

Investment Report February 2011

The Kudu fund continued to deliver strong relative performance in February, but frustratingly, not positive gains, as large market declines continue to offset the gains made by our own investment decisions.

In spite of exiting the Middle East before recent market falls, and generating an increasing investment returns from non-directional strategies, the fund's core investment portfolio is still affected by wider market conditions.

There is an unusually wide range of important factors affecting world financial markets: Japan, the Middle East, Currencies, Eurozone Deficits, the US economy, and the after-effects of the 2008 crisis. Added together, these issues are currently combining to create a high level of price volatility.

In spite of this state of affairs, we believe that there is a considerable weight of evidence, both from academic research, recent financial market developments, and our own experience, to support the view that the Kudu Fund continues to offer an extremely valuable portfolio investment, with strong growth prospects.

Not only has the fund out-performed the major European stock market (which includes the UK) over the last 1 Year, 3Yrs, 5 Yrs and 10 Yrs, but recent trading in global markets has offered renewed confirmation of the cyclical nature of investment returns, providing strong support for a diversified investment approach.

Since mid-February, the FTSE100 has lost close to -8%, turning small gains over the last twelve months into a -4% annual decline. By contrast, many of the markets where the Kudu fund invests - in particular Turkey, India, and Russia - have out-performed.

This rapid rotation of performance from different markets of both different asset classes and different investment strategies, often occurs when least expected.

Benefits of Diversification

Repeated academic and investment industry research has shown that the best way of delivering the best and most consistent investment returns, is by managing invested capital with a disciplined policy of portfolio diversification, coupled with mean-reverting asset allocation.

In practice this involves ensuring that long-term investment capital is spread across a wide range of geographic markets, different asset classes, and investment strategies.

Additional returns and risk reduction are achieved by increasing portfolio weightings when markets or investment styles have under-performed, and reducing allocations to assets after a period of strong recent performance.

Strong profit returns

The most famous example of the cyclical rotation of both asset classes and investment strategies is the performance of the Absolute Return funds managed by John Paulson in New York. At the end of 2006, after a weak year, John Paulson wrote to his investors, apologizing for a run of weak performance - and explaining why he believed conditions were moving in favour of his fund positions

At the time, the Credit Hedge fund sector where Paulson operated, had not delivered significant returns for several years - either on the Long or the Short side. Some experienced fund managers had repeatedly forecast a major Sub-Prime collapse - but as this long-awaited crisis failed to materialize, an exodus by fund investors from gained momentum.

In response to Paulson's letter, some portfolio managers decided to redeem - using the proceeds to increase their exposure to the more recently successful US stock market. However, the majority stayed invested. A few funds, with a history of successful investment, increased their position size.

What happened next is well known. In 2007, Paulson's funds delivered over +300%, as his short positions in Sub-Prime delivered spectacular gains.

Kudu Portfolio benefits

The Kudu fund offers three specific investment benefits in terms of performance, risk management, and diversification for asset portfolios.

- 1) **Valuation** - Equity markets in Europe, India, Turkey, and South Africa currently offer a combination of low valuations and strong earnings, which offer the potential for strong market returns. This kind of situation offers an opportunity of the kind which Warren Buffett has consistently exploited - of buying assets when valuations are low and sentiment weak.
- 2) **Non- Correlation** - Both the Absolute Return Investment strategy which the fund employs - and the markets in which we invest, have a low level of correlation with the UK and US markets. Holding the fund in a diversified portfolio improves returns and reduces risk.
- 3) **Market Out-performance** - the fund has an exceptional record of investment performance - delivering returns in excess of the wider market index, with reduced volatility and risk.

TOP 5 POSITIONS

	ATTRIBUTION %
CHARLEMAGNE	2.05%
SBERBANK	1.95%
OPAP	1.68%
BANK OF CYPRUS	1.65%
KUZBASSRAZREZUGOL	1.35%

PERFORMANCE ON MONTH

CLASS B EURO	-1.10%
CLASS A GBP NAV	£68.15
CLASS B GBP NAV	£149.04
CLASS B EUR NAV	€141.49
CLASS B USD NAV	\$148.35

FUND INFORMATION

CLASS A

ISIN
€ BMG532541270
£ BMG532541197
\$ BMG532541015
SEDOL
£ B1W7LS0

\$ B1W7LR9

BLOOMBERG

£ CLACTAS 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

WOOLWORTHS HOLDINGS LTD



Fund position - Woolworths - South Africa

As any visitor to South Africa will know, Woolworths bears no resemblance to the now bankrupt seller of Pik n Mix and plastic goods. To look at, Woolworths stores are a carbon copy of Marks and Spencers, with both clothes, general goods, and a large food section. The only difference being that Woolworths is a better store – and better managed – in every way than its UK equivalent.

Woolworths has an admirable record of growing its earnings. Since 2003, the company has tripled its annual earnings – and this, in a country which has experienced a quite severe Recession since 2008. This growth is not untypical in South Africa, where the stock market has out-performed that of China by over 10% a year since 1994.

Woolworths trades on a PE multiple of 14 times 2011 earnings, and has a dividend yield of 4.5%. It is still opening more stores and adding floor space to existing locations. Current estimates are based on continued weakness in the wider South African economy. If the economy surprises on the upside, then Woolworths earnings could accelerate significantly. However, if the situation deteriorates, Woolworths large food earnings are an attractive defensive factor.

	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	0.6	-1.5	0.6	-5.7
2011	-1.1	-1.1											-2.2

Total Return net of fees (€ class)

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