

Samuel Terry Absolute Return Fund – May 2011 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 2011	STAR	All Ords	MSCI (\$A)
1 month	-0.57%	-1.89%	0.44%
3 months	0.24%	-1.82%	-2.83%
1 year	40.38%	11.92%	2.11%
3 years (%p.a.)	9.99%	-1.92%	-4.21%
Since inception on 1 November 2003 (%p.a.)	8.26%	9.53%	2.34%

The Fund was hurt by sharp falls in a few Australian companies. Minerals explorer **Esperance** (1.1% of the Fund) dropped 45% for no apparent reason. **Commstrat**, a small publisher (1.0% of the Fund) dropped 40% because of a trade in which the former CEO sold his shares to his children at a price that is only one times earnings.

Calliden, an Australian insurance company (2.9% of the Fund) fell 22% after disclosing that it had lost more money than previously thought as a result of the floods and cyclones that battered Australia a few months ago. Despite the catastrophes, Calliden remains modestly profitable and has a strong balance sheet. Its shares trade at a 25% discount to net tangible asset value, and a 40% discount to my estimate of what Calliden would be worth in a takeover bid.

We continued buying an Australian distressed property and mortgage investor and I hope to further increase our 5.5% weighting. Its shares trade at less than half of its net asset value, but unlike most statistically cheap property companies, it has net cash, and has publicly committed to continue selling its assets and returning cash to shareholders. It also has a completely open share register and is involved in litigation that *could* be worth a multiple of the current share price.

Our biggest winner was Indonesian television network **Surya Citra Media** (7.2% of the Fund), which rose 17% after another great profit result, and a large dividend increase. Even though the shares are up nine-fold since we bought them, SCM shares remain inexpensive on a P/E of about 10-12 and a dividend yield of over 6% because there is still substantial growth potential. For example, in the last two years the number of TV owners in Indonesia has fallen from 11 to 4 via takeovers and mergers. It is hard to believe that this will not lead to large increases in advertising rates¹, particularly when the Indonesian economy is growing at 6-8% pa and global consumer goods companies appear keen to build their brand names in Indonesia.

The Fund's net asset value per unit was \$A 1.312 at the end of May. The Fund owned securities issued by 23 companies. 9.3% of the Fund was in \$A cash. The Fund owned in-the-money ASX 200 Index put options protecting 37% of the Fund against declines in the Australian share market.

Fred Woollard
16 June 2011

¹ In the last twelve months, SCM's average hourly revenue was \$US 33,000, a fraction of rates received by leading TV stations in nearby emerging economies. To put this number into perspective, SCM owns over 200 stations across Indonesia, capable of reaching most of its 238m people. SCM's top rating shows are watched by over 60m people.

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