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TAU CAPITAL PLC

## TRADING UPDATE

Tau Capital plc ("Tau" or the "Company") is pleased to provide a trading update on its activities for the period from 9 May 2007, the date of the admission of its ordinary shares on AIM, to 31 December 2007.

Tau floated at an initial NAV of \$1.00. Upfront costs relating to the admission of the Company's ordinary shares to AIM, corresponding to approximately \$0.04 per share, were deducted in calculating the monthly and end of year NAV. With this in mind, the NAV of \$0.96 as at 31 December 2007 represents a sound performance by the Company over the period. During the same period and amidst a turbulent investment environment, the MSCI World index gained 0.63% while the Kazakh stock index, KASE, fell 1.05%.

The table below outlines the monthly NAV (net of fees and expenses) and performance of the Company since admission:

### *Monthly Net Asset Value (NAV)*

	NAV	1 Month perf %
31 May 2007	\$0.95	-4.53%*
30 June 2007	\$0.97	1.19%
31 July 2007	\$0.93	-3.25%
31 August 2007	\$0.92	-2.06%
30 September 2007	\$0.94	2.24%
31 October 2007	\$0.99	6.08%
30 November 2007	\$0.94	-5.15%
31 December 2007	\$0.96	2.45%

\*Admission date: 9 May 2007

### *Public equity*

#### *Investment Manager's view of the Kazakhstan public equity market*

The first few months following admission were focused on deploying the capital raised into public equities. Tau's public equity portfolio (the "Portfolio") can be characterised by two distinct segments: stocks listed on the Kazakh stock exchange, KASE, and stocks listed on international markets. The Kazakh listed stocks are dominated by banks in terms of liquidity and market capitalisation while the internationally listed stocks consist primarily of resource based companies. Over this initial period, we maintained a large exposure to metals and oil and gas companies while having a relatively low exposure to Kazakh banks. Performance of the Portfolio was primarily hampered by its exposure to Uranium stocks, whereby the spot Uranium price fell to \$85 per pound by late August 2007 after reaching \$135 per pound in June 2007.

By the end of August 2007, the Portfolio was 80% invested. While bank stocks constitute close to 60% of the KASE index, the Portfolio held only around 14% of such stocks due to our concerns about the rapid loan growth of the banks and the extent of dependence on foreign borrowing. The sub prime scare in August crystallised our concerns. The Portfolio's large cash exposure also dampened the impact of August's market correction.

September and October 2007 both proved to be good months as financial markets were buoyed by the response of the monetary authorities to the sub prime problem. However, Kazakh banks took a knock in October as the credit rating agencies cut the sovereign rating. The stocks fell sharply but staged a dramatic recovery once the central bank assured the market that it would take any necessary action to support the Kazakh financial system. The rating agencies had also put the banks on a watch list and downgraded the major banks' debt ratings at the end of October causing bank stocks to retreat to their earlier lows. Moreover, on 1 October 2007, the KASE introduced a new total return index. The previous measure was based on market capitalisation, resulting in new issues affecting index performance. The index is represented by twelve issues, mostly banks with representation from Kazmunaigas and Kazakhtelecom.

Global financial markets experienced another turbulent month in November 2007. Concerns over the impact of the sub prime crisis worsened as the major US banks announced significant write downs of their asset base. These worries hurt global markets and at one point the markets experienced significant declines, with the S&P 500 index down over 9% on the month, while the MSCI Emerging Markets index fell by 11% over the same period. There was some respite in the markets however, as investors were encouraged by the expectation that the US Federal Reserve would cut interest rates at its next meeting. The Kazakh market was unable to escape worries over sub prime, especially as it is dominated by financials. The KASE finished the month down 5.2% in US dollar terms, while Tau's NAV fell by an equal amount.

December proved to be a turbulent end to 2007. The markets remained concerned about the extent of the prospective slowdown in the US economy, coupled with rising inflationary pressures. The US Federal Reserve's 25bp rate cut on 11 December 2007 injected liquidity into the markets in a coordinated action with the European Central Bank; however, this did little to stem the decline in the equity markets. The MSCI World index fell 1.3% while the MSCI Emerging Markets index managed a small positive return of 0.4%. The Kazakhstan stock market had a better month in December, largely due to increased trading at the end of the month which pushed the index up 2.9% in US dollar terms. Notable performers were Kazmunaigas (+8.8%) and Kazkommertsbank (+12.6%). Of the KASE index's twelve constituents, six were negative. The Portfolio performed well in the midst of the market turbulence, gaining 2.5% in the month. Gold stocks contributed strongly, as did oil stocks. The Uranium exposure was slightly negative after recovering from significant falls earlier in the month. Additionally, although the Portfolio has had a limited exposure to financials relative to the local market exposure, it has not been immune to their poor performance. In commodity markets, oil and gas stocks benefited from the stronger oil price. Although most metals, especially copper, were weaker on the back of concerns of a weaker demand environment, gold was seen as a safe haven and climbed from \$783.50 troy oz on 1 December 2007 finish the year at \$833.75 troy oz.

