

**THE BAUPOST GROUP, INC.**  
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June 13, 2000

Dear Fund Shareholder,

We are pleased to report a healthy gain of 10.28% for the six months ended April 28, 2000. This result was achieved amidst a volatile equity market environment where both growth and value managers experienced difficulty. Indeed, two of the most notable investors of the twentieth century effectively ended their investment careers this year after incurring substantial losses. Ironically, Julian Robertson's Tiger Fund closed its doors largely as a result of missing out on technology stocks in recent years, while Stanley Druckenmiller of the Soros organization quit as a result of losses experienced from his technology holdings. This bucking bronco of a market has made it hard for nearly all investors, regardless of approach, to hang on.

The Baupost Fund, as you know, exists to accommodate the family members and friends of Baupost clients. It participates ratably in all of the investment ideas generated at Baupost which are consistent with legal guidelines applicable to the Fund and with the Fund's investment objective. The investment objective of the Fund is capital appreciation, with income as a secondary goal. The Fund seeks to achieve its objective by profiting from market inefficiencies using a value-oriented and, often, an event driven approach. We are not seeking to keep up with any particular market index or benchmark. Rather, we are attempting to achieve good risk-adjusted investment results over time through the successful implementation of our investment philosophy.

We continue to believe strongly in a value investment approach, attempting to buy assets or businesses at a considerable discount to underlying value. Bargains exist because the financial markets are inefficient, yet many investors lack the requisite patience and discipline to take advantage of them. A value approach may outperform or underperform the overall market at various times because of changing investor sentiment, but we believe that a value philosophy never goes out of style. When sentiment towards undervalued sectors of the market is at its nadir, it is the best time to be buying value.

As we sift through the market for opportunities, we come across many stocks that are overvalued and thus of no interest to the Fund. Undervalued stocks are of interest when several or all of the following criteria are met: if the undervaluation is substantial; if there is a catalyst to assist in the realization of that value; if the business value is stable and growing, not eroding; and if the company's management is able and properly incentivized.

Our search for opportunity is conducted on a bottom-up, not top-down basis, seeking to reduce risk situation by situation as a result of in-depth fundamental analysis, a strict assessment of risk versus return, a value philosophy which attempts to create a margin of safety in each of our holdings, an event-driven focus, and ongoing monitoring of our positions to enable us to react to changing market conditions or fundamental developments. We may further attempt to reduce risk for the portfolio through appropriate diversification by asset class, geography and security type, through market hedges such as out-of-the-money put options, and by our willingness to hold cash when we are unable to identify compelling opportunities.

Because investing is a highly competitive activity, we consider for each of our investments not only whether a security is undervalued but why it is undervalued. If the reason is that there are uninformed or emotional sellers, we become more comfortable. Conversely, we do not want to ever be in the situation of having less information than the party selling to us. In effect, we seek an edge in all of our investments, a reason to believe we will have the wind at our backs, not in our faces, as we seek good investment returns over time with limited risk. Situations analytically complex, or where there are forced, mechanical or panicked sellers, nicely fit this criterion.

Since we cannot predict the future level of securities prices, we invest with the goal of performing well regardless of future market conditions. This cautious approach does not guarantee good results (witness 1998) and can cause significant market underperformance for fairly long periods of time. However, we believe that it will deliver strong results with limited risk over the long-run.

Our recent performance and current portfolio positioning illustrate the application of our investment principles. The gain for the first six months of our current fiscal year was achieved throughout the portfolio, net of hedging costs and management fees. We were profitable in four of those months (and were only down 23 and 31 basis points in the other two months), and largely avoided the extreme market volatility experienced by many others over the same period. Table 1 below provides a breakdown of our holdings by geography and asset class.

**Table 1**  
Portfolio Breakdown by Geography and Asset Class at April 28, 2000

Cash	4.6%
U.S. Public Equities	61.9%
Western Europe Public Equities	9.5%
Arbitrage or Spread Trades	9.3%
Other Public Equities	3.4%
Private Equities and Partnerships	2.0%
Performing and Non-Performing Debt	5.2%
Securities in Liquidation	2.9%
Market Hedges and Other	1.2%
<b>Total</b>	<b>100.0%</b>

Our current portfolio is broadly diversified with a concentration in undervalued U.S. equities, many with a partial or full catalyst for value realization. In the first four months of 2000, cash bal-

ances declined as a result of numerous new commitments. In particular, distressed debt holdings have increased of late. The discount on our equities from underlying or private market value frequently exceeds 50%, an indication of the compelling value opportunities available at this time. A very high percentage of our equity positions trade at single digit p/e multiples, at a healthy discount to tangible book value, or both.

A recent Washington Post article recounted the tremendous core of investor optimism still prevalent in today's financial markets. In an April poll conducted by PaineWebber and the Gallup Organization, investors expected a 16.6% annual rate of return from stocks over the next ten years. The least experienced investors expected 20% returns. By contrast, one prominent investment firm, Grantham, Mayo, Van Otterloo & Co., uses an assessment of market valuation and historic returns to forecast a slightly negative real return from U.S. equities over the next decade. According to Yale economist Robert J. Shiller, today's high investor confidence is not a natural, steady state. It is a sign that the market is vulnerable to decline in coming years.

We don't buy "the market". We invest in discrete situations, each individually compelling. Regardless of what the future brings, we believe we are well-positioned.

Please let us know if you have any questions, comments or suggestions.

Very truly yours,

/s/ Seth A. Klarman

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Seth A. Klarman  
President

<b>Average Annual Total Returns (1) For Periods Ended 4/28/2000</b>	<b>1 <u>Year</u></b>	<b>5 <u>Year</u></b>	<b>Life of Fund (since 12/14/90)</b>
The Baupost Fund	9.94%	10.52%	12.68%

Total return is an historical measure of past performance and is not intended to indicate future performance. Because investment return and principal value will fluctuate, the Fund's shares may be worth more or less than their original cost when redeemed. During some of the periods reported above, an expense cap was in place which had the effect of lowering the Fund's management fee and therefore enhanced the total return of the Fund.

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**GROWTH OF AN ASSUMED \$50,000 INVESTMENT(1)  
IN THE BAUPOST FUND FROM 12/14/90 THROUGH 4/28/00**

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[LINE GRAPH APPEARS HERE]

	<u>FUND</u>	<u>S&amp;P</u>
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
04/30/98	\$170,436.34	\$206,014.84
04/30/99	\$139,277.38	\$250,971.95
04/28/00	\$153,115.97	\$276,390.70

(1) Assumes reinvestment of all dividends.