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Dear Fund Shareholder,

We are pleased to report a gain of 22.4% for the fiscal year ended October 31, 2000. This result was achieved amidst a challenging and unusually turbulent market environment.

Profitable results were achieved across the Fund's portfolio, led by gains in U.S. and Western European equities and arbitrage activities. Our returns were reduced by hedging costs of approximately 2.4%. A breakdown of investment results appears in Table 1 below.

Table 1
The Baupost Fund
Breakdown of Investment Results for the Year Ended October 31, 2000

U.S. Public Equities	10.8%
Western Europe Public Equities	4.1%
Arbitrage or Spread Trades	4.2%
Other Public Equities	3.7%
Private Equities and Partnerships	0.4%
Performing and Non-Performing Debt	1.0%
Securities in Liquidation	1.0%
Market Hedges	-2.4%
Interest on Cash Equivalents Less Management Fees and Other	-0.4%
Total Return	22.4%

Clearly, the Internet bubble has burst. Nearly all publicly traded Internet stocks have come up snake-eyes, and there is considerable doubt about whether there is or ever was a "new economy." No longer can you add "dot com" to a word, sell shares to the public, and join the Forbes 400. No longer can entrepreneurs count on investors to fund enormous and protracted operating losses. Although the carnage thus far is extensive, the economic fallout from the end of this speculative mania has yet to be fully felt.

Many financial excesses remain. A bull market mentality has been indelibly etched on the American consciousness over the past eighteen years, and will not be easily erased. The public maintains its lust for equities; the potential of equities to deliver double-digit returns continues to attract buyers who fail to accurately assess the shrinking probability of such an outcome. The prospect of accepting the apparently mediocre, albeit more certain, return from owning high-grade bonds thus far fails to inspire buyers.

The fantasy of a near-term Dow 36000, of holding stocks for the long run regardless of valuation, plays well in classrooms, computer models, and editorials. It fares less well in the real world, where earnings disappointments are met with share price demolition, and where corporate managements massage and manipulate results for gullibly compliant investors until the untidy reality inevitably peeks through. Like a couch potato clicking the remote control, real-world growth investors are continually switching their capital from areas of disappointment to areas of perceived opportunity, oddly unaware that all of the channels are showing reruns. Each alluring new area is the "before" photo, each broken growth stock "the after," but no amount of adversity seems to dissuade growth stock investors from the hunt.

Today's investment herd loves a good story. Last year, the story of rapid growth leading eventually toward profitability topped investors' bestseller lists. Widely portrayed as non-fiction and sometimes masquerading as biography, it turned out to be science fiction. Today, a popular tale involves more elements than growth alone; a good story stock must occupy a compelling and growing business niche, and possess strong market share, an able management, present or foreseeable earnings (or at least cash flow), and results that repeatedly exceed analyst expectations. These factors usually cause a stock to possess a high valuation multiple and an esteemed position in a major market index. Then, in a virtuous circle, this stock market success allows the attraction and retention of able employees through the use of stock options in compensation. Frequently, bookkeeping strings are pulled to manipulate reported results into a steadily rising pattern. The net result is that management and shareholders, for at least a while, become wealthier.

If Paul Harvey's serialized radio program "The Rest of the Story" were applied to Wall Street, it would describe the sad denouement of many such "story" stocks. The unraveling of the virtuous circle of growth is not pretty, with earnings shortfalls, plunging share prices, employees with underwater options jumping ship, overzealous shareholders receiving margin calls, accounting chicanery exposed, lawsuits filed, and, to come full circle, the final insult of deletion from the relevant major market index.

At this time, attractive valuation is not considered a good story. A slow growth or no growth company trading at one half or one third of its underlying value attracts no important constituency of investors. I sometimes joke about the new market valuation rules of thumb: stocks that fail to meet earnings expectations all seem to trade at 10 times reduced earnings, while formerly profitable companies that report losses all seem to trade at five dollars per share. Many investors avoid these stocks precisely because others are staying away. Why would those kind of stocks ever go up, they wonder. Even those of us with value investing in our DNA generally prefer situations with catalysts for the realization of underlying value.

Over time, this will change. At some unknowable future point, the undervaluation of small capitalization stocks lacking exciting growth characteristics will become so gaping that investors will

once again be attracted. The point of investing, after all, is not to have a great story to tell; the point of investing is to make money with limited risk. At some point, investors will drop their Pulitzer prize winning story stocks and revisit their attention on the old classics, stocks that make you money because their undervaluation creates a compelling imbalance between risk and return.

Value Opportunities in Today's Market

Value investors frequently invoke the explanatory device of Mr. Market, a disembodied character who establishes securities prices in the short run despite knowing nothing about investing. A manic fellow, Mr. Market will sometimes become exuberant, other times depressed. Investors who look to Mr. Market for advice will inevitably do the wrong thing at the wrong time. Investors who attempt to profit from Mr. Market's manic depressive nature will be successful over the long run. These days, Mr. Market has run completely amuck, often manifesting manic and depressive behavior at the same time in different securities.

