



KUDU FUND

EMERGING EUROPE, MIDDLE EAST, AFRICA

MONTHLY REPORT AUGUST 2008

KUDU

Monthly Report

September 2008 has seen the most severe financial crisis in global markets for eighty years. The bankruptcy of Lehman Brothers, the effective collapse and nationalisation of AIG, the last-minute rescue of HBOS, and the near total collapse of the core US financial and banking system on 18th September are events without recent precedents.

In a parallel crisis, the Russian stock market experienced a fall as severe as the 1987 Wall Street crash. Before the government temporarily closed the market on the 17th September, the main RTSI index had fallen by 37% in twelve days, a collapse which followed two months in which the Russian index had already fallen by 25%. Although Russia as a country is awash with dollar payments for oil, gas and minerals, the domestic financial system is under severe strain. The local credit market has seized up, and second tier banks have no access to Ruble credit at normal pricing.

The temporary closure of the Russian market was the final act of a crisis which began with the harsh public criticism of the pricing policy of Mechel, the coal and steel company, by ex-President, now Prime Minister Putin on 24th July.

In early August the army of Georgia moved into South Ossetia in an attempt to wrest back control of this effectively autonomous territory from its Ossetian rulers, who exercised power in the area with the very obvious backing of Russia. Whether or not this move by Georgia was provoked, the resulting military response by Russia was entirely predictable to all but the President of Georgia and his close advisers. Given the strength and nature of Russia's military action, it is a relief that Georgia is not yet a member of NATO.

Given the market uncertainty after Putin's attack on Mechel and after the first Georgian military moves, the Kudu Fund acted decisively in early August to remove its last remaining Russian stock market exposure, even before the Russian military response.

The Kudu Fund also brought its local knowledge to bear by selling all its positions in the Middle East and the Gulf. These regions offer interesting future growth at attractive valuations, but in August and September markets from Oman to Abu Dhabi fell sharply as international and local investors scrambled to exit their positions.

The conventional thinking about the Gulf markets was that they were non-correlated to western markets, and therefore a safe haven. Our analysis was that the arrival of new foreign investors in Gulf markets over the last twelve months, with little knowledge of local dynamics, from the differing real estate markets of Abu Dhabi and Qatar, to the importance of Ramadan, would leave the GCC markets acutely vulnerable to global sentiment. The fall in the oil price and the rise in the Dollar offered clear catalysts for the Kudu Fund to exit the Gulf markets.

The Fund took some losses from exiting all its positions in early August in Russia and the Middle East, but this monthly decline allowed the Fund to watch neutrally on the sidelines as shares like Aldar, Tamweel, Sorouh, First Gulf Bank and Emaar proceeded to fall by between 40-60% after the Kudu Fund had exited all of its Gulf holdings.

The GCC markets now offer interesting opportunities, since the selling across all markets was indiscriminate, with no interest or regard for assets, valuation or future earnings. The GCC still holds most of the world's oil and gas, and is committed to dynamic economic development, funded by huge sovereign financial reserves.

It was an unusual and decisive decision to reduce the Fund's gross long position to 12% of investor funds, but the Kudu Fund has been run since its inception with a commitment to independent thinking. In the twenty or more countries in which the Kudu Fund operates, there are significant trends and themes, cultural, political and economic, which all play an important part in driving potential stock market returns.

The Kudu Fund's best returns have been derived from identifying the key themes and drivers in local markets. Right now, the emerging markets of EMEA are still trying to stabilise against an uncertain global backdrop.

For the time being, the Kudu Fund will remain with a very high investment in cash or near equivalents until there is more clarity over the economic direction in the Fund's core markets.

With markets trading so much lower than a few weeks and months ago, it would appear logical to step in to pick up bargains thrown away in the recent panic. However, the Fund is taking a cautious approach, selectively buying, but only large and liquid stocks with a clear correlation to an equally liquid index future. For example, the Fund recently

bought at extremely low levels, shares in Gazprom, the Russian gas producer, and Sberbank, the largest bank in Russia.

Even after recent falls, Gazprom has a market capitalisation of \$190 billion. The company currently trades on 5 times conservative estimates of 2008 earnings, and 4.2 times 2009 earnings.

