



15/10/2009

| <i>Unaudited results for 9 month period ending 30 Sep 2009</i> | | | | | | |
|--|--|----------|---------------------------|-------|-------|-------|
| | | USD | Other currency equivalent | | | |
| | | | EUR | GBP | BWP | ZAR |
| 9 months | Net to investors | 63.0% | 57.4% | 54.1% | 49.7% | 42.2% |
| | Index* | 28.9% | | | | |
| 12.4 years-compounded (22 Apr 1997 - 30 Sep 2009) | Investment officer (full service track record - net to investors) | 10.6% | 8.8% | 10.7% | 15.7% | 16.2% |
| | Index* | 1.4% | | | | |
| | NAV | \$158.18 | | | | |

*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 secret of life is to appreciate the pleasure of being terribly, terribly deceived"-Oscar Wilde

Letter to investors:

If you blinked, you might have missed it. I understand we now have a name for it, *The Great Recession*. Can we just believe things are over and that we can simply hurtle into the abyss future in the same way we did barely 18 months ago?

I am not so sure about the answer to that one, but what is certain is that the brazen and cunning ways are back.

The recent deal by Barclays serves as a perfect example. In September Barclays announced a \$12.3Bn restructuring, whereby Barclays "sold" \$12.3Bn of credit market assets held by Barclays Capital. A more accurate description of the \$12.3Bn of assets would be *paper*, with a face value of \$12.3Bn (Note: A bounced cheque of \$100 is *paper* with a face value of \$100, but is a worthless asset). Anyway, the *paper* was "sold" to a newly created hedge fund, Protium Finance LP managed by a newly created hedge fund manager C12 Capital Management LP; the latter being staffed by 45 bankers whom recently left Barclays Capital. The fact that Protium only had \$450m to buy the \$12.3Bn of *paper* was not a problem, because Barclays simply loaned Protium the funds to "purchase" the *paper*.

Furthermore, C12 will be paid \$40m per annum for 10 years to manage the "assets" at Protium. Even more brazen, bizarre, perplexing (your choice of words) is the fact that the payment of C12's management fees and payments to Protium's partners, in terms of seniority, ranks above interest payments to Barclays. To top it all, Barclays will have all the downside and Protium all the upside from the change in value of the \$12.3Bn of *paper*. The \$12.3Bn of *paper* is also net of more than \$2Bn of monoline insurer reserves.

Your head should be spinning by now, mine still do and I have read this several times, but wait I'm not done yet; when I mentioned that the 45 bankers recently left Barclays capital, I meant at the date of the closing of the transaction! Now guess who advised Barclays on this transaction? Barclays Capital!!

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"Fatigue makes cowards of us all" -Vince Lombardi

Now that we are more or less back to square one, can we just carry on as if nothing has happened? Definitely not, because we have not solved any of the big issues, in fact we just multiplied the problems and increased the size of the old ones significantly.

In a picture it means that we tried to cross the river, our feet got taken from under us, we were carried downstream, barely survived, but we made it back to the river bank, safely. The only problem is that we are still on the same side that we started and we still need to get to the other side. So we either wait 10 years and have a so called "Japanese experience" or we try again in which case it will be rough going and we will have something for which *The Great Recession* will not be descriptive anymore. The volume of water is now twice as much and of course the river is twice as deep.

Ok, enough of the pictures, what does it mean in practical terms for us? As investors in Baobab what you have to consider is whether you have the stamina to sit it out if we have a repeat of the last 18 months? The crux is that we have a significant advantage due to our stable shareholder base and I don't want to give it up. Over the last 12 months, compared to most of my peers, I could focus on our investments, without the distraction of having to cash investors out every second day. We had no redemptions, "*not 1 blue cent*" as my Dad would say; in fact we had a significant inflow of funds. You should congratulate yourself, there are very few, if any funds that can say they had 0 redemptions and significant inflows, without having any lock up clauses.

However, I am of the view that there is as high as a 50% probability that we could have a repeat of the last 18 months or even worse over the short term. Here at Baobab that spells OPPORTUNITY. Nonetheless, today is the day to ask yourself whether you have the stamina to sit it out...again. If not then this is the time to take out the money that you need, because we don't want to give up an important part of our competitive advantage. I would much rather have you redeem now than when we wish to deploy the cash to take advantage of what will most likely be even better bargains than what we saw over the last 18 months.

In conclusion I wish to say, APPLAUSE all round for our investors who behaved impeccably! I am very proud of you and never have I appreciated your outstanding support as much as over the last 18 months! I could not have asked for better partners in this business. It should be illegal to have this much fun!

God Speed,

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

Martin van Blerk