



KUDU FUND

EMERGING EUROPE, MIDDLE EAST, AFRICA

MONTHLY REPORT SEPTEMBER 07

KUDU

Monthly Report

The Kudu fund fell by 0.4% in September, compared to a rise of 1.2% by the Morgan Stanley Pan-European Index, and a rise of 3.5% by the MSCI EMEA index. It was a clear month of transition, from the market volatility and weakness of August, to a more confident atmosphere of renewed risk appetite in September. This change in mood was driven in large measure by the Federal Reserve's decision to cut interest rates by a greater than expected 50 basis points on September 18th. Commodities of all sorts rose in value in September, in response to renewed dollar weakness and strong Asian markets.

The emerging markets of Asia and Latin America have enjoyed stronger inflows in recent months than many markets of EMEA. However, valuations in EMEA remain well below those of the other emerging markets despite strong growth prospects. For instance, the nominal GDP of Qatar grew a phenomenal 25% last year, well above that of China. The Kudu Fund's process continually seeks out companies with strong franchises, superior growth prospects and low valuations, or expensive companies with challenged business models in competitive market environments.

In recent weeks the fund has found interesting ideas in South Africa, where the retail sector has delivered flat or negative returns since the Rand devaluation in May of last year. Falling share prices attract little attention and foreign investors have been consistent sellers of retail shares as they have drifted down in price. The end result is that valuations of retailers, from furniture chain Lewis, to clothes' sellers Foschini and Truworths have fallen sharply. Woolworths, the Marks and Spencers look alike has dropped with the clothing peer group, even as its food offering continues to gain market share.

Lewis Group was founded in 1934 by Meyer Lewis in Cape Town, and has grown from one store to a chain of 490 outlets. The company has no debt, has bought back 9% of its shares over the last year, with a mandate to buy 10% more, and has delivered decades of earnings per share growth. The head office still occupies the same building in Woodstock where the company started out. The firm plans to add 150 more stores in the coming years, many of them in the newer Best Bedding and Lifestyle Living formats.

Unlike some of their competitors, Lewis is free to source product from any supplier, and as a result has benefited from considerable input price deflation in many lines. The company trades on a valuation of 7x 07 expected earnings and 6x 08 expected earnings.

It may seem odd that a company with 70 years of growth behind it, should trade at such a low multiple. The reason is that the furniture sector is perceived as being vulnerable to any consumer slowdown. Rates have risen by 350 bps in the last year in South Africa in an attempt to slow down domestic consumption and inflation.

Lewis has weathered this period of rate increases quite well, with recent sales growth of 7%, 11% and 11% in June, July and August respectively year-on-year. These increases were particularly noticeable as May saw the introduction of the new National Credit Act, making it more difficult to sign up customers for credit sales and warranties.

It is most likely that the recent October rate increase was the last in the current cycle by the South African Reserve Bank. As rates stabilise and eventually fall, retailers may benefit from a long cycle of structural and cyclical growth, as the government injects billions of saved Rand from the fiscal surplus into infrastructure spending and the economy grows faster.

Elsewhere in South Africa, the infrastructure boom continues and we see substantial value in companies such as DAWN, the Distribution and Warehousing Network that is the dominant wholesale distributor of hardware and engineering products in the market. The company sells some 30,000 products to over 10,000 customers in the plumbing and building sector and is the overwhelming market leader with substantial market share. The remainder of the sector is fragmented and offers Dawn strong growth and synergy opportunities through consolidation. The investment case, however, is based upon the impact of vertical integration into production and the purchase of leading brands on operating leverage and margins, currently at 11% and rising. The 2010 Soccer World Cup provides further fundamental support to the growth of the sector, and on our estimates the company trades on a valuation of 9x 08 expected earnings following the integration of recent acquisitions.

The Kudu team carried out research trips to Turkey, Greece, Bulgaria and Serbia in September. Many Turkish companies reported a pick-up in local demand over the summer, prior to the unexpected rate cut by the Turkish Central Bank. The fund continues to hold positions in retail deposit-backed banking, in cement and in local residential construction. Istanbul continues to grow and to benefit from its geographic and economic position at the heart of south-eastern Europe.

Serbia is an interesting new market for the fund in which we are exploring possible investments. Serbia was decimated by 15 years of war following communism. However, the regionally and historically important city of Belgrade sits at the confluence of the Sava and Danube rivers and is at the crossroads of Central, Southern and Eastern Europe. Accordingly recovery thus far has significantly outpaced that seen in the peer markets of Croatia, Romania and Bulgaria, and with this rapid change comes investment opportunities. Real GDP growth is expected at close to 7% in the coming years.

