

Samuel Terry Absolute Return Fund – July 2006 monthly report

The Fund's performance and that of the Australian All Ordinaries Accumulation Index and the MSCI World Equities Index are as follows:

To 31 Jul 2006	STAR	All Ords	MSCI (\$A)
1 month	3.03%	-1.51%	-2.54%
3 months	5.62%	-4.04%	-3.71%
6 months	17.20%	3.71%	1.07%
1 year	19.87%	19.02%	12.24%
Since inception on 1 November 2003 (%p.a.)	13.48%	20.88%	11.14%

Despite difficult conditions in world markets, the fund had a good month. This result was partly due to our high cash weighting and having 40% of the fund protected by in-the-money put options on the ASX 200 Index.

Our biggest winner was our largest holding, debt issued by the **Australian Onshore Energy Fund**. The price rose 30% after Santos announced a takeover bid for the notes at \$83.25 per note. This looks good relative to our average pre-bid cost price of \$62.70, but in reality the Santos offer is a lousy deal for noteholders. I believe that if the noteholders act rationally and collectively, (not always a valid assumption), then we can recover well over \$100 per note. I am delighted to report that there is action by noteholders to get together, as well as a potential counter bid. After the bid was announced the Fund bought some more notes, lifting our weighting to 15%.

Elsewhere, 4% of the Fund was invested in a newly listed Scottish life assurance company called **Standard Life**. When we bought it, Standard Life was trading at its "embedded value", or what the company would be worth if it wrote no more business. It was also trading at less than 10x my estimate of what it will earn in 2007. Although Standard Life has some risk, and its management's track record has been unimpressive, the price was too cheap.

The Fund's **annual distribution** for the year to 30 June 2006 is 4.11 cents per unit, and is 11.05% franked. It will be paid this week.

Net asset value per unit was \$1.1265 (ex-distribution) at the end of July. 14% of the Fund was in cash, of which 9% was in \$A and 5% in gold. The Fund owned securities issued by 24 companies.

Fred Woollard
22nd August 2006

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