

Samuel Terry Absolute Return Fund – December 2010 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 December 2010	STAR	All Ords	MSCI (\$A)
1 month	6.07%	3.80%	0.63%
3 months	11.48%	5.31%	3.34%
1 year	38.47%	3.31%	-1.10%
3 years (%p.a.)	5.36%	-4.92%	-9.19%
Since inception on 1 November 2003 (%p.a.)	8.27%	10.05%	1.02%

The biggest contributor to the Fund's performance in December was Australian timberland owner **RuralAus** (14.8% of the Fund) which rose 14%, probably because the company's chairman doubled his holding.

Australian gold miner **Saracen** (9.9% of the Fund) rose 28% despite a fall in the \$A gold price. The Fund sold part of its holding.

Australian medical supplier **ITL Ltd** (2.3% of the Fund) rose 41% after two directors (including the new CEO) bought more shares. Much has gone wrong at ITL, but its shares are priced to reflect its dismal history, and are not priced to reflect any turnaround potential.

Shares in American finance company **CIT Group** (5.4% of the Fund) rose 19% for no apparent reason. The shares still trade at less than book value, despite having one of the strongest balance sheets in the US banking industry and some very smart investors as large shareholders.

For the first time since June 2007, the Fund bought **put options** on the Australian All Ordinaries Index to protect 20% of the Fund against index movements. The reason I did this was that volatility in the options market is close to record lows, reflecting the recent range-bound nature of the Australian market and widespread investor optimism. I believe that the world and its economic system are likely to experience greater volatility than markets are expecting. If volatility remains low, the Fund is likely to make more purchases of put, and possibly call, options.

The Fund's net asset value per unit was \$A 1.27 at the end of December. The Fund owned securities issued by 22 companies. 15.8% of the Fund was in \$A cash.

Fred Woollard
17 January 2011

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. The unit price can go down as well as up. 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.