

Samuel Terry Absolute Return Fund – September 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 30 Sep 2011	STAR	All Ords	MSCI (\$A)
1 month	-7.02%	-6.27%	-0.16%
3 months	2.16%	-11.3%	-8.57%
1 year	16.00%	-8.43%	-5.38%
3 years (%p.a.)	14.39%	0.02%	-5.08%
Since inception on 1 November 2003 (%p.a.)	8.00%	7.15%	0.87%

Most of the Fund's fall this month was due to a sale of 5,000 shares at 10 cents in our largest holding, Australian timberland owner **RuralAus** (10.8% of the Fund) compared to last month's 16 cents. This may have been caused by the announcement of a rights issue at 12 cents to raise \$1.3m, which has been jointly underwritten by our Fund and by the Chairman of RuralAus. The fact that we, as Directors, are underwriting the issue for no fee should give some comfort to other shareholders, as should the recent disclosure that Net Tangible Asset Value is 31 cents per share. RuralAus has no debt and most of its assets are land and trees.

2.5% of the Fund was invested in **Infigen**, Australia's largest wind power generator. At first glance, Infigen is complex, loss making and has over \$1.3bn of debt, compared to its market capitalisation of about \$145m. However, almost all the debt is long term, and owed by subsidiaries, with no recourse to the parent's cash and wind farm. At the price we paid, our investment is fully backed by \$105m cash and an Australian wind farm called Woodlawn (worth about \$40m), and we became part owners of the highly-g geared subsidiaries for free. I do not know what they are worth, but believe it *could* be several times what we paid for the shares.

The Fund took advantage of volatile world markets by adding to several of our existing holdings. These included investment banks, **Macquarie Group** (down 11% in September, now 5.3% of the Fund) and **Goldman Sachs** (down 18% in September, now 4.5% of the Fund) both trading at less than their net tangible asset value. We participated in a placement by Australian gold miner **Saracen** (down 6% in September, now 9% of the Fund) to enable it to speed up development of its mines.

We also bought more of Australian fund manager **Hunter Hall** (down 9% in September, now 4% of the Fund) at about 10 times earnings, which is a 10% dividend yield. Our last major purchase was **Macquarie Atlas Roads**, an Australian company which owns stakes in toll roads in France, UK and America (down 18% in September, now 6.2% of the Fund). I estimate it is priced at a post-tax discount rate of 13-16%. Some shareholders worry about its high debt load, but bondholders in its main toll road asset in France (APRR) do not appear to be very worried.

The Fund's net asset value per unit was \$A 1.1466 at the end of September. The Fund owned securities issued by 26 companies. 7.7% of the Fund was in \$A cash.

Fred Woollard
17 October 2011

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