



IMARA  
ASSET MANAGEMENT

Imara Global Fund

April 2006

**Imara Global Fund NAV: US\$15.63 (as at 31/03/06)**

% Ch over	Fund	MSCI World
1 month	2.6	3.5
Quarter	4.9	7.8
year to date	4.9	7.8
1 year	11.8	17.8
3 years	74.4	75.7
5 years	73.3	26.0
6 years	20.0	-3.3

(\* from 09/04/03; 11/04/01; 12/04/00)

**Comment**

- This month the fund was up 2.6%.
- Dell and McGraw Hill are two recent acquisitions to the Fund. We outline our thoughts on each below.
- Dell is probably familiar to our investors. We have long admired its direct sales approach which cuts out the middleman. This ensures an enduring cost advantage over its competitors, who are often locked into traditional distribution methods. A further advantage Dell possesses over its competitors is its highly efficient manufacturing methods. This efficiency means Dell only has 5 days of stock on hand, compared to 34 days at competitor Hewlett Packard (HP). However, HP also uses traditional channels of distribution and these distributors have inventory on hand too. In a sector where price deflation is the norm, thanks to short product lifecycles, this gives Dell an enormous advantage.
- The market has long known this and has accorded Dell multiples of earnings and sales at nose bleed levels. Recently this has changed due, we suspect, to 3 factors. Firstly many feel Dell has gone “ex-growth.” This is not entirely true. The group is fighting the law of large numbers so has probably past the days when it was able to post +20% growth in group sales. However, it is still growing commendably, with growth in sales likely to be in the low double digits (despite a recent 6-9% sales projection for the group made for the first quarter of this year). Secondly there is a school of thought that the direct sales model is unlikely to prove successful in emerging markets. Dell has heard these claims before, such as when the group moved into the UK and then Europe. Recent sales performances in China suggest that the consumers in this market have no issue with buying direct. We suspect neither do consumers in most other emerging markets, especially given Dell’s attractive low selling prices. Finally the recovery of HP and the sale by IBM of its computer business to China’s Lenovo, has focused investors attentions on these two competitors and their improved market position. Interestingly neither is growing as fast as Dell, despite their relative improvement in fortunes and share valuations.
- Dell’s shares have fallen precipitously as a result and now the company trades on the unlikely multiple of price to cash flow of only 15x (net of its cash balance). When you consider its balance sheet has \$8.6bn in cash and it generates returns on capital over 6x as high as HP you quickly realise how strong it is. However, it is being afforded a P/E lower than that of HP’s and lower than that of average for the US market as a whole! In addition, as we mentioned in last

month’s commentary, the company is buying back shares aggressively at these levels so we are getting more for less.

• Therefore headlines of slower growth and the questionable success of direct selling in emerging markets have served to depress the price of this amazing company. Our analysis suggests that its competitive advantage remains intact and it continues to outperform its industry peers. These factors combined with a solid balance sheet and a senior management team increasingly aware of the shareholder value, makes it a compelling opportunity.

• McGraw Hill is divided into 3 primary businesses, the first of which is its financial services division Standard and Poors (S&P), a name some of you may recognise. The second division is its education division which is a market leader in the provision of learning materials to schools and professionals. Finally its media division is home to well known brands such as *BusinessWeek* and *JD Powers*.

• McGraw Hill is a cash machine. In the last 10 years the company has generated US\$5.3bn in earnings, returning approximately US\$4bn of this to shareholders in the form of dividends and buybacks. During that time the balance sheet has gone from a net debt position of over US\$500m to a net cash position of over US\$500m – accounting for much of the difference in the earnings and cash paid to shareholders.

• However, distributing all a company’s earnings to the providers of capital is nothing to write home about. What is impressive is that despite this distribution of capital the business has been able to grow earnings at a 15% compound average rate over this period. This illustrates just how little capital the business needs to generate growth. While there are many examples of businesses which have grown earnings by 15% compound over the last 10 years, there are significantly fewer who have achieved this feat without growing their capital base at least as quickly.

• We feel that the financial services (growth in capital markets) and education divisions (US Government spending on the No Child Left Behind initiative) have strong secular winds behind them while the media assets add to the Fund’s growing exposure to the traditional media sector – a sector we feel is undervalued. Remarks by CEO Terry McGraw alluding to a slower rate of growth in 2006 led to a fall in the share price at which time the Fund bought shares. The shares have since recovered well although we hasten to add that it is the long term operational performance which will determine whether we have made a sound investment decision or not.

• Both McGraw Hill and Dell are US based corporates that are increasingly multinational in nature. For both the greatest areas of potential growth reside outside of their home markets and both are making investments to increase their exposure to these markets. We, like all investors, are concerned about the growing imbalances evident in the global economy as well as the increasingly protectionist attitudes of the world’s politicians. However, we are confident that high quality companies such as these, offering compelling product offerings while trading at attractive valuations and sporting robust balance sheets, provide investors some of the best long term investment alternatives available in financial markets today.

