



Margin of Safety Fund

SICAV

ANNUAL REPORT (AUDITED)

at December 31, 2002



CRÉDIT AGRICOLE INDOSUEZ LUXEMBOURG



Margin of Safety Fund

Audited annual report

at 31/12/02

Margin of Safety Fund

Table of Contents

Management and Administration	Page	3
Board of Directors	Page	4
Manager's Report	Page	5
Independent Auditor's Report	Page	7
Financial Statements	Page	8
Notes to the Financial Statements	Page	11

Subscriptions can only be received on the basis of the latest prospectus accompanied by the latest annual report as well as by the latest semi-annual report, if published after the latest annual report.

Margin of Safety Fund

Management and Administration

Until August 14, 2002

REGISTERED AGENT

Midocean Management and Trust
Services (BVI) Limited
9 Columbus Centre
Pelican Town
Road Drive
Tortola, British Virgin Islands

INVESTMENT MANAGER

MS Investment Management Limited
9 Columbus Centre
Pelican Town
Road Drive
Tortola, British Virgin Islands

CUSTODIAN AND BANKERS

Banque Générale du Luxembourg S.A.
50 Avenue J.F. Kennedy
L-2951 Luxembourg

ACCOUNTING ADMINISTRATOR

BDO Simpson Xavier Fund Administration
Services
20/23 Merchant's Quay
Ireland, Dublin 8

INVESTMENT ADVISOR

Pastel&Associés S.A.
10, rue du Colisée
F-75008 Paris

AUDITOR

KPMG
Chartered Accountants
5 George's Dock
IFSC
Ireland, Dublin

Management and Administration

From August 14, 2002

REGISTER OFFICE

39, Allée Scheffer
L-2520 Luxembourg

INVESTMENT MANAGER

Pastel&Associés S.A.
10, rue du Colisée
F-75008 Paris

PROMOTOR

Crédit Agricole Indosuez Luxembourg S.A.
39, Allée Scheffer
L-2520 Luxembourg

CO-PROMOTOR

Pastel&Associés S.A.
10, rue du Colisée
F-75008 Paris

CUSTODIAN AND CENTRAL ADMINISTRATION AGENT

Crédit Agricole Indosuez Luxembourg S.A.
39, Allée Scheffer
L-2520 Luxembourg

AUDITOR

KPMG Audit
31, Allée Scheffer
L-2520 Luxembourg

Margin of Safety Fund

Board of Directors

Until August 14, 2002

M. John Mills (non-executive)

M. Philip Boylan

Eric Freymond (non-executive)

Board of Directors

From August 14, 2002

M. David PASTEL, CEO Investment Manager, Pastel&Associés S.A.

M. Jean-Marie RINIE, Senior sales Manager–Financial Services, Crédit Agricole Indosuez Luxembourg S.A.

M. José-Benjamin LONGREE, Financial Services, Crédit Agricole Indosuez Luxembourg S.A.

Margin of Safety Fund

Manager's Report

Investment performance

(cumulative figures after all fees and expenses)

Class B shares

	2002	2001-2002	2000-2002	1999-2002	1998-2002	5-year * annualized rate of return
US\$	-12.0%	-7.0%	7.1%	52.1%	55.9%	9.4%
€	-25.3%	-16.7%	2.3%	70.3%	61.4%	10.2%
15% Benchmark	15.0%	32.3%	52.1%	74.9%	98.8%	15.0%
MSCI World in US\$	-19.5%	-32.8%	-41.5%	-26.7%	-11.0%	-2.3%
MSCI World in €	-31.7%	-39.9%	-44.1%	-18.0%	-7.7%	-1.6%

* Actual rate of return over 59 months, since inception of the fund.

Class A shares

The Fund had only one class of investor shares until August 16, 2002, on which date the first Class A shares were issued. From August 16, 2002 to December 31, 2002, the performance of the Class A shares was -2.0% in US\$ and -8.2% in €.

Review of operations

The Fund's 2002 US\$ return, for the first time since its inception in 1998, was negative. We believe this performance was more a side effect of the major loss of confidence currently sweeping through the world financial markets than a reflection of a material decrease in the intrinsic value and quality of the Fund's portfolio.

