

Samuel Terry Absolute Return Fund – July 2009 monthly report

The Fund's performance, and those of the Australian All Ordinaries Accumulation Index and the MSCI World Equities Index, are as follow:

To 31 July 2009	STAR	All Ords	MSCI (\$A)
1 month	1.20%	7.65%	4.65%
3 months	4.75%	14.28%	2.23%
1 year	-11.61%	-11.56%	-11.63%
3 years (%p.a.)	-8.98%	-0.86%	-8.37%
Since inception on 1 November 2003 (%p.a.)	1.16%	9.15%	0.50%

Relative to soaring markets around the world, the fund had a disappointing month. This was partly because about a third of the Fund is in securities that trade infrequently, but also because of a few nasty falls.

The worst was an Australian investment company which fell 50% to half its net cash value for no obvious reason, so we doubled our holding. It's now 1.2% of the Fund and I hope to buy more at these dirt cheap prices.

Willmott Forests preference shares (4.8% of the Fund) fell 11% after Willmott announced that it would reset the preference shares on terms that are worse than had been expected. Conversely, the company announced better sales and profits than had been expected. In response to these developments, I plan to convert most of the Fund's preference shares into ordinary shares. These are currently valued at 4x earnings and 36% of (probably overstated) NTA per share.

5% of the Fund was invested in bonds issued by **CIT Group**, a large American lender to businesses, both big and small. The fund bought its bonds at 55% of face value, a level that implies loan losses of 40% of CIT's loan book. I regard losses of that magnitude as improbable, given that the majority of CIT's loans are either secured or government guaranteed. If, as I hope and expect, CIT is quickly restructured through a pre-packaged bankruptcy, bond holders are likely to end up with shares worth considerably more than we paid. In the unlikely event that CIT survives in its present form, our bonds were bought on a 17% yield. Having invested in distressed debt for many years, I have learnt that the course of bankruptcy is rarely smooth or predictable, so we should be prepared for surprises and volatility. By month end, our bonds had fallen to 49.3%, but I'm not concerned by the price fall.

On a positive note, our Australian financials **Hunter Hall** (6.9% of the Fund) and **Macquarie Group** (5.5% of the Fund) responded to improved financial market conditions rising 22% and 13% respectively. **Domino's Pizza** (5% of the Fund) rose 13% after reporting better than expected profits.

Finally, the Fund subscribed for \$A 10,000 of shares in **Hamilton Securities Ltd**, which has just launched its Initial Public Offering ("IPO") to raise \$A 600,000. Hamilton plans to list its shares on the National Stock Exchange of Australia ("NSX").

Hamilton has been formed to target the acquisition of securities not currently traded on a stock exchange. It will be seeking to provide holders of such securities with a liquidity mechanism through the share market. These acquisitions are intended to be funded by offering shares in Hamilton. Hamilton has several potential targets in mind, each of which offers the opportunity to create significant value for both investors in Hamilton and investors in the target.

Despite having an experienced team, the intended transactions are likely to be challenging and, therefore, an investment in Hamilton should be viewed as risky.

Hamilton aims to raise \$A 600,000 from the IPO. I intend that the Fund will subscribe for \$A 300,000 worth of shares. The other directors are likely to subscribe for quite a few of the remaining shares. Our challenge is to find 50 unconnected shareholders to each invest at least \$A 2,500 in order to comply with the listing rules of the NSX.

If any unitholders wish to invest in Hamilton, the prospectus and other information on Hamilton can be downloaded from www.hamsec.com.au For legal reasons, shares can only be issued to applicants with an Australian address.

The Fund's net asset value per unit was \$A 0.7761 at the end of July. 1.6% of the Fund was in \$A cash. The Fund owned securities issued by 23 companies.

Fred Woollard
16 August 2009

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