How should Mr. Market's increasingly volatile behavior influence investors? In our view, investors should, more than ever, act on the assumption that any stock or bond can trade, for a time, at any price. Margin debt (which we do not utilize) should be considered extremely dangerous; investors should never enable Mr. Market's mood swings to result in a margin call which could necessitate forced selling. Investors should prepare themselves for a greater degree of portfolio volatility, because it is impossible to tell how wild Mr. Market's mood swings may become. It is of paramount importance that investors brace themselves for a stern test of their investment will. Avoiding overpriced speculations and maintaining a strict value discipline are more important than ever because the overpricings are so egregious and the bargains so pronounced. Yet the price swings are so severe and swift, and not always in the desired direction, that investors must be braced for mark to market losses. Those sufficiently disciplined and unwavering will be generously rewarded.

A great many value investors suffered terribly during the Internet stock mania of 1999 and early 2000. In a market dominated by money flows, the stocks of mundane companies were abandoned for those that offered growth, the more explosive the better. These value managers experienced poor performance, resulting in investor outflows, which necessitated additional selling. Although value managers have recently outperformed growth managers, they have only started to narrow the performance gap of the last several years.

In today's environment, money flows rule, trumping all other factors in determining security prices. From any starting point, money flowing into one category and away from another can wreak havoc with accustomed levels of valuation and can cause egregious mispricings, both too high and too low. Last March, these valuation disparities reached their apogee, as the Nasdaq Composite Index surged above 5,000 while value stocks plummeted. In recent months, outflows from the corporate debt market have resulted in some egregious mispricings; the equity valuations of a number of companies seem detached from any comprehension of the yields available on the debt instruments of the same companies. Money flows, in effect, can render fundamental analysis futile in the short run, even while creating a compelling longer-term opportunity.

Because Baupost is willing to take a long-term view and to accept, for a portion of our portfolio, the relative illiquidity of small-capitalization stocks, we continue to find significant opportunity in

today's equity market. The tremendous undervaluation, extreme volatility and, frequently, limited investor interest in such stocks renders this opportunity particularly compelling.

Distressed debt has long been one of our favorite areas for investment, in that financial distress often serves as its own catalyst for value realization, usually in the form of a debt restructuring inside or outside of bankruptcy court. We also appreciate the margin of safety inherent in owning senior debt securities during a workout process, where equity receives the residual only after debtholder claims are satisfied.

Although the distressed debt arena can present compelling opportunity, Baupost hasn't been significantly involved since the early 1990's, when that era's junk bond collapse and economic downturn created an enormous supply of distressed securities that, for a time, swamped the demand. Economic recovery and the reorganization process reduced the supply of distressed securities over time, even as new funds were being raised to invest in the area. For a number of years, attractive distressed debt opportunities were quite scarce. Today, we are again finding opportunities to buy stable, cash-generating assets of overleveraged companies at very substantial discounts to their underlying value through the purchase of senior debt securities. At October 31, we owned material stakes in the debt of 14 different companies, and are in the process of analyzing numerous others.

As we approach calendar year-end, tax selling and window dressing remain important market forces, exacerbating the price declines of stocks and bonds which have already performed poorly. This mindless selling has created a number of buying opportunities which we are attempting to exploit. Table 2 below depicts our portfolio allocation at fiscal year end.

Table 2

The Baupost Fund
Portfolio Allocation at October 31, 2000

Cash	15.7%
U.S. Public Equities	46.7%
Western Europe Public Equities	8.9%
Arbitrage or Spread Trades	6.0%
Other Public Equities	1.1%
Private Equities and Partnerships	2.1%
Performing and Non-Performing Debt	16.2%
Securities in Liquidation	2.8%
Market Hedges and Other	0.5%
Total	100.0%

We believe the values within our current portfolio are extremely compelling and that we are well-positioned for any market environment. We remain grateful for your confidence and support during these challenging and volatile times. Please do not hesitate to contact us if you have any questions or comments.

Very truly yours,

/s/ Seth A. Klarman

Seth A. Klarman
President

Average Annual Total Returns (1) For Periods Ended 10/31/2000	1 Year	5 Year	Life of Fund (since 12/14/90)
The Baupost Fund	22.43%	11.55%	13.19%
S&P 500	6.09%	21.67%	18.78%

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.

GROWTH OF AN ASSUMED $50,000 INVESTMENT(1)
IN THE BAUPOST FUND FROM 12/14/90 THROUGH 10/31/00

[LINE GRAPH APPEARS HERE]

	THE BAUPOST FUND	S&P 500
12/14/90	$50,000.00	$50,000.00
10/31/91	$59,787.28	$61,807.01
10/31/92	$65,471.39	$67,963.62
10/31/93	$82,134.71	$78,116.01
10/31/94	$91,217.43	$81,134.73
10/31/95	$98,430.31	$102,587.46
10/31/96	$120,583.20	$127,306.16
10/31/97	$153,193.22	$168,186.49
10/31/98	$128,220.00	$205,175.00
10/31/99	$138,845.00	$257,840.00
10/31/00	$169,995.00	$273,545.00

(1) Assumes reinvestment of all dividends.