Nearly every stock in the portfolio was impacted by this general market decline. Although it does not compensate for the Fund's not achieving its long-term return of 15% per annum, one might find some comfort in knowing that the Fund outperformed the MSCI world index by a significant margin (see table).

The ratio of cash to the Fund's total assets reached a peak of 27.4% at the end of January 2002, following the disposal of its remaining stakes in Markel and Nike. The Fund, then, employed its cash resources gradually as the year progressed, the cash ratio declining to 3.7% at year end. New positions were initiated (Abbey National, Boots, Colruyt, HBOS, McDonald's, and Pizza Express). Some existing holdings were increased (Six Continents) while some were reduced (DFS Furniture, Manpower, Timberland...).

In August, the Fund became a Luxemburg SICAV. It now operates under the European regulatory guidelines applying to mutual funds. Investors will benefit from this change through additional security and liquidity. The resulting investment constraints should not materially impact the Fund's return expectations as it will maintain a concentrated portfolio built according to the same methodology that has been applied since its inception.

Margin of Safety Fund

Manager's Report

Portfolio structure

At year end, the main equity holdings of the Fund were (expressed as a percentage of total assets):

- DFS Furniture (UK): 5.6%
- Electrocomponents (UK): 4.9%
- Hunter Douglas (Netherlands): 9.1%
- Premier Farnell (UK): 9.5%
- Randstad (Netherlands): 8.0%

All the companies currently present in the portfolio share some common features: they are cash generative and generally enjoy high rates of return on capital and equity. Moreover, their management and/or their board of directors tend to be significant shareholders.

At year end, the equity portion of the portfolio was made up of:

- 20.7% invested in North American securities,
- 52.6% invested in British securities,
- 26.7% invested in Continental European securities.

The ratio of cash to the Fund's total assets at December 31, 2002 stood at 3.7%.

Outlook

As stated in previous years, we won't indulge here, in making market or economic forecasts as we do not consider these to be either reliable or useful with regard to the investment process implemented by the Margin of Safety Fund. However, even though we have no opinion about the level of returns the Fund will achieve in 2003, we would like to emphasize two important points :

- The Fund's portfolio is currently made up of financially strong companies, with entrenched market positions and very satisfactory rates of return on invested capital. These companies' competitive advantages as well as their earnings power should, over the long term, benefit from the current economic environment.
- We believe that, following the 2002 year price decline and given the current portfolio structure, the 3 to 5 year return to be expected from an investment in the Fund at current valuation levels should be quite satisfactory.

In 2003, the Fund will keep to the investment methodology that it has followed since its inception in 1998, and whose core principles are:

- To focus on a few, carefully screened and independently researched companies that tend to share some common features such as a good and historically profitable business and a competent and honest management;
- To demand that a significant margin of safety be present, at the time of purchase, for every investment;
- To stay the course and not dispose of or increase some holdings because of temporary changes in macro-economic or financial market expectations.

As the Fund is about to enter its sixth year in existence, please let me thank you for your continuing trust and support.

No dividend will be declared for the year under review.

David Pastel,
Pastel&Associés S.A.

Margin of Safety Fund

Independent Auditor's Report

To the Shareholders of
Margin of Safety Fund
39, Allée Scheffer
L – 2520 LUXEMBOURG

We have audited the financial statements, which consist of the statement of net assets, the securities portfolio, the statement of operations and changes in net assets and the notes to the financial statements of Margin of Safety Fund (the "SICAV") at 31 December 2002. These financial statements are the responsibility of the Board of Directors of the SICAV. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors of the SICAV in preparing the financial statements, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached financial statements give, in conformity with Luxembourg legal and regulatory requirements, a true and fair view of the financial position of Margin of Safety Fund at 31 December 2002 and the results of its operations and changes in its net assets for the year then ended.

Supplementary information included in the annual report has been reviewed in the context of our mandate but has not been subject to specific audit procedures carried out in accordance with the standards described above. Consequently, we express no opinion on such information. We have no observation to make concerning such information in the context of the financial statements taken as a whole.

