



KUDU FUND

EMERGING EUROPE, MIDDLE EAST, AFRICA

MONTHLY REPORT JULY 2008

KUDU

Monthly Report

The Russian stock market is the largest in the EMEA region, and is the 'R' in BRIC, the now common acronym coined by Goldman Sachs to represent Brazil, Russia, India and China. In only ten years since the Russian debt default in 1998, and the resulting 90% collapse in the stock market, the Moscow exchange has grown from being a relatively small and narrow index of oil producers, to become a huge and diverse collection of listed companies, representing industries ranging from Potash mining to generic pharmaceuticals.

The Kudu Fund usually holds around 30% of its investor capital in Russian equities with a large number of corresponding shorts and index positions. However, in late July, the Fund cut its holdings in Russia to 10%, as Vladimir Putin's attack on Mechel raised a new and important downside risk to valuations of companies.

In early August, the government of Georgia launched an unprovoked attack on the effectively independent and Russian-backed state of South Ossetia. Although Georgia maintains that South Ossetia and Abkhazia lie within its territorial borders, both regions have complex histories with mixed populations. Both regions fought for, and gained effective independence from Georgia in civil wars after the break-up of the old Soviet Union. As soon as news came through of Georgia's attack on South Ossetian forces and their Russian Army protectors, the Fund reduced its holdings in Russian equities to 1%.

After several days of open warfare in Georgia, global investors turned to aggressive sellers of Russian shares. The Moscow market, already weakened by the fall in oil and commodity prices and the public row over Mechel, fell markedly.

The Fund currently holds a gross long position in Russia of 1% with a net of 0.5%

The Russian market has fallen 33% in the last eight weeks, driving a long list of shares to extremely low valuations. The Fund's approach to this situation is to wait for the market to stabilise before stepping in to buy. It is too simplistic to see this as a classic 'buy the bullets' situation.

The Russian market decline of the last few months has been typical of the behaviour of global stock markets in the last year. The credit crisis of last August has caused a spreading collapse in investor confidence in emerging equities of almost every description. There have been a variety of catalysts, but regardless of the market or the headline story, global investors have chosen to sell first and discuss the issues later.

The Kudu Fund is positioned with a maximum level of caution. There is no clear way of judging when stability will return to the stock markets of EMEA. The most rational approach is to take an evidential approach

- when a wide range of measures return to stability, then the Fund will gradually rebuild positions in companies whose prospects we have tracked over the last decade.

Having experienced numerous cycles in just the last ten years, it seems logical to expect that there will be further bull markets, both at a sector, country and regional level. There are always valuable moves in stock market prices, both down as well as up, and the Kudu Fund is deliberately run with a view to benefit from opportunities wherever they arise, rather than tracking indices or running after the apparently 'obvious' moves which have reached the attention of trend-following media coverage.

With public attention in July focused upon Russia and the sharp break in commodity shares, the Kudu Fund carried out a research trip to Saudi Arabia. This roadshow, meeting companies and brokers, has proved extremely prescient, in that the Kingdom of Saudi Arabia announced on August 19th the opening of its stock market for the first time to investors from outside the Gulf Cooperation Council region. As a first stage the Saudi authorities are opening the market via a swap process, where international investors buy shares through a swap with a brokerage with a local licence. There has been a grey market in trading the Saudi market via swaps for some time - a process the Kudu Fund is familiar with. The Fund has relationships already in place with Saudi authorised brokerages.

The Saudi move is highly significant, in that the country dominates the GCC region in every way, by culture, size, economics and wealth. Saudi accounts for 46% of accumulative GCC GDP, 66% of the population base, 36% of the oil reserves and has a 59% weight in the GCC MSCI index.

In the GCC region, whereas smaller markets like UAE, Qatar and Kuwait have already opened themselves to foreign investors and have been proactive in attracting investments, Saudi Arabia (KSA), the biggest country, economy and market, has remained relatively difficult to access. There is hardly any research coverage, visas are difficult to obtain and non-GCC investors have not been allowed to invest directly. Indeed abundance of domestic liquidity has contributed to this conservatism.

For those who have not visited the country, there are some immediate and striking differences for a traveller familiar with the UAE or Qatar. For a country with a population of some 30 million people, it is clearly apparent that the huge oil wealth of the country has not so far penetrated to the wider economy. The country's roads and building stock, both commercial and residential, lag behind the UAE, and certainly do not give off the impression of a country of the Kingdom's enormous wealth and cultural influence.

Saudi Arabia presents a unique opportunity of gaining exposure to a massive infrastructure growth story. Unlike its Middle Eastern peers, Saudi Arabia was initially very

conservative in dealing with the oil boom. Prudent, not to commit the mistake of the 70's, the Saudi government decided to maintain fiscal discipline in case the rise in oil prices was just a temporary shock. The excess surplus from high oil prices was used to repay external debt and to accumulate reserves.