The banking sector is of particular interest. Loans are primarily deposit funded, and growth is in the high double digits. However, excessive reserve requirements from the Central Bank, used as a means of controlling the consumer through restricting lending, depress the near term profitability of the banks, resulting in an extremely attractive market being overlooked.

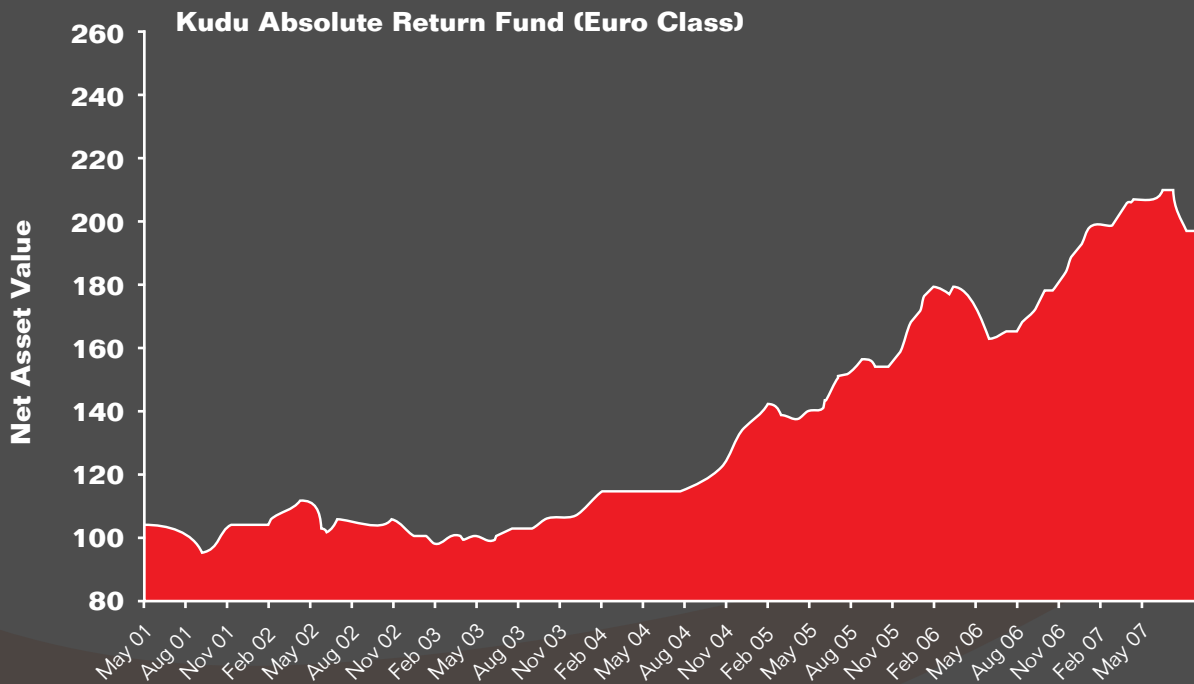
AIK and Komercijalna are the two largest listed banks in the market, together making up some 40% of the Belex 15 Index. Komercijalna is the dominant domestic bank, with the state still holding some 40%, and has a balanced portfolio of retail and corporate loans. ROE was a depressed 14% for the first 8 months of 2007, but adjustments to normalise capital and reserve requirements demonstrate underlying returns in excess of 30%, boosted by the lowest corporate tax regime in Europe at 10%. Foreign interest is high, and Agricultural Bank of Greece has recently acquired a 25% stake in AIK Banka. Consolidation is likely to continue.

The fund continues to do extensive research in the exciting areas in which it invests. We remain firmly optimistic about the prospects for the Kudu Fund for the rest of the year, and for the years to come.

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

NAV per redeemable share: Class A: £94.76 \$94.85 Class B: €194.08 £203.70 \$203.31

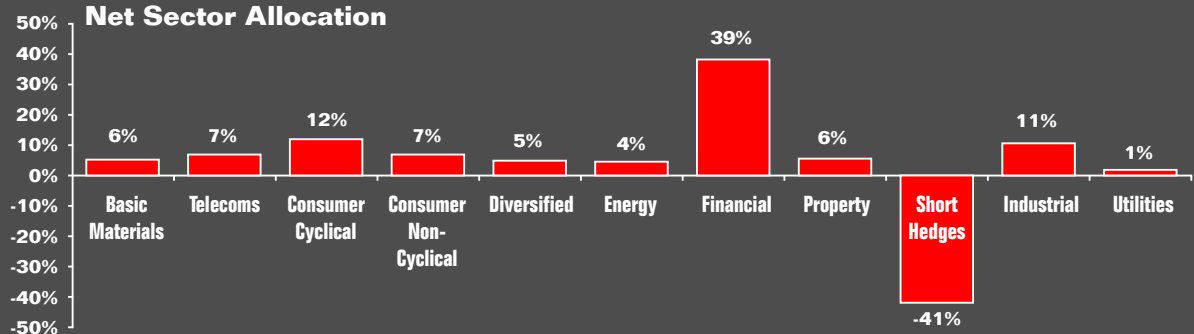
Performance	September	YTD	Rolling 12 months	Since Launch
Class A:	-0.5%	N/A	N/A	-5.2%
Class B:	-0.5%	+5.5%	19%	120%



