



**KUDU FUND**

**EMERGING EUROPE, MIDDLE EAST, AFRICA**

**MONTHLY REPORT AUGUST 07**

**KUDU**

## TOP 10 LONG POSITIONS

	%
SBERBANK	3.86%
HELLENIC BANK	3.56%
TURKIYE VAKIFLAR BANKSAI	3.53%
BULGARIAN LAND DEVELOPMENT	2.74%
HALYK SAVINGS BANK	2.61%
BANK MUSCAT	2.48%
OPAP	2.42%
GAZPROM	2.33%
ORIENTAL WEAVERS	2.28%
AKSIGORTA	2.26%

## TOP 5 CONTRIBUTORS MTD

	BPS
HARMONY	12
FIRSTRAND	11
METRO AG	10
BANK MUSCAT	10
OPAP	8

## TOP 5 CONTRIBUTORS YTD

	BPS
AFRICA ISRAEL	243
EVRAZ GROUP	189
HELLENIC BANK	164
ALDAR PROPERTIES	154
VIVARTIA	149

## FUND SHARE PRICE

	€	£	\$
CLASS A		95.18	95.36
CLASS B	195.09	204.51	204.31

## FUND INFORMATION

### CLASS A

#### ISIN

€ BMG532541270

£ BMG532541197

\$ BMG532541015

#### SEDOL

£ B1W7LS0

\$ B1W7LR9

#### BBG TICKER

£ CLACTAS BH

\$ CLACTAD BH

#### US DELAWARE FEEDER

\$ US5011831071

Domicile: Bermuda and Delaware, USA

Listing: Irish Stock Exchange

Assets: \$200mln

Start Date: Jul-01

Liquidity: Quarterly

Lock up: 1 year soft lock up (3% redemption fee)

