

# KUDU

## KUDU FUND

### EMERGING EUROPE, MIDDLE EAST, AFRICA

#### Monthly Report March 2009

World markets rebounded in a somewhat patchy manner during March from the panic selling of January and February, as investors were attracted by extremely low share valuations and the decisive commitment of American policymakers to solve the downturn by any means necessary.

The Kudu fund rose by 1.3% in March and gradually raised its level of investment as market volatility began to subside. If and when an economic recovery begins then the markets of EMEA are poised to deliver significant gains. Company valuations are low – many EMEA shares have fallen by 80-90% – international interest in the region has dropped to levels last seen in 1998, and few companies have any debt.

The Kudu fund is well placed to operate in these markets. We have followed and analysed the major companies of the region for over ten years, and in recent months have seen the already small peer group of EMEA specialists shrink further, leaving companies with less analytical coverage. For example, recently Saudi Basic Industries, the largest stock in the Kingdom, announced quarterly earnings which were 500 million dollars less than expected – a loss of \$250 rather than a predicted profit of \$250. Earnings

surprises are always possible, but it would be rare to find such a huge lack of understanding about the largest stock on an exchange outside of EMEA.

The Kudu fund's approach is based upon identifying early themes and trends within EMEA economies and markets. Sometimes the trends relate to the behaviour of investors towards countries and sectors, at other times the trends start in the real economy and then find a response in the stock market.

There are a wide variety of themes represented in the fund at present, but amongst them are the slowing of South African domestic demand, the low pricing of economically sensitive stocks, and the unusually widespread availability of high dividend yields.

Because of persistently high local inflation, the South African Reserve Bank was slow to cut interest rates in response to the deteriorating global economy. As a result many local companies face the possibility of a year of falling profits and stagnant share prices, offering opportunities for short selling.

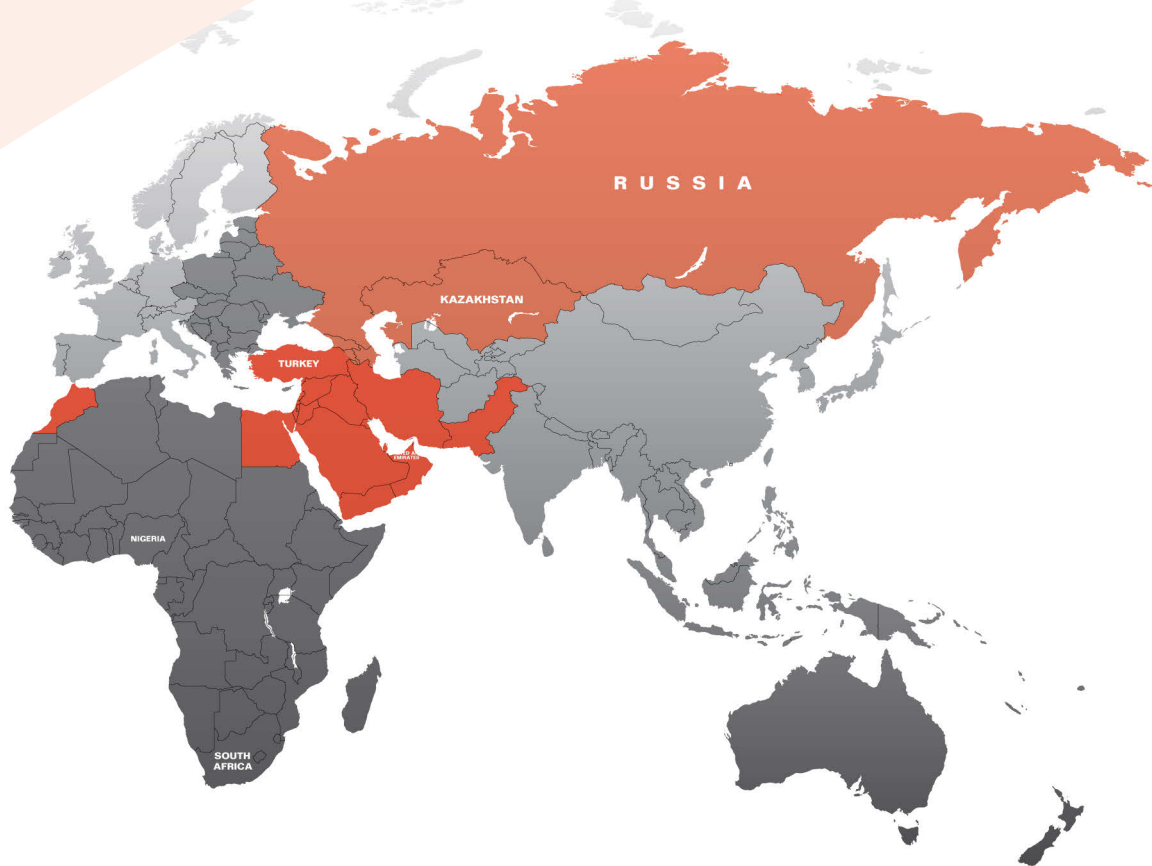
On the long side many cyclical and semi-cyclical companies in EMEA are currently

