

Samuel Terry Absolute Return Fund – July 2007 monthly report

The Fund's performance, compared to that of Australian All Ordinaries Accumulation Index and the MSCI World Equities Index follows:

To 31 July 2007	STAR	All Ords	MSCI (\$A)
1 month	-0.26%	-1.94%	-2.48%
3 months	-1.27%	1.12%	-2.77%
1 year	10.90%	29.72%	8.08%
2 years	15.30%	24.25%	10.14%
Since inception on 1 November 2003 (%p.a.)	12.79%	23.18%	10.31%

The Fund was badly damaged by its holding in **Neteller**, a UK company that is the world's leading payment system for internet gaming. The reason for this is that the company resolved its American legal problems by paying \$US 136m to the US government. This amount was far higher than I, or the market, had expected. The effect of this was to cut the share price by 43% from my previous estimate of 120p, or 60% below the last sale price of 176p¹.

We bought more shares, raising our weighting to 4.0%. Neteller shares are trading at a P/E of about 15x 2007 earnings, which is too cheap for a cash-generative business with strong growth prospects, particularly when 70% of its market value is supported by real estate and net cash.

Continuing a dreary trend, our second largest holding **ITL Ltd**, an Australian medical supplier (5.5% of the Fund), fell 12% so we bought some more.

We had two pieces of significant good news. One was from **Calliden**, an Australian insurer (4.8% of the Fund), which rose 23% after announcing the acquisition of a competitor on attractive terms. As a result of this purchase, I expect that Calliden will be profitable and paying dividends in 2008.

Our largest holding, an **Australian timber plantation owner** (13.3% of the Fund) bought back 8% of its shares at a 40% discount to net asset value. I am pleased that the shares rose only 2% and hope that the buyback continues.

Net asset value per unit was \$1.2046 at the end of July. 21.7% of the Fund was in cash, of which 17.4% was in \$A and 4.3% in gold. The Fund owned securities issued by 25 companies. The Fund's **2007 distribution** of 4.48 cents per unit will be paid in the next few days.

Fred Woollard
15 August 2007

Samuel Terry Asset Management Pty Limited (AFSL 278294) does not guarantee the repayment of capital or any particular rate of return from the Trust. Past performance is no guarantee or indication of future performance. Investment returns have been calculated in accordance with normal industry practice utilising movements in unit price and assuming reinvestment of all distribution of income and realized profits. The above report does not take into account a reader's investment objectives, particular needs or financial situation. It is general information only and should not be considered as investment advice and should not be relied on as an investment recommendation.

¹ The shares had been suspended from trading since January 2007. Neteller retains \$US 75m net cash.