ABRAMS BISON INVESTMENTS

4800 HAMPDEN LANE, SUITE 1050
BETHESDA, MARYLAND 20814

TEL: (301) 664-8900
FAX: (530) 431-2007

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Below is a brief summary of the results of Abrams Bison Partners, L.P. for the fourth quarter of 2008 and the year ending December 31, 2008.

Returns

	Partnership Gross	S&P 500	Difference	Partnership Net	S&P 500	Difference
Annualized Since Inception (April, '00)	13.1%	(4.0%)	17.0%	10.3%	(4.0%)	14.2%
Total Since Inception (April, '00)	192.7%	(29.7%)	222.4%	135.5%	(29.7%)	165.2%
4Q 2008	(10.9%)	(21.9%)	11.0%	(10.9%)	(21.9%)	11.1%
2008	(8.7%)	(37.0%)	28.3%	(8.7%)	(37.0%)	28.3%
2007	(2.1%)	5.5%	(7.6%)	(2.1%)	5.5%	(7.6%)
2006	32.2%	15.8%	16.4%	25.8%	15.8%	10.0%
2005	2.4%	4.9%	(2.5%)	1.9%	4.9%	(3.0%)
2004	16.0%	10.9%	5.2%	12.8%	10.9%	1.9%
2003	34.3%	28.7%	5.6%	27.4%	28.7%	(1.3%)
2002	8.3%	(22.1%)	30.4%	6.6%	(22.1%)	28.7%
2001	17.4%	(11.9%)	29.3%	13.9%	(11.9%)	25.8%
2000 (Apr - Dec)	22.1%	(11.1%)	33.2%	17.7%	(11.1%)	28.8%

All performance data assumes investment at inception and includes all dividends, interest, expenses, and realized and unrealized gains and losses. The returns are estimates calculated by Abrams Bison Investments, L.L.C. and are unaudited. Net performance assumes a 20% incentive allocation/fee subject to a loss carryforward provision and a management fee. Gross performance assumes a management fee and does not reflect an incentive allocation/fee. Performance for an individual investor may differ due to, among other factors, the timing of subscriptions and redemptions, applicable management fees and performance compensation, and the extent to which an investor may participate in new issues.

S&P 500 return assumes reinvestment of dividends. January 2004 is the date of inception of Abrams Bison Offshore Fund, Ltd. The offshore fund currently feeds into the onshore partnership; returns from the offshore fund currently vary immaterially from those of the onshore partnership excluding dividend withholding taxes. Numbers may not add due to rounding. Past performance is not an indicator of future results. This is not an offering or the solicitation of an offer to purchase. Any such offer or solicitation will take place solely by means of a final offering memorandum and only where permitted by law.

The index information is included merely to show the general trend in the equity markets in the periods indicated and is not intended to imply that the portfolio was similar to the index either in composition or element of risk. There is no guarantee that the fund will meet or exceed the index.

Below is a summary of the Partnership's position at the end of the quarter. All numbers are expressed as a percentage of ending equity.

Portfolio Composition	**Long**	**Short**	**Net**	**Delta-Adjusted Net**
Fundamental	82.7%	0.0%	82.7%	
Risk Arbitrage/Special Situation	0.0%	0.0%	0.0%	
Total	82.7%	0.0%	82.7%	76.5%
Cash			17.3%	

Delta-adjusted net exposure reflects the fund's total net exposure plus the estimated equity-equivalent or underlying exposure created by derivative instruments in the portfolio. Numbers may not add due to rounding.

Dear Partners,

Thank you for your support during 2008. This year, for many investment managers, investors induced much psychological stress resulting in reduced investment decision quality. In contrast you and your fellow partners were superb. I appreciate it.

Our 2008 market outperformance was not the result of making good macroeconomic predictions. This may seem strange, particularly in a year in which the overwhelming influence on most results was the macroeconomic environment. At the end of the letter I will expand on this, and briefly, on return expectation in the financial industry. So what does explain our 2008 results? Our company positions outperformed, and we were lucky.

We were lucky

In any year when the fund's relative performance is far above our historical average, it is likely that a portion of that difference is due to good luck. Since inception, our average annual gross return has been 17% over the S&P 500, which itself is more than I would expect, and this year it was 28% more. There is always going to be some variation around our expected return. That is why a single year's return is never a very useful measure, and even less so in times as these when market prices are so volatile. Consequently, while I will describe how our investments outperformed, remember that some part of that is fortuitous.

