KUDU FUND

EMERGING EUROPE, MIDDLE EAST, AFRICA

MONTHLY REPORT JANUARY 08

KUDU

KUDU

Monthly Report

The fund fell 6.2% in January, in a month of extreme turbulence in global stock markets. Share prices had their worst short-term falls since the crash of 1987.

There were some clear short-term catalysts: a perceived lack of decisiveness from the Federal Reserve, a rogue trader at Societe Generale, and continued weak economic data from the US. However, this collapse in investor confidence was fuelled above all by the self-sustaining intensity of falling share prices. Logically, falling equity prices should be more and more attractive to the rational investor - in practice the more prices fall, the more market participants rush to sell.

At their worst levels during the month, the Turkish market had fallen -24%, Russia -18% and the Morgan Stanley Pan European Index -19%.

These falls are particularly striking, in that many EMEA markets have been weak or falling for up to two years. Stock valuations were already low in many sectors and markets. For example, South African retail stocks have fallen by 50% or more since May of 2006.

After a market crash there is always a clear temptation to imagine that when prices have fallen so far so quickly, they will rebound in much the same way.

Unfortunately the experience of the past leads to a different conclusion. After a sharp fall, prices often see-saw around for some time as the market digests a variety of new news and as buying pressure from bargain hunters and short covering is met by further lagged selling.

The key opportunity for the fund in coming weeks lies in profiting from the gradual return of relative valuations to a disordered market. Most shares in EMEA fell by between 15-25% in January in a uniform way across all business sectors. Regardless of your view on de-coupling or global growth, some companies offer markedly better or worse value than their current share prices would imply.

Although the fund operates primarily on a local, company, sector and country level, it is clear that like most fund managers we harbour a prevailing bias about wider global conditions.

The fund is currently positioned according to the thesis that the US economy will prove reasonably robust, as it has in previous crises, and will slow to a moderate recession in 2008. The EMEA region will slow from its current high rates of growth, but is unlikely to dip into outright recession. Russia, the Gulf, and South Africa, all look likely to show good GDP growth in 2008. Stock markets are already pricing in an outcome at least as bad as this, and possibly a great deal worse.

The fund benefits from three major dynamics in the EMEA region:

1. The major price and information inefficiency of regional stock markets. With over 500 major stocks trading in more than 30 countries, price sensitive information and understanding is poorly disseminated. These highly inefficient markets offer extraordinary opportunities for Alpha returns.
2. The excessive equity risk premium which depresses all share prices. Although emerging market bonds have converged largely with their developed world counterparts, EMEA equities still price in an excessive risk premium derived from poor understanding and past price volatility.
3. The historic growth opportunities opening up in EMEA economies. Russia is a potential economic superpower, having effectively missed out on the economic development of the twentieth century. Africa, the Arab world, central Asia, eastern Europe and the Balkans all offer young economies with decades of catch-up economic growth ahead.

All of these dynamics remain largely unaffected by the turbulence in January.

The fund's assets are currently positioned around a core group of ideas, driven by country and company visits and proprietary research.

Our main themes at present are:-

1. Continued asset and equity price inflation in the GCC and related Arab countries, coupled with booming GDP growth. The petro-region of Qatar, Kuwait, Saudi, the UAE and Oman, is currently tied to a weak US Dollar and declining interest rates. Some GCC countries may revalue in 2008, but in the meantime, high negative interest rates will lead to substantial asset inflation. Economic growth is now more balanced than historically, with domestic demand adding to carbon exports. Linked countries like Morocco and Egypt will also benefit.
2. Strong growth in the Russian economy driven by pent-up domestic demand, infrastructure spending and wider access to consumer banking.
3. A prolonged growth period in South Africa fuelled by a turn in the interest rate cycle. Under political pressure from the new more populist ANC president Jacob Zuma, South Africa is likely to follow the American path, and reduce rates to increase domestic growth, particularly given the negative effects of power outages from Eskom. South African banks and retailers are extremely cheap, debt-free, and priced for a severe recession. If in fact the economy continues to grow, even slowly, then shares could rise sharply.
4. Kazakstan is unlikely to collapse in 2008, and some Kazakhstani banks are priced for disaster
5. Greece. A combination of negative real interest rates, structural EU investment and Balkan growth will deliver strong earnings growth to many Greek companies. Greek shares were hit hard in January as many pan-European funds redeemed into a thin and falling market.

