

Samuel Terry Absolute Return Fund – June 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 30 June 2010	STAR	All Ords	MSCI (\$A)
1 month	-1.14%	-2.60%	-2.67%
3 months	-2.02%	-11.04%	-4.69%
1 year	21.85%	13.78%	6.25%
3 years (%p.a.)	-6.54%	-8.01%	-11.01%
Since inception on 1 November 2003 (%p.a.)	3.84%	8.62%	0.65%

The Fund was again impacted by the weakness in global markets. There was also probably some impact from tax-loss selling of our more illiquid and speculative Australian holdings. The Fund's performance was helped by having 12% of the Fund in cash, and 44% of the Fund in companies which have net cash.

Although it did not impact the Fund's performance numbers, I believe the most noteworthy event for the Fund during the month was an acquisition by **RuralAus**, an Australian plantation timber company, of some complementary timber assets. RuralAus is the Fund's largest holding (15% of the Fund) and the Fund owns 22% of RuralAus, therefore the acquisition is material to the Fund. RuralAus paid \$2.5m for a sawmill and 3,452 hectares of land (of which 2,200 hectares is useful timberland) on Kangaroo Island. These assets were bought from a bankrupt company which had previously valued them at \$19m. The secured lender was owed \$9m, and was very reluctant to sell to us at such a low price. As a director of RuralAus, I am comfortable that, at the price we paid, we have a solid margin of safety protecting us from downside risk, but our upside *potential* is substantial.

The Fund participated in a share issue by Australian gold miner **Saracen Minerals** (8.6% of the Fund) which enables Saracen to raise its production faster than had been planned. I do not think the share issue was necessary, but we participated to avoid dilution of our holding at an unreasonably low price.

Macquarie Atlas Roads, (7.1% of the Fund) which owns stakes in six highly leveraged toll roads in Europe and America rose 16% because it participated in the buyout of the minority interests in its French toll road. This transaction creates substantial value for MAR shareholders, but does increase the company's riskiness by transferring most of its net cash into equity in the French tollroad.

The Fund's net asset value per unit was \$A 0.9344 at the end of June before paying the 2010 distribution, which I estimate will be about \$A 0.023 per unit. The Fund owned securities issued by 21 companies.

Fred Woollard
15 July 2010

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