

BAOBAB
GLOBAL FUND



Contents

Letter to shareholders: 3

Mistakes 3

 Size advantage 3

 Quality 3

Falling Down..... 4

 Shoddy burger number one - net external debt. 4

 Shoddy hamburger number two - social and Medicare deficits 5

 Shoddy hamburger number three - derivatives 6

 Shoddy hamburger number four - increase in the money supply 7

Opening comments by George Soros in Marketocracy.com forum on 24 Jan 2004 8

 Alan Greenspan will go down in history..... 8

Update 9

 Shoddy burger number one - net external debt. 9

 Shoddy hamburger number two - social and Medicare deficits 9

 Shoddy hamburger number three - derivatives 9

 Shoddy hamburger number four - increase in the money supply 10

 Greenspan 10

Divestments 11

Fees..... 12

View on the market 12

Thank you..... 13

Audited results for 12 month period ending 31 Dec 2007

		Other currency equivalent				
		USD	EUR	GBP	BWP	ZAR
12 months	Net to investors	-3.8%	-13.0%	-5.8%	-3.8%	-6.1%
	Index*	20.9%				
10.6 years-compounded (22 Apr 1997 - 31 Dec 2007)	Investment officer (full service track record - net to investors)	14.0%	12.1%	12.1%	19.1%	18.2%
	Index*	5.8%				
	NAV	\$185.23				

*Weighted index, according to the percentage of assets invested in specific markets. Currently the index comprises the S&P500, FTSE100, TSE300, Nikkei 225, Hang Seng and Dow Jones Commodity Indices.

Letter to shareholders:

Mistakes

Size advantage

The size of Baobab allows it to invest in opportunities that a significant portion of the market cannot. Most *hedge funds, pension funds, mutual funds*, etc are simply too big to take advantage of smaller sized opportunities. This is a strategic advantage that I neglected to capitalise on sufficiently over the years and one that has cost us dearly. Like all mistakes of *omission* this one is hard to quantify, but I do believe the missed opportunities are substantial.

Warren Buffett once told a story about a sister that, many years ago, wrote her brother and requested money to pay for their Father's funeral. A while later he received another letter requesting more money, but a substantially smaller amount. However, when a third letter arrived requesting the same amount he inquired as to the reason. He discovered that his sister buried their Father in a *rented suit!*

The above problem is what I call a *rented suit* problem; the cost of the mistake just increases over time. I believe the above *omission* cost us at least one percentage point on our long term rate of compounding over my 10.6 year investment career and thus cost us, at least, a total \$3,890.00 for every \$10,000.00 we invested. It does not go down well.

Quality

We generally get involved in companies when things are not going that well. Usually we believe that the market is misjudging the value of the company, because the market is either underestimating the probability that the particular company will experience better days again or it is just too impatient to wait. So, generally we are used to investing in messy situations. The most important factor that determines whether a company passes safely through a storm or allow management to turn around the company is when it has a sustainable competitive advantage. It is an art to properly assess a company's competitive advantage and frequently when we get it wrong it is because I misjudged the company's competitive advantage; Krispy Kreme (discussed last year and see *Divestments* below) is a case in point. Unfortunately there was more than one case this year where it became clear that I misjudged the competitive advantage of some of our investments.

Falling Down

"Alan Greenspan will go down in history as the worst Central banker in the USA..."

-George Soros (Marketocracy forum, 24 Jan 2004)

I wish to revisit a piece I penned four years ago, because it is instructive to see how things are developing. In 2004 I published the following and I strongly encourage you to read it again. Following that is an extract of a 2004 forum in which I participated with George Soros in which the article *Falling Down* was published. As you will see, Soros was much more forceful in his concerns.

Falling Down

Macro-economics is not my forte, but then again I don't have to be an expert on the machinery of a train to appreciate that it's big, it's heavy, and it's going to hurt like hell if I get in front of it. My investment focus is on individual companies and I steadfastly believe that if I invest in solid companies, run by owner orientated management and I get all this at a reasonable price then my investors will do just fine.