Geographic Allocation Exposure as % of Fund NAV

Region	Long	Short	Net	Beta Adjusted Net	Performance Attribution
Europe	11.5	0.0	11.5	8.8	0.1
Greece	17.3	4.0	13.3	10.1	-0.3
Israel	1.4	0.0	1.4	1.07	0.2
Russia	27.2	9.6	17.6	13.3	-0.4
Turkey	20.6	6.3	14.3	10.9	0.3
Africa	16.0	0.8	15.2	11.5	-0.6
Middle East	18.5	0.0	18.5	14.0	0.8
Other	8.3	35.3	-27.0	-20.3	-0.6
Total	121.0	55.9	65.1	49.5	-0.5

Net Sector Allocation



TOP 5 LONG POSITIONS

	%
HELLENIC BANK	3.54%
TURKIYE VAKIFLAR BANKASI	3.43%
OPAP	3.26%
SBERBANK	3.10%
TURKIYE GARANTI	3.09%

TOP 5 CONTRIBUTORS MTD

	ATTRIBUTION %
EVRAZ GROUP	0.40
ORASCOM CONSTRUCTION	0.33
CHARLEMAGNE CAPITAL	0.33
TURKIYE VAKIFLAR BANKASI	0.29
MVELAPHANDA RESOURCES	0.24

TOP 5 CONTRIBUTORS YTD

	ATTRIBUTION %
EVRAZ GROUP	2.54
AFRICA-ISRAEL	2.43
HELLENIC BANK	1.63
ALDAR PROPERTIES	1.54
VIVARTIA SA	1.49

FUND INFORMATION

CLASS A

ISIN

€ BMG532541270

£ BMG532541197

\$ BMG532541015

SEDOL

£ B1W7LS0

\$ B1W7LR9

BLOOMBERG

£ CLACTAS BH

\$ CLACTAD BH

US DELAWARE FEEDER

\$ US5011831071

INVESTMENT FOCUS:

ISLAMIC ARAB INSURANCE COMPANY – DUBAI

The Islamic Arab Insurance Company, 'IAIC', is the largest Takaful and re-Takaful company in the world and outright leader in the GCC and North Africa. Takaful is an Islamic insurance concept grounded in Sharia law and the word itself translates as 'solidarity'. The company is benefiting from the strong growth in Islamic finance and increased awareness of Sharia compliant products globally. The market is expected to triple from US\$5 billion in 2005 to \$15 billion in 2015. With the continued rapid development and modernisation of the Gulf and Islamic states comes an increasing need for general insurance and few companies have the necessary Sharia approvals to offer compliant solutions. This creates significant barriers to entry coupled with strong fundamental growth dynamics. Despite the company's niche positioning, it trades on 1.8x 2008e book value, with a return on equity in excess of 20%.

	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				5.5

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

Domicile: Bermuda and Delaware, USA
 Listing: Irish Stock Exchange
 Assets: \$190mln
 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 Fiindall sarah@kudufunds.com tel: +44 207 015 5200

Issued and approved by Kudu Emerging Markets Limited, which is authorised and regulated by the Financial Services Authority. This material is for information only and does not constitute an offer or recommendation to buy or sell any investment, or subscribe to any investment management or advisory service. It is not, under any circumstances, intended for distribution to the general public. The Funds that may be referred to in this document are unregulated collective investment schemes for the purposes of Section 238 of the Financial Services and Markets Act 2000. Accordingly, this document may only be issued in the United Kingdom to persons to whom unregulated collective investment schemes are permitted to be promoted by virtue of Section 238 of the FSMA and Annex 5 to Chapter 3 of the FSA Conduct of Business Sourcebook.

No part of this document may be reproduced in any manner without the written permission of Kudu Emerging Markets Limited. We do not represent that this information, including any third party information, is accurate or complete and it should not be relied upon as such. Opinions expressed herein reflect the opinion of Kudu Emerging Markets Limited and are subject to change without notice.