Over the last few years, under the new ruler, King Abdullah, the government has set out a reform agenda. Under the new policy, the government has been investing the windfall wisely in viable projects with private sector participation with the aim of diversifying the economy and building up on the sectors in which the country enjoys a comparative advantage. Consequently investment projects worth US\$900bn have been allocated by the government. 32% of these projects are in the civil sector (public infrastructure, roads, residential and recreational projects), 20% in petrochemical sector and 18% of the spending is on power projects.

This infrastructure boom has led to massive growth in the demand for and earnings growth of all infrastructure based sectors. Given the barriers to entry, especially for foreign businesses, domestic companies continue to reap supernormal profits. During our trip, we met with cement companies, producers of steel pipes, power cables, telecom and power towers, shipping carriers, real estate developers and construction companies. Based on our research and meetings with management, the Fund will take a diversified position exposed to this infrastructure story, which has many years to run.

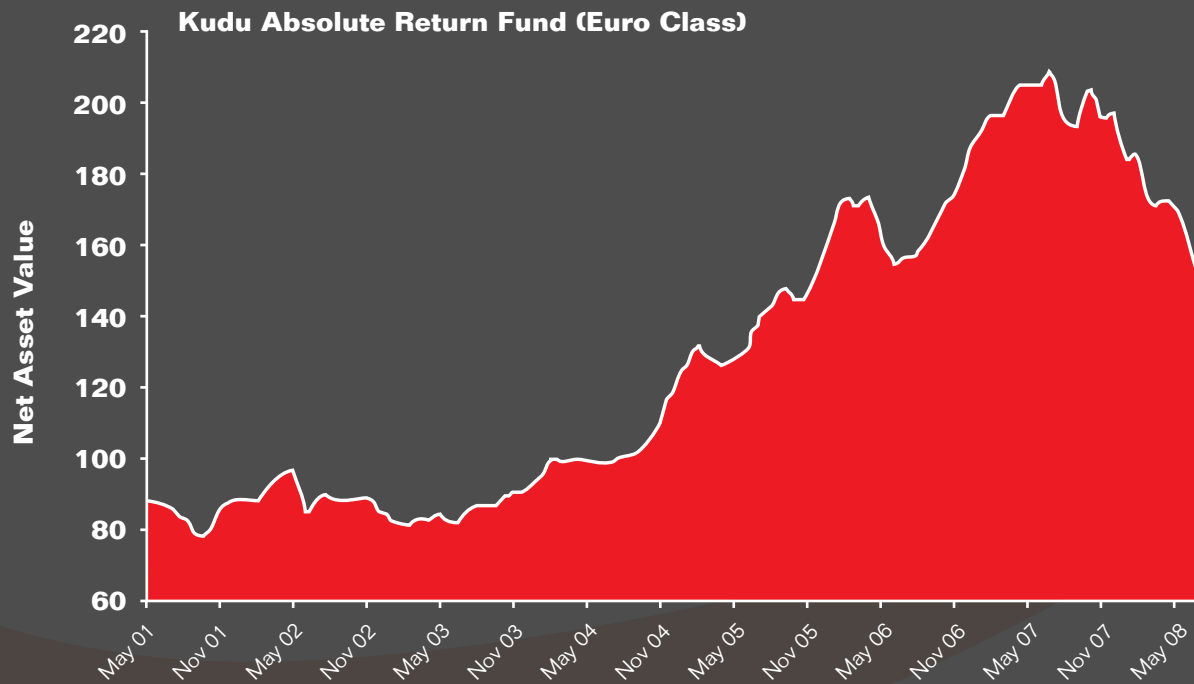
The Kudu Fund has been early to research and investigate this market, but we intend to move extremely cautiously given the Saudi market is only in the early stages of a recovery from a damaging bear market which lasted through 2006 and into 2007.

The Fund's caution in Saudi Arabia is indicative of our small gross and net position across EMEA. The Fund has experienced bear markets before in almost every country and market in the region. The lessons drawn are very similar: the longer a sell-off continues, the greater the eventual opportunity to make large returns. The markets of Russia, Qatar, Turkey, Morocco or South Africa are very different in many ways, but human nature remains the same. During a down move, investors rush to sell the very same shares that they hurried to buy at higher prices a few months or years before. The only way to draw the maximum benefit from emerging markets over time is to accept that even for a hedge fund, there is an inherent cyclicality to the asset class which is not possible to avoid without losing the higher long term returns which the sector delivers.

