdrop, the following dynamics are driving up prices:

- Structural shortage of all categories of real estate.
- Migration effect - large numbers of people are flocking to Abu Dhabi in search of a better life. Some estimates expect the population to double by 2015.
- Wealth effect - economic surpluses are filtering through the economy.

Aldar is optimally positioned to capture the benefits of the generational changes in Abu Dhabi, all the more as the government selected prefer real estate developer.

Another company that benefits from particular macro-dynamics is XXI Century in the Ukraine. Ukraine's GDP is set to grow at 7.5% for several years as the country's transition from centralised to market economy accelerates. The country, and Kiev in particular, suffer a substantial undersupply of quality real estate across all sectors. Office and retail supply is substantially below that of Central and Eastern European countries, and up to half of that of Moscow. Residential prices continue to be driven by the increasing penetration of mortgages, which currently stand at only 5%. XXIC trades at 0.5x independently appraised NAV.

Next door in Russia, AFI Development is the country's second largest listed real estate company. It is 71% owned by Africa Israel, Lev Leviev's global real estate business. Lev Leviev was born in Uzbekistan in 1956, and his deep network of contacts throughout Russia remain important to the company. Class A office space remains critically short in Russia, and Moscow in particular, and vacancy rates are among the lowest in the world. Similar dynamics benefit both the residential and retail market, where positive macro-economic dynamics are increasingly allowing Russians to upgrade from their Soviet era accommodation and shopping habits. 95% of residential property sales make no use of mortgage financing, and the credit crisis in the West has had no visible impact on the continued strong and growing property markets of Moscow and the regions. This dynamic is further supported by wage increases of 27% in Russia over the last year. AFI Development trades at a modest 0.7x NAV.

Talaat Mostafa (TMG) in Egypt is the leading community real estate developer with over 20 years of experience. The company develops self contained urban communities targeting the middle and upper class. The largest developed Community and City complex is Madinaty, which is a remarkable 33.6m square metres. The model is self-funding: land is acquired on a large scale through bilateral agreements with the government; and properties are then pre-sold in the thousands as they fund development. TMG's reputation and experience allow them to do this, which creates substantial barriers to entry for untried and unproven competitors. Over-crowding in residences along the Nile is resulting in the 16 million population of Cairo flocking to these new community developments.

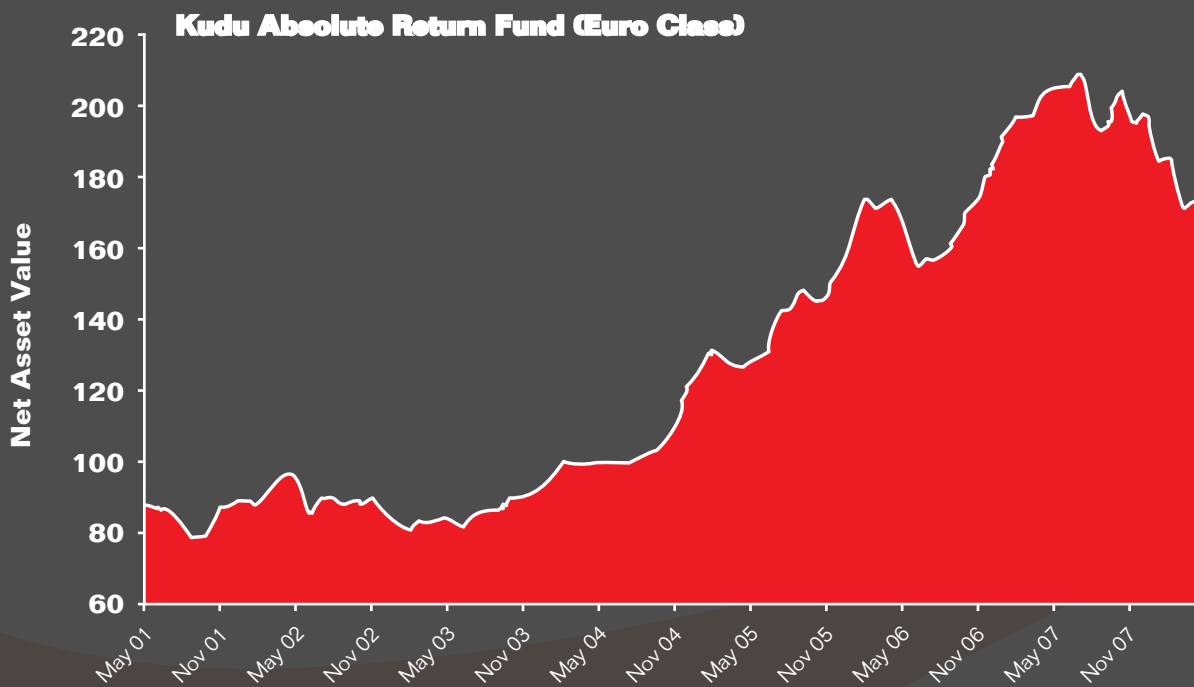
The Kudu fund's real estate investments are held with a view to long-term gains in value. All the positions are well researched, and reassessed regularly. The correlation of price changes in real estate stocks to the wider market is lower than many other sectors, but there is sufficient Beta in a group of positions, to allow the fund to hedge some market risk from these positions.

