



16/07/2005

		Other currency equivalent				
		USD	EUR	GBP	BWP	ZAR
1 st Half	Net to investors	-1.30%	9.90%	4.90%	27.60%	16.70%
	Index*	3.00%				
8.2 years-compounded (22 April 1997 - 31 March 2005)	Investment officer	16.90%	16.60%	15.80%	22.40%	22.00%
	Index*	2.30%				
	NAV	\$162.89				

*Weighted index, according to the percentage of assets invested in specific markets. Currently the index comprises the S&P500, FTSE100, TSE300, Hang Seng, STI and Dow Jones Commodities Indexes.

"Price fluctuations have only one significant meaning for the true investor. They provide him with an opportunity to buy wisely when prices fall sharply and to sell wisely when they advance a great deal. At other times he will do better if he forgets about the stock market and pays attention to...the operating results of his companies."
- Benjamin Graham - p.109 *Intelligent Investor*.

Letter to investors:

The bombings in London are currently foremost in most investors' minds. The question naturally arises of how to deal with such an event. This is how we deal with it at Baobab. The focus for this discussion is on the financial impact of such an event.

Events such as these are not uncommon in history and neither is terrorism. London is not unfamiliar with bomb threats and it is unlikely that it will ever rid itself of it, permanently. For investors in the UK it is pretty much part of the landscape. Baobab does a large proportion of its business in London. The *financial* threat to our business is twofold.

Firstly, there is a threat of our infrastructure getting damaged. The loss of our physical offices in London and damage to our local bank and brokerage will all have very limited financial impact on Baobab. Our offices have a very limited function and we do not own it. Our bank is a global giant and inquiries during the course of last year proved that our local brokerage have sufficient disaster protection in place in the case of their offices being wiped out.

The more important threat is to our investments and specifically its cash flows. Cash flow is the core driver of the value of our investments over the long term. The question at hand when such an event occurs is how is this going to affect the cash coming into the business and also the cash leaving the business. You then have to look at each business individually and then at its weighting in the portfolio to assess the impact. I am not going to visit each Baobab company with you, but I will highlight some companies to illustrate.

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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.

When we look at our companies we have to ask ourselves how significant is London to the company. A company like JJB Sports does business all over the UK and although a good chunk gets done in London its not a large enough part to severely impact the cash flows. You then have to consider what proportion of Baobab's money we have in JJB to assess the overall picture.

We are currently buying into a workout situation that is different though. This particular company sold its largest operating subsidiary two months ago, which did 100% of its business within the M25. The M25 is the ring road that circles London. The subsidiary again made up about 70% of the total business of the company. Now this particular company, would have been severely impacted had it not sold that subsidiary. Unfortunately, I cannot give you more detail on the company, because we are still buying. So the cash flows coming into the company would have been severely impacted, but this time we had luck on our side.

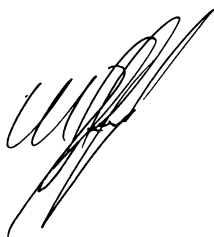
Another one of our workouts, Regent Inns, is likely to be impacted. It operates a number of bars around London and the UK of which the 'Walkabout' brand is one. Walkabout bars are frequented by backpackers visiting the UK and it is likely that tourism numbers in general will drop during the latter part of this summer. However, the impact is likely to be limited, considering Regent Inns' overall business and then you once again have to assess that in our total portfolio.

We also have companies like Berkshire Hathaway and Fairfax Financial Holdings that will have cash outflows due to the bombings. These companies write insurance and reinsurance on a global basis and usually pick up some kind of tab when such an event occurs. Luckily, the physical damage to London was limited. In the case of Berkshire one can look at 9/11 to gain some perspective. Berkshire's tab for 9/11 is around \$2bn, which is a lot of money even for Berkshire. However, the company at the time of the event had assets of \$144bn and shareholders' equity of just under \$60bn. So although significant, it is/was not lethal. London is nowhere near \$2bn in damages.

The critical point is that you have to know your companies intimately to make such an assessment and when disaster strikes you have very little time in which to make it. Times like these frequently produce panic selling. There is only one thing that is going to give you the edge. That is when you know exactly what you are buying and the seller does not know what he or she is selling. Only if you know what you are buying can you price it appropriately.

Sure we cannot know everything about the companies that are being sold on the market shortly after such an event, but we can start with the ones we already own.

God Speed,

A handwritten signature in black ink, appearing to read 'M. van Blerk', with a stylized, cursive script.

Martin van Blerk