Equities are now priced at a 45 year low relative to bonds. Currently there is a stark choice to be made in financial markets between apparently low risk bonds, with a yield of 3.6% or EMEA equities with strong growing earnings yields often in excess of 14%.

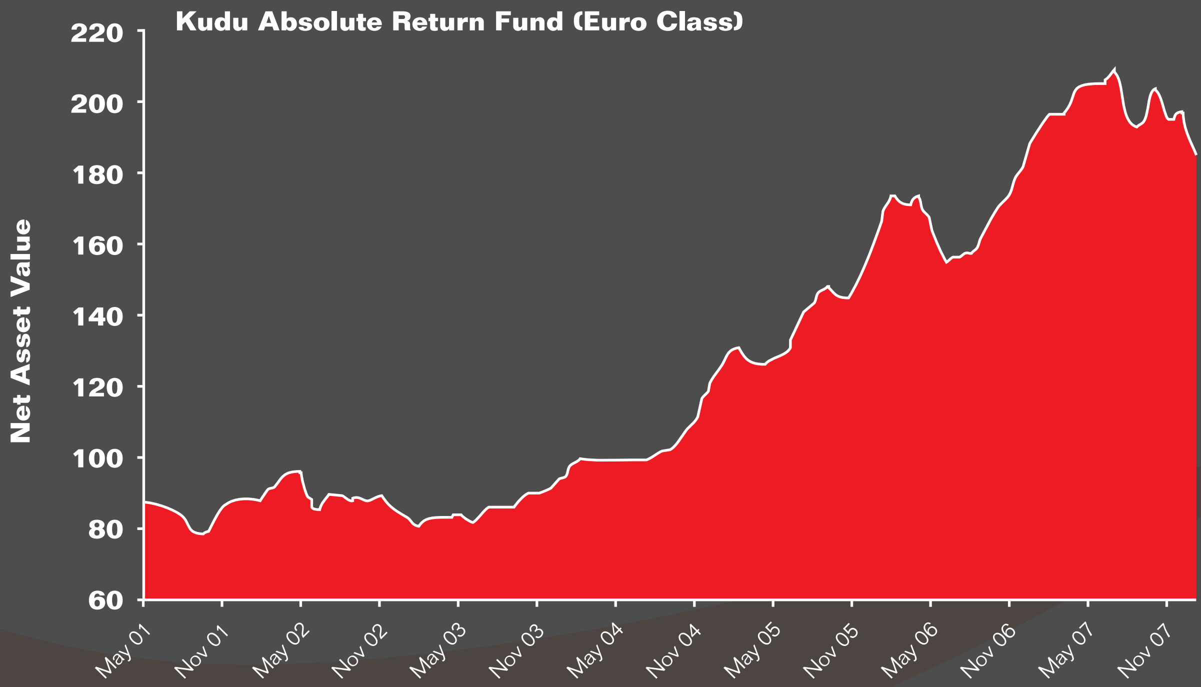
Currently the US 10 year yield of 3.6% is lower than the inflation rate in most of the GCC, with currencies pegged to the US dollar, and lower than the inflation rate in every major EMEA economy.

The fund continues to limit its net exposure to global markets until there is more clarity to both real conditions and investor sentiment. Conditions may evolve differently from our expectations, and we remain watchful for changes in all markets, from credit to global currencies, and regional equities outside of EMEA. Despite substantial volatility in the past six weeks we remain confident in our ability to benefit from market dislocations.

However, it is only every decade or so that fear so grips the equity market as it has recently, and we would be remiss in our duties if we did not seek to make the greatest possible rewards for shareholders from this rare event.

