Nomad Investment Partnership.

Year End Report
For the period ended December 31st, 2002.

The Nomad Investment Partnership's gross results for the six and twelve months to December 2002 as well as since inception are shown below, together with comparable results for a leading global stock market index:

To December 31st, 2002:	Nomad Investment Partnership	MSCI World Index US$
6 months	-2.59%	-11.97%
One year	+1.30	-19.54
Since inception (10/09/01)	+11.57	-16.28

It is never rewarding to report on a period when the market price of your investment in the Partnership has declined, as it has in the last six months. Nor do we derive much pleasure from pointing out that the alternatives presented by the leading stock market indices have fared much worse, but as we stated in the interim letter published in July, "in weak or flat markets you should be expecting us to do relatively well".

It is almost certain however, that over any time frame the investment performance of the Partnership will only approximate the change in the real value of our companies and, even then, it may be only a very general approximation. Some years our investment performance will exceed growth in the value of our businesses, in others the reverse may be true, as we believe to have been the case in 2002 and shall discuss in more detail in this letter.

It is worth noting also that the Partnership results have been achieved without leverage, shorting or financial derivatives of any kind, nor do we wish to employ such techniques. Rather our results have been achieved the old-fashioned way, through buying securities in reasonable businesses at discounted prices. It may be instructive perhaps that these old techniques, though deeply unfashionable in modern financial circles, work just fine. For example, our results include the demise of Conseco, which filed for Chapter 11 bankruptcy protection in December. We have retained our shares in the company, and you will find them included in the statement of investments at the end of this letter although we expect them to be all but worthless. Investment mistakes are inevitable and indeed to some extent desirable, and we have no interest in hiding them from you (or in portfolio window dressing) - as they say, it is what it is. A full Conseco mea-culpa was published in September's Global Investment Review (Volume 16, No.6). All that said, we derive little pleasure, to say nothing of performance fees, from earning the equivalent of money market rates whilst investing in the equity market. It is absolute returns that we are after, and on this score our results since inception are only fair.

During the late summer and autumn, when investors were at their most depressed, we made several new investments and, in some cases, added to existing holdings. Although time will tell, this period may mark the end of investors' mood swing from euphoric at the turn of the millennium to manic depressive almost three years later. Anecdotal evidence suggests that investors are not thinking straight. Take for example recent events at one of our UK investments, Georgica Plc. One day in early November the company issued a press release

which began as follows:

"Georgica Plc has today noted that an administrator has been appointed to Riley Leisure Limited. Georgica wishes to emphasize that Riley Leisure limited is not a member of the Georgica group although Georgica's Cue Sports businesses do trade under the name Riley's".

That announcement did not stop the share price from declining over 6% that day. Presumably somebody, somewhere had decided that the company now in administration was owned by Georgica and without checking, hurriedly sold their shares. Nervous investors tend to shoot first and ask questions later. As the saying goes, act in haste - repent at leisure. We were particularly heartened that Georgica resumed its share repurchase program the following week. A cool head under pressure is what is required.

The result of our recent purchases is that cash as a proportion of the overall fund has been reduced from over 20% during the summer to around 5%, with much of the remaining balance ear-marked for an investment we would like to describe in our next letter, that is when we have finished acquiring our shares. (Discretion whilst investing is normally an advantage.) This means that in effect we are close to fully invested. We also feel that there are many undervalued investments available to us, to which we could put incremental capital to work. You can expect us to caution you when the opposite is true, and we find little available at reasonable prices. But for now, for those with a long-time horizon, we think it is a good time to be making investments.

After our recent purchases the characteristics of the Partnership are as follows: 41% of assets are invested in "difficult to copy" franchises such as TV stations, newspapers, magazines or a motor-racing track; 31% of the fund is invested in asset backed businesses such as hotels, casinos, conglomerates or those companies where balance sheet cash forms a large portion of the current valuation; and finally 22% of the fund is invested in deep value work outs where profitability is temporarily depressed, and where the firm has sizeable amounts of debt. In aggregate these investments are priced in the market at around 50% of what we believe the businesses to be worth, that is to say we believe we have bought dollar bills for around fifty cents. It is worth noting also that nearly half of our companies (by number, more by value) are buying back debt or repurchasing shares and at two thirds of our firms there has been notable insider buying. At one third of our investments there has been both insider buying and debt or equity repurchase.

