

			Other currency equivalent				
			USD	EUR	GBP	BWP	ZAR
9 months	Net to investors		-1.1%	10.6%	7.3%	25.6%	11.3%
	Index*		12.1%				
8.4 years-compounded (22 Apr 1997 - 30 Sep 2005)	Investment officer		16.4%	16.2%	15.6%	21.6%	20.7%
	Index*		3.30%				
	NAV		\$163.06				

\*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.

*Humpty dumpty sat on a wall  
Humpty dumpty had a great fall  
All the King's horses  
And all the King's men  
Couldn't put Humpty together again*

**Letter to investors:**

There are a number of articles from the London Financial Times that caught my eye over the last month from which I would like to quote. I am not trying to sketch a doomsday scenario, because from an investment management perspective it is a fruitless exercise. However that does not mean that we should be ignoring the risks that are a clear and present danger to our investors' hard earned capital.

**Firstly, we had a warning.**

**NO FRETTING ON WALL ST OVER HEDGE FUND THREAT 22 Sep 2005**

Germany's top financial regulator [Jochen Sanio] on Thursday tried to persuade Wall Street it should be "scared as hell" about the threat posed by hedge funds to the world financial system. He failed.

...Jochen Sanio, head of BaFin, warn that it was only a matter of time before there was another Long-Term Capital Management, the hedge fund that was bailed out in 1998. "It will happen. And nobody at the moment is prepared for it. That is why I am scared as hell," Mr Sanio said...

In the electronic poll, the number who thought hedge funds and derivatives were the biggest of the 10 risks Goldman had identified was precisely none. Mr Sanio did not get a vote.

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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.**

**Secondly, we have to ask what is the extent of the problem?**

CREDIT DERIVATIVE GROWTH SOARS 29 Sep 2005

The credit derivatives market has exploded this year as banks, hedge funds and others have increased dramatically their use of the complex financial instruments, a survey has found.

The total notional value of all outstanding credit derivatives contracts reached \$12,430bn (£7,040bn) in June, a 48 per cent increase from January and a 128 per cent rise compared with a year earlier, the International Swaps and Derivatives Association said yesterday.

Growth in the sector, which barely existed five years ago, highlights the changes under way in the global financial system as banks and investors use these instruments to move risk off their balance sheets and into the hands of other investors, such as hedge funds. However, the rapid growth poses challenges for policymakers. Most credit derivatives trading occurs in private deals, rather than on exchanges, which makes the sector very opaque and difficult to monitor.

**Thirdly, we might not need to worry because surely these guys at least have their paperwork up to date?**

FED RECEIVES COMMITMENT ON CDS 5 Oct 2005

Leading credit derivatives banks have pledged to improve practices and cut backlogs of trade confirmations in the fast-expanding credit derivatives industry...

The processing backlogs reflect the complexity of products such as credit default swaps - which allow investors to trade a company's credit risk without owning its debt - and the failure of systems to keep pace with the market for credit derivatives instruments, which is roughly doubling every year.

Following earlier moves from the UK's Financial Services Authority, Timothy Geithner, president of the New York Fed, has put pressure on the banks to address the problems. That reflects concerns that the backlogs could be a dangerous operational risk, especially if credit markets were disrupted by an unexpected wave of corporate bankruptcies.

The workings of the credit derivatives market are sometimes opaque, and the systems challenges arcane. But yesterday's pledges are expected to trigger concrete, practical actions in the coming months, both with banks and with their customers, especially hedge funds, some of which have criticised the proposed new practices.

... By the end of January, the banks promise to reduce the number of trades outstanding for more than 30 days by 30 per cent, compared with the number outstanding at the end of last month. Further targets will be set in December.

At one stage, regulators appeared to be seeking more aggressive targets, said people involved in discussions on the text of the letter. But bank sources see the deadline as challenging. One reason is the scale of the existing problem, with many confirmations outstanding more than six months, and some for years. Another is that new trades are being added to the list every day.

So how does Baobab fit into all this? Most importantly, can we batten down the hatches and ride out any serious storm and better yet, can we survive and prosper by taking advantage of pockets of opportunity that are usually presented by any serious shakeout?

I believe that we certainly can for the following reasons,

- We have a close-knit group of investors that is financially strong. This means it is unlikely that we will have any significant fund redemptions during a crisis, because one of our investors has to liquidate. This proved to be the case in 2002-2003 when the markets suffered a serious setback and none of our investors redeemed. In fact we had a significant increase in contributions from existing investors. This gives Baobab an enormous competitive advantage, because when our competition has to sell into unfavourable markets to meet redemptions we get even more firepower.
- We built up a strong relationship with our investors based on trust and loyalty. Our philosophy is simple. Tell it like it is. We never hesitate to be frank with our investors. Sometimes what we tell them is not what they would like to hear and definitely not the type of news we like to convey. However, we strongly believe that the 'bad news' is what builds trust and loyalty with a rational businessman and woman, which is the typical Baobab investor. As long as Baobab's investors have all the information, they can adequately judge their risk. We believe we have a low risk business and our business partners will figure it out for themselves as long as we keep on giving them all the relevant information, the good and the bad. We would like to thank our investors for that trust and loyalty they afford us. As I mentioned in the previous bullet point, it gives us an enormous competitive advantage.
- We don't use derivatives, almost never gear and usually, as is presently the case, carry a healthy cash position. I suppose it's just something that my Father ingrained in me. 'You don't have to borrow money to make money'.
- The majority of our business, Baobab Global Fund, is invested in secure companies that can weather any storm. The type of company of which the share price is inversely correlated to how many times we jump out of our chairs to cheer it on. The lower it goes the more you want to buy. We all love bargains in real life, well so do we at Baobab when it comes to buying great companies.

God Speed,

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

Martin van Blerk