One of the tenets I follow is to only invest in countries of which the currency is stable over the long term. This is because an investment is still ultimately realised in the currency of the country in which that company is based. Although an investment like Berkshire Hathaway might be linked to a multitude of currencies, I will still be handed a wad of dollars when I sell it one day. I chose investment countries like Canada, America and the UK specifically so I don't have to bother with keeping track of the currency. Resources spent on trying to make sense of the economy just don't produce a worthwhile return for me. Though, this is true most of the time it is not true all of the time. Once in a while things get out of whack to such an extent that you have to take the time to analyse the situation and decide whether you need to act. The US is a case in point. Whenever I listen to salesmen like Alan Greenspan, John Snow and George Bush discussing the state of the American economy I juxtapose that with humble geniuses like Sir John Templeton, Charlie Munger, Warren Buffett and Francis Chou. This always reminds me of a scene in the 1993 movie "Falling Down" in which Michael Douglas holds up a shoddy hamburger he just ordered, points to the picture of the burger above the serving counter, in which it looks simply mouth watering, and asks while looking at the shoddy burger, *'Can somebody please tell me what's wrong with this picture?'* Well I have looked at the American economy over the last five or so years and at the dollar, which represents its value. This is analogous to analysing a company. You have intrinsic value and that value is represented by a number of shares. Your investment value is influenced both by the change in intrinsic value and any change in the number of issued shares or both. So let us look at the value behind the dollar, call it the *intrinsic value* of America if you will.

Shoddy burger number one - net external debt.

My Father taught me a number of things in life and one of them are to stay away from debt. There were ample examples where my Father would point out a certain man that was starting to live the high life, funded by debt and low and behold, a number of years down the line the guy would be flat on his ass. Granted, my Dad was not always right. America went into a net external debt position in 1986. It is astonishing if one looks at America's net external debt of \$2.6 trillion at the end of 2002 to find that this debt averaged less than \$300 billion for most of the early 1990's. Then from 1995 to 2002 that debt compounded by 33% per annum ([Link](#)). As far as I know the 2003 numbers are not out yet, but it looks like there is going to be yet another significant increase. Net external

debt is also reaching significant proportions in relation to GDP. At the end of 2002 it made up 26% of GDP and it is hard to believe that the 2003 numbers will not increase this ratio to 30%. You don't hear this often, but America has been in this position before, back in the 1890's, immediately after the Civil War. However, back then the money was spent on building roads, railroads and canals. Today it is spent on cars, larger houses and, in general, on things that do not create lasting value for the economy. The book of Proverbs teaches us that you are a servant to those whom you owe money. So whom does America serve? The main debt collectors are Europe (\$400 billion), Japan (\$350 billion) and Non-Japan Asia (\$650 billion). Asia has been growing their foreign dollar reserves quite significantly over the last five years by buying mainly US treasuries. Interestingly, total private investment in the US by these countries has been dropping steadily in 2003. It is fair to assume that the buying will decrease as long as the net external debt increases. Annual private capital inflows to the US have already dropped to just north of \$200 billion from a 2001 high of about \$450 billion. We all know how the dollar weakened over that same period. Capital outflows from the US include a large chunk of my investors' money and I will be betting against the dollar for as long as the US fails to deal decisively with its debt problem. Historically it has taken a minimum of five years to turn a twin deficit around. That is five years after the digging of the debt hole has stopped. Currently America is only digging faster and the day that it will actually stop digging does not seem to be in sight. The deeper the hole, the cheaper the dollar will be. Rising interest rates will slow the economy and increase the debt service payments, so don't expect a stronger dollar from rising interest rates; it is not as simple as that. The IMF ([Link](#)) believes that the external debt to GDP ratio can run up to 40% of GDP by 2007 and this claim does not look wide of the mark.

The math behind this is actually quite straightforward. The current account deficit (trade balance + debt service payments) is about 5% of GDP. If you assume GDP grows by 5% and debt does not get paid down then net external debt will reach about 40% of GDP by 2007 and God forbid, 60% of GDP in 10 years (The Pride of profligacy: Economist 18 Sep 2003). On the one hand the Latin American countries started running into trouble when the current account deficit reached 5% of GDP and on the other hand countries have been able to pull themselves out of the debt hole despite running up very large external debt to GDP ratios, as the following illustrates, America 1890 23%, Mexico 1980 25%, Australia 1996 60%, Ireland 1983 70% and New Zealand 1999 85%. However, this was/is not achieved without some considerable pain to both their economies and currencies.

