



KUDU FUND

EMERGING EUROPE, MIDDLE EAST, AFRICA

MONTHLY REPORT SEPTEMBER 2008

KUDU

Monthly Report

The Kudu fund moved 95% of its assets to cash in early August. This decisive action was a response to clear signs of stress in global credit, currency and equity markets.

Since the Kudu fund took this protective action – the first time it has done so in seven years – the Russian stock market has fallen by 63%, and the world's banking and financial markets have endured their most complete collapse since the 1930s.

The Russian crisis is one of the largest in modern times. The RTSI index decline has already substantially outpaced the 48% fall by American shares in the Wall Street Crash of 1929.

Given the severity of the current crisis, which is now spreading to Hungary, the Ukraine, and Pakistan, the fund is keeping 95% of its assets in cash, but is finding increasing opportunities to profit from the most chaotic and turbulent markets in living memory.

The Kudu fund's positions are stock specific long or short trades, often linked to business or economic developments in a particular sector or country, where current market valuations appear clearly at odds with a changing situation. Each position is either hedged with a corresponding index, or with linked stock positions in the same country.

The fund currently holds short positions in three distinct themes:

- **Currency and economic crises in south-eastern Europe – the Ukraine, Romania, Hungary**

- **Over-leveraged property developers in eastern Europe, Russia and the CIS**

- **A deeper than expected recession in the domestic South African economy**

These short positions are hedged with long positions in stock indices, and long stock positions in companies with high and secure dividend yields, with pricing protected from inflation.

This short portfolio is widely diversified both by country and also by sector:

1. Currency and economic crises in south eastern Europe

On a research trip to Romania over a year ago, we visited an electronics retailer, Flamingo, listed on the local stock market. On visiting a Flamingo store in the local shopping mall, business was brisk, with customers buying microwaves, TVs and freezers. Most of the customers were queuing at an in-store kiosk of an Austrian bank, offering consumer credit. Customers were offered a choice of a loan in Leu, the local currency or in Euros. The Euro interest rate was much lower, so most customers opted for the Euro loan.

The Romanian currency has recently weakened sharply, leaving those customers servicing a Euro loan with weakening Leu. The international banks who paid premium prices to buy into Romania may pay a high price for their acquisitions.

The fund has a number of shorts positioned around the potential problems associated with Romania and other eastern European countries.

2. Over-leveraged property developers in eastern Europe, Russia and the CIS

The fund has short positions focused on eastern European property developers. Too many companies in the real estate sector are over-leveraged with little hope of refinancing. Shares in the sector have fallen by 70%, attracting some bargain hunters, but in some cases there may be further sharp falls to come.

3. A deeper than expected recession in South Africa

South Africa is suffering from serious macroeconomic problems. The Rand is a free-floating currency which moves sharply in response to global market sentiment. When the Rand weakens, the resultant higher price of necessary imports, like oil and food, causes the rate of domestic inflation to rise. Currently

inflation has risen to 13.5% and may move higher since the Rand has depreciated by 30% in October.

The South African Reserve Bank is tasked with keeping inflation within a 3–6% band. Faced with this dramatic rise in inflation, the SARB has followed a very conventional approach, raising rates by 300bps over the last year and a half.

The SARB may be forced by political pressure to cut rates in 2009, but the economic damage is already done. Retail sales in August fell by 5.5% – the highest figure ever recorded, and car sales have ground to a halt.

The local stock market retail sector of clothing, furniture and electrical goods, has held up well over the last six months as local institutional investors have shifted out of mining stocks. This optimism seems unwarranted and the Kudu fund has a number of short positions in the retail sector.

Absolute Return

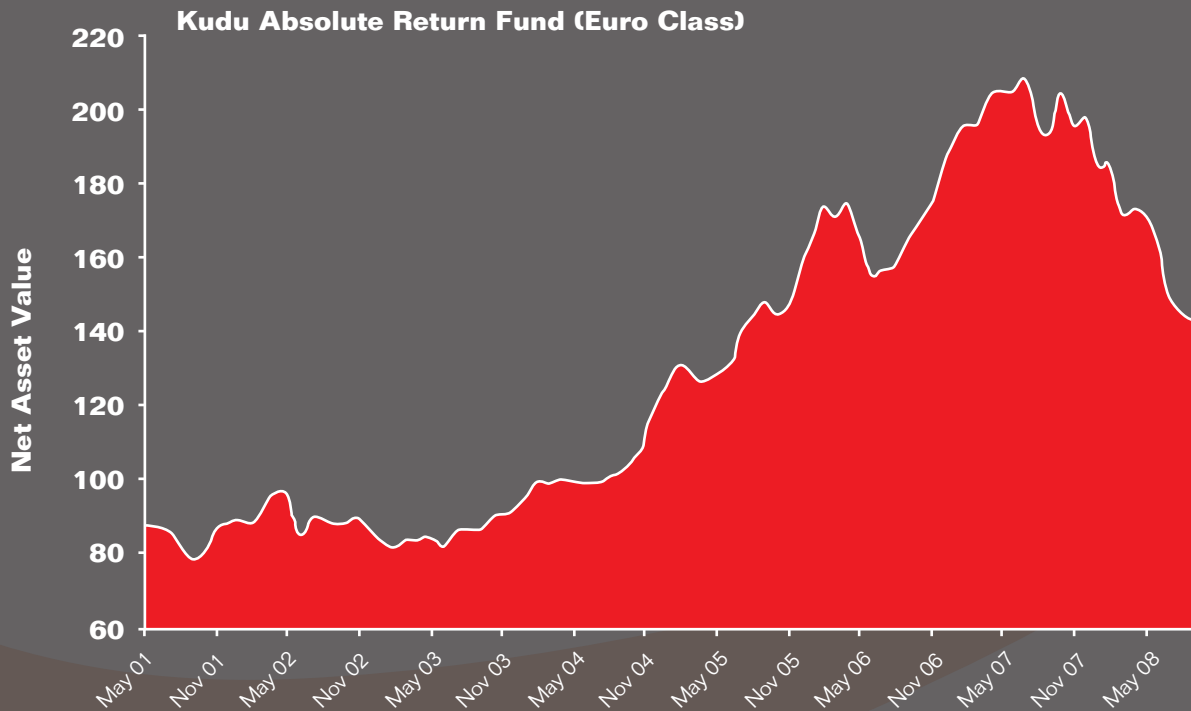
The Kudu fund is committed to delivering absolute returns from the emerging markets of EMEA. The fund makes strong risk adjusted gains during up-cycles and aims to outperform the index and protect investor capital during downturns. For example: the fund made 31% in 2004 and 29% in 2005. The Kudu fund has succeeded in this commitment since its inception, delivering both absolute and relative returns through a period which has included the two worst bear markets in the last eighty years. In effect the fund has delivered positive returns over a seven year period which covers two extreme down cycles and only one up-cycle in between.