The Kazakh metals producer ENRC, one of the biggest producers of ferrochrome in the world, made its debut on the UK main market in December 2007. The IPO, one of the largest on the UK exchange in 2007, raised over US\$3 billion which implied a market capitalisation of over US\$15 billion for ENRC. The stock price rose 16% on the first day, giving a genuine endorsement to the value of resource based assets in Kazakhstan.

Our concerns of market volatility led us to reduce the market exposure of the Portfolio in the fourth quarter of 2007, leaving it exposed to stock specific risk. We introduced short positions in sector indices and some major stock indices at the end of November, and continued to increase these in the early part of December, giving us some comfort going into the normally thin Christmas trading period. The Portfolio was around 20% hedged and held 20% in cash at the end of December 2007.

2007 was a year in which the Kazakhstan financial markets hit their first real hurdle after some very good years. We anticipated some degree of correction with the Kazakh banks, as we felt they had over extended their borrowings and valuations were unsustainable. The change in recent fortunes will be positive overall for the development of the Kazakh equity market. Firstly, Kazakh banks will need to

adjust their business models and be more inventive with sourcing of funds locally. Secondly, Kazakh domestic companies are favouring debt financing and a much tighter financing environment should encourage them to raise equity instead.

Financial markets have begun 2008 on a rather depressed note. Fears of a recession in the US and the consequences of global economic growth had a negative impact on the markets and at one stage during January 2008 major markets across the globe were down between 15-20%. The US Federal Reserve reacted with a sharp rate cut to stem the market turmoil and markets responded positively, retracing about half of the drop. In January, the Portfolio has been insulated to a degree with its short and cash positions as noted above. Additionally, individual stock positions have held up reasonably well under the circumstances and portfolio volatility has been limited.

### *Outlook*

In terms of the Kazakhstan economy for 2008, we expect GDP growth of between 7% and 9%. This should be supported by the strong oil price and demand for basic materials - there is no indication that demand from China and India will abruptly decline. Inflation however, is a concern as PPI has been rising in recent months. The government has recently announced a special working group with a mandate to introduce measures to stabilise the price of food and vegetable oil, which represents 38% of CPI. There is no indication that the Central Bank will raise interest rates further from current levels. With approximately a combined \$40 billion in National Bank FX reserves and the National Fund (Future Generations fund), there is also strong support for any further fallout in the banking sector.

On a risk-reward basis we believe Kazakhstan is well placed amongst other emerging markets. It has a strong resource base with a stable political environment and increasingly market-friendly regulation. Asset prices remain very favourable compared to other resource-based markets and there is still further potential for significant discoveries in the region.

In the short term we remain cautious about the overall market as major gyrations in global markets will impact Kazakh stocks. However, we will act on opportunities to build positions in companies at attractive prices. Our positive long term view on the potential of the Kazakhstan and Central Asia investment environment remains unchanged.

### ***Private equity***

#### *Investment Manager's view of the private equity market in Kazakhstan*

Since admission, we have seen significant positive changes in the market for private equity deals in Kazakhstan driven by macroeconomic developments. In the second and third quarters of 2007, vendors demanded relatively high prices as we faced strong competition from the private equity funds sponsored by the Kazakh banks. In the fourth quarter of 2007, the deteriorating global credit environment put significant pressure on Kazakh banks, resulting in their withdrawal from private equity activities. Instead, Kazakh banks were forced to focus on the active management of their credit portfolios. Interest rates charged on loans to local private businesses increased from 10-12% in the first half of 2007 to 15-20% in the fourth quarter of the year. There is ongoing pressure from the lenders to accelerate loan repayments by borrowers and as a result, we have seen an increase in more attractively priced investment opportunities.

In October 2007, Tau made its first private equity investment. We acquired a minority interest in DTV, an Almaty-based cable TV operator. We believe that the cable TV market in Kazakhstan is poised for strong growth and consolidation as consumers migrate from analogue to digital service offerings and take up of broadband internet accelerates. DTV has a strong management team and a depth of service offering enabling them to be one of the market leaders. Since our investment in October, we further