Nomad has as broad an investment mandate as we could imagine. We can, for example, buy common shares, preferred shares, debt or convertible bonds. In analysing a company, we assess the merits of investing in all levels of the capital structure but to date we have concluded that the common and preferred shares have been the more attractive investments. We have however attempted to buy the bonds of two companies which were trading at large, and in our opinion unwarranted, discounts to face value. How does one attempt, but fail, to buy a bond? One way is for the company to be more aggressive in bidding for the bonds than we were. Indeed, it appears in one case that the company, as part of a debt repurchase program, may have had a standing order with all the market makers on Wall Street to buy any of its bonds that were offered and to let none remain in the hands of third parties. This might seem unfair, but management score highly for gusto, and their equity holders, of which Nomad is one, should applaud such actions. In the light of the record credit spreads available in the US and widespread investor irrationality this is exactly how we want our company management to

behave. A cool head under pressure once again.

Some final requested statistics to help describe the characteristics of the fund: The Partnership is invested in twenty-five companies from eight countries. Bloomberg classify these in twenty-two different industries although their industry definitions are rather narrow. In our opinion there remain notable concentrations in publishing, broadcasting and media (27% of partnership assets); hotels, casinos and real estate (23%); consumer goods and retailers (18%); and telephony, cable and equipment suppliers (12%). There are also holdings in transport (9%) and office automation and information services (6%), with a now diminished balance in cash. Geographically the distribution is as follows: US 41%, Hong Kong 14%, UK 12%, Thailand 9%, South Africa 6%, Malaysia 5%, and Norway and Singapore 4% each.

In previous letters and Global Investment Reviews we have discussed the investment case for Saks, International Speedway, Matichon, Xerox, Hong Kong and Shanghai Hotels, Conseco (augh!), Kersaf, and one of our sales Monsanto. That's approximately 30% of the portfolio covered. This time I would like to discuss our investment in Stagecoach (8.6% of Partnership assets) and Costco Wholesale (3.1% of Partnership assets).

Stagecoach is the largest bus operating company in the UK, operates the commuter train services from London's Waterloo station, and bus services in Scandinavia, Hong Kong, New Zealand and the US. The firm was listed in London when shares were sold to the public at 20p in 1993. In the early 1990s and after years of national ownership, the UK bus system was deregulated with the right to operate services, depots and buses sold in auction to private companies such as Stagecoach. The system was ripe for an overhaul, buses were poorly time-tabled and run for the convenience of the driver and conductor rather than the passengers and fares irregularly collected. Brian Souter, Stagecoach's entrepreneurial and straight-talking CEO, started his career as a bus conductor and was good at doing the simple things right, such as collecting fares, putting on more buses during the rush hour, handing out mugs and flags to passengers on new services, painting buses bright colours and most of all undercutting the remaining state-owned competition. Bus deregulation proved to be a huge success in the UK as passenger numbers grew and was copied abroad with the result that Stagecoach had a natural advantage exporting its brand of deregulated bus services. By 1996 as the firm developed businesses in Scandinavia, Hong Kong and parts of Africa, and within ten years of listing revenues and profits grew ten-fold and the share price reached a peak of £2.85 in 1998. One City research note struggled with the price of the shares at the time but concluded a "Souter premium" might be appropriate! Souter went into semi-retirement in the late 1990s as one of the richest men in Britain and handed day to day operations to the next generation of management, apparently leaving them with instruction to maintain the dividend.