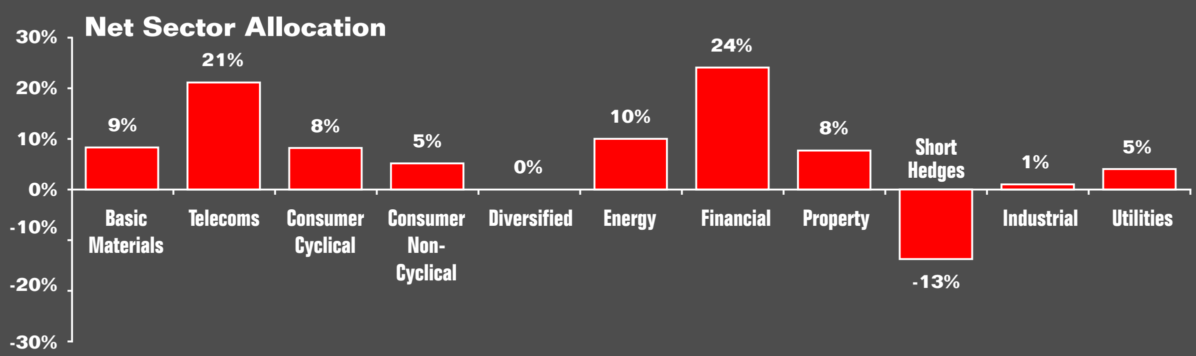
George Case
Jon Bond
Malcolm Levy

NAV per redeemable share: Class A: £90.64 $90.46 €94.36 Class B: £195.16 $194.23 €185.26				
Performance	**January**	**YTD**	**Rolling 12 months**	**Since Launch**
Class A$:	-6.27%	-6.27%	N/A	-9.54%
Class B€:	-6.18%	-6.18%	-3.76%	110%



Geographic Allocation Exposure as % of Fund NAV

Region	Long	Short	Net	Beta Adjusted Net	Performance Attribution
Europe	7.0	0.0	7.0	3.6	-0.75
Greece	4.5	2.4	2.1	1.1	-0.64
Israel	0.0	1.5	-1.5	-0.8	0.43
Russia	23.2	9.3	13.9	7.3	-3.19
Turkey	4.0	0.0	4.0	2.1	-1.40
Africa	20.5	0.0	20.5	10.6	-2.13
Middle East	26.0	6.5	19.5	10.1	0.25
Other	18.6	13.0	5.6	2.9	1.27
Total	103.8	32.7	71.1	36.9	-6.18



KUDU

TOP 5 LONG POSITIONS

TOP 5 LONG POSITIONS	%
GAZPROM	3.37%
COMMERCIAL BANK OF QATAR	3.29%
ALDAR PROPERTIES	3.24%
COMMERCIAL INTERNATIONAL	3.12%
QATAR TELECOMS	3.10%

TOP 5 CONTRIBUTORS MTD	ATTRIBUTION %
EXXARO RESOURCES	0.50%
NATIONAL INDUSTRIES	0.25%
AFRICA ISRAEL	0.24%
SIDENOR STEEL	0.18%
POLYUS GOLD	0.17%

TOP 5 CONTRIBUTORS YTD	ATTRIBUTION %
EXXARO RESOURCES	0.50%
NATIONAL INDUSTRIES	0.25%
AFRICA ISRAEL	0.24%
SIDENOR STEEL	0.18%
POLYUS GOLD	0.17%

FUND INFORMATION

CLASS A

ISIN
€ BMG532541270
£ BMG532541197
$ BMG532541015

SEDOL
£ B1W7LS0
$ B1W7LR9

BLOOMBERG
£ CLACTAS BH
$ CLACTAD BH

US DELAWARE FEEDER
$ US5011831071

INVESTMENT FOCUS:

RASPADSKAYA – RUSSIA

Raspadskaya is Russia's largest producer of coking coal with an annual output in excess of 13m tons. With Russia's most technologically advanced production, and proven reserves in excess of 70 years at current usage, Raspadskaya benefits from the favourable pricing dynamics of coal both in Russia and globally. We estimate that coking coal prices will increase 70% in 2008 as increasing demand for steel meets a limited supply of coke.
The resulting pricing power makes this part of the steel production process highly attractive. Barriers to entry in the form of time and capex to get mines operational further improve the industry dynamics for established players.
On our estimates the stock trades on 8x 2008 earnings, with excellent potential in years to come.

	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	-6.18												-6.18

Total Return in €
Numbers net of fees (€class)

Domicile: Bermuda and Delaware, USA
Listing: Irish Stock Exchange
Assets: $195mln
Start Date: Jul-01
Liquidity: Quarterly
Lock up: 1 year soft lock up (3% redemption fee)
Minimum: Class A £/€/$100,000
Performance: 20% with HWM
Management Fee: 2%
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 every month

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 miss-pricing.

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.

For more information contact: jon@kudufunds.com Tel: +44 207 015 5204, Fax: +44 207 015 5201

George Case george@kudufunds.com tel: +44 207 015 5202, Malcolm Levy malcolm@kudufunds.com tel +44 207 015 5203
Nick Wesolowski nick@kudufunds.com tel: +44 207 015 5205, Gaspar Garcia-Quiles gaspar@kudufunds.com tel: +44 207 015 5206
Sarah Flindall sarah@kudufunds.com tel: +44 207 015 5200