

Samuel Terry Absolute Return Fund – October 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 Oct 2006	STAR	All Ords	MSCI (\$A)
1 month	0.20%	4.80%	-0.06%
3 months	7.90%	9.48%	6.59%
6 months	13.97%	5.06%	2.64%
1 year	30.15%	26.60%	17.30%
Since inception on 1 November 2003 (%p.a.)	15.17%	22.64%	12.53%

The Fund had a disappointing month, partly caused by the slump in the value of the ASX 200 **put options** that protect 33% of the Fund, and partly by an unexplained 22% fall in **General Publishers**, 3.4% of the Fund. We were helped by a 20% rise in **Hunter Hall International**, 4.6% of the Fund.

Two new companies were added to the Fund. 3.5% was invested in **Domino's Pizza Australia**. This company has little debt, a high return on equity, good cash generation, a strong record of growth, and good growth prospects for at least the next 3-5 years. The current P/E of 15-20 (depending on whether one treats losses in the newly acquired European business as a loss or as an investment) is not expensive for such a quality company.

3.1% was invested in **Neteller plc**, the world's leading payment system for online gaming. Recent legislative changes in the US seriously damaged Neteller's business, causing the shares to drop 84% from their 2006 high. My rationale for buying the shares at 147p was that the company has net cash of over 90p/share, worst case total value of 120-130p/share and a variety of possible scenarios that *could* add substantially to Neteller's value.

Our second largest holding, an Australian timberland owner, significantly stepped up its share buy-back. As the shares are trading at just over half of net asset value, this is very good news. The company has bought back 6% of its shares in recent months, and appears keen to buy more. Fortunately, the shares did not rise, so the Fund bought more, raising its weighting to 8.5%.

Net asset value per unit was \$1.2155 at the end of October. 5.0% of the Fund was in cash, of which 0.9% was in \$A and 4.1% in gold. The Fund owned securities issued by 26 companies.

Fred Woollard

20 November 2006

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