

Martin Raymond Real Return Fund – July 2004 monthly report

NAV/unit rose by 2.0% during July, and since the fund's inception on 1st November 2003, the NAV/unit has gained 9.6%. At the end of July, the fund owned securities in nine companies. 59% of the fund was in cash.

The main events of note during the month were:

MCI (9% of the fund) rose 6% during July after an announcement by Leucadia National Corp that it is seeking regulatory approval to buy over 50% of MCI's shares. Leucadia is highly regarded investment firm with a history of buying distressed assets at advantageous prices. It is also close to Warren Buffett.

I find Leucadia's apparent interest in MCI encouraging, but remind myself that: (i) seeking approval to buy a large shareholding is not the same as actually buying any shares; (ii) if Leucadia does bid for MCI, it is not likely to pay a generous price; and (iii) MCI's operating environment is tough, and unlikely to improve quickly.

Bangkok Land bonds (7.1% of the fund) rose from 26% of face value to 30.5% of face value. I could see no obvious reason for the rise, except for the publication of the company's annual report which showed the company to be solvent, and potentially able to repay us at well above the current price, possibly even at face value. Unfortunately, neither the company nor the Thai legal system are known to be friendly to foreign creditors, so we may have a long wait before we receive a suitable offer.

Village Roadshow non-voting shares (6.5% of the fund) rose 4% after the company bought back over 4% of its ordinary shares. This action both boosts intrinsic value for remaining shareholders, and provides further evidence that the controlling Kirby family has seen the potential to make themselves far richer by buying shares, and ultimately privatising the company on the cheap.

1.5% of the fund was invested in **Telewest Global**, the UK's second largest cable TV and telephone company, soon after Telewest emerged from bankruptcy. Telewest still has substantial debts and is barely profitable. On the other hand, Telewest does have a real business, and could become enormously profitable within a few years. I regard the shares as underpriced options, which have the potential to rise in value by several times over the next few years. The shares are highly speculative, which means that the fund will not have a large weighting in them.

Fred Woollard
6th August 2004

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