Shoddy hamburger number two - social and Medicare deficits

Social and Medicare obligations are increasing and the number of taxpayers servicing these obligations is diminishing. According to the IMF ([Link](#)) the ratio of retirees to working age population is set to increase from 20% to 40% between now and 2050. The Medicare scenario is even worse and the layouts for these two systems are projected to rise to 10% of GDP over the next twenty years. What worries me most is the reluctance to deal with the problem. All I see are measures to put off dealing with the problem. IMF estimates put the fiscal imbalance at a mind boggling \$47 trillion. That is \$47 trillion that America doesn't have. To deal with the problem is very simple. Decrease the obligations and increase the contributions. However government is giving this the same treatment as it does the entitlement programs of pension and health insurance. [Link](#). The senate passed the pension 'relief bill' with a 78-19 vote in April 2004. By tweaking the formula for employer contributions, these contributions were cut by \$80 billion over the next two years. Instead of dealing with the very real long-term pension problem, the senate decided

to focus on the short term and give the economy a boost. Sounds more like a 'we are in denial bill' to me. The biggest problem with the above is that it is essentially off-balance sheet debt. Unfortunately the status of this debt is abused in exactly the same way as it was at Enron. It is abused to paint a picture that is not a true reflection of the truth, let us say a Picasso.

Shoddy hamburger number three - derivatives

Most companies go bankrupt due to cash flow or liquidity issues and derivatives threaten liquidity in the system. Derivatives have been a thorn in my side for a number of years. I don't like it, because I cannot get a handle on the risk that it poses. What I have come to appreciate is that the people running the institutions dealing in these instruments don't appreciate the risk either. My position is not one easily explained, because it is not based on a well-defined set of facts, but rather on an increasing feeling of unease, which I have acquired over the last five years through reading substantial material on the subject. I always tell my investment partners that if I cannot explain something to you in an understandable way then it means one of two things.

Either I am mincing words or I don't know what I am talking about. Nothing in the financial world is that complicated that you cannot explain it to someone who has reasonable financial sense. Still, the vast majority of annual reports I read never leave me feeling confident in my understanding of what is going on in the company's derivatives book. In his 2003 annual report Warren Buffett wrote,

'No matter how financially sophisticated you are, you can't possibly learn from reading the disclosure documents of a derivatives-intensive company what risks lurk in its positions. Indeed, the more you know about derivatives, the less you will feel you can learn from the disclosures normally proffered you. In Darwin's words, "Ignorance more frequently begets confidence than does knowledge."'

Still, you might be somebody who needs facts to be convinced and will merely see the above as fiction. Well I will show you where fact meets that 'fiction'.

If you look at The Comptroller of the Currency's 4TH quarter derivatives report ([Link](#)) then you will find the following. The total notional value of derivatives in 1990 was way under \$10 trillion, in 1995 it was \$17.3 trillion and by the end of 2003 it was \$70.1 trillion. This makes up 35% of global OTC notional of around \$200 trillion. What is interesting is that where end-user notional increased from \$1.4 trillion in 1995 to \$2.4 trillion in 2003, dealer notional increased from \$15.9 trillion to \$67.7 trillion (The end user is the guy who actually uses the derivative to hedge some type of real business risk, while the dealers are for the most part just playing musical chairs with other people's money). However, the compound growth rates for end user notional and dealer notional are 7% and 19% respectively. It is important to understand that the notional value of derivatives is not a good indicator of risk, but the rate of increase is.

The real focus should be on the credit- and counter party risk or exposure. The total credit exposure of derivatives in the US at the end of 2003 was \$755 billion. What is most worrying is that \$646 billion or 85% of that credit exposure sits with only three banks. These three banks are JP Morgan Chase, Bank of America and Citibank. These banks will tell you that their net exposure (after accounting for what the other guy owes them) is less than \$160 billion. My worry is that if they are sitting with 85% of the credit exposure between them then what happens if one of them fails? JP Morgan's *total credit exposure to capital* ratio is 844%. 'Can somebody please tell me what's wrong with this picture?' As stated, for me the derivatives problem is not quantifiable. Unfortunately it does not

diminish its importance or the fact that it is real.

