Samuel Terry Absolute Return Fund – November 2008 monthly report

The Fund's performance, compared to that of Australian All Ordinaries Accumulation Index and the MSCI World Equities Index, follows:

To 30 November 2008	STAR	All Ords	MSCI ($A)
1 month	-9.11%	-7.22%	-4.69%
3 months	-17.09%	-28.62%	-12.59%
1 year	-32.57%	-41.75%	-23.48%
3 years (%p.a.)	-4.53%	-3.23%	-4.69%
Since inception on 1 November 2003 (%p.a.)	0.50%	6.52%	1.93%

It was another bad month for markets in general and for us. Our biggest losses were in Australian agricultural company **Timbercorp**, where our preference shares (1.3% of the Fund) fell 64% and the debentures (4.0% of the Fund) fell 40%. The cause of these falls was that Timbercorp's banks have ordered the sale of most of its land to repay its debts. This is despite the fact that Timbercorp is profitable and has assets worth about twice its debt.

This is clearly bad news as now is not a good time to be a forced seller of any asset. Nevertheless, Timbercorp is likely to survive the asset sales, albeit in a weakened state. The Timbercorp share price has fallen so far that our preference shares are now effectively ordinary shares, trading at less than 10% of net asset value.

Our debentures have fallen to less than 50% of face value and yield over 60% despite having first mortgage protection over land and water rights said to be worth 150% of face value. We bought some more debentures at month-end.

Elsewhere, Indonesian TV network **SCM** (3.8% of the Fund), fell 30% for no obvious reason. It is now on a P/E ratio of 4x and has little debt, so we bought some more. Japanese industrial property owner **J-Rep** (2.4% of the Fund) fell 49% (similar to falls in other industrial property owners) and now trades at 15% of net asset value. J-Rep does have debt

Australian fund manager **Hunter Hall** (4.7% of the Fund) fell 20%, possibly because of continued poor performance from its funds, despite their huge cash weightings.

At the end of November we started buying an **Australian mortgage trust** trading at 12% of its original face value, and 30% of its current value. This trust has almost no debt and a completely open share register. Its assets are a mixture of mortgages (some of which are still performing) and foreclosed real estate. I hope to buy more of this.

Despite the performance numbers, I remain positive about the fund. Our holdings are all very cheap, and most are safe securities. 52% of the fund continues to be in companies that have net cash on their balance sheets and a further 32% is in companies whose debt is less than three times net profit.

Net asset value per unit was $A 0.7563 at the end of November. 1.9% of the Fund was in $A cash. The Fund owned securities issued by 22 companies.

Fred Woollard
15 December 2008