

**THE BAUPOST GROUP, INC.**  
44 BRATTLE STREET  
P.O. BOX 389125  
CAMBRIDGE, MASSACHUSETTS 02238-9125  
(617) 497-6680  
FAX: (617) 876-0930

June 20, 1997

Dear Baupost Fund Shareholder,

We are pleased to report profitable results for the six months ended April 30, 1997. Specifically, during that period the Fund gained 8.69% in value.

While this represents an attractive absolute return for a six month period, you should know that our performance has lagged behind the continued strong gains posted by the U.S. equity market. There are several reasons for this relative underperformance: One is our low U.S. stock market exposure (only 31% of net assets at April 30.) Another is our lack of exposure to the expensive large capitalization consumer growth and technology stocks (the new "nifty fifty") which have been among the best performers in the market. A third is our considerable net cash and cash equivalent position (close to 30% of net assets at April 30.) Finally, we have underperformed this roaring bull market for the same reasons we always do: we remain risk averse value investors and will never own what we perceive to be expensive stocks in the hope that they could somehow rise even higher.

Gains in the U.S. stock market, it seems to us, are being fueled by two important factors. First, the U.S. economic situation has been and remains very favorable, with low inflation, relatively low interest rates and steady GDP growth. The world is at peace, the U.S. has emerged as the sole superpower, and capitalism has never been more popular.

Second, investors have come to expect (and depend on?) handsome returns from investing in equities, and money has been relentlessly flowing into U.S. stocks. We believe that this has in the short run become a self-fulfilling prophecy, as funds flows lift share prices to produce the profitable returns that investors have sought. Over time, however, this is very likely to become a self-defeating prophecy, as today's inflows lift share prices to levels from which the long term returns will likely be below the historical average, and even further below today's investors' bloated expectations.

During the past six months, the Fund has enjoyed gains in a number of areas of the portfolio, including several situations that benefited from unexpected takeover activity. This has continued into May with the announcement that Basic Petroleum has agreed to be acquired for \$40 per share.

We continue to find attractive investments outside the U.S., and have initiated a number of new positions over the past few months. The French market declined ahead of the recent elections there, and this resulted in an opportunity to add to a few of our established positions. We continue

to believe that foreign equity markets are both much cheaper than the U.S. and that they are priced considerably less efficiently than here, creating a compelling long-term opportunity for the Fund, notwithstanding the risks of investing in foreign markets.

We thank you again for your confidence and support and look forward to continued future investment success.

Very truly yours,

/s/ Seth A. Klarman

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Seth A. Klarman  
President

<b>Average Annual Total Returns (1) For Periods Ended 04/30/97</b>	<b><u>1</u> <u>Year</u></b>	<b><u>Life of Fund</u> <u>(since 12/14/90)</u></b>
The Baupost Fund	24.75%	16.32%

Total return is an historical measure of past performance and is not intended to indicate future performance. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost.

(1) Assumes reinvestment of all dividends.

**GROWTH OF AN ASSUMED \$50,000 INVESTMENT  
IN THE BAUPOST FUND FROM 12/14/90 THROUGH 4/30/97**

	<b><u>FUND</u></b>	<b><u>S&amp;P</u></b>
12/14/90	\$50,000.00	\$50,000.00
04/30/91	\$58,158.98	\$58,161.73
04/30/92	\$63,692.31	\$66,325.82
04/30/93	\$75,761.04	\$72,448.88
04/30/94	\$85,933.03	\$76,302.11
04/30/95	\$92,875.27	\$89,627.93
04/30/96	\$105,059.48	\$116,707.47
04/30/97	\$131,063.27	\$146,040.47