

Samuel Terry Absolute Return Fund – January 2006 monthly report

The Fund had another disappointing month, both in absolute terms and relative to the Australian All Ordinaries Accumulation Index and the MSCI World Equities Index, as shown in the following table:

To 31 January 2006	STAR	All Ords	MSCI (\$A)
1 month	-0.58%	3.65%	0.97%
3 months	2.92%	11.49%	8.88%
6 months	2.28%	14.76%	11.05%
1 year	1.31%	23.86%	19.71%
Since inception on 1st November 2003 (%p.a.)	8.75%	24.01%	13.21%

The fund was hurt by poor performances in several of our small Australian companies, in each case for no obvious new reason.

The most painful of these was **Simon Gilbert Wines** (2.9% of the fund) which fell 15% as conditions in the wine industry worsened and newspaper headlines were uniformly gloomy. Wine shares have been awful performers, and several are trading at large discounts to asset value. Do not be surprised if we buy shares in other wine companies.

Our shares in **MCI** (formerly WorldCom) were acquired by Verizon. This ends a three year involvement for me that has been very bumpy, but eventually proved profitable.

4% of the Fund has been invested in a new issue of convertible notes by **IMF**, an Australian based litigation funder. I have known this company for several years and have respect for its founder and business model. I had been considering buying its shares when the opportunity to invest in these notes arose. The notes yield 12% and have little debt ranking ahead of them. I am comfortable that we will be repaid, and believe that the conversion option has a good chance of being of value over the notes' four year life. Finally, I was encouraged that the chairman, a smart businessman, invested over \$1m of his own money into the notes. Some other directors also bought notes.

Net asset value per unit was \$0.9973 at the end of January. 20% of the Fund was in cash (mostly \$A). The Fund owned securities issued by 25 companies.

Fred Woollard
8th February 2006

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