

Investment Report January 2011

5 Key Points

1 - US/Emerging Markets divergence

January saw a major divergence between asset price moves in developed and emerging Equity markets – the most striking for three years. US Equities in particular moved higher, whilst Global Emerging Markets (GEMs) sold off sharply. In America, relatively low Equity valuations, rising business confidence, and a backdrop of accommodative monetary policy, attracted buyers to the stock market. The causes for the sell-off in GEMs are more diverse - but it appears that four main factors - concerns over a slowdown in Chinese growth, a rising Indian trade deficit, geopolitical uncertainty, and consensus investment positioning – all coalesced to create a sharp Equity market shift, accompanied by high volatility in global FX markets.

2 - Good Kudu fund positioning

The Kudu fund was well positioned to adapt to these volatile conditions. The fund successfully delivered flat performance on the month, compared to some sharp market falls - the Indian Index dropped -16% from its New Year highs and Middle East markets fell steeply. The fund avoided these areas of market weakness almost completely, whilst maintaining longer-term investments in core positions.

3 - Successful Arab market exit

We correctly anticipated the impact of growing political unrest in Tunisia – exiting 100% of all fund positions in the Arab world (12% of assets). The fund's positions were sold either at – or within a few per cent of recent highs. The subsequent fall of Mubarak in Egypt, and the developing crises in Libya, Yemen, and Bahrain, have proved the value of this decision. In time, this unfolding political evolution of the Arab world may provide investment opportunities – but in the short term the fund continues to avoid these markets

4 - Diversification opportunities

One of the major advantages of the wide geographic spread of the countries in which the Kudu fund invests, is the lack of correlation between different economies and markets. Unlike Asia, whose capital markets trade in a closely linked way, the stock exchanges of Europe, Russia, Turkey, the Indian Subcontinent, and Africa, show a very low level of price correlation.

5 - Eurozone Recovery

In the early weeks of 2011 Europe's political and economic leadership continued to discuss how a robust financial arrangement could be implemented to provide sufficient financial firepower to prevent future credit and bond market crises. The fact that talks are still dragging on, gives a fair indication of how difficult it is proving to reconcile the demands of Germany, the banker of last resort for Europe, and the governments of Ireland, Portugal, Greece, and Spain. However, even with the current uncertainty the economic outlook for

Europe is improving markedly. Europe is enjoying a period of buoyant export activity and rising consumer confidence. The fund has a relatively large investment allocation to strong European non-financial companies which are growing profits at their fastest rate for four years.

Investment Theme

South African Coal - Exxaro

South African Coal mining offers an excellent investment opportunity. Local miners - of which Exxaro is the largest listed company - are well-positioned, with long reserves, efficient operations, and good corporate governance. Equity valuations are markedly low by international standards – particularly given the strong growth in profits expected in the next few years.

South African coal is currently used in three main ways:

- 1) **Domestic power generation.** South Africa currently derives 93% of its electrical power generation from coal – the highest proportion in the world.
- 2) **Steel production.** Coking coal – a different grade from thermal, power-generating coal – is used in domestic steel production and is also exported
- 3) **Global power generation.** Thermal coal is exported for use in electricity plants worldwide.

Prices in all three business areas are under sustained upward pressure, creating an extremely favourable profit outlook.

South Africa has a serious shortage of power generation capacity - last year there were multiple power outages lasting up to three days. Eskom is currently building new coal-fired plants, which will require increased local production.

In the past, South Africa has been able to buy coal relatively cheaply, with little competition from world markets. However, sharp rises in global demand for thermal coal to produce electricity in emerging economies has put pressure on this situation. Local South African coal miners can either demand higher prices at home, or sell abroad. Demand for coking coal – used in Steel manufacture – is also rising, increasing profits for coal miners and putting pressure on thermal coal production.

Longer term, the outlook for coal prices is increasingly positive, with strong world demand and improvements in 'clean coal' power generation

■ **George Case**

TOP 5 POSITIONS

	ATTRIBUTION %
CHARLEMAGNE	1.96%
OPAP	1.58%
KUZBASSRAZREZUGOL	1.39%
X 5 RETAIL	1.37%
EXXARO	1.34%

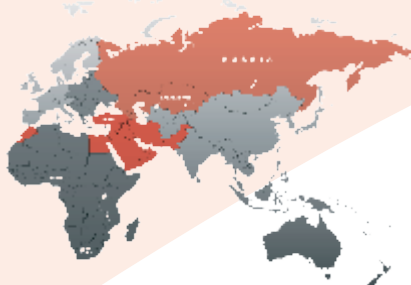
PERFORMANCE ON MONTH

CLASS B EURO	-1.09%
CLASS A GBP NAV	£68.94
CLASS B GBP NAV	£150.69
CLASS B EUR NAV	143.06
CLASS B USD NAV	\$150.04

FUND INFORMATION

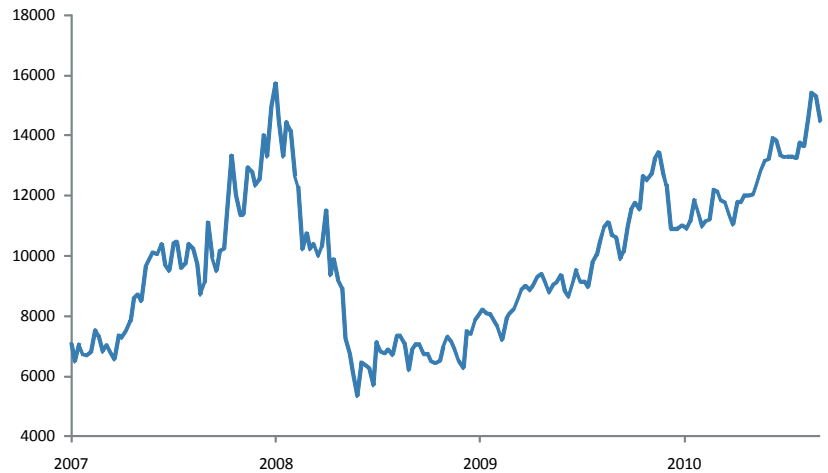
CLASS A

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

EXXARO RESOURCES LTD



Fund position - Exxaro

Exxaro is South Africa's second largest Coal producer and produces Titanium Dioxide and Zircon from its own Mineral Sands reserves. The company also owns valuable export rights through the Richards Bay Coal Terminal and owns 20% of Sishen, South Africa's largest Iron ore reserve - currently mined by Kumba Iron Ore (from which Exxaro was originally unbundled).

Exxaro currently forecasts it will increase annual coal production from 6 million Tonnes p.a. to 12-18 Tonnes p.a. over the next 10 years - and plans to start producing Iron ore from a new greenfield project.

Exxaro is a Black Empowered (BE) company - which means that its share ownership has significant representation from the previously disadvantaged communities of South Africa - Black, Coloured, and Indian. This BE status is important, since it offers access to new mining and mineral projects on preferential terms. The company has no debt and is well placed to make acquisitions in forthcoming auctions of South African mining rights and assets.

Valuation -- Exxaro trades on a price/earnings multiple of 7 times 2011 earnings, and 6 times 2012 earnings. The dividend yield is forecast to rise from 4.5% currently to 6.5% by 2012.

	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

Total Return net of fees (€ class)

For more information contact George Case: 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.