Shoddy hamburger number four - increase in the money supply

Then of course there is the money supply problem. As stated before, this is the same as increasing the number of shares in a company or increasing the slices of a pizza. It does not make the pizza any bigger. The current situation is similar to what Nixon did in the 1970's. Bush knows that if the economy falters in an election year then he is out of the race. All the buttons have been pushed to flush liquidity into the system. Under Nixon the M3 money supply was increased by 14% in 1971 and 1972. This time it is only in the region of 10%, but it goes hand in hand with tax cuts, ridiculously low interest rates and things like pension contribution changes. Don't be confused by all the financial geek speak, this is pretty uncomplicated. Just like a company's shares are backed by that company's value as reflected in the balance sheet so a country's currency is backed by that country's intrinsic value. In the case of the dollar, the assets backing it are replaced by debt as you can glean from the above. This devalues the dollar. Printing more dollars only compounds the problem. However, it does give the populace a false sense of an increase in wealth for a short period of time. It should get a politician through an election year, for example as it did Nixon in 1972. Still, we all know how the economy suffered in 1973 and 1974.

Probably, the first place the devaluation of the currency gets noticed is in commodity businesses. This is simply, because it is the most marginal of all businesses. Take a commodity like oil for example. Saudi Arabia gets virtually all its money from oil and it has huge fiscal demands. The country notices immediately when its oil dollars does not buy them what it used to do. So the price is adjusted upwards.

Then the dollar is devalued some more and 'mysteriously' the dollar price of oil goes up some more. Of course the culprits behind the devaluation of the dollar will turn to the Saudis and say you need to drop your price, because you are killing our economy. [\(Link\)](#) *Speaking at the G8 meeting on Sunday night (24 May 04) US Treasury Secretary John Snow said: "It is vital that oil producers provide adequate supplies to ensure that prices are at levels that foster strong global economic growth. "Lower oil prices would contribute to our efforts to achieve strong and sustained growth," Mr Snow added.* Of course Mr Snow says nothing of the fact that the Saudis cannot buy what they used to with their oil dollars due to the devaluation of the dollar.

Don't put your faith in guys like Snow and Greenspan (personally Greenspan scares the living daylight out of me). Snow kicked off his January 2003 appointment by saying that the US will follow a strong dollar policy. Mmmm, and what happened to that one might ask? Stop fretting about how strong you want to keep the dollar and rather focus on fixing the fundamentals behind it. People will figure out the value of the dollar for themselves. Get the US to stop wasting money on things like commercial Humvees (what is a thing like that doing on the road anyway?) and rather get it to start paying off credit card debt. As Jim Rogers says, *'We're like the untrustworthy brother-in-law who keeps borrowing money, promising to pay it back, but can never seem to get out of debt. Eventually, people cut that guy off'*

It was only 35 years ago that the UK had to be bailed out by the IMF, due to their policy of increasing liquidity and increased borrowing. Don't think it cannot happen to the US. If you want to see what a healthy balance sheet looks like, take a look at Botswana. [\(Link\)](#)

In conclusion, it is unlikely that the outflow of capital from the US will stop. The liabilities are building and despite the shenanigans it is still easy enough for people to figure out that

America's intrinsic value is sliding. In the world of investments there are no certainties. However, if you align your interests in such a way that the odds favour you the most then you will suffice. Make no mistake you will take home some serious battle scars, but on **average** you will survive and prosper. The odds are stacked against America and particularly the US dollar.

I am not so paranoid about the dollar that I am prepared to terminate my very fruitful relationships with corporate dynamos like Prem Watsa, the Markel brothers, George Joseph, Rich Santulli, Ajit Jean, Charlie Munger, Warren Buffett and a host of other outstanding gentlemen and women. However, I will continue to allocate the majority of our capital elsewhere unless my margin of safety is big enough that it discounts the devaluation of the dollar. In the current environment, this is a tall order. Ultimately, this is a game of odds as counted by the allocator of capital and this allocator sees the odds stacked firmly against America. For the most part, I will rather catch you on the rebound.

