

THE BAUPOST GROUP, INC.
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June 15, 2001

Dear Fund Shareholder,

We are pleased to report a healthy gain of 14.44% for the six months ended April 30, 2001. 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 distressed debt investments. A breakdown of investment results appears in Table 1 below.

Table 1

The Baupost Fund

Breakdown of Investment Results for the Six Months Ended April 30, 2001

U.S. Public Equities	5.34%
Western Europe Public Equities	1.09%
Arbitrage or Spread Trades	0.50%
Other Public Equities	-0.12%
Performing and Non-Performing Debt	6.33%
Securities in Liquidation	0.15%
Market Hedges	0.63%
Interest on Cash Equivalents Less Management Fees and Other	<u>0.52%</u>
Total Return	<u><u>14.44%</u></u>

The recent period of strong performance for Baupost is a good news/bad news situation. The good news is that the substantial undervaluation of our portfolios has been partially recognized. The bad news is that today's opportunity set, while still attractive, is less compelling than that of six or twelve months ago. Given the suddenly shrinking U.S. economy, we would not be surprised to see a significant correction in many so-called "value" equities and below-investment-grade debt instruments which have appreciated significantly in recent months. We stand ready with ample cash reserves to take advantage of any bargains that may emerge.

The performance of the broad market indices masks significant performance divergence between market sectors. In effect, money has come out of technology stocks, driving them mostly lower, but it has not left the market. Instead, it has moved into "value" stocks, seeking more certain returns and downside protection. This is one manifestation of the "stocks for the long-term" thinking that prevails among most professional and individual investors. Stocks will outperform other asset classes over the long term because they always have, the thinking goes, so the real risk is being out of, and not in, the market. The problem is that many of these so-called value stocks are extraordinarily expensive by historical standards and also face deteriorating fundamentals.

In effect, the lessons of the technology stock bubble have only partly been learned. The correct lessons—price matters, trees don't grow to the sky, high risk does not necessarily correlate with high return, sometimes it is better to be risk-averse—have begun to be applied to technology stocks but not to most of the rest of the market. As we have said before, it appears likely that considerable pain must be incurred over a protracted period for investors to fully absorb these unavoidable lessons.

Our overall posture remains very conservative with cash balances of 48.6% of assets. Table 2 below depicts our portfolio allocation at April 30, 2001.

Table 2
The Baupost Fund
Portfolio Allocation at April 30, 2001

Cash	48.6%
U.S. Public Equities	18.4%
Western Europe Public Equities	4.7%
Other Public Equities	1.5%
Performing and Non-Performing Debt	23.4%
Private Equities and Partnerships	1.7%
Securities in Liquidation	1.3%
Market Hedges and Other	0.4%
Total	<u>100.0%</u>

We are pleased to be off to a good start in 2001, and look forward to answering any questions or addressing any comments you may have.

Very truly yours,

/s/ Seth A. Klarman

Seth A. Klarman
President

Average Annual Total Returns (1) For Periods Ended 4/30/2001	1 <u>Year</u>	5 <u>Year</u>	10 <u>Year</u>
The Baupost Fund	27.05%	13.11%	12.83%
S&P 500	-12.97%	15.56%	15.25%

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 4/30/1991 THROUGH 4/30/2001**

	THE BAUPOST	
	<u>FUND</u>	<u>S&P</u>
12/14/90	\$50,000.00	\$50,000.00
04/30/91	\$50,000.00	\$50,000.00
04/30/92	\$54,757.07	\$57,018.44
04/30/93	\$65,132.71	\$62,282.25
04/30/94	\$73,877.69	\$65,594.76
04/30/95	\$79,846.02	\$77,050.60
04/30/96	\$90,320.94	\$100,330.12
04/30/97	\$112,676.72	\$125,546.87
04/30/98	\$146,526.23	\$177,105.14
04/30/99	\$119,738.49	\$215,753.50
04/30/00	\$131,635.70	\$237,605.28
04/30/01	\$167,244.13	\$206,783.48

(1) Assumes reinvestment of all dividends.