### Investment Philosophy:

We seek to invest in growth companies globally with a view to achieving absolute returns. The fund is a long only fund with no limit on the cash position.

Our primary objective is to invest in companies with predictable and growing cash flows, high returns on capital employed and minimal debt. We calculate an intrinsic value using discounted cash flow techniques. Such companies, when they trade at a deep discount to intrinsic value, are, we believe, best placed to produce absolute returns in the longer run. These stocks form the core of the portfolio. They are sold when prices rise above intrinsic value.

We also look for top-down country and sector change, and opportunistic situations as they arise. Such companies (e.g. banks) are more cyclical and not easily valued using discounted cash flow techniques. Cash is allowed to build up if no new opportunities or themes can be found when companies are sold.

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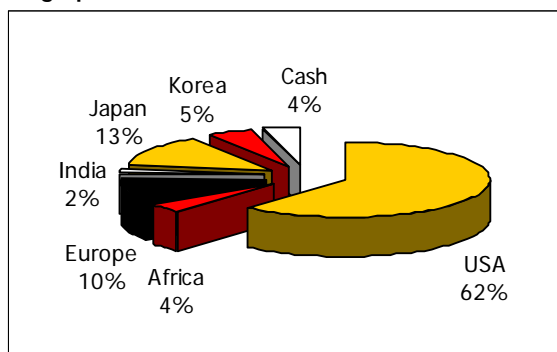
### Fund Details:

Fund Advisors: Imara Asset Management (UK) Ltd  
(Regulated by the FSA)  
Fund Manager: Imara Asset Management Ltd  
Custodian: Bermuda Trust (Far East) Ltd  
Fees: 1.5% per annum plus incentive fee  
Valuation Dates: Monthly  
Dealing Dates: Month End

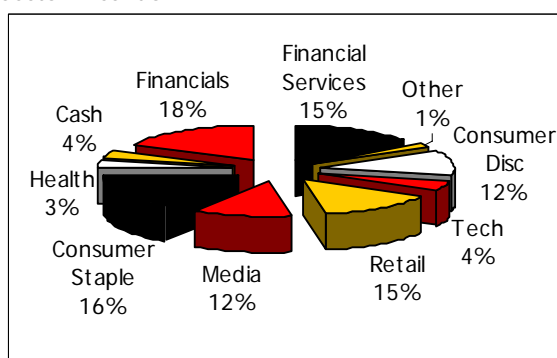
Top 5 Holdings	Sector	Country	% NAV
Thor	Consumer Disc	USA	4.9%
First Data	Financial Services	USA	4.6%
Tesco	Retail	UK	4.4%
MarshMc	Financial Services	USA	4.2%
Dell	Tech	USA	4.2%
Top 10 Holdings			42.2%

### Fund performance:

#### Geographical Breakdown:



#### Sector Breakdown:



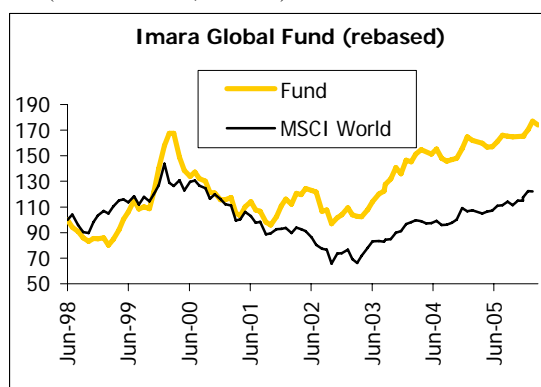
#### Fund Statistics

Ratios for 5 yrs	Fund	MSCI World
Std Deviation	4.3	4.5
Correlation		0.82

#### Average Annual Performance

%	Fund	MSCI World
1 year	11.8	17.8
2 years	7.7	14.0
3 years	24.8	25.2
5 years	14.7	5.2

(\* from 09/04/03; 11/04/01)



**Disclaimer:** The purpose of this fact sheet is to provide summary information and does not constitute a recommendation to buy or sell shares in the Fund. Any decision to buy and sell shares should be made after seeking appropriate professional advice and on the basis of the Fund's Prospectus, available from the Administrators to investors in certain jurisdictions where the fund has been authorised. The Imara Global Fund can only be marketed to 'Eligible investors' as defined in the Prospectus. The Fund is not marketed or sold in any jurisdiction that it is not legally permitted. Persons in receipt of the information contained herein are required to inform themselves about and observe such restrictions. Past performance is not necessarily a guide to future performance. The value of investments and the income from them can fluctuate and are not guaranteed. The return on assets invested by a member of the Imara Group may go down as well as up and there is no guarantee or assurance as to performance. The views expressed are as at the date hereof and are subject to change. They do not constitute investment or any advice. This report is produced by Imara Asset Management Ltd