KPMG Audit
Réviseurs d'Entreprises

Nathalie Dogniez

Luxembourg, April 9, 2003

Margin of Safety Fund - Fund 1
Financial Statements at 31/12/02

Statement of net assets at 31/12/02

Expressed in USD

Assets							26,914,697.42
	Securities portfolio at market value		Note 2				16,908,025.48
	<i>Cost price</i>						17,361,906.28
	<i>Unrealised loss on the securities portfolio</i>						-453,880.80
	Cash at banks and liquidities						1,150.69
	Time Deposits						484,000.00
	Brokers receivable						95,124.12
	Subscribers receivable						9,350,333.47
	Other assets						76,063.66
Liabilities							9,418,899.56
	Accrued advisory fees		Note 6				50,600.46
	Subscribers payable						9,350,333.47
	Other liabilities						17,965.63
Net asset value							17,495,797.86

Changes in number of shares outstanding from 01/01/02 to 31/12/02

	Shares outstanding at 01/01/02	Shares issued	Shares redeemed	Shares outstanding at 31/12/02
Class A				
Capitalisation shares	0.00	107.94	0.00	107.94
Class B				
Capitalisation shares	11,200.37	80.34	165.00	11,115.71

Key figures relating to the last 3 years

	<i>Year ending at:</i>	31/12/02	31/12/01	31/12/00
Total Net Assets	USD	17,495,797.86	19,834,836.00	44,109,630.00
Class A		USD	USD	USD
Capitalisation shares				
Number of shares		107.94	0.00	0.00
Net asset value per share		1,548.45	0.00	0.00
Class B		USD	USD	USD
Capitalisation shares				
Number of shares		11,115.71	11,200.37	26,322.91
Net asset value per share		1,558.93	1,770.91	1,675.71

Margin of Safety Fund - Fund 1

Securities portfolio at 31/12/02

Expressed in USD

Quantity	Denomination	Quotation currency	Market value	% of net assets
Transferable securities admitted to an official stock exchange listing			16,908,025.48	96.64%
Shares			16,908,025.48	96.64%
	<i>Belgium</i>		<i>688,209.38</i>	<i>3.93%</i>
12,500.00	ETABLISSEMENTS FR COLRUYT SA	EUR	688,209.38	3.93%
	<i>France</i>		<i>816,748.53</i>	<i>4.67%</i>
12,000.00	ACCOR SA	EUR	363,185.78	2.08%
5,000.00	GROUPE CRIT	EUR	67,641.15	0.39%
16,000.00	MANUTAN INTERNATIONAL	EUR	385,921.60	2.21%
	<i>The Netherlands</i>		<i>1,411,309.00</i>	<i>8.07%</i>
157,400.00	RANDSTAD HOLDING	EUR	1,411,309.00	8.07%
	<i>The Netherlands Antilles</i>		<i>1,592,828.48</i>	<i>9.10%</i>
53,200.00	HUNTER DOUGLAS	EUR	1,592,828.48	9.10%
	<i>United Kingdom</i>		<i>8,890,760.59</i>	<i>50.82%</i>
84,000.00	ABBAY NATIONAL PLC	GBP	701,476.31	4.01%
82,500.00	BOOTS CO	GBP	779,391.26	4.45%
68,500.00	CARPETRIGHT	GBP	647,683.08	3.70%
172,033.00	DFS FURNITURE	GBP	981,790.87	5.61%
185,000.00	ELECTROCOMPONENTS	GBP	855,968.12	4.89%
78,000.00	HBOS	GBP	823,644.63	4.71%
96,000.00	LLOYDS TSB GROUP PLC	GBP	690,255.79	3.95%
155,400.00	PIZZAEXPRESS	GBP	836,761.03	4.78%
542,200.00	PREMIER FARNELL PLC	GBP	1,660,799.02	9.49%
84,000.00	SIX CONTINENTS	GBP	679,809.09	3.89%
68,550.00	WEIR GROUP PLC	GBP	233,181.39	1.33%
	<i>United States of America</i>		<i>3,508,169.50</i>	<i>20.05%</i>
22,550.00	AMERICAN EXPRESS CO COM.	USD	797,142.50	4.56%
7,000.00	BEST BUY CO INC	USD	169,050.00	0.97%
20,400.00	LEUCADIA NATIONAL CORP	USD	761,124.00	4.35%
21,500.00	MANPOWER INC	USD	685,850.00	3.92%
32,000.00	MC DONALDS CORP	USD	514,560.00	2.94%
16,300.00	TIMBERLAND CO / -A-	USD	580,443.00	3.32%
Total securities portfolio			16,908,025.48	96.64%

