<u>Martin Raymond Real Return Fund</u> – August 2004 monthly report

NAV/unit rose by 4.1% during August, and since the fund's inception on 1st November 2003, the NAV/unit has gained 14.1%. At the end of August, the fund owned securities in eleven companies and 52% of the fund was in cash.

The main events of note during the month were:

MCI (8.1% of the fund) rose 15% during August. The main reason for this was an encouraging second quarter report, particularly the company's decision to start paying a $1.60 per share annual dividend. Even after the share price rise, MCI shares trade at a dividend yield of over 9%.

The other reason for the share price rise was that Leucadia National Corp not only received regulatory approval to buy over 50% of MCI's shares, but it then announced that it had bought 5% of MCI shares. Leucadia is a highly regarded investment firm with a history of buying distressed assets at advantageous prices. It is also close to Warren Buffett.

In a demonstration of my trading prowess, I sold almost a fifth of the fund's MCI shares at $13.95, just before the shares shot up. This decision reduced the fund's August performance by about 0.4%.

Village Roadshow non-voting shares (5.6% of the fund) rose 11% after the company reported a good first half profit result, and more importantly that it intends to buy back up to a quarter of its remaining shares on issue. It also gave shareholders some hope that dividends might be resumed.

This rush of good news prompted me to sell one-fifth of the fund's holding. I still like Village, but it's no longer super-cheap.

Bangkok Land bonds (7.3% of the fund) rose from 30.5% to 32.5% of face value after the company's June quarter report showed that it had bought back around 5% of its outstanding bonds during the quarter.

Chesnara (4.6% of the fund) rose 9% after a most encouraging half-year result, even though it reported a loss. Luckily for the fund, the market's initial reaction to the news was to reduce the share price, so the fund bought some more at 95p.

XXXXX (3% of the fund) rose 40% during the month for no obvious reason, except perhaps that it was, and still is, absurdly cheap. The fund originally bought the shares for less than the company's net cash, in spite of the fact that the company owns a profitable, albeit cyclical business with huge potential. Even now, the shares are on an EV/EBIT[(1)] ratio of about one, and I am trying to buy more of them. Unfortunately, as you may guess from the pitiful weighting, the shares are usually very hard to buy.

3.5% of the fund was invested in a new issue of **Timbercorp preference shares**. Timbercorp is a company whose business model I have long admired, but whose shares I have never had the sense to buy.

The preference shares pay a 6.75% fully franked yield over their five-year lives, and offer a call option over the ordinary shares at about 50% above the current price. For Australian taxpayers, like me, the yield is the equivalent of 10% pre-tax, with a reasonable degree of safety, and some possibility of upside.

1.3% of the fund was invested in **a cash box**, whose principal attribute is that it trades at a 40% discount to its net cash. I am attempting to buy more of these shares.

Fred Woollard
2nd September 2004

(1) The EV/EBIT ratio is the ratio of Enterprise Value (i.e. the Market Capitalisation of the shares, less the net cash in the company) divided by the company's Earnings Before Interest and Tax. If this ratio is one, it means that the share price is valuing the business at its annual operating profit. Usually, most businesses are worth a multiple of their annual operating profit.