



15/07/2009

		Other currency equivalent				
		USD	EUR	GBP	BWP	ZAR
6 months	Net to investors	42.5%	41.1%	32.2%	31.3%	24.1%
	Index*	12.0%				
12.19 years-compounded (22 Apr 1997 - 30 Jun 2009)	Investment officer (full service track record - net to investors)	9.6%	8.2%	9.6%	15.0%	15.3%
	Index*	0.8%				
	NAV	\$138.26				

*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.

"The hardest thing in the world to understand is the income tax." - Albert Einstein

Letter to investors:

As always we limit our quarterly discussion to one or two pages and refrain from discussing our short term performance. We will transgress on the length a bit due to several tables and charts. Let's talk about some of our medium to long term concerns, which are inflation, the devaluation of the dollar and taxes.

Inflation

We think there is a probability of 55% that we will face high inflation (as measured in USD) over the next 3 to 5 years. Note that several outstanding investment managers put a much higher probability on high inflation. In an attempt to sidestep a difficult issue we simply asked, what are we going to do in the event of high inflation? The bad news is that there is very little we can do to counter the effects of inflation on our portfolio. The good news is that we did not say there is nothing we can do and our solution is core to our investment process anyway. In Baobab's case, it is about recalibrating, not about trying to implement a new solution. We believe the best way to compensate for inflation is to a) focus on companies with high returns on equity and good franchises and b) to adjust our discount rate.

When we invest in a company we hand over our dollars to management so they can put it to work. If that company then faces a high inflationary environment, it will have to reinvest cash just to keep up. Imagine for a moment that we have 100% inflation over a period of 5 years and we have the following two companies.

Company X		Company Y	
Sales	100	Sales	200
NI	19	NI	19
Equity	100	Equity	190
ROE	19%	ROE	10%

*19% is the average after tax ROE for the S&P500 over the last 37 years, a period of exceptional prosperity.

To compensate X and Y will have to double sales and profits. In order to do that management need to invest in fixed assets and working capital to support the increase in sales and profits.

Company X		Company Y	
Sales	200	Sales	400
NI	38	NI	38
Equity	200	Equity	380
ROE	19%	ROE	10%

CONTACT t: +267 319 1454
f: +267 395 3306
e: info@baobabglobalfund.com
VISIT a: 4786 Moapare Rd, Gaborone,
Republic of Botswana
i: www.baobabglobalfund.com

LEGAL Management Company: Cherubim Ventures (Pty) Ltd Reg CO.2003/5941
IFSC Registered
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.

So just to tread water, the management of X will have to invest \$100 and Y, \$190. That assumes neither are giving up margin by losing ground to their suppliers or customers. Only the company with a strong franchise can do that. Note that in the case of X the \$190 (\$38x5 years) of total profits will be sufficient to cover the \$100 of reinvestment needed and it still leaves \$90 that can potentially be returned to us, the shareholders. In the case of Y, there is no excess cash. Importantly, the market will reward X with a higher value, relative to Y, over the long term.

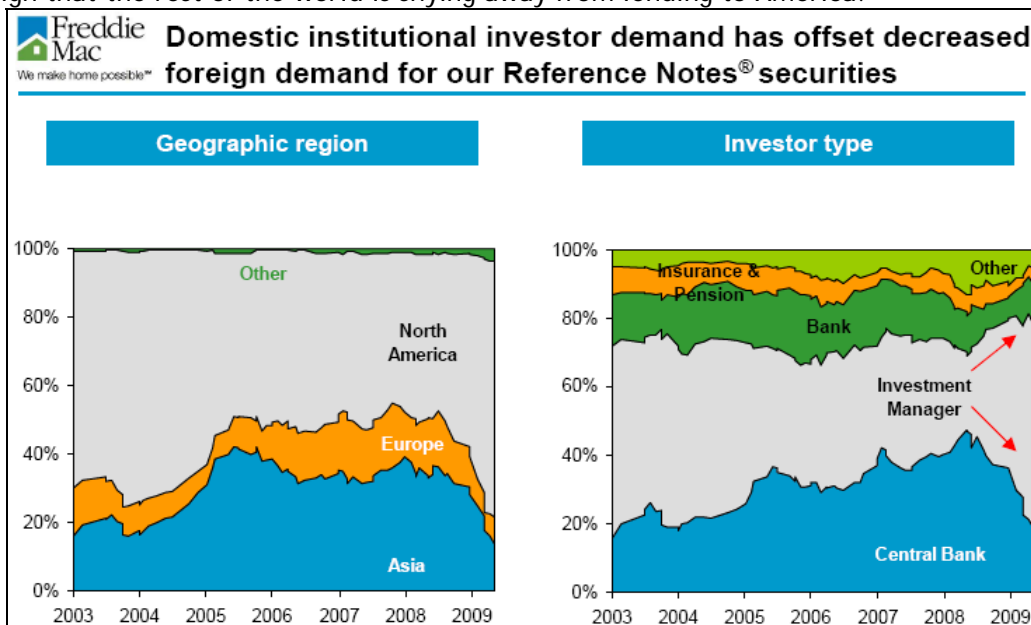
The second part of the solution is to adjust our discount rate. When we invest we are laying out cash today to receive more back tomorrow. However, in an inflationary environment tomorrow's \$1 of cash is going to be worth a bit less (in real terms), or maybe a heck of a lot less, than a \$1 is worth today. Therefore we have to compensate by discounting the future cash flows even more, by simply adjusting our discount rate.