Margin of Safety Fund - Fund 1

Statement of Operations and Changes in Net Assets from 01/01/02 to 31/12/02

Expressed in USD

Income		603,372.76
Net dividends		574,014.20
Bank interest on cash account		1,282.53
Bank interest on time deposits		27,336.78
Other income		739.25
Expenses		325,766.03
Management & advisory fees	Note 4	235,152.16
Custodian & sub-custodian fees	Note 5	17,204.65
Taxe d'abonnement	Note 3	3,134.56
Administrative expenses	Note 5	32,116.48
Incentive and performance fees	Note 5	496.28
Professional fees		15,103.22
Bank interest on overdrafts		12.37
Legal fees		8,132.02
Other expenses		14,414.29
Net income from investments		277,606.73
Net realised profit on sales of investment securities		438,796.26
Net realised loss on foreign exchange		-20,243.21
Net realised profit		696,159.78
Movement in net unrealised appreciation / depreciation on investments		-3,107,159.80
Decrease in net assets as a result of operations		-2,411,000.02
Subscription capitalisation shares		313,140.32
<i>Class B</i>		150,000.53
<i>Class A</i>		163,139.79
Redemption capitalisation shares		-241,178.44
<i>Class B</i>		-241,178.44
Decrease in net assets		-2,339,038.14
Net assets at the beginning of the year		19,834,836.00
Net assets at the end of the year		17,495,797.86

Margin of Safety Fund
Notes to the financial statements

Margin of Safety Fund

Notes to the financial statements at December 31, 2002

1. General

Margin of Safety Fund is a “Société d’Investissement à Capital Variable” (SICAV) with multiple Sub-Funds under the laws of the Luxembourg law of March 30, 1988 (part I) on Collective Investment Undertakings (the Law) and under the law of August 10, 1915 on Commercial Companies.

The Fund complies with the requirements of the UCITS Directive EC 85/611.

The Fund was incorporated under the name “Margin of Safety Fund Limited” with limited liability on January 19, 1998 in the British Virgin Islands as an open-ended investment company. The decision to transfer the Fund’s head office to the Grand Duchy of Luxembourg was taken by way of a resolution of the Board of Directors dated 15 May, 2002, and the Fund was transformed into a Luxembourg SICAV by way of an extraordinary General Meeting held on 14 August, 2002. At the same time, preference shares of the Fund were converted into Class B shares of the SICAV.

The statement of operations reflects the continuation of the accounting year which began January 1, 2002 and ends December 31, 2002.

The Fund is registered under the number B 88649. Its registered office is in Luxembourg, 39, Allée Scheffer, L-2520 Luxembourg.

As at December 31, 2002, only the sub-fund Margin of Safety Fund - Fund 1 is open. This sub-fund will issue two Classes of Shares: Class A and Class B. Both Classes A and B may be issued as accumulation shares or distribution shares at the investor’s discretion.

2. Summary of significant accounting principles

The financial statements have been prepared using accounting principles generally accepted for such funds in Luxembourg including the following significant accounting policies :

1. Valuation of investments

The value of any transferable securities which are listed on a Stock Exchange or dealt on a regulated market shall be determined according to their last available price. If such prices are not representative of the fair value, securities will be valued at a fair value at which it is expected that they may be resold, as determined in good faith by and under the direction of the Board of Directors.

In the event that any transferable securities held by the Fund at the valuation day are neither quoted on a Stock Exchange nor dealt in on another regulated market, they are valued at their probable realisation value on the relevant Valuation Date, determined prudently and in good faith.