It was about the same time that the problems started. It was no secret that running buses could be a reasonable business and as deregulation spread bus companies from around the world wanted to be running bus operations elsewhere and the price of franchises rose. A similar pattern has followed the deregulation of US utilities and telephone services in the late 1990s. Stagecoach began looking for growth elsewhere and purchased a minority stake in a Chinese toll road operator, and control of a train leasing business which it sold shortly afterwards. However, the big mistake came with the hubristic top-of-the-cycle purchase of Coach USA, itself a debt funded roll-up of several disparate bus, taxi and charter coach operations which had been assembled by investment bankers and a leveraged buy-out (LBO) fund. The price paid was too high, the operations had little economic merit on their own, let alone bundled together, and the acquisition had been debt funded. In short, the company had geared up to

buy a company worth a fraction of the purchase price. It then got worse. Improving the operations of Coach USA required a heavy investment program (thank you, LBO fund) at the same time as the firm had committed to renew the UK bus fleet. The US operations were quite unlike the simple time-tabled commuter bus operations the firm had operated in the UK, and required more management time, to the detriment of the UK business, which was ignored and began to flag. It is not hard to run a profitable bus company "but you do need to keep the plates spinning [do the simple things right]" claimed Souter, and management had stopped spinning plates. The shares which peaked at £2.85 in 1998 reached 10p in late 2002, or half their IPO price ten years earlier. When the final dividend was cut in July 2002, management were sacked, and Souter returned from semi-retirement.

Souter began cutting away the weak businesses, a process Charlie Munger, vice Chairman of Berkshire Hathaway refers to as the "cancer surgery approach". This often works because there is normally a jewel at the heart of most companies that has often been used to fund new ventures or is taken for granted by impatient management. As the jewel becomes diluted by less successful projects aggregate performance declines and valuations atrophy or even fall. The star in this regard and in which Mr. Munger invested, is Coca-Cola, which in the mid 1980s had become a poorly defined conglomerate including a shrimp farm, winery, film studio and shudder to think, even owned its own bottling plants! As the poorer businesses were cut away, to reveal the jewel that is the syrup manufacturing and marketing operation, the shares of Coca-Cola rose over ten-fold in the succeeding decade.

At Stagecoach the fix is relatively simple: cease investment in poor US operations, sell the worst businesses for asset value, repay the debt and in doing so return the business to its jewel, the UK bus operation. When Marathon met Souter in early December, he referred to the UK operations as being under the shadow of more recent acquisitions (a "Cinderella Business") but that "they [management and employees of UK Bus] were the only people happy to see me back": Souter is looking forward to spinning plates again. The firm has the relative luxury of a modern bus fleet and so the firm's high levels of free cash flow can be used to repay debt. The banks have been supportive, even to the extent of allowing the company to repurchase its public debt (at sizeable discounts to face value) even though the public debt is due after the bank's own debt facilities expire. All creditors are unsecured, and there remains debt capacity at some subsidiaries such as in Hong Kong and New Zealand. In our opinion the business is worth approximately 60p per share, a valuation contingent upon modest levels of debt repayment and no growth in the UK operations. This compares with Nomad's purchase price of 14p (in late November), and the current market price of 33p (early January). Souter's sacred dividend (with his sister he continues to own around 25% of the equity) is being maintained and implies a gross yield of over 12% at Nomad's purchase price. Having analysed many complicated and highly indebted businesses especially in the US recently, Stagecoach's problems are relatively simple, and we have made the firm our largest investment to date.

At Costco Wholesale there is no need to fix the business which is performing well already. Costco is one half of the wholesale club warehouse duopoly (with Sam's Club) and had annual revenues of U$35bn in 2001. The retail concept is as follows: customers pay an annual membership fee (standard U$45) which provides entry to the stores for a year, and in exchange Costco operates an every-day-low-pricing strategy (EDLP) by marking up 14% on branded goods and 15% on private label with the result that prices are very, very low. This is a very simple and honest consumer proposition in the sense that the membership fee buys the customer's loyalty (and is almost all profit) and Costco in exchange sells goods whilst just covering operating costs. In addition, by sticking to a standard mark-up savings achieved

