

Dear Investor Friends,

We now manage €135 million, including 5 in Autour du Monde and 16 in Grand Large. Our returns have been solid since the start of 2005; in less than two months, Sextant PEA has gained 27%, Grand Large, 24%, and Autour du Monde, 7%. Actually, we have been rather cautious since January. Your Funds are still not very heavily invested (PEA has an average of 20% cash). Given that the CAC has climbed sharply this year, you can't exactly call us market timers! We are simply seeking good investments, without getting stressed. If we don't find one, we hold onto our cash, waiting for the sure bet, the famous discount horse so loved by Charlie Munger. Be patient! In the meantime, the steady gallopers we have already found are still running strong...

Canadian Holiday

In November 2003, I went to Vietnam with a friend of mine, an excellent private banker by the name of Eric Franceschini. Eric organised a fabulous trip. We met investors, lawyers, business leaders, architects... We saw the cars that will replace the scooters that have already replaced bicycles. We discovered the energy, kindness, and curiosity of the young people in this country (indeed, everyone there is young; the average age is 26!). And we found an average P/E ratio of 5. Because there is a stock exchange in Saigon. And as luck would have it, when we arrived it was at its lowest level since..... being established in 2000.

As avid Jim Rogers¹ readers, this trip whetted our appetite for new horizons. We stumbled across a gold mine, whereas if we had actually been looking for one.... Now, two years later, we are convinced that we need to widen our playing field without stopping at country borders.

Our philosophy has always been to not subject ourselves to unnecessary constraints. Neither a benchmark, nor a focus on a specific sector. Free market, Nouveau Marché, Alternext... it's not the stock exchange that matters, it is the quality of the company. Same goes for international investments; we aim to have the fewest possible geographic constraints.

We don't want to prohibit ourselves from thinking. It would seem absurd to say, "Google is a great company; I believe in its model, and I understand it well. There are not many companies out there of such a high quality. But I'm not going to bother with it, because it is a US company and I manage a French equity fund." However, that is exactly what we did last year during Google's IPO. Unbelievable, isn't it? If you take a good look at most of what goes on around us, you will see that people generally prefer not to think, and to calmly follow the herd. The problem is that

¹ Jim Rogers is one of the best investors in the world. In the 1970's, he made a huge fortune in the US with George Soros, then travelled around the world. He has written several books, including *Investment Biker*, about a motorbike journey around the world in search of investments, and *Adventure Capitalist*, same thing, but this time in a yellow Mercedes coupé!

you and I are also “people.”² In order to no longer act like “people,” we need a kick in the you-know-where.

And so that we don’t miss the next Google, which has risen 4X since, we have decided to tell everyone that we invest globally. No more excuses; we are now obligated to think more broadly.

Some (useful) administrative information

Your bank has no doubt written to tell you that your Sextant Fund has changed its custodian. The custodian is the financial institution that holds the Fund’s account. The Fund’s securities (Camaïeu shares, for example) are held by the custodian in an account that is the Fund’s account. It may sound simple, but it is actually very complicated, especially if you buy securities listed in Taiwan or Brazil. You need an onsite agent to hold the securities himself. This is all highly regulated, to ensure that you only buy securities that genuinely exist! If not, counterfeiters would, rather than trade fake currency, trade fake Peugeot shares. In addition, dividends need to be claimed as they are distributed, the Fund needs to be able to vote at shareholders’ meetings, etc. So in short, no simple matter.

Dexia, your new custodian, knows how to do business in Taiwan, Brazil, and all the other countries. Thanks to Dexia, we have been able to create Sextant Autour du Monde. We have also decided to use Dexia for our two other Funds, so that we can make foreign investments worry-free.

The next letter from your bank?

The Sextant PEA Fund is eligible for French equity savings plans (PEAs), and to avoid losing the resulting tax advantages, it must have at least 75% of its assets invested in European equity. Rest assured, there is no way we are going to break this rule which is so highly beneficial for French taxpayers. Sextant PEA is classified with the French securities regulator (the AMF) as a “French Equity” mutual fund. That selection was made in 2002. This requires us to have at least 60% of the portfolio invested in French equity. We find this somewhat limiting, because there is no reason why we wouldn’t some day want to invest more heavily in Europe. We could change Sextant PEA’s classification to “European Equity,” but if we did this, technical issues (currency exchange risk) would limit our investments outside the Eurozone to 10%. Too complicated. Therefore, we selected a more comprehensive category for Sextant PEA, “International Equity.” There are fewer restrictions. 75% of the portfolio must be invested in European equity (including French equity), with the remainder invested anywhere.

We have submitted a classification change request with the AMF. When it is approved, your bank will send you another letter.

² This reminds me of my childhood... I always heard grown-ups criticising “people.” I always wondered who were “people” and who weren’t “people.” One thing was certain, my parents and my teachers were not “people,” but the bloke who cut us off on the motorway was.

Today, approximately 65% of the portfolio consists of French equity, and we are pleased. We don't have any other better stock picks in Europe. But we would like to invest a bit more in Asia and North America where there are companies that we feel very bullish about.

So how does all this affect you? You have two choices:

1. Trust us, telling yourself that if we have been able to manage your money well for the past almost four years, we will continue to do so. And that if we want to have more freedom to invest internationally, we most likely have good reasons. Keep your Sextant PEA units.
2. Tell yourself that, although we have proven our success with investing in France, nothing guarantees that we will be successful abroad. The fact that we made a lot of money on Ad Pepper in Germany (5X), Netease in China (+60%), and Statoil in Norway (+80%) isn't enough. Sell your units.

Talk to you again soon,

François

PS – I forgot to tell you about my most recent holiday in Canada. It's even more beautiful than Vietnam! There are quite a few Canadian stocks in your Funds that have already generated brilliant returns. A fine country, indeed!