

Samuel Terry Absolute Return Fund – May 2009 monthly report

The Fund's performance, and those of the Australian All Ordinaries Accumulation Index and the MSCI World Equities Index, are as follow:

To 31 May 2009	STAR	All Ords	MSCI (\$A)
1 month	2.90%	2.15%	-1.21%
3 months	12.82%	17.07%	4.06%
1 year	-23.55%	-30.57%	-22.23%
3 years (%p.a.)	-8.39%	-4.40%	-9.79%
Since inception on 1 November 2003 (%p.a.)	0.86%	7.11%	-0.11%

The Fund had a mixed month. Our best performer was Indonesian television network **Surya Citra Media** (8.1% of the Fund) which rose 63% partly because of an encouraging first quarter result, even though it narrowly lost its number one ratings position. More importantly it declared a large special dividend. SCM has no net debt and owns a very cash generative business, so it can afford to pay high dividends. Even after this rise, the shares are inexpensive on a P/E ratio of 6.4 and an EV/EBIT ratio of 3.3x. Unlike the western TV industry, Indonesia's TV industry retains strong growth potential, and suffers from little competition from pay TV or internet TV.

We also benefited from a 35% rise in Australian gold explorer **Saracen Minerals** (5.8% of the Fund) after it announced that it has substantially increased its gold reserves. It plans to start mining in early 2010. The share price values Saracen at \$A 78 per ounce of reserves. Saracen estimates production costs will be \$A 740 per ounce, compared to current gold prices of around \$A 1,150 per ounce.

On a less cheerful note, we were hurt by the bankruptcy of **Great Southern**, Australia's largest private timberland owner. Less than 1% of the Fund was in the company's junior debt securities and is now probably lost. More importantly, Great Southern was the most obvious buyer of **RuralAus**, the timber company which represents 22% of the Fund.

While RuralAus has, for the moment, lost its most logical acquirer, eventually, Great Southern's assets will be transferred into strong hands and the new owner will be able to derive the same synergies from owning RuralAus.

Most importantly, the bankruptcy of Great Southern presents RuralAus with some interesting opportunities. Therefore, while it is not helpful, I do not regard the bankruptcy as a disaster for the Fund.

The Fund's net asset value per unit was \$A 0.7734 at the end of May. 3.6% of the Fund was in \$A cash. The Fund owned securities issued by 21 companies.

Fred Woollard
15 June 2009

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