

Samuel Terry Absolute Return Fund – February 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 28 Feb 2010	STAR	All Ords	MSCI (\$A)
1 month	-0.85%	1.82%	-0.01%
3 months	4.85%	-0.60%	1.39%
1 year	38.18%	47.03%	10.76%
3 years (%p.a.)	-6.45%	-3.17%	-10.45%
Since inception on 1 November 2003 (%p.a.)	4.04%	10.14%	0.89%

The Fund's performance was hurt by disappointing results from several of our Australian companies. These included insurer **Calliden** (2.5% of the Fund) which was hurt by a bushfire and fell 14%. Our biggest winner was American finance company **CIT** (11.8% of the Fund, including CIT bonds) whose shares rose 14% after the appointment of John Thain, a respected finance executive, as its new Chief Executive. Elsewhere, Indonesian TV company, **Surya Citra Media** (6.8% of the Fund) rose 15% for no obvious reason.

3.2% of the Fund was invested in **Prime Infrastructure**, an Australian company which owns stakes in a variety of global infrastructure assets, including 26% of one of America's largest pipelines and 50% of the world's largest coal loader (in Australia). Prime's assets generate good cash flow and most have comfortable levels of debt, none of which is recourse to Prime's other assets or to Prime. Prime used to be an insolvent company burdened by an onerous management contract. After a debt restructure in late 2009, Prime now has net cash, new management and the onerous management contract has been removed. We bought Prime shares at a large discount to asset value, a P/E of about 6-7x and will receive an initial dividend yield of 8%. I regard that as a good price for a collection of high quality growth assets.

I am sad to report that we sold our shares in **Domino's Pizza**, probably the highest quality company the Fund has owned. In the 3 years since we first bought the shares, they have risen over 70%, reflecting not just increased earnings (what recession?) but also a growing appreciation by the market of the company. As much as I love the business and respect the people running it, at around 20 times current earnings, the company's qualities are now amply reflected in its share price. To put that into perspective, shares in McDonalds and Yum Brands, (owner of KFC and Pizza Hut) trade at around 14-15 times earnings, and both appear to have decent growth prospects.

The Fund's net asset value per unit was \$A 0.9338 at the end of February. 2.7% of the Fund was in \$A cash. The Fund owned securities issued by 24 companies.

Fred Woollard
15 March 2010

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