



KUDU FUND

EMERGING EUROPE, MIDDLE EAST, AFRICA

MONTHLY REPORT JANUARY 2010

KUDU

Month End Report January 2010

Towards the end of last year, it was common to encounter a low-conviction consensus that the credit crisis was a matter of the past, and it was time to raise exposure to risk assets.

Almost regardless of the long-term direction of the market, whenever a majority view builds up, there is a higher risk that the index will do just the opposite. A reflection of the old jobber's advice 'to buy a red day, sell a blue'

In January, in a sharp response to the consensus view, world stock markets sold off abruptly.

Europe was particularly hard hit, with a fall of 14%, leaving the index back almost exactly where it traded a year ago.

The Kudu fund was well placed in this market reversal, with short positions in some falling markets and specific long investments which performed very well – many rising in value during the month.

Except during major world market crises, EMEA markets do not correlate very closely with either each other, or with US and European markets. At the moment this lack of correlation is helped by the valuation gap between low priced EMEA shares and the rest of the world.

Notwithstanding this positive short term effect for EMEA, any market decline demands attention, since it has the potential to encourage further selling.

It is usual for markets to trade nervously during recoveries from recession and crisis. Investors are still cautious, and economic data lags months behind the stock market – leaving share prices trading in a volatile fashion, against a backdrop of job losses and weak GDP data.

During January, the debt and deficit crisis in Greece worsened, raising wider concerns about the Eurozone economy.

For the time being, it seems very unlikely that Brussels or the ECB will leave Greece, or any other EU country, to default. The wider implications for the Euro, and the European economy, are too damaging, whatever the costs involved of supporting weaker nations.

A solution is being negotiated, which solves the imminent default question, but leaves unanswered the structural problems which are leaving Europe further and further behind the dynamic emerging economies of the world.

The Greek crisis certainly increased the extent of stock market weakness in Europe, but the principle catalyst for the worldwide equity decline was American.

In early January, sentiment about the outlook for the US economy weakened noticeably, and bond yields dropped in anticipation of weaker growth ahead.

The local political situation in the US played a key part in this negative shift in market sentiment. The loss of the previously rock-solid Massachusetts Senate seat, was clear proof that Obama has run out of political consensus for any more state spending to kick start the economy.

Given that the 2009 stimulus amounted to \$750 billion, the US economy is losing a major positive support at a difficult time.

The American economy is still widely predicted to grow in 2010 – the Federal Reserve currently forecast a robust 3.5%, but given the unusual nature of the recession and its causes, the recovery may be volatile.

There are always two sides to any stock market or macroeconomic debate.

On the positive side, things always look pretty dark after recessions and severe bear markets - and 2008 was the worst economic shock for seventy years.

Economic conditions are still robust in China – so strong that the central authorities have been trying to cool growth in January (not a problem Europe is likely to face that soon). India is growing with good domestic demand, and there are signs of cyclical recoveries in a long list of countries that limped through 2009.

Equities are still extremely cheap relative to bonds or cash, and central banks have committed themselves to ultra low interest rates for some time. Even the cautious ECB doesn't want to go down in history as the central bank that followed the 1930's mistake of raising rates too soon after a major economic dislocation.

Given the strong arguments on both sides, and the high stakes involved, core stock markets will most likely continue to move with higher volatility, until there is a clear outcome for the world economy.

However, in EMEA, the outlook for 2010 looks more positive, with local economic recovery in many countries and the potential for shares to move higher from historically low valuation levels.

The Kudu fund continues to focus on specific local company, sector and country situations in EMEA, where there is much more certainty of outcome.

The fund continues to build specific deep value investments in markets with low country cross-correlation. To increase returns and counter unexpected market moves – both up and down – the Kudu fund has a much enhanced and valuable process in place to adapt to shorter term directional market moves.

■ **George Case**

TOP 5 LONG POSITIONS

ATTRIBUTION %

KUZBASSRAZREZUGOL	2.88%
RASPADSKAYA	2.60%
PHARMSTANDARD	1.73%
AGTHIA GROUP	1.02%
SIBIRSKIY CEMENT	0.98%

TOP 5 CONTRIBUTORS YTD

ATTRIBUTION %

RASPADSKAYA	0.38%
KUZBASSRAZREZUGOL	0.37%
SIBIRSKIY CEMENT	0.19%
PORT SERVICE CORPORATION	0.06%
ROSNEFT	0.04%

TOP 5 CONTRIBUTORS MTD

ATTRIBUTION %

RASPADSKAYA	0.38%
KUZBASSRAZREZUGOL	0.37%
SIBIRSKIY CEMENT	0.19%
PORT SERVICE CORPORATION	0.06%
ROSNEFT	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 12

Auditors: Ernst and Young

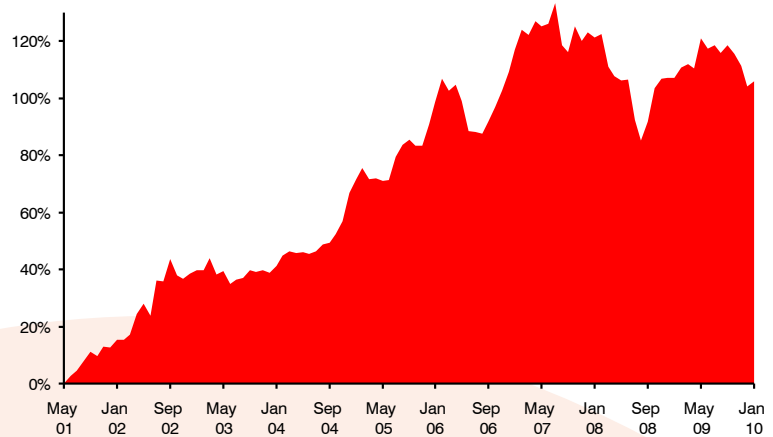
Management Company: Kudu Emerging Markets

Limited Subscriptions: Up to last business day of month



NAV per redeemable share: Class A: \$73.60 £73.86 Class B: \$159.70 £160.63 €153.03				
Performance	On Month	YTD	Rolling 12 months	Since Launch
Class B€:	-0.23%	-0.23%	8.26%	73.58%
Class AS:	-0.30%	-0.30%	8.30%	-26.40%

Kudu % Relative Return to Morgan Stanley MSPE 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	-0.23												-0.23

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

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