■ **George Case**
 ■ **Jon Bond**
 ■ **Malcolm Levy**

NAV per redeemable share: Class A: \$72.75 £73.74 Class B: \$156.59 £159.18 €150.69

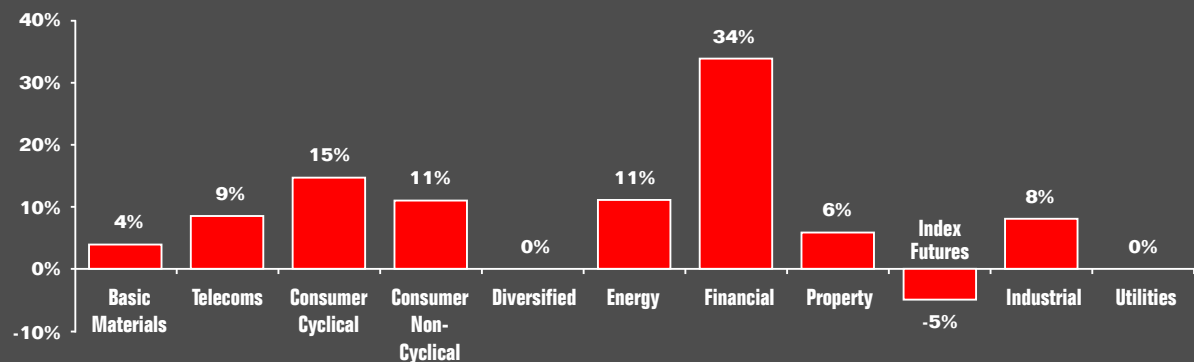
Performance	July	YTD	Rolling 12 months	Since Launch
Class A\$:	-8.20%	-24.62%	-28.64%	-27.25%
Class B€:	-8.23%	-23.69%	-27.85%	70.92%



Geographic Allocation Exposure as % of Fund NAV

Region	Long	Short	Net	Beta Adjusted Net	Performance Attribution
Europe	5.17	0.00	5.17	1.60	-1.28
Greece	5.43	-1.07	4.36	1.35	-0.11
Israel	0.00	0.00	0.00	0.00	-0.56
Russia	6.69	-0.52	6.17	1.91	-3.23
Turkey	4.72	0.00	4.72	1.46	0.38
Africa	12.47	-2.84	9.63	2.99	-1.56
Middle East	12.81	0.00	12.81	3.97	-1.28
Others	15.51	-14.00	1.51	0.47	-0.59
Total	62.80	-18.43	44.37	13.75	-8.23

Net Sector Allocation



TOP 5 LONG POSITIONS	ATTRIBUTION %
OPAP	3.11%
GAZPROM	3.02%
HELLENIC EXCHANGES	2.32%
AGTHIA GROUP	2.29%
SHUAA CAPITAL	2.23%

TOP 5 CONTRIBUTORS MTD	ATTRIBUTION %
TURK HAVA YOLLARI	0.29%
HELLENIC EXCHANGES	0.22%
LONMIN PLC	0.21%
VIMPELCOM	0.15%
IMPALA PLATINUM HOLDINGS	0.13%

TOP 5 CONTRIBUTORS YTD	ATTRIBUTION %
URALKALI	0.75%
SASOL LTD	0.74%
ROSNEFT	0.71%
MMC NORILSK NICKEL	0.62%
COMMERCIAL BANK OF QATAR	0.54%

FUND INFORMATION

CLASS A

ISIN

€ BMG532541270

£ BMG532541197

\$ BMG532541015

SEDOL

£ B1W7LS0

\$ B1W7LR9

BLOOMBERG

£ CLACTAS BH

\$ CLACTAD BH

US DELAWARE FEEDER

\$ US011831071

INVESTMENT FOCUS:

SPAR GROUP - SOUTH AFRICA

Spar Group is South Africa's largest food wholesaler with a dominant 27% market share. The company's network of 1,340 stores continues to grow at some 4% per annum and shows little sign of slowing. However, the principal attraction of the Spar investment case relates to the manner in which Spar benefits from the spiralling inflation regime in South Africa.

The ability to pass on all of the food price inflation of its products results in expanding margins, and this situation will continue whilst such food price inflation continues to outstrip internal cost inflation. The current excess profits are being re-invested in new IT systems that have the potential to further improve the logistical management of an ever expanding store base.

We expect Spar to experience top-line growth of at least 20% in 2008 on the back of food inflation, space growth and market share gain. With the inherent profit leverage, bottom line growth is expected to be near 30%, a refreshing company performance against the weak global macro backdrop.

	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	0.12	-7.26	0.77	-0.88	-4.43	-8.23						-23.69

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

Domicile: Bermuda and Delaware, USA
Listing: Irish Stock Exchange
Assets: \$127.5mln
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.

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