God Speed,
Martin van Blerk

Opening comments by George Soros in Marketocracy.com forum on 24 Jan 2004

Alan Greenspan will go down in history...

as the worst Central banker in the USA and possibly the greatest inflationist since John Law. In my opinion, he is a fool. He has created 3 bubbles the stock market bubble, the housing and consumption bubble. The stock market bubble is still continuing and will continue to rise as long as the FED keeps pumping more money into the system (M3) Just follow M3.

The United States Federal Reserve is the chief culprit in unrestrained fiat currency.

<http://www.zeallc.com/commentary/motion.htm>

When do you get out. You don't. Just ride it as long as M3 is being pumped out.

The whole economy is awash in money. It is official policy for the US to debase the currency. People think that commodities are becoming dearer and fail to see that money is getting cheaper. Every commodity is going through the roof. Gold, silver, lead, copper etc What should you do? The only people who were not fooled (professionals) and didn't play along with the Alan Greenspan tune was the Long bond bond market who saw inflation ahead. Alan Greenspan couldn't get the long bond market down. What did he do about it? The Long Bond has been effectively squashed and was killed and no longer exists.

<http://www.zeallc.com/commentary/explode.htm>

<http://www.econlib.org/library/Mises/msTtoc.html>

Get out of paper especially the US Dollar. And buy anything related to natural resources. Buy property, buy land, buy gold, buy gold coins. Anything except paper. Don't trust

government statistics that say there is no inflation. Don't hang around the stock market when it implodes. The bubble is there and exists. Most of the money is going into the stock market and housing market. Don't be fooled into thinking it will not blow up. If you need a history lesson just study the South Sea bubble and John Law. Alan Greenspan is the John Law re-incarnate.

Update

Shoddy burger number one - net external debt.

The "good news" is that the *net investment position* of the US stabilised at around -\$2.5 trillion. The rapid growth that the US experienced in its net external debt at the time leading up to my comments in May 2004 has slowed to almost zero. This has been largely due to the decrease in the value of the dollar, which makes foreign investments of US investors more valuable.

Shoddy hamburger number two - social and Medicare deficits

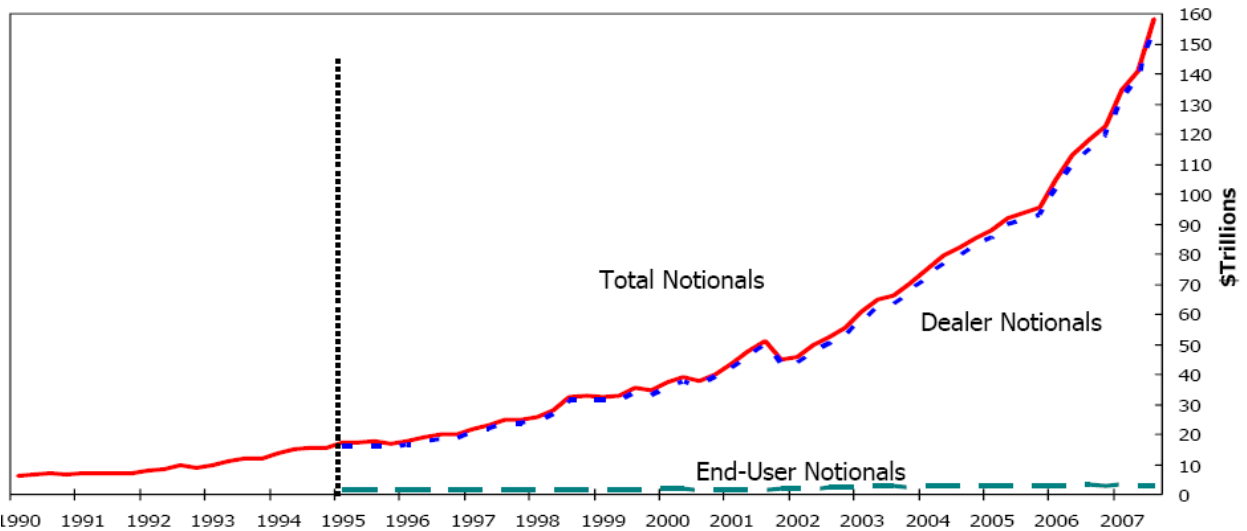
These deficits are still increasing, mainly because it is a great political tool. The US is facing elections so guess what is going to happen with these *promises* to pay in future? It will go up even more. However, I have a new spot of bother regarding these debts. Is it real debt after all? Does the mantra "Can't pay, won't pay" not apply and will the US ever make good on its promises? If you are in the US and are counting on government to cover your medical bills down the road then I increasingly fear you will be disappointed. I have a dark suspicion that the US government will not do right by its citizens and take care of them; it simply does not have the means to do so.

