



15/01/2009

Unaudited results for 12 month period ending 31 Dec 2008		USD	Other currency equivalent			
			EUR	GBP	BWP	ZAR
<b>LONG TERM TRACK RECORD</b>						
11.7 years- <u>Compounded</u> (22 Apr 1997 - 31 Dec 2008)	Investment officer (full service track record - <u>net</u> to investors)	6.8%	5.4%	7.7%	13.6%	12.5%
	Index*	-0.5%				
	NAV	\$97.40				
<b>SHORT TERM TRACK RECORD</b>						
12 months	Net to investors	-47.2%	-42.9%	-11.2%	-21.0%	-8.7%
	Index*	-40.5%				

\*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.

*"In times like these, the burden of proof is on the person who says, "I am a winner. I can win the Money Game." Because only a sucker backs a "winner" in the Loser's Game, we have a right to expect him to explain exactly what he is going to do and why it is going to work so very well. This is not very often done in the investment management business."* - Charles Ellis (1975) - the full article is attached. It makes for excellent reading.

*Letter to investors:*

This letter will be a bit longer than usual, because in light of the above short term results I obviously need to explain. This runs contrary to my natural aversion to long explanations, which usually indicate either that the person has no idea of what he is talking about or he is trying to pull the wool over my eyes. So I will ensure that I point you to the facts.

If someone other than me were responsible for allocating my capital at Baobab then I would have liked him to answer the following.

What happened?

- Obviously our investments did not escape the extraordinary moves in the markets (more later).
- We also went through the very painful process of selling a large number of our existing holdings at sometimes large losses to do one of the following;
  1. Buy stocks with similar fundamentals at even cheaper prices, or
  2. Buy stocks with better fundamentals at similar prices.

One of our competitive advantages over the average investment business is that we are very reluctant to take losses and have the ability to sit out our losses. This is mainly due to three factors. Firstly, we have a patient and stable shareholder base so I don't have to worry too much about buying and selling simply to accommodate the in- and outflow of funds. Secondly, we hardly ever use any leverage at Baobab and are therefore unlikely to be forced to sell any position unless we choose to and thirdly, I am lucky to be wired in a way that I can carry a loss for a long time without giving in to the urge to sell it. These

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Directors: R Carle, 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.**

three factors fly directly in the face of the requirement during extraordinary times to sell a cheap stock to buy one that is either cheaper or of higher quality. That is why Benjamin Graham referred to it as being one of the most difficult things to do for a value investor.

Why should I not be selling my investment in Baobab?

- *Firstly*, you will be missing the bigger picture. I have sighted to you many times that equities are the best performing asset class, by a long shot. This is simply the best place to put your money over the long term; this means 3 to 5 years at least. This comes with a big, big **CAVEAT**; *you have to find a fund manager that outperforms over the long term*. This is probably more important than knowing that equities are the best performing asset class. It is akin to showing someone the best fishing spot, but not giving him a rod. We will return to this point.
- *Secondly*, there are times when even the best cannot escape the market's performance. So let us look at how my less than stellar short term performance was impacted by the market's performance. Question: Is/Was this an extraordinary bear market? The table below was put together by Kokkie Kooyman (Sanlam Investment Management) and clearly puts the current market in perspective; it is certain that these are extraordinary markets (Please note that the market referred to below is the S&P 500, which is slightly different to the index that we use).

**S&P 500 - Ranking of the worst Bear markets (ranked by % decline)**

Year	% decline	Peak to Trough	Recover 100%	PE Bottom	5 Yr Return After Trough
1929	89%	37 months	301 months	5.5 X	352%
1973/74	48%	21 months	64 months	7.0 X	177%
2000/02	47%	27 months	56 months	26.6 X	191%
2007/08	42%	12 months	???	17.2X	???
1968/70	37%	18 months	22 months	15.0 X	125%
1987	34%	2 months	15 months	13.0 X	191%
1961/62	29%	6 months	14 months	14.5 X	174%
1966	22%	9 months	6 months	13.0 X	134%
1980	22%	2 months	4 months	6.5 X	178%
1981/82	22%	13 months	3 months	8.0 X	298%
1957	20%	3 months	12 months	11.5 X	160%
1990	20%	3 months	5 months	14.0 X	195%
	<b>36%</b>	<b>13 months</b>	<b>46 months</b>	<b>12.2 X</b>	<b>198%</b>