Currency: €/\$/£

Minimum: Class A £/€/ \$100,000

Man Fee: 2%

Performance: 20% with HWM

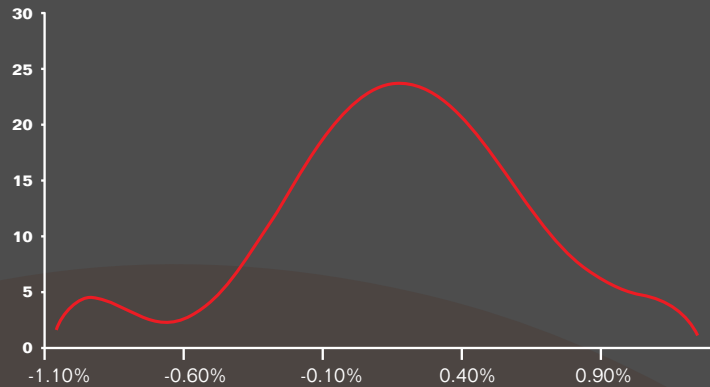
Manager: Kudu Emerging Markets Limited

Administrator: BISYS

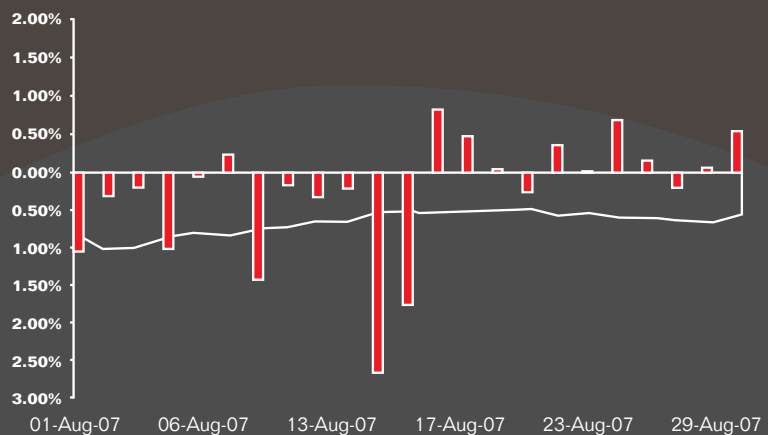
Auditors: Ernst and Young

Prime Broker: UBS AG

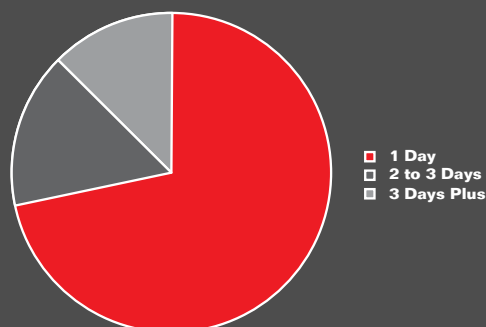
Daily Volatility - 1 Year



Daily % Change Vs Projected VAR



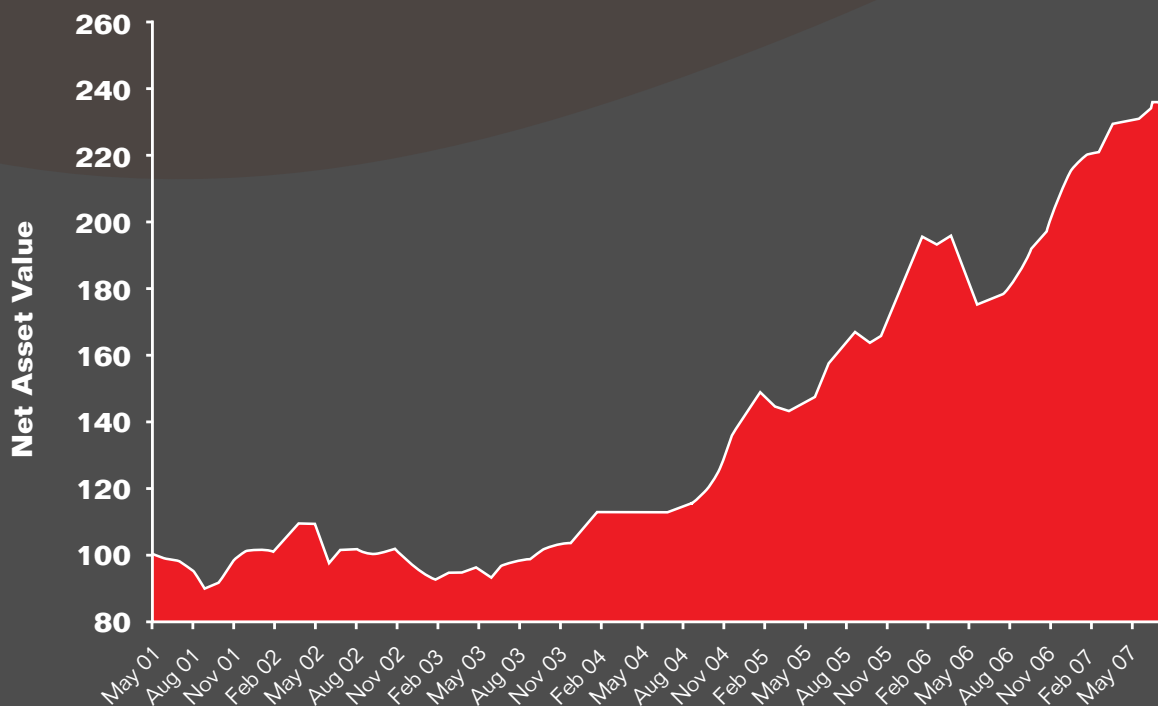
Position Liquidity - Number Days Average Volume



	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					6.0

€ class monthly returns since inception -  
net of all fees

### Kudu Absolute return fund (Euro class)



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## Monthly Report

The Kudu Fund fell by 6.6% in August, compared to a fall of 3.1% by the MSCI EMEA Index and a fall of 0.7% by the MSCI Pan European Index. Financial markets across the majority of the world spent most of the month in turmoil, as credit and money markets dissolved into panic, in conditions which observers from the Federal Reserve recently likened to a nineteenth century run on a bank. Retired Federal Reserve Chairman Alan Greenspan compared the current crisis with elements of both the market crash of 1987, and the prolonged panic of 1998, caused by the Russian debt default and the fall of Long Term Capital Management.

