

KUDU

KUDU FUND

EMERGING EUROPE, MIDDLE EAST, AFRICA

Investment Report July 2011

The Kudu fund is performing very well in the current stock market crisis. The fund rose by 0.4% in July and is currently flat so far in August (to the 9th).

These returns compare with a -20% fall by the FTSE100 and the FTSE250 and declines of 20-25% by most world stock markets. Many widely held UK shares have suffered major price falls - Barclays is down by -48% and Lloyds by -54%, whilst most mining and commodity shares have dropped by -30% or more.

Against this backdrop, we are pleased with the defensive way in which the Kudu fund has protected shareholder capital. This performance has been made possible by the fund's cautious investment positioning.

The fund entered the stock market crisis of late July and August with virtually no net market exposure. The reason for this caution, was that we felt the political wrangling over Greece and the US deficit risked tipping already fragile financial markets into collapse.

We believed that conditions in many markets – particularly the UK and the US were similar in some ways to 1987, when already weakened stocks were knocked down by political argument over the Deutschmark. Although this analysis provided the catalyst to reduce risk almost entirely, the fund was already positioned with a low overall market exposure.

Since the early part of 2011, we have reduced holdings in local emerging market stocks and concentrated investments in large, high-quality companies, listed in the UK and the US, but deriving a large part of their profits from emerging markets. These companies operate in sectors such as food, drinks, and pharmaceuticals, where earnings are less affected by changes in wider economic activity. To protect against any market risk from these holdings, the fund hedges this long portfolio with short positions in index futures and stocks.

In taking this pessimistic view – both early in 2011 and before the market collapse - the Kudu fund's position has been well ahead of many other funds and market forecasters.

In January this year Goldman Sachs predicted US growth of at least 3% for 2011, with the possibility of a surprise acceleration in the second half. In fact, America has grown by just 0.8% in the first half of 2011 and now appears to be weakening.

A similar reversal has occurred in the UK. In the early months of the year, many UK shares continued to rise, benefiting from very low interest rates and investor

optimism. However, a combination of recent economic data showing the British economy close to recession - and the global market decline - has hit the UK stock market hard.

Now that a major stock market fall has taken place, the outlook for the world economy is far from clear. Many investors now expect a further slowdown in economic growth and company profits, but this outcome is not certain. It is worth remembering that not all stock market crashes signal a major decline in the world economy. Less than a year after the 1987 crash - which was much more severe than recent market falls - the world economy was doing fine, as if nothing had happened. The same was true after the 1998 market fall, caused by the Asian debt crisis, the Russian bond default, and the demise of Long Term Capital. It is possible that the recent market falls were an exaggerated market correction – in response to a weak period of growth and political uncertainty – from which shares will gradually recover over coming months.

In the US, President Obama still has as much political power as Roosevelt in the 1930's. He has control of the US Treasury, the Senate, a relatively favourable liberal media, and considerable influence over the Federal Reserve. As Roosevelt said in the depths of the Great Depression, when one in three Americans was unemployed - 'the only thing we have to fear is fear itself'.

Outside of America, there is still considerable financial firepower and political will available to influence the world economy. In Europe, market declines have prompted a belated policy response. The European Central Bank have started to protect the Spanish and Italian bond market, a move which offers the potential to finish once and for all the drawn-out European deficit crisis.

Italy is already moving ahead to introduce a constitutional balanced budget amendment – something which Tea Party Republicans can only dream about in the US.

Stock market crises and crashes – like the moves of the last weeks - offer real opportunities for long-term investors. For a short period of time, rational discussion of asset valuation is completely suspended, with fear dominating market activity. The intensity of this emotional reaction leaves markets offering large profits for anyone prepared to take a more pragmatic view.

The Kudu fund is well positioned to profit from current conditions. If shares fall further then we will act decisively to protect capital, as we have so far - but we are also actively buying shares hard hit during the recent crash.

■ **George Case**

TOP 5 POSITIONS

	ATTRIBUTION %
CHARLEMAGNE	1.91%
EXXARO	0.94%
DANONE	0.88%
RECKITT BENCKISER	0.82%
STANDARD CHARTERED	0.79%

PERFORMANCE ON MONTH

CLASS B EURO	0.44%
CLASS A GBP NAV	£65.61
CLASS B GBP NAV	£143.74
CLASS B EUR NAV	€136.78
CLASS B USD NAV	\$142.88

FUND INFORMATION

CLASS A

ISIN

€BMG532541270

£ BMG532541197

\$ BMG532541015

SEDOL

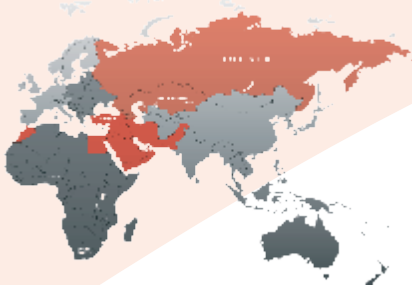
£ B1W7LS0

\$ 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

MAGNIT



Fund position - Russian Food Supermarkets

The Russian food supermarket sector offers a dynamic area of strong business growth, which is little affected by shifts in the world economy.

Over the last ten years Russia has seen a massive shift in food retailing, with chains of hypermarkets, supermarkets, and convenience store formats, replacing an informal sector of street markets and small shops. This retail transformation has some way to go. In most western economies, 90% of all food shopping is bought from large chains, whereas in Russia the figure is still around 45%.

As in many other industries, local Russian companies dominate the food retail sector. Two strong investment opportunities are X5 and Magnit. Both companies expect sales growth of over 45% in 2011, are well managed, and have stable margins. Both companies have dealt with major problems over the last ten years of dynamic growth, ranging from the 2008 debt crisis, to securing efficient fresh food distribution in a country spread over eight time zones.

We expect both X5 and Magnit to compound earnings by more than 40% over the next five years, with slower but still robust growth for at least a further ten years. In the recent stock market decline, the market valuation of both X5 and Magnit have both fallen - and the fund has used this opportunity to buy.

	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	-0.1	-0.5	-2.1	-1.1	0.4						-5.4

Total Return net of fees (€class)

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