During this period of extreme turbulence the Kudu fund is committed to preserving investor capital and to making substantial profits when stock market conditions change.

- **George Case**

NAV per redeemable share: Class A: \$69.36 £70.18 Class B: \$149.41 £151.63 €143.53

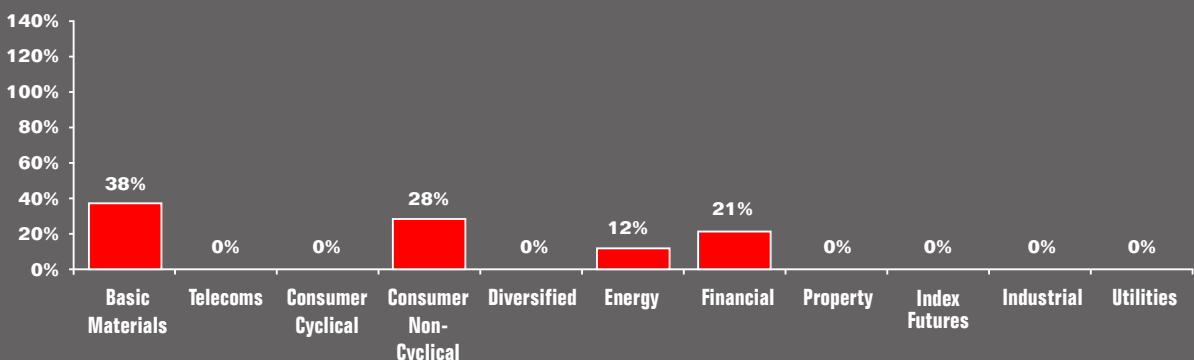
Performance	September	YTD	Rolling 12 months	Since Launch
Class B€:	-1.21%	-27.31%	-26.05%	62.80%
Class A\$:	-1.33%	-28.13%	-26.87%	-30.64%



Geographic Allocation Exposure as % of Fund NAV

Region	Long	Short	Net	Beta Adjusted Net	Performance Attribution
Europe	0.00	0.00	0.00	0.00	-0.40
Greece	0.11	0.00	0.11	0.01	-0.19
Israel	0.00	0.00	0.00	0.00	0.00
Russia	2.48	0.00	2.48	0.12	-0.17
Turkey	0.00	0.00	0.00	0.00	0.00
Africa	1.33	-0.07	1.26	0.06	0.08
Middle East	0.00	0.00	0.00	0.00	-0.32
Others	1.81	0.00	1.81	0.09	-0.21
Total	5.73	-0.07	5.66	0.28	-1.21

Net Sector Allocation



TOP 5 LONG POSITIONS ATTRIBUTION %

SPAR GROUP	0.76%
UNITED BANK OF AFRICA	0.45%
GAZPROM	0.33%
MMC NORILSK NICKEL	0.30%
URALKALI	0.30%

TOP 5 CONTRIBUTORS MTD ATTRIBUTION %

URALKALI	0.28%
SPAR GROUP	0.05%
SHOPRITE HOLDINGS	0.05%
INVESTEK PLC	0.05%
OMV AG	0.03%

TOP 5 CONTRIBUTORS YTD ATTRIBUTION %

URALKALI	1.01%
SASOL LTD	0.74%
ROSNEFT	0.71%
MMC NORILSK NICKEL	0.66%
COMMERCIAL BANK OF QATAR	0.56%

FUND INFORMATION

CLASS A

ISIN

€ BMG532541270

£ BMG532541197

\$ BMG532541015

SEDOL

£ B1W7LS0

\$ B1W7LR9

BLOOMBERG

£ CLACTAS BH

\$ CLACTAD BH

INVESTMENT AREA:



	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	-3.58	-1.21				-27.31

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

Domicile: Bermuda
 Listing: Irish Stock Exchange
 Assets: \$124mln
 Start Date: Jun-01
 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 mispricing.

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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