The rising price of oil, and the increasing threat of global inflation serve as a cautionary remainder that equity markets remain volatile, and the fund continues to limit gross long investments until the second round effects of the credit crisis become more apparent.

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

**NAV per redeemable share: Class A: \$84.00 £84.72 €88.19 Class B: \$180.59 £182.66 €173.35**

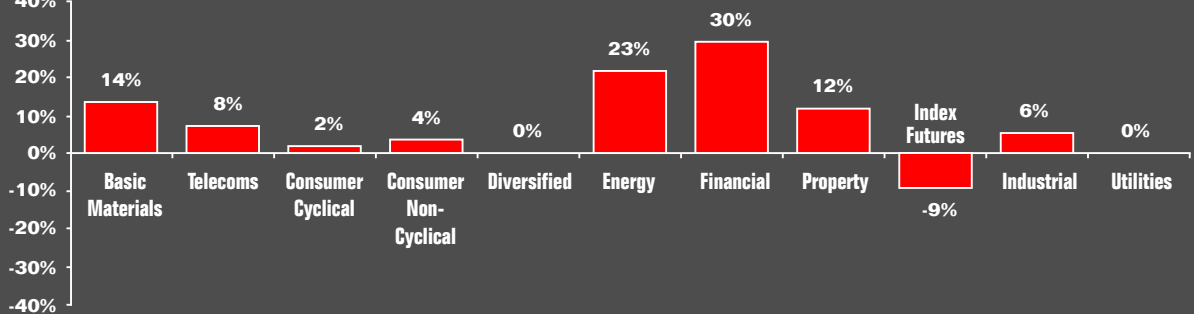
Performance	April	YTD	Rolling 12 months	Since Launch
Class A\$:	0.61%	-12.96%	N/A	-16.00%
Class B€:	0.77%	-12.21%	-15.18%	96.63%



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

Region	Long	Short	Net	Beta Adjusted Net	Performance Attribution
Europe	14.84	0.00	14.84	6.23	0.41
Greece	3.23	0.00	3.23	1.36	0.21
Israel	2.11	0.00	2.11	0.89	-0.20
Russia	19.13	-1.55	17.58	7.38	0.27
Turkey	7.24	0.00	7.24	3.04	0.00
Africa	13.95	-5.68	8.27	3.47	0.43
Middle East	32.99	0.00	32.99	13.86	-0.38
Other	6.34	-24.30	-17.96	-7.54	0.03
<b>Total</b>	<b>99.83</b>	<b>-31.53</b>	<b>68.30</b>	<b>28.69</b>	<b>0.77</b>

**Net Sector Allocation**



## TOP 5 LONG POSITIONS

	%
MTN	4.08%
ROSNEFT	3.59%
ALPHA BANK	3.23%
GAZPROM	3.05%
SHUAA CAPITAL	2.99%

## TOP 5 CONTRIBUTORS MTD

	ATTRIBUTION %
MTN	0.64%
SASOL	0.28%
SHUAA CAPITAL	0.26%
TURKISH AIRLINES	0.25%
ALDAR PROPERTIES	0.24%

## TOP 5 CONTRIBUTORS YTD

	ATTRIBUTION %
EXXARO RESOURCES	0.53%
LUKOIL	0.51%
ANGLO AMERICAN	0.44%
COMMERCIAL BANK OF QATAR	0.44%
SHUAA CAPITAL	0.42%

## FUND INFORMATION

### CLASS A

ISIN
€ BMG532541270
£ BMG532541197
\$ BMG532541015

### SEDOL

£ B1W7LS0
\$ B1W7LR9

### BLOOMBERG

£ CLACTAS BH
\$ CLACTAD BH

### US DELAWARE FEEDER

\$ US5011831071
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## INVESTMENT FOCUS:

### GALFAR ENGINEERING & CONTRACTING - OMAN

Galfar is Oman's largest contracting and engineering company, with a specialised 35 year history in oil and gas based projects. The drive to diversify the economy, using the windfall from dwindling oil and gas reserves, is leading to substantial infrastructure investment in Oman. Galfar's main client is the Government and the company's long term business relationship with the State, the Omanisation project and the inability of foreign and regional companies to meet the scale and labour force requirements for complex infrastructure related projects creates substantial natural barriers to entry. Galfar has a large and low cost labour force of 23,000 people, mostly immigrants from South Asia. Of the planned government budgeted expenditure of \$52bn, Galfar expects to gain at least a 40% share - our analysis indicates that a far high proportion of contract wins is probable. The exceptional order backlog of already \$1.8bn before the upcoming tenders (2.6x '07 revenues) makes Galfar an ideal play on Oman's construction boom, funded by robust economic growth, higher oil prices and a drive by the government to develop large scale infrastructure. The company is trading at 7x '09 estimated earnings and offers a return on equity of 56%.

	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									-12.21

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

Domicile: Bermuda and Delaware, USA  
 Listing: Irish Stock Exchange  
 Assets: \$170mln  
 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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