discounting heavy falls in earnings. For example, Turk Hava Yollari, the Turkish airline, trades on two times 2008 earnings, implying deep pessimism about the company's prospects. The company recently reported passenger increases of +8% in Q1, and suggested that profits might actually increase this year, given the sharp drop in their cost base, with crude oil falling from \$140, to \$50 a barrel.

One by-product of the rush to sell emerging market equities in 2008 was a sharp rise in dividend yields, often covered several times over by steady earnings. With most world interest rates at or less than 1%, dividend yields of 6-10% are very attractive, coupled as they are with the possibility of a strong rally in share prices. Amongst the yield stocks in the fund are Omantel, the national Telecom in Oman, and Opap, the Greek gambling monopoly.

Whichever way market indices move, the huge variety of business and economic conditions across EMEA will continue to offer long and short opportunities for the Kudu fund.

■ **George Case**



## TOP 5 LONG POSITIONS ATTRIBUTION %

PHARMSTANDARD	1.13%
SASOL LTD	1.06%
MAGNIT	1.05%
SBERBANK	1.04%
LUKOIL	1.03%

## TOP 5 CONTRIBUTORS MTD ATTRIBUTION %

MMC NORILSK NICKEL JSC-ADR	0.42%
SBERBANK-CLS	0.34%
PHARMSTANDARD-REG S GDR	0.26%
URALKALI-SPON GDR-REG S	0.26%
GAZPROM OAO-SPON ADR	0.19%

## TOP 5 CONTRIBUTORS YTD ATTRIBUTION %

MMC NORILSK NICKEL JSC-ADR	0.42%
ISRAEL CHEMICALS LTD	0.25%
SBERBANK-CLS	0.24%
WOOLWORTHS HOLDINGS LTD	0.19%
MTN GROUP LTD	0.16%

## 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

Nicola O'Neil +353 1436 7292

Auditors: Ernst and Young

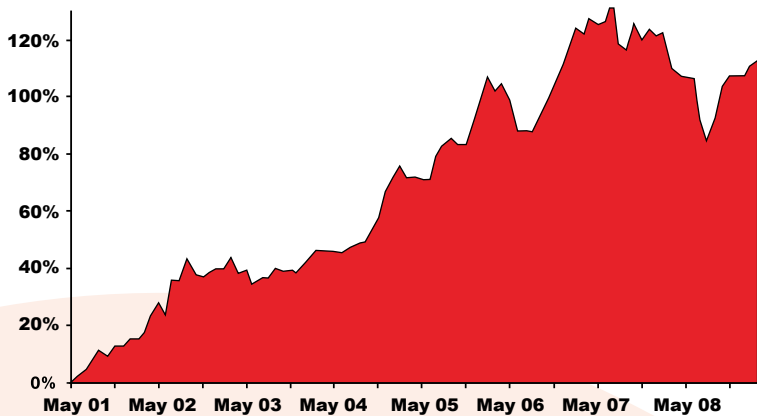
Management Company: Kudu Emerging Markets

Limited Subscriptions: Up to last business day of month



NAV per redeemable share: Class A: \$68.17 £68.84 Class B: \$147.30 £149.09 €141.93				
Performance	February	YTD	Rolling 12 months	Since Launch
Class B€:	1.32%	-1.08%	-17.49%	60.99%
Class AS:	1.32%	-1.23%	-18.35%	-31.83%

## 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										-1.08

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

For more information contact: [george@kudufunds.com](mailto:george@kudufunds.com) Tel: +44 (0)207 015 5200 Fax: +44 (0)207 015 5201

Gaspar Garcia-Quiles: [gaspar@kudufunds.com](mailto:gaspar@kudufunds.com) Tel: +44 (0)207 015 5206

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