The above fits like a hand in a glove for us, because the strategy is core to our investment thinking. More important though, is the fact that it sidesteps the whole issue of whether we are going to have inflation or not. While everyone is trying to figure out whether we will have inflation or not and while they are buying gold and trying to figure out which commodity is the best inflation hedge for the day, we will be focussing our efforts on buying outstanding companies at properly discounted prices. We believe we will be rewarded more for less effort and risk. We prefer to sidestep the difficult issues.

When it comes to bonds the only credible solution we have is to shorten the duration by not only buying shorter term bonds, but also bonds with other characteristics which enable one to shorten the duration even more e.g. convertible bonds. As for long term (30 year) bonds, we think anybody buying them today are nuts!

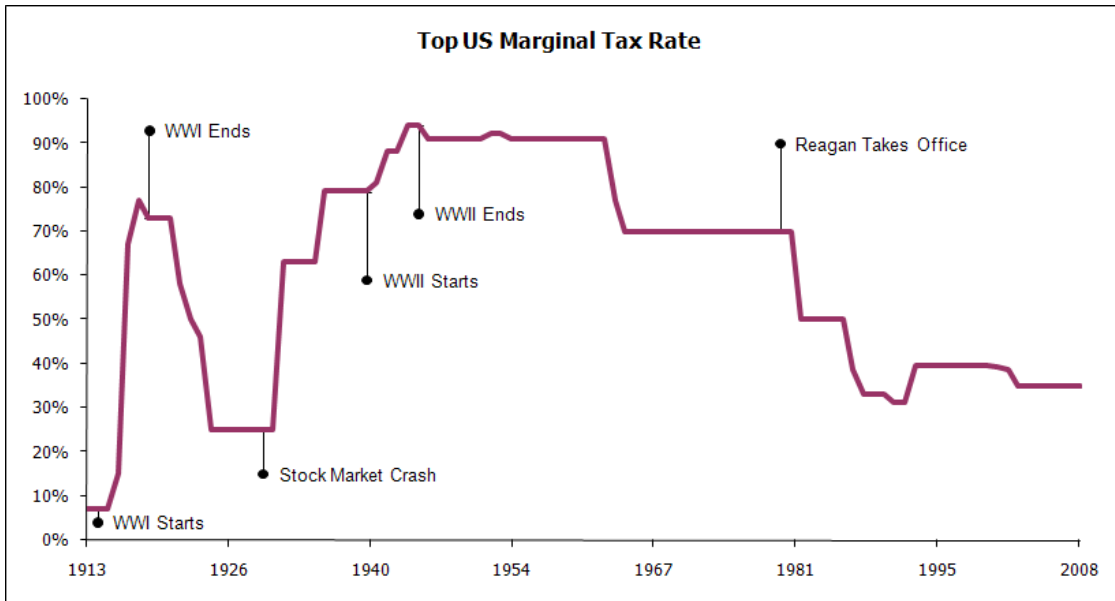
Devaluation of the dollar

We have written extensively, since 2003 about our concern for the dollar, so I am not going to rehash it here. However, the following is an interesting piece of information I recently came across in a Freddie Mac presentation. It shows how heavily North American investment managers compensated for the drop off in demand in GSE debt. It begs the question, whether this is a clear sign that the rest of the world is shying away from lending to America?



Tax

We put a very high (over 90%) probability of significantly increased taxes, both visible and stealth, for most developed nations. These countries' expenditure is growing rapidly, they are already running large budget deficits and revenue will have to fill the hole. Also, it can be argued that this generation don't know what it means to really pay taxes...(see following chart)



And, it has been a while since the US has seen an increase.

<u>Period of No Tax Increase</u>	<u>Length (Years)</u>
1943 – 1949	7
1952 – 1966	15
1967	1
1970 – 1979	9
1981	1
1983	1
1988	1
1991 – 1992	2
1994 – Present	15

Honestly, how long did you expect this party to last?

I will leave you with that uplifting thought!

God Speed,

Martin van Blerk