Sberbank, the biggest bank in Russia, trades on 7 times 2008 estimated earnings and 1.3 times book value.

With careful risk management, Russian shares currently offer one of the greatest opportunities of the last decade in emerging markets. In many cases, valuations have halved in the last three months offering some of the lowest equity valuations in the world.

In spite of events in Georgia, the volatility in the oil price, and local political rhetoric, Russia is committed to a local form of capitalism for the foreseeable future. The stock market plays an important role in Russia's gradual shift to an open market economy, and is regularly praised and supported by both President Medvedev and Prime Minister Putin.

Many other EMEA markets also trade at their lowest valuations for five to ten years, as global investors have assigned a very high equity risk premium to all emerging market assets. If the US financial rescue package proves successful, investors in 2009 may well experience a slowly recovering US economy and slower, but still positive growth in emerging markets - amongst them EMEA. If that outcome evolves, then EMEA stock markets have a long way to rise, simply to return to 'normal' conditions. As the recent one day bounce has shown, markets that have fallen sharply can provide huge returns.

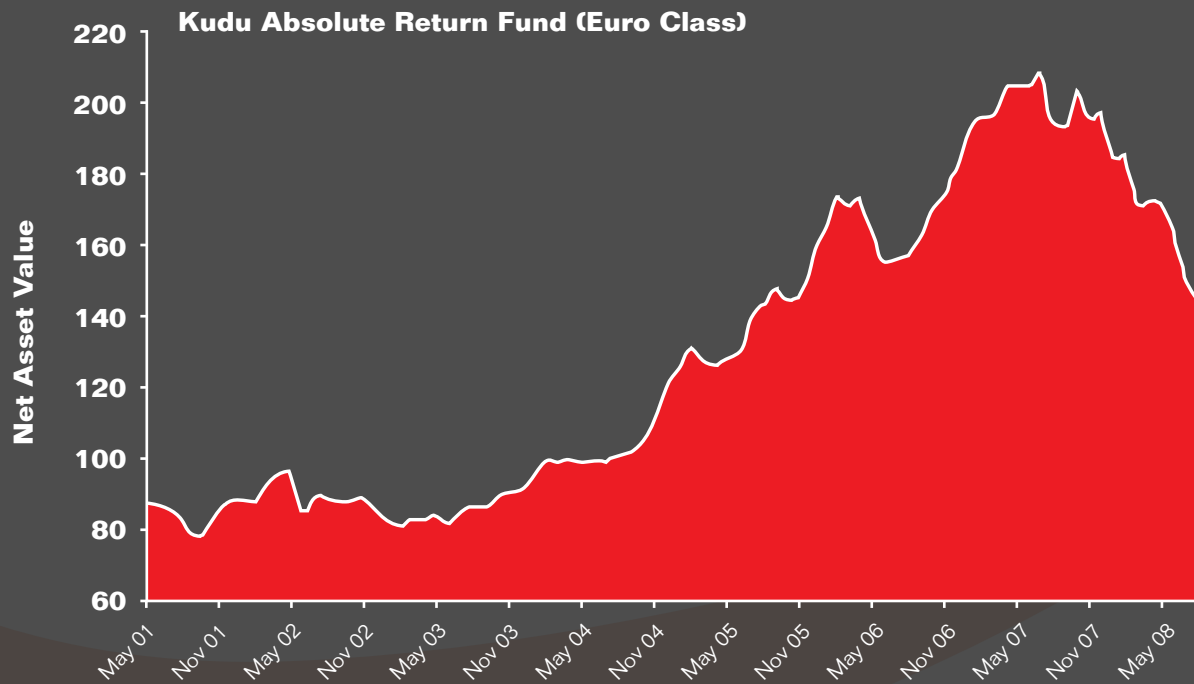
The Kudu Fund has the experience, and the ability, to profit from the opportunities offered by the extraordinary events of 2008.

On Monday of last week, the Fund bought shares in Uralkali, the Russian potash miner - a company which the Kudu Fund has researched in depth and met several times. Between Wednesday and Friday of last week, the share price of Uralkali rose 40% - a timely reminder that emerging markets and the Kudu Fund offer both reward as well as risk.