Shoddy hamburger number three - derivatives

I wish to focus mostly on the grey section and revisit those numbers a bit especially considering how topical it is now. Let us just quickly update those numbers.

	1990	1995	2003	2007 (Q3)
Total notional value	\$10 trillion	\$17.3 trillion	\$70.1 trillion	\$172 trillion
End user notional		\$1.4 trillion	\$2.4 trillion	\$2.8 trillion
Dealer notional (Banks)		\$15.9 trillion	\$67.7 trillion	\$155 trillion
Net current credit exposure			\$755 billion	\$1.0 trillion
JP Morgan, Citi and Bank of America's notional exposure as part of total.			85%	89%

So my main point is still, if 89% of all net exposure sits with three banks, which almost certainly make up the bulk of all derivatives, then how exactly is this netted out between those three? What happens if one of them goes bust? I do not know the answer, but I surely do not like the picture, I do not understand it and neither do the banks' CEO's, their auditors, Alan Greenspan or his unlucky successor Ben Bernanke. I have just not been able to find any credible story that explains to me how one stays on top of the risk presented by a system that has mushroomed as can be seen from the following.



Does the following from p.6 of the 2006 Q3 Comptroller of the Currency report inspire any confidence?

“As is often the case with a new and rapidly growing market, operational issues became a supervisory concern in the credit derivatives market in recent years. Currently, major market participants in the credit derivatives market are working closely with the Federal Reserve Bank of New York and other global bank supervisory agencies (including the OCC) to address infrastructure issues. The dealers have made substantial progress in reducing the backlog of unconfirmed trades and improving the operational infrastructure. Nearly four out of five trades are now processed electronically. The dealers are working on commitments to achieve a stronger “steady state” position, which includes a largely electronic marketplace where all trades that can be processed electronically will be processed through an industry accepted platform.”

Apparently, this *backlog of unconfirmed trades* was 6 months at one stage and to think that some of it is still paper based is disconcerting. How can the Fed allow this in the first place?

Shoddy hamburger number four - increase in the money supply

The US is pushing money into the system at a rapid rate. The big question is how long the world will keep on financing this and how long the apparent increase in assets will keep up until....well, you know what a deflating balloon looks like. The annual increase in the M3 money supply since 2002 has been 7.2%, 8%, 8.5%, 9.6% and around 13.7% in 2007. Unless this increase reflects an underlying increase in assets, which it does not in my opinion, this all has to reverse at some stage. The only difference is whereas the Fed can control the increase, the bigger the bubble, the less control they will have over deflation and the less control they have over deflation, the more money they will likely throw at the *problem of deflation* in order to try and stop it. It is going to be a very tricky environment to navigate.

Greenspan

There is no doubt that Alan Greenspan is a very intelligent man and that he is experienced. However, what I find disappointing is that he was probably in one of the best positions to steer the course of the bubble economy. I do not want to waste any energy to vilify the man; there will be plenty of takers for that job...eventually. However, the only mistake that will trump Greenspan’s mistakes is if we fail to learn from it.

Firstly, one should generally be very reluctant to rely on experts to delegate responsibility if it is your job to figure it out. This is something Mrs B (Rose Blumkin) would almost never do. She would not even trust Warren Buffett, by taking Berkshire shares in lieu of payment for Nebraska Furniture Mart, to look after her money!