At the beginning of August, valuations in EMEA countries ranged between 8-12 x 2007 estimated earnings, and 4-7x EV/EBITDA, with reported profit growth of 20-40% per annum. Many real estate companies traded at discounts to NAV of up to 40%.

Annualised GDP reached 10% in Kazakhstan in Q1 and 6.4% in Poland, 4.5% in Israel and 24% in Qatar. With this strong economic backdrop many companies in banking, healthcare, retail and construction announced strong earnings growth and upgraded guidance for the year ahead.

Notwithstanding these benign conditions, with several hundred EMEA shares in our models offering upside of 100% and more in three years, many EMEA markets and sectors were hit by intense selling in August, with the MSCI EMEA index falling 13% by August 17th, and many sub-sectors falling 25%.

Banks, which offer one of the most direct ways of investing in many EMEA countries, were hit by a globally amplified version of a nineteenth century panic. As investors lost confidence as to which bank might be harbouring losses, they sold down the shares of all banks, creating a loss in capitalisation many billions of dollars more than any conceivable loss from American credit.

The Kudu Fund has always combined a very fundamental investment process of stock and country analysis, with a pragmatic awareness that emerging markets, and EMEA markets in particular, as the youngest and least mature of global emerging markets, are extremely vulnerable to financial market panics.

The fund has always sought to protect capital in periods of extreme stress, and to make returns from our disciplined

investment process, during periods of neutral or positive market sentiment.

In the face of these August market conditions, the fund reduced its market exposure in order to preserve investor capital.

From analysis of previous periods of turmoil in 1998, 2001, 2002/2004 and 2006, these highly volatile conditions are usually short-lived, lasting from a few weeks to a few months. The fund's strategy, developed and tested in previous conditions, is to reduce gross and net exposure and to use the opportunity caused by irrational market activity to drive even greater returns when markets return to stability. The fund rose 32% in the 12 months after the EMEA currency crisis in 2006, and by 41% after the Yukos affair caused panic in Russia in 2004.

EMEA conditions offer the possibility of excellent investment returns. Unlike Asia and Latin America where markets have risen sharply in recent months as investors chase momentum, EMEA has delivered flat returns for the last 15 months, but offers a combination of low valuations and strong earnings growth. Even if the US economy slows for many months, it is unlikely to drive EMEA to negative growth.

Clearly global financial markets are going through a period of volatility and nervousness. The Kudu Fund has preserved investor capital during a 50% fall in the market from 2001 and 2002, and delivered positive returns in the face of a number of more minor crises. It is well placed to deal with current conditions.

Whatever happens in the weeks ahead, whether the Federal Reserve cuts rates by 25 basis points, or 50, or not at all on the 18th September, the bigger story for the fund and its investors, is that the economic and social change taking place across the EMEA region is a huge and globally important development, to rival the growth of Asia.

The conditions for a period of major opportunity in EMEA are already falling into place - pervasive negative sentiment, strong earnings and valuations lower than ever.

To take three examples from the fund's current positions:

Kazkommertzbank is the leading commercial banking group in Kazakhstan. The stock fell some 42% from its peak in July to the lows in August. The cause of the fall relates to a sharp

increase in risk premiums and more specific concerns about the ability of the company to refinance maturing bonds. We are amongst the few investors that have personally travelled to Almaty, Kazakhstan, to meet with the bank and understand, better than other investors, the market in which the company operates and risks it faces. Our analysis indicates that the scale of these refinancing concerns is unjustified. Subsequent to the recent declines, the bank has released results showing loan growth at 100% year on year, with profit 25% above consensus estimates. In addition it has obtained further credit facilities for \$600m, at the peak of the credit crisis, showing little regard for the concerns of the market.

Hellenic Bank of Cyprus is the second largest banking group in Cyprus and is benefiting from a long-term restructuring. From peak to trough in recent weeks the company fell 15%. On 21st July the company released Q2 earnings that were 40% above consensus, but in-line with our estimates. On our assumptions, the bank trades on 7.5x 2008e earnings.