through purchasing or scale are returned to the customer in the form of lower prices, which in turn encourages growth and extends scale advantages. This is retail's version of perpetual motion and has been widely employed by Wal-Mart among others. To understand how important EDLP is to Jim Sinegal, the firm's founder, consider the following story which was recounted to us by a company director. Costco bought 2m designer jeans from an exporter and shipped them into international waters and re- imported the jeans for an all-in price of U$22 or so per pair. This was U$10 less than the firm had sold the jeans for in the past (offering the potential for a 50% mark-up) and half the cost of most other retailers. One buyer recommended taking a higher gross margin than was usual (i.e., more than the usual 14% mark-up) as no one would know. Apparently Sinegal insisted on the standard mark up, arguing that if "I let you do it this time, you will do it again". The contract with the customer (very low prices) must not be broken.

Many retailers do not operate in such a way, and instead employ high-low price strategies, that is to say they take prices up and down in an attempt to influence store traffic. The consumer goods companies then add to the confusion through running their own promotional campaigns. Although many of us are used to this behaviour, consider for a moment how confusing a proposition to the consumer it is. For example, is a bottle of shampoo worth U$2 if it is periodically available through a couponing campaign for U$1? The high-low strategy may even backfire: do consumers feel taken advantage of when paying U$5 for tissues that were available last week for U$4? They should. At Costco the consumer knows the price is 14 or 15% above wholesale, period.

Costco management describe the strategy as “easy to understand and hard to operate" perhaps because the temptation is to mark up the goods and break the contract with the customer. Costco is profitable enough to self-fund growth of around 14% per annum and not to have to resort to leases for expansion (The Gap's mistake). This means that growth will be more measured (none of the 30% per annum purges that populate the retail industry) and should be more sustainable. As to the potential for growth the firm has 21 stores in Washington State which houses just 2% of the US population. This density coast to coast implies room for around 1,000 US stores (currently 284) and 200 stores in the UK (currently 14) although planning regulations may not allow for this. Even then Home Depot, the largest DIY store in the US currently has 1,500 stores. At 10% growth per annum, this implies the firm has another 13 years of growth ahead. The share price has declined from a year 2000 high of U$55 to U$30 (Nomad's purchase price) as margins declined slightly (they are measured in basis points at this firm) with the cost of several new distribution centers which will support the next few year's growth. For example, in the UK the firm has warehousing and logistics capacity for 40 locations but only has 14 stores. At U$30 the firm is valued as a cash cow, with higher levels of profitability (as capacity utilisation increases) and modest levels of growth justifying a valuation over U$50 per share. Costco is as perfect a growth stock as we have analysed and is available in the stock market at a close to half price.

A few pieces of housekeeping and a final word on the need for patience. We are aware that several investors are new to the fund and so it may be worth reiterating some ground rules so that we all know where we stand. You can expect from us an annual and interim letter (this is our second annual letter), and Global Investment Reviews eight times a year in which we discuss our investment thoughts. In our opinion these documents, once digested, provide the information needed to form a judgement about what and how we are doing. From Nomad's administrator (Daiwa Securities Trust and Banking, +353 1603 9921 for your inquires) you can expect a monthly statement of your account and annual and interim financial statements.

Nomad's orientation is genuinely long term, and more regular reports, daily, weekly, monthly or otherwise, are likely to be of little value to you, and may even be counterproductive for us.

One of Nomad's key competitive advantages will be the aggregate patience of its investors. We are genuinely investing for the long term (few are!), in undervalued firms run by management teams who may be making decisions the fruits of which may not be apparent for several years to come. In the near term our results are as likely to be bad as good, but we are confident that in the long run they will prove satisfactory. If Nomad is to have a competitive advantage over our peers this will come from the capital allocation skills of your manager and the patience of our investors. In the latter we have started well, with no investor turnover since we began and almost no enquires into performance despite the general decline in market prices. This is very unusual and a huge credit to our investors and implies a similar long-term outlook. Only by looking further out than the short-term crowd can we expect to beat them. It is for this reason we named Nomad an Investment Partnership and not a fund. The relationship we seek is quite different.

As always, we thank you for your confidence and value your support.

Yours sincerely

Nick Sleep