2. Realised profit and loss on investments

The profits and losses on sales of investments are determined on the basis of average cost.

3. Foreign exchange

The combined financial statements of the Company are established in USD. The combined financial statements are the sum of the sub-fund’s financial statements converted into USD at the rates of exchange ruling at the year end.

The market value of the investments and other assets and liabilities expressed in currencies other than the base currency of each sub-fund have been converted at the exchange rates as at the year end date.

Margin of Safety Fund

Notes to the financial statements at December 31, 2002

2. Summary of significant accounting principles (continued)

The costs of investments in currencies other than the base currency have been converted at the exchange rates as at the purchase date. Gains and losses arising on foreign exchange transactions are included in the result of operations.

As at December 31, 2002, the following significant exchange rates were used:

1 EUR	=	1.0487 USD
1 GBP	=	1.6121445 USD

4. Income from investments

Dividends are recognised as income on the date securities are first quoted ex-dividend, to the extent that information thereon is available to the Company. Interest is accrued on a weekly basis.

3. Tax Considerations

Since August 14, 2002

Under legislation and regulations currently prevailing in Luxembourg, the Fund is subject to a capital tax on its net assets at an annual rate of 0.05 % ("Taxe d'abonnement"), calculated and payable quarterly on the basis of the value of the net assets of the Fund at the end of the relevant quarter.

4. Management, Advisory and Performance fees

Until August 14, 2002

The manager receives a monthly fixed fee of 1.25% per annum of the net assets of the Class A preference shares. The manager also receives a performance fee of 20% of the annual increase in the aggregate net assets of the Class A preference shares over a 15% annual benchmark as defined in the prospectus.

Since August 14, 2002

For its services the Investment Manager receives from the Sub-Funds a management fee payable quarterly, at an annual rate calculated on the Class's quarterly average Net Asset Value.

The maximum rate for Class A is 1.50% and for Class B is 1.15%.

The Sub-Fund shall pay to the Investment Manager an annual performance fee of up to 20% of the annual increase in the aggregate net assets of the Class A shares and Class B shares over a 15% annual benchmark as defined in the prospectus.

For the Class A shares, the beginning of the reference period is August 23, 2003.

5. Custodian and administration fees

Until August 14, 2002

The accounting administrator is paid a fixed fee of 0.15% per annum on the average net asset value of the fund per Class A preference shares before management and performance fees subject to a minimum of US\$ 6,000. The custodian is paid a fixed fee of 0.08% per annum, on the average net assets valuation of the Class A preferences shares held over the calendar year by the custodian.

Margin of Safety Fund

Notes to the financial statements at December 31, 2002

5. Custodian and administration fees (continued)

Since August 14, 2002

The Custodian may receive from the Company a custodian fee accrued monthly and payable monthly in arrears based on the monthly Net Asset Value of the Company.

The Administrator receives from the Company an administration fee accrued monthly and payable monthly in arrears based on the monthly Net Asset Value of the Company.

6. Accrued advisory fees

Each Class will have to pay:

Class A	155.28	USD
Class B	<u>50,445.18</u>	USD
Total	50,600.46	USD

7. Co-management

In order to reduce operational and administrative charges while allowing a wider diversification of investments, the Company may decide that part or all of its assets will be co-managed with the assets belonging to other collective investment schemes.

Each Co-Managed Entity hold a proportion of the Co-Managed Assets corresponding to the proportion of its net assets to the total value of the Co-Managed Assets.

The fractions appearing at the end of the securities portfolios are generated by the technique of co-management. The value of the fractions are based on the market value of the corresponding equity at period end.

In 2002, the SICAV did not use the co-management's facility and has no plans in the near future to do so.

8. Depositary Bank

From 1st March 2003, any references to Credit Agricole Indosuez Luxembourg (CAIL) in the prospectus will be understood as Credit Agricole Investor Services Bank Luxembourg (CAISBL), the Luxembourg Company resulting from the division of Credit Agricole Indosuez Luxembourg on 28th February 2003. CAISBL will keep the same contact details as CAIL.

9. Statement of change in portfolio

The statement of changes in portfolio is available free of charge at the SICAV's head office.