- *Thirdly*, it happens to the best of us. Question: I don't like it when fund managers use the markets as an excuse; why should I buy it? Nine out of ten times I would agree with that statement, because I cringe when fund managers point to the market to explain their performance or usually the lack of it. However, my job is to outperform over the long term and my personal goal is to be among the best and if I cannot do that then Rob and I will simply close Baobab. Therefore, we always compare ourselves to the best in the business. It is clear that when markets fall like it did in 2008 then even the best of us cannot escape its effects and I do mean the best of us. As you can see from the above table the 2<sup>nd</sup> worst one year decline is that of 1973/1974 (see attached graph) and Warren Buffett's performance over this time is noteworthy. When Buffett closed down his partnership and gave his partners Berkshire Hathaway stock in 1970 the price at the time was \$40. Now what would you guess the Berkshire stock was worth in 1975 a full five years later? I would venture that very few of you would have guessed \$40! However, that is exactly what it was worth and that is from being worth \$93 in 1973. That is down some 57% from 1973! Baobab is down 49% over the last 2 years and 53%, since our all

time high of \$209.05 per share (October 2007). You can check the above facts and read some more about this time in Buffett's life from the recently published "The Snowball: Warren Buffett and the Business of Life" by Alice Schroeder (p.419 & p.420). It brings me no joy to report a result like this year's, but I have warned many times that you can expect times like these. Most important though is that you have realistic expectations and if you think I can outperform Buffett then that would clearly qualify as an unrealistic expectation.

Ok, so that all sounds fair, but in light of the above what about your long term performance relative to the market? How does your 5.4% outperformance of the S&P 500 (6.8% - 1.5% of the S&P500) over the last 11.7 years compare?

- The father of *value investment*, Benjamin Graham's investment firm Graham-Newman beat the market by 2.5% over the 21 years it existed. *"Over the twenty-year life of Graham-Newman Corporation, its performance had beaten the stock market's performance by an average of 2.5 percent per year - a record exceeded by only a handful of people in the history of Wall Street. That percent might sound trifling, but compounded for two decades, it meant that an investor in Graham-Newman wound up with almost sixty-five percent more in his pocket than someone who earned the market's average result."* - The Snowball: Warren Buffett and the Business of Life" by Alice Schroeder (p.143).
- I have not been able to establish Buffett's outperformance, but the numbers I have come across indicates an outperformance of at least double that of mine and that would be for his career which started in 1957! The man simply has no equal..not even close.
- Lastly, on this point I wish to direct you to the attached ranking of Baobab to the long term track record of the best value funds in the business. Please note that it is very rare to find a fund with a long term track record of 10 years and longer. That alone is a testimony to how difficult it is to outperform over the long term; making past 10 years seems to be a feat. If you know if anyone that has a long term track record of 10 years and longer that would rank up there with the best then please let me know.

What are you going to do about the current situation?

Wrong question; the right question would be what are WE going to do about it?

*On the one hand you have Rob and me.*

I frequently remind you that at least 90% of my net worth is tied up in Baobab and a good chunk of Rob's too. So we are probably more concerned about Baobab's performance at any given time than anybody else. We also receive no performance fees unless we perform. This is also a good time to remind you of the high water mark. Whenever we earn a performance fee a high water mark is set at the price per share we take our fee. Currently for most of you this high water mark is set at well over \$200.00, so until we get our numbers beyond that we will be working for free; we don't like working for free. Beyond that I will keep on doing what I always have been, which is to buy things for less than my assessment of what it is worth. In Baobab's case that has historically mostly been by investing in the shares of publically listed companies with outstanding track records. However, since around 2005 that has gradually changed and became more pronounced over the last two years. Before I explain more consider the following statement by Charlie Munger (Warren Buffett's right hand man) in 1975,

*"The partners who had been given Berkshire stock in 1970 when it was trading around \$40 seemed no better off five years later. "To anybody who held our stocks" says Munger, "it looked like not much was happening favourably for a long, long time. And that was not the way our partners, by and large, had previously experience things. The paper record looked terrible, yet the future what you might call the intrinsic record, the real business momentum, was gaining all the while"*

I believe that my recent track record belies the improvement in my investment skills, ability to generate above average returns for Baobab or my intrinsic value to Baobab if you will. I am convinced that my investment skills dramatically improved over the last three years and that

the results will show this in the years to come. I am working with one of the best investment teams in the business and have an outstanding mentor in Francis Chou, who clearly ranks among the best (see Chou Associates Fund's in the attached ranking). The bottom line is; I am getting better.

*On the other hand*, there are you. You, our partners in Baobab, are the other side of the coin. It is important for you to realise and more importantly to appreciate your role in this business. Baobab's track record is rightly something to feel good about. It's hard to imagine that a fund based in Botswana can rank up there with the best in the world. However, it would have been impossible to achieve without very patient capital (your money) and the unwavering support in times like these, for which we are enormously grateful. Remember, 2003 was pretty awful too, so we have been through this before. We have always been able to count on contributions from our investors in down markets and believe this will be the case once again. However, bear in mind that we are only interested in money that you can leave with us for a number of years. We are not interesting in short term funds or that you compromise your business or personal finances for our sake. **So if you have excess funds then you should not hesitate to send it our way.**

So here is to the New Year; hold on to your hats, because it is going to be bumpy and rest assured that we are not taking this lying down.

God Speed,

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

Martin van Blerk