In some ways, it is strange to characterize negative returns as lucky. This is true only in the context of a year in which the S&P 500 was down 37%. Over time, I would expect much better performance from the S&P 500 both compared to this year and also to the minus 30% total S&P 500 return since the fund's inception. Accordingly, I would obviously also expect better absolute performance from the fund.

Our positions outperformed

This year, on the whole, our investment theses were realized. To illustrate, I will follow up on both companies that I mentioned in last year's letter, NVR and Bed, Bath & Beyond. I will also discuss the company that became our largest position in the second quarter of last year, Pioneer Natural Resources. All three of these positions suffered industry blows far more dire than the average company in the S&P 500, and all held up remarkably well.

Bed Bath & Beyond

As you may recall from last year's letter, Bed Bath & Beyond (BBBY) is a retailer with over one-thousand stores, 921 of which are their core Bed Bath & Beyond stores. They sell bedding, towels, and home furnishings like vacuum cleaners and toasters.

In 2008, Bed, Bath & Beyond performed very well in the face of terrible U.S. retail conditions with housing related categories among the hardest hit. Last year I compared BBBY's stock market performance to those of its competitors. Using that same metric, in 2008, BBBY outperformed these competitors by sixty percentage points. It was down 14% percent, and they were down 76%.

This outcome was not just fortuitous. When making the investment, I believed that a weak economic environment would improve Bed, Bath & Beyond's competitive position. In last year's letter I shared the reasons for my belief that Linens 'n Things would go into bankruptcy. In April 2008, Linens did go bankrupt and closed their stores by the end of 2008. It is very hard to drive a competitor into liquidation and is not generally something upon which to base an investment thesis. However, BBBY was uniquely positioned to do so. BBBY is now a superstore monopoly, and its stock price partially reflects the long-term anticipated benefits from this better competitive position.

We have reduced our BBBY position in light of this outperformance and shifted our investment into other companies with large stock price declines. Generally, there has been more turnover in the portfolio this year than is usual. This is not unexpected given the unusually large stock market volatility and the associated large differences in price movements among stocks.

NVR, Inc.

In last year's letter, I also mentioned the performance of homebuilder, NVR. NVR makes the vast majority of its profits building single family homes in the Mid-Atlantic region. I described NVR briefly, only identifying it by industry, to argue that finding and owning strong companies protects our downside. To prevent any selection bias, I am again comparing the NVR results versus the S&P 500 Homebuilding Index. In 2008, NVR outperformed the index by more than twenty-five percentage points and was down 13% versus the index which was down 39%. We have also significantly reduced our NVR position in light of this outperformance relative to other available opportunities.

Pioneer Natural Resources

Pioneer is an oil and gas production and exploration company with most of their reserves in the U.S. By buying Pioneer we were not making a bet on the direction of energy prices. We were making an assessment that, at then current forward oil and gas prices, the value of Pioneer far exceeded its market price.

We had held a small position for some time, but early in the second quarter of last year, we made it our largest position. At that time, we valued the stock at double its market capitalization. Our valuation was based on the price at which Pioneer could sell their oil and gas in the forward markets. At the same time we bought the stock, we also sold oil and gas forward.

This position sounds more complicated than it is. Imagine that an oil company has one barrel of oil in the ground in January 2009. It takes a year for them to produce it, which means that they can only deliver that barrel to a buyer in January 2010. On the New York Mercantile Exchange, the company can lock in the sale price for this barrel far in advance. Assume that currently the forward price for oil delivered in 2010 is $60 a barrel and that the costs to produce the barrel are $30. The company can lock-in a profit of $30 on their barrel. If you can buy this company for $15, you double your money.

At the time, Pioneer did not believe in hedging large quantities of their production. We chose to lock-in the price of a portion of our share of their future production by putting on our own hedges. One reason we did this was that energy prices were far above the cost of producing the most difficult to produce barrel. In that situation energy prices can vary over a very wide range and so are very unpredictable.

We also hedged because leverage to energy prices is extremely high upon owning an energy company. When we bought Pioneer, energy companies were selling their oil and gas at prices that were twice their total costs of producing a barrel and replacing it with another barrel. Using the numbers from the example above, if energy fell by 10% or $6, profit would have been reduced by $6 from $30 to $24. This is a 20% reduction in profits and value on a 10% reduction in energy prices – two times leverage. When an energy company is 15% of a portfolio, the portfolio effectively has a 30% position in oil and gas. With Pioneer we elected to hedge about half of our energy exposure initially, we added protection as energy prices rose, and reduced it as they fell. We also made sure to cap our losses on our hedge if energy prices skyrocketed. In that case, normally Pioneer would rise too, but there are no guarantees this would happen.