Michaniki, a Greek construction company, increased its guidance substantially in the middle of the year. Despite this, the company fell 30% in the ensuing turmoil from its peak in June to its trough in late August. The company has just released half year earnings, with EBITDA an impressive 15% above consensus estimates, and publicly stating its intention to list its real estate division on the LSE. The division has significant exposure to the growth markets of Moscow and Kiev and our regular and continual discussions with management indicate an expected value, for the new listed entity, of well above the current market capitalisation of the entire Group.

As the fund continues to take a cautious view in these volatile conditions, we will continue to research and analyse both current and potential positions. In the coming weeks we will be making research trips to Greece, Turkey, Egypt and the Gulf, Bulgaria and the Ukraine.

The recent market turmoil is a reminder of how volatile EMEA markets can be. But if past experience is any guide these downturns in EMEA offer the best possible opportunity to increase exposure to the region, as momentum traders depart, leaving opportunity and profit behind.

■ **The Kudu Team**

## GEOGRAPHICAL EXPOSURES/ATTRIBUTION

### Emerging Europe:

Beta adjusted net exposure: -0.71%  
Performance attributions: 17bps

### Greece:

Beta adjusted net exposure: 1.2%  
Performance attributions: -191bps

### Israel:

Beta adjusted net exposure: 0.10%  
Performance attributions: -16bps

### Russia and the CIS:

Beta adjusted net exposure: 3.36%  
Performance attributions: -247bps

### Turkey:

Beta adjusted net exposure: 0.87%  
Performance attributions: -96bps

### Africa:

Beta adjusted net exposure: 0.86%  
Performance attributions: -57bps

### Middle East:

Beta adjusted net exposure: 2.10%  
Performance attributions: -41bps

### Others:

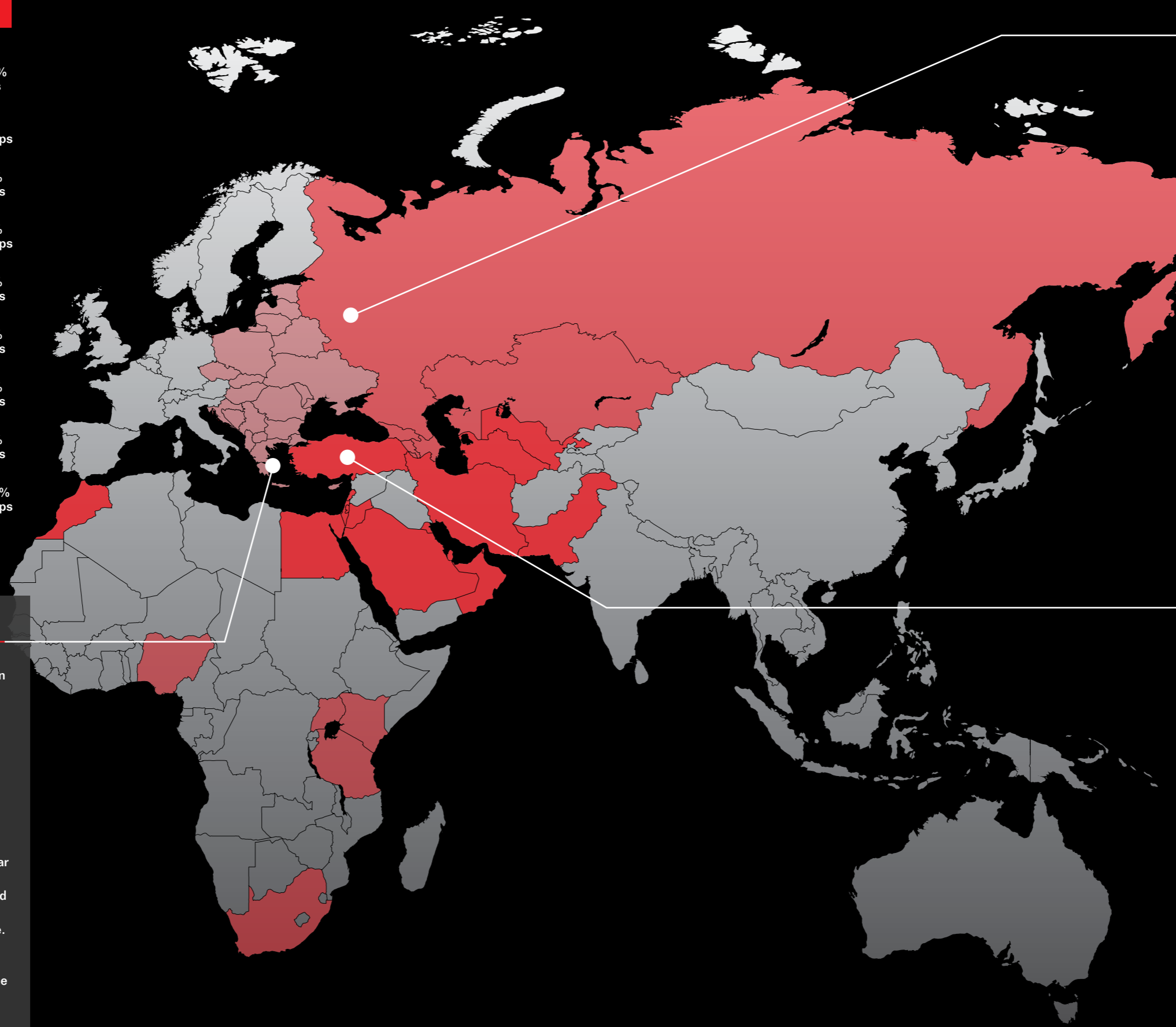
Beta adjusted net exposure: 2.67%  
Performance attributions: -32bps

