

Samuel Terry Absolute Return Fund – January 2008 monthly report

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

To 31 January 2008	STAR	All Ords	MSCI (\$A)
1 month	-7.32%	-11.25%	-9.76%
3 months	-7.36%	-15.39%	-8.81%
1 year	-13.57%	2.62%	-13.69%
2 years	7.65%	12.35%	-1.02%
Since inception on 1 November 2003 (%p.a.)	8.24%	18.40%	6.29%

The Fund had its worst ever month, worse than I had expected we would do in a difficult environment.

Our Australian shares were our worst performers. **Calliden**, an insurance company (3.7% of the Fund) fell 21%, **Hunter Hall**, a fund manager (4.5% of the Fund) fell 19% and **ITL**, a medical supplier (5.3% of the Fund) fell 17%. Apart from the market fall, I am not aware of a reason for these specific falls.

The biggest contributor to the loss was our largest holding, **RuralAus Investments** (15.9% of the Fund) which fell 18%. RuralAus owns 8,000 hectares of Australian timberland, has no debt and its shares trade at less than half of net asset value. The Fund bought more shares at the reduced prices and now owns 19.9% of the company's shares. The Fund can buy no more shares at the present time without bidding for the whole company.

As the Fund is now the company's largest shareholder, I have been having discussions with the board of RuralAus about methods of improving the share price.

3.9% of the Fund has been invested in a mortgage provider called **RHG**. Formerly known as **RAMS Home Loans**, it was Australia's worst IPO of 2007, dropping 88% in 5 months. The story of RHG's decline is complex, but RHG is now left with the rights to service and profit from pools of mortgages worth \$13bn. The mortgages are of the highest quality, and RHG is not responsible for the debts secured against the pools of mortgages. I believe that that the future profits that RHG will earn from these mortgages will be greater than the current value of the company.

The Fund was helped by its put options on the All Ordinaries index, and by its **gold**, which rose 8%. **Neteller**, the UK internet gaming payments system (4.1% of the Fund) rose 21% after an encouraging trading statement.

I suspect the best news for us from January was that I was able to buy securities at much better value. As well as RAMS and RuralAus, the Fund added to its holdings of debt securities issued by two Australian timberland companies.

We bought **Timbercorp** preferred shares at a 25% fully franked yield, and first mortgage bonds of a Timbercorp affiliate at an 18% yield. 8.8% of the Fund is in Timbercorp debt securities, mostly in the first mortgage bonds.

We bought more **Willmott Forests** preferred shares at a fully franked yield of about 19%. As Willmott has little debt ranking ahead of the preferred shares, I am comfortable raising the Fund's weighting to 7%.

Both Timbercorp and Willmott Forests have profitable businesses and hard assets well in excess of their debts. As you may gather, I believe that the Australian plantation timber industry has a bright future.

Net asset value per unit was \$1.0740 at the end of January. 7.3% of the Fund was in cash, of which 1.3% was in \$A and 6.0% in gold. The Fund owned securities issued by 25 companies.

Fred Woollard
15 February 2008

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