



16/04/2004

2 February 2004 - 31 March 2004	Baobab	5.4%
	Net to investors	3.8%
	Index*	-3.5%
22 April 1997 - 31 March 2004	Investment officer	20.1%
	Index*	1.6%
	Current NAV	\$159.88

*Weighted according to the percentage of our assets invested in those markets. Currently the index is made up of the S&P500, FTSE100, TSE300, Hang Seng and Dow Jones Commodities Index.

"If you want to shoot rare, fast-moving elephants, you should always carry a loaded gun" - Warren Buffett

Letter to investors:

We proudly present our maiden results for Baobab Global Fund. The switch date and valuation from the previous investment vehicle to Baobab were Monday, 2 February 2004 and \$154.03, respectively.

Our year-end was 22 April for the 'Friends and Family' Fund, so these results are close to a year-on-year comparison. Hence, if we use 31 March 2004 as the yearend for the 'Friends and Family' Fund it returned 63.6% over the 11.2 months and compounded by 20.1% over the seven years since inception. Although I would love to focus your attention on the 63.6%, it is only the 20.1% figure that has significance. The annual return for the 'Friends and Family' Fund comfortably puts it in the top 0.5% of equity fund returns globally. We are grateful for this performance.

Internal accounts are now done monthly and external reporting is done quarterly (every 3 months) - at the end of March, June, September and December. Baobab gained 5.4% and the net gain to investors was 3.8% (the index lost 3.5%). Please note that we regard quarterly results as meaningless, since we focus on the long term (five years and longer).

At present, we are attempting to beef up our cash holdings considerably. Despite the paltry return that cash currently offers, we believe this situation will change dramatically in the not-too-distant future. Currently, the world is experiencing record highs in just about every asset class you can think of. An important reason for this is that the purchases of assets are being funded with debt, which carries a cyclical low price tag (read: interest rates are low). It is just too easy (and too cheap!) to borrow money. For example, US interest rates are at a 40-year low.

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LEGAL Management Company: Cherubim Ventures (Pty) Ltd Reg CO.2003/5941
IFSC Registered
Directors: R Carle, N Louw, MP van Blerk
Company Secretary: Corporate Services (Pty) Ltd
Baobab Global Fund is a hedge fund and may not do business with the public. It can only do business with institutions and wealthy individuals.

The flipside of the coin is that nobody wants to hold cash at the moment because it provides virtually no return. Who wants to hold cash when everyone is making a bundle out of equities, bonds, property, etc?

Well, we do. Any student of history knows that the current situation is not going to last. In this game you need to focus on where the puck is going, not on where it is at present. At some stage people are going to start switching out of the aforementioned assets. When this happens on a large scale in any financial system liquidity becomes an issue. This is because any switch is from an asset *via* cash to an alternative asset (or to pay debt). Yes, cash will be in demand. However, our cash holding will merely be a means to an end. We are after assets, mainly equities, but the prices we are prepared to pay are significantly lower than today's prices. We will be in an enviable position if we are sitting on cash when someone else desperately needs it. Assets will be exchanged for lower and lower prices as the demand for assets falls in step with increased demand for cash. We are finding value in one asset class, but we have enough invested in it for now. Baobab has also reduced company investments to the point where I say, 'no more'. The latter action increased our net cash position from 6% on 31 March 2004 to the current 17%. We possess outstanding businesses, which are built for the long term, and I am not selling any more of these, come hell or high water. Then again, if hell comes ignore this message. It is worth noting that a number of our companies, e.g. Berkshire Hathaway and Fairfax Financial Holdings, are sitting on large amounts of cash in proportion to total assets.

Due to the above reasons we need you to send all the extra cash you can lay your hands on our way. As always, this needs to be cash that you won't need for a number of years. If you don't have extra cash, but know of a like-minded wealthy individual that has cash, please put us in contact with him or her. Warren Buffett once expressed himself as follows, "*when much of the rest of the investing world, burdened by debt, encounters some crisis forcing a panic, [Buffett and Berkshire] are standing there with no debt and a loaded gun of cash ready to bag rare and fast-moving elephants*". We need cash now because we are convinced that we will see great companies being sold at fire-sale prices sooner rather than later.

God Speed,

A handwritten signature in black ink, appearing to read 'M. van Blerk', with a stylized flourish at the end.

Martin van Blerk