Like all investments there was a range of potential outcomes. Here they were all linked to the oil price. We knew what the business was worth at different energy prices. If energy prices stayed the same we would double our money. If prices rose, we would do even better. Because there was such a gap between the price of the stock and the value of the company, we had built in protection: oil prices could fall in half before we would lose much money. Oil prices did fall by about half, and as predicted in this scenario, we lost a small amount of money. The assessment that there was a gap between the current price and the value of the company was correct, and the gap closed. We substantially reduced our position and almost completely eliminated our hedge.

Macroeconomic bets did not drive 2008 results

I don't promise that we will make successful macroeconomic bets. In fact, if anything, I have promised that I won't. I believe that making money over a lifetime on bets on the annual direction of the stock market is difficult for anyone to do. I know I cannot do it. Instead I try to protect our capital over several years against a range of outcomes.

In practice, this means acknowledging every year that there are a wide range of possible macroeconomic outcomes and that over a lifetime there may be several times when GDP will fall sharply and the market will be down 50%. We try to invest in robust companies and structure the portfolio so that it can withstand these inevitable cataclysms. The fund's inception marked the beginning of one of the worst nine year periods of U.S. stock market performance in history. However, the fund's original investors have more than doubled their investment during this period.

One important reason that the fund can withstand cataclysms is that the strategy does not require borrowing money. Funds that borrow large amounts expose themselves to some chance of insolvency. Some funds became insolvent last year because they made a mistake using borrowed money. In other cases the market made a mistake by mispricing a fund's securities and the market stayed dumb longer than the fund could stay solvent. I will make mistakes, and the market will also misprice the securities we hold, but in both cases we are structured to survive.

With respect to profiting from macroeconomic predictions, at most I may be able to pick investments that have lower downside if the economy gets weaker in relation to their upside if the economy gets stronger. This sensitivity to economic leverage helped avoid the areas that were hardest hit in 2008. For instance, the fund avoided most of the damage in the financial sector. We did this by making our credit sensitive bet in NVR. The upside exposure to a softer landing was higher for NVR in my view than the financials, but NVR's downside was far more limited due to its variable cost structure and lack of debt. As I discussed in last year's letter we also took the unusual step for us of buying some S&P 500 puts to hedge our outsized housing related exposure. This further mitigated the downside at low cost. We reduced this hedge further during 2008 as we reduced our exposure to the housing sector. This hedge helped our returns modestly during the year. Both of these choices helped avoid the worst damage in this environment.

Low expectations reduce risk

While on the topic of expectations, this year's massive write-offs at financial companies was due partially to poorly set expectations. U.S. financial investors set aggressive return expectations that led to excessive risk taking on the part of their agents. Consequently, this year's letter is an opportune time to discuss why I have always tried to limit your expectations for my performance and certainly keep them below the goals I set for myself.

A desire to lower expectations may be counterintuitive because setting high goals is a common method of improving performance. However expectations come with trade-offs – they can result in agents consciously or subconsciously gaming the system. In the area of investing, return is easily measured and the risk taken to achieve that return is not. As a consequence, all investment managers have an incentive to either consciously or subconsciously take risks (that are not seen by the client) to get returns (that are). We have seen the terrible consequences of these perverse incentives this year.

To guard against this, I have told many of you the following: only invest in the fund if you would be satisfied if returns over time, net of all fees, are both positive and greater than the S&P 500. I aim to achieve this goal taking less risk than an equivalent investment in a stock market index. We have done better than that in the past. I will strive to do better than that in the future, but if these are your only expectations, then the risks we take should never be in the service of returns we will not be able to achieve.

Portfolio structure

Throughout the year, we always had less than 100% of our equity invested in stocks on the long side, and the end of year exposure was less than 90%. The only hedge we currently have is the small remaining position in energy prices that I mentioned earlier. Of the capital invested in companies at year end, 25% was invested in companies with market caps greater than $10 billion, almost 30% in companies between $3 and $10 billion, almost 24% in companies between $1 and $3 billion, and less than 14% in companies less than $1 billion.

If you have any questions regarding these results or anything else, please call me.

Yours truly,

Gavin M. Abrams

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