<u>Samuel Terry Absolute Return Fund</u> – April 2005 monthly report

The fund had its worst ever month, falling 2.38% to $0.9845/unit. Our only consolation is that many markets did even worse: the Australian market fell 3.8% during the month and the world index fell 3.2% in $A terms.

The pain in the portfolio was widespread. Worst culprits were:
Calliden, an Australian insurance company (4.3% of the fund) fell 22% for no obvious reason. The share price is now less than Calliden's net asset value, and gives no value to Calliden's large supply of tax losses and franking credits. I expect that once Calliden resumes writing insurance later this year that it should start reporting good profits. The fund bought some more shares.
Simon Gilbert Wines, an Australian wine maker (3.5% of the fund) fell 13% despite a director buying shares early in the month.
Indosiar, an Indonesian TV station (2.9% of the fund) fell 15%, perhaps in anticipation of poor results issued in early May. I remain confident of the long term future of Indonesian TV, but we should expect bumps along the way.
Lighting Corp, an Australian lighting distributor (4.1% of the fund) fell 11% after a worse-than expected trading statement. The company forecast that profits this year will be about the same as last year, which sounds OK to me as the shares only trade at a P/E of 9x and pay a dividend yield of 5%. The company has little debt and smart family management, so I was pleased that it announced that it would buy back some shares. The fund followed the company's example and added to its holding.
Infomedia, an Australian software company (3.8% of the fund), fell 11% after the managing director sold most of his shares. Not a move that encourages confidence when Infomedia is under siege from Ford, a major customer. After the fall, the fund bought a few more, believing that a 6% yield and 12-13x P/E should support the share price while we wait for growth to resume.
Miller's Retail, an Australian retailer (2.3% of the fund) fell 11%, presumably because of the worsening Australian retail environment.
PZ Cussons, a UK soap maker (3.3% of the fund) fell 8% for no apparent reason.
Hunter Hall, an Australian fund manager (3% of the fund) fell 8%, possibly because of poor investment returns in the funds it manages.

Amidst the gloom, two holdings did well for the fund.
MCI, a US phone company (5.4% of the fund) rose 7% as competing bidders Verizon and Qwest again raised the prices they are offering to pay for MCI. For reasons that are not clear to me and to most shareholders, the board of MCI continues to recommend the much lower Verizon bid.
XXXXX, an engineering company (4.6% of the fund) rose 10% after reporting a good first quarter profit. The company has good growth prospects and competent management. The shares are still in the bargain basement, selling at a P/E ratio of 5x, and an EV/EBIT ratio of 3x. Over half the share price is backed by cash.

We added one new holding to the fund during the month, but it is very illiquid and we are still buying more.

Declining markets should be good for the fund. I am hopeful of adding some new names to the fund in the next few weeks, as well as buying more of my old favourites at cheaper prices.

At month end, 27.4% of the fund was in cash (mostly $A), or 33.3% including Telstra shares which are protected by an in-the-money put option. The fund owned securities issued by 22 companies.

Fred Woollard
17th May 2005