KUDU FUND

EMERGING EUROPE, MIDDLE EAST, AFRICA

YEAR END REPORT 2009

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The Kudu fund has recently made a number of improvements and developments to its risk management and investment process: to enhance returns, without a parallel and linear increase in risk.

The catalyst for these positive and practical changes has been the continued extreme price volatility in world financial markets.

This instability is an understandable reaction to a global crisis without modern precedent.

Although the year began with further steep falls in world stock markets, in March, the bottom was reached, and prices recovered most of their early falls by mid-year, as investors began to anticipate a conventional cyclical recovery to the US recession.

However, even as some markets appeared to stabilize, local conditions caused a series of sudden dips in investor confidence across EMEA.

In June, the Russian market fell steeply by -30% as oil prices dropped. Then in October, a debt default by Dubai World caused a fall in Middle Eastern markets. Meanwhile, in Greece, markets sold off sharply as sovereign bond investors worried about the country's growing deficit.

In the second half of the year, many EMEA markets regularly traded up and down through cumulative price changes of 10% in a day, and few indices ended a month without trade amounting to 50% or more of its value.

In spite of this volatility, the fund gradually increased its gross exposure of investments in the market to around 80%, as the economic outlook improved. Many outstanding EMEA companies traded at historically low valuations, with our own research suggesting strong earnings growth, as demand stabilises.

However, with no decrease in volatility and the risk of sudden falls, the fund held its net exposure relatively low, in accordance with the fund's long-term commitment to protect investors' assets in volatile and uncertain markets.

The alternative - to risk a large level of net exposure during negative market swings of -30% or more, in the hope of a subsequent rebound - is completely unacceptable.

This risk discipline proved its value when markets declined sharply, but accordingly restricted gains on occasions when market falls proved temporary.

This paradox - a market where large downside swings reduce the fund's potential for higher returns - proved the driving force for a major re-appraisal of every element of the fund's approach.

The key to a major improvement came from an analysis of cross correlations of price moves in EMEA markets. During the worst months of the 08 crisis, price correlation had sharply increased, but as the patchy world economic recovery set in during 2009, some EMEA markets began to recover their usual pattern of moving with relatively low inter-correlation.

From a risk perspective, this lack of correlation means that adding a new position to the fund's portfolio - from a market with low cross- correlation, does not necessarily add a similar amount of risk – the basic theory behind Markowitz's efficient frontier.

By creating a statistical model to track short term changes in correlation, the fund can allocate to an optimum combination of local market allocations, creating the maximum benefit from the non-correlation effect.

As a further improvement to the fund, we have also developed a quantitative model to aid the fund's allocation to markets with the highest returns with the lowest instability. This model integrates a series of macroeconomic, monetary, valuation and directional data from each of the ten core EMEA markets.

These developments add two valuable tools to the fund's established strengths in stock analysis and country research.

1) The ability to add higher levels of gross fundamental stock investments - without a linear increase in risk.

2) A valuable predictive tool to allocate capital to markets which offer the strongest likely returns.

At an absolute level, there will always be a strong relationship between market risk and reward in stock market investing. In emerging markets in particular, investors have historically accepted higher levels of risk in return for the higher returns available from these assets.

The stock markets of EMEA move in marked cycles, driven by global financial market confidence and local economic conditions. When markets recover from periods of weakness, share price gains can be substantial - delivered over a multi-year cycle of rising earnings and re-rating valuations.

There are many profits and opportunities ahead for the emerging markets of EMEA. The region controls 70% of the world's oil and gas, and a large proportion of its metals. Economic growth is rebounding from the credit crisis, and international investor interest is reviving.

EMEA shares currently trade at a 40% discount to other emerging market companies, and company earnings remain strong.

The Kudu fund is one of the few institutional investors with the specialist knowledge, expertise - and above all, the experience, to deliver strong returns from these complex markets.

We look forward to the New Year with confidence.

George Case

KUDU

TOP 5 LONG POSITIONS

TOP 5 LONG POSITIONS	ATTRIBUTION %
KUZBASSRAZREZUGOL	4.01%
PHARMSTANDARD	2.98%
RASPADSKAYA	2.24%
AGTHIA GROUP	1.37%
SIBIRSKIY CEMENT	1.37%

TOP 5 CONTRIBUTORS YTD

TOP 5 CONTRIBUTORS YTD	ATTRIBUTION %
RASPADSKAYA	2.58%
KUZBASSRAZREZUGOL	2.23%
TURK HAVA YOLLARI	1.83%
TURKIYE VAKIFLAR BANKASI	1.75%
NORILSK NICKEL	1.68%

TOP 5 CONTRIBUTORS MTD

TOP 5 CONTRIBUTORS MTD	ATTRIBUTION %
TURKIYE VAKIFLAR BANKASI	0.35%
PHARMSTANDARD	0.14%
MAGNITOGORS	0.14%
SEKERBANK	0.14%
CHARLEMAGNE CAPITAL	0.11%

FUND INFORMATION

CLASS A

ISIN

€ BMG532541270

£ BMG532541197

$ BMG532541015

SEDOL

£ B1W7LS0

$ B1W7LR9

BLOOMBERG

£ CLACTAS BH

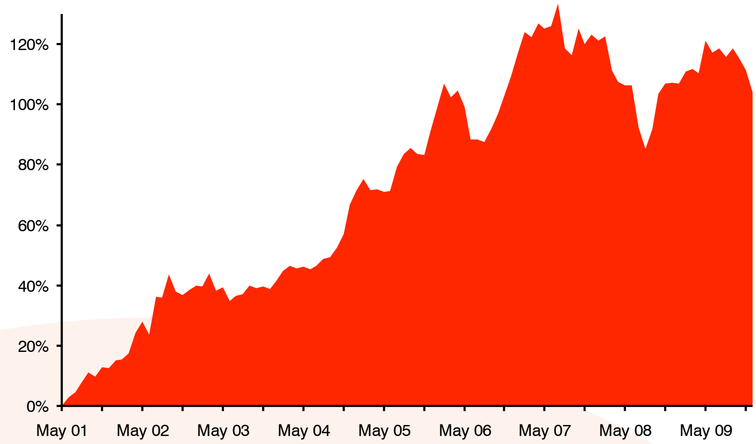
$ CLACTAD BH

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: $73.82 £74.06 Class B: $160.11 £161.00 €153.38

Performance	On Month	YTD	Rolling 12 months	Since Launch
Class B€:	-1.89%	6.90%	6.90%	73.98%
Class A$:	-1.73%	6.95%	6.95%	-26.18%

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	3.74	0.08	2.42	-2.38	-1.97	-1.89	6.90

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

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