■ George Case

NAV per redeemable share: Class A: \$70.29 £71.03 Class B: \$151.37 £153.39 €145.30

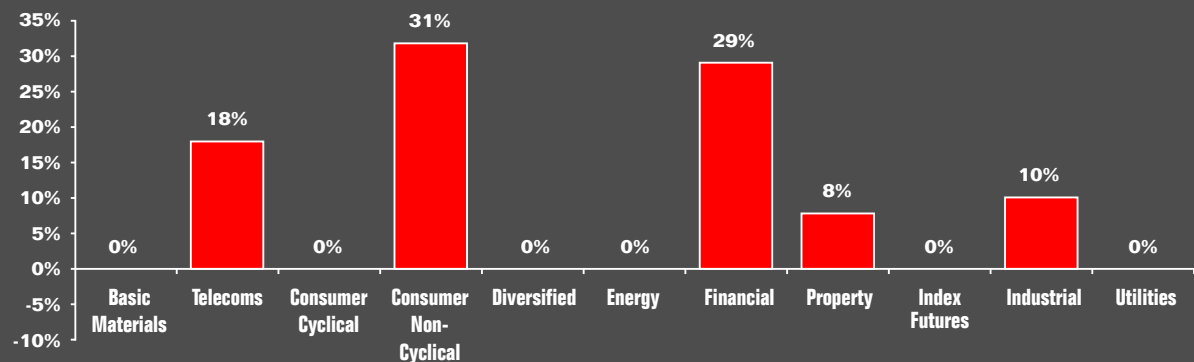
Performance	August	YTD	Rolling 12 months	Since Launch
Class A\$:	-3.38%	-27.17%	-26.29%	-29.71%
Class B€:	-3.58%	-26.42%	-25.52%	64.81%



Geographic Allocation Exposure as % of Fund NAV

Region	Long	Short	Net	Beta Adjusted Net	Performance Attribution
Europe	2.00	0.00	2.00	0.18	-0.24
Greece	0.00	0.00	0.00	0.00	-0.21
Israel	0.00	0.00	0.00	0.00	0.09
Russia	1.93	-0.45	1.48	0.13	-1.08
Turkey	0.00	0.00	0.00	0.00	0.02
Africa	5.84	0.00	5.84	0.53	-0.10
Middle East	1.08	0.00	1.08	0.10	-1.30
Others	0.00	0.00	0.00	0.00	-0.76
Total	10.85	-0.45	10.40	0.94	-3.58

Net Sector Allocation



TOP 5 LONG POSITIONS	ATTRIBUTION %
MOBILE TELESYSTEMS	1.93%
INVESTEC PLC	1.81%
SPAR GROUP LTD	1.71%
SHOPRIGHT HOLDINGS	1.70%
CHARLEMAGNE CAPITAL	1.14%

TOP 5 CONTRIBUTORS MTD	ATTRIBUTION %
TURK HAVA YOLLARI	0.14%
SHOPRITE HOLDINGS	0.10%
VTB BANK	0.10%
ISRAEL CHEMICALS LTD	0.09%
TURKIYE VAKIFLAR BANKASI	0.07%

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

INVESTMENT FOCUS:

CEZ – CZECH REPUBLIC

CEZ is a fully integrated electricity utility in the Czech Republic, with operations in Bulgaria, Poland and Romania. The global economic backdrop makes the highly cash-generative nature of the company extremely appealing – CEZ is the least indebted of the major European utilities and consistently pays over 50% of earnings as dividends. The regional pricing dynamics are positive, with the German prices, which form regional benchmarks, under significant upward pressure from rising input prices, naturally benefiting the fully integrated mining, generation and distribution model of Cez. The Czech market has entered the 3rd phase of regulation, which together with the positive pricing dynamics should see the company maintain its EBITDA margin above 40%. With a free cash flow yield in excess of 12%, this investment is a safe haven in these turbulent markets.

	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					-26.42

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

Domicile: Bermuda and Delaware, USA
 Listing: Irish Stock Exchange
 Assets: \$90mln
 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: george@kudufunds.com Tel: +44 207 015 5200, Fax: +44 207 015 5201

Ali Farid Khwaja ali@kudufunds.com tel +44 207 015 5207, 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

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