Secondly, the longer you work on a particular subject and the more confident you become of the fact that you know that subject, the more it pays to recall the following bit of wisdom; *"The more I know the more I realise how little I know"*

Thirdly, work very hard at ignoring people who blow smoke up your ass. There is absolutely nothing to be gained by listening to people that tell you how great you are; most importantly if one of them is yourself! As the Devil (played by *Al Pacino*) said in *The Devil's Advocate*, "Vanity...my favourite sin"

Lastly, Bertrand Russell said; *"Most people would sooner die than think; in fact, they do so."*

Divestments

We continue the sobering exercise of following our divestments for three years. We try to keep things simple. Therefore we only record the date and market value or per share value at date of sale and compare it with the value at yearend.

As soon as three years has passed since we sold the investment it is dropped from the list. We calculate the average of the change in value and compare that with the historical compound growth rate of Baobab.

Last year I wrote,

"We can only feel comfortable with our divestment decisions if it underperformed our long term compound growth rate. Two years ago, it was not the case and divestments were listed under mistakes. So why do we not have it listed as a mistake again this year? Two reasons: Krispy Kreme and Markel Corp, because if you strip these two out then the average drops to 9%, which comfortably underperforms my long-term average. Krispy Kreme is a company, which did not offer safety of principle at the time we sold it. In retrospect, I still hold that view and the fact that the share price moved against us has not change my view. I am well aware of the risk of trying to explain away my mistakes, but I do believe my reasoning is sound in this case."

It usually takes a while for the market to agree with me, usually a lot longer than I prefer. However, Krispy Kreme's share price finally aligned with the fundamentals in 2007 and dropped 53% below our sell price. This is not the conclusion of the matter. We still have two more years to go before the jury finally speaks.

Divestment	Date Sold	Valuation at sale	Yearend valuation	% Compound growth
Natuzzi (Italy)	Jul-05	8.95	4.61	-48%
MCI (US)	Mar-05	23.00	30.21	31%
Regent Inns (UK)	Jul-05	£0.80	£0.21	-74%
Delta (UK)	Mar-05	£1.09	£1.11	2%
Krispy Kreme (US)	Feb-06	6.66	3.16	-53%
Humboldt Wedag Int (US)	Jun-06	26.95	28.20	5%
Markel Corp (US)	Jun-06	337	491	46%
Mercury General Corp (US)	Jun-06	55.75	49.81	-11%
Sasamat Capital Corp (US)	Jul-06	3.05	5.61	84%
JJB Sports Plc (UK)	Jul-06	£1.80	£1.24	-31%
Glorious Sun Enterprises (Hong Kong)	Sep-06	HKD3.8	HKD 4.75	25%
Caldwell Partners	Jan-07	1.60	1.44	-10%
Gold Bullion Securities	Mar-07	640	823	29%
Dewhurst Plc	May-07	£2.00	£ 2.20	10%
YGM Trading	Jun-07	HKD 6.16	HKD 5.50	-11%
Chung Tai Print	July-07	HKD 2.25	HKD 2.25	0%
Punch Graphix Plc	Aug-07	£1.20	£1.22	2%
Telecom Corp of New Zealand	Oct-07	17.35	16.77	-3%
Average				-0.4%

Fees

Five years ago, we committed to reduce our fees as our fund grows and we put firm targets in place. The reason is that we have always felt uncomfortable with our fees; because we believe, it is higher than we would like. However, due to the small size of the fund we have to ensure we have enough money coming in to ensure the bills are paid. With the announcement of the preliminary results, we announced that we would start to reduce our fees, having reached the first target in terms of fund size. The hurdle rate is now set at 2% and the commission at 29% of the net returns above the hurdle rate. Once we reach our final target in terms of funds size the hurdle rate will be 6% and the commission 25% of the net returns above the hurdle rate. Once we reached our final target, we will have reduced fees by 42%.

View on the market

In 2006, we continued our 100% success rate in predicting the markets. Our prediction for 2007 is the same as last year and we expect to be right once more.

The markets will go up or down

Thank you

A word of thanks to Rob and my family, whose support (and patience) I cannot do without.

God Speed,

A handwritten signature in black ink, appearing to read 'M. van Blerk', written in a cursive style.

Martin van Blerk

1 March 2008

Note: Audited Financial statements are presented separately and only to investors.