### Total monthly attribution:

Beta adjusted net exposure: 10.46%  
Performance attributions: -663bps

## OPAP – GREECE

OPAP is the leading gaming company in Greece, with a monopoly concession until 2020 in betting and numerical games. This results in OPAP having the right of first refusal to operate any new lottery games and exclusive right to develop sports betting games, a formidable barrier to entry. The trends in the core games of Stihima and Kino are very encouraging and margin expansion is to come from the internalisation of the risk management of the Stihima, which requires particular payout ratios to be achieved. New games continue to be well received and result in high levels of organic growth with a loyal and captive customer base. The business model is highly cash generative, with a free cash flow yield of some 10% and, on our estimates, the company offers excellent value at 12x expected 2008 earnings.



## PHARMSTANDARD – RUSSIA

Russian per capita spending on drugs is a third of that in eastern Europe and a quarter of that in the CEE-3 countries. Pharmstandard is the number 4 pharmaceutical manufacturer in Russia, with industry leading state-of-the-art production facilities. Its portfolio includes 5 of the 15 top-selling pharmaceuticals and brands in Russia. Organic growth in the market is expected to continue at some 20%, driven by the DLO Federal Reimbursement System and government's protectionist policies surrounding the development of the industry. A substantial backlog of drugs awaiting registration will further drive growth and result in continued margin expansion. Pharmstandard is well positioned to consolidate the fragmented market (+1,100 local players) and a commoditisation of branded generics is unlikely at this early stage of sector growth. On our estimates, the company trades on 15x 2008 earnings, in-line with regional peers, despite a far more attractive market environment and growth outlook.

## TURKCELL – TURKEY

Turkcell is the leading mobile operator in Turkey with a market share of some 66% and is the cheapest wireless company in the EMEA region on a variety of measures. This low valuation is the result of concerns about the ownership structure and competitive environment in the Turkish market. These concerns are unjustified and pricing discipline by market participants has resulted in continued strong operational performance and double digit year-on-year growth in ARPU. With nearly 10% of the market capitalisation in cash, the balance sheet has substantial releveraging potential. Further improvements in the Ukrainian business and the potential of a reduction of the special communications tax (SCT) provide further triggers for a re-rating. On our estimates, the company trades on a 2007e EV/EBITDA of 5x, a substantial discount to regional peers.