

Martin Raymond Real Return Fund – January 2004 monthly report

Dear Unitholders,

It has been a quiet period for the Fund. Since its inception on 1st November, the fund has gained 0.83%, or 1.42% if one adjusts for interest on undrawn capital.

The fund owns securities in six companies and added no new names during the month. I am working at adding new names but am finding this harder than I would wish or expect. 83.6% of the fund remains in cash.

The main events of note during the month were:

- 1) **WorldCom** (5.4% of the Fund) announced that it will exit bankruptcy in late February and completed the swap of bonds for shares at the end of January. The bonds rose from 33.38 to 35 during the month despite a disappointing profit forecast by the company for 2004. The shares are still far too cheap on a P/E of 5-7x 2004 earnings, depending on how the company's proposed share buy-back goes.
- 2) **Village Roadshow's** (4.9% of the Fund) proposed buy-back of its preference shares appears to have failed after a mystery investor spent over \$50m to buy enough shares to block the proposal. The real value of the prefs is between \$2-3 per share, compared to their market price of \$1.10 and the \$1.25 the company proposed to pay. I do not know how this saga will unfold, but am confident that there is sufficient value in the prefs that we will not lose much, and could potentially make a lot from this investment, whether or not the buyback takes place.
- 3) The Fund successfully traded **HHG** (1.6% of the Fund) as it rose from \$0.95 to \$1.18 then fell back to \$1.08. Although I have a poor opinion of HHG's management, it is a share I am happy to own if the price is right, and to trade it out if the price rises.
- 4) Having finally opened an account with a Japanese broker, the Fund started buying **Sansei Yusoki**, a profitable elevator company with more cash than its market value, but after investing 1% of the Fund in it, the shares ran up 15%. If it falls back, I intend to buy more.

Fred Woollard
3rd February 2004

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