

## Samuel Terry Absolute Return Fund – March 2011 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 March 2011	STAR	All Ords	MSCI (\$A)
1 month	2.76%	0.64%	-1.38%
3 months	5.90%	2.92%	3.47%
1 year	42.63%	4.80%	2.10%
3 years (%p.a.)	12.39%	1.22%	-2.92%
Since inception on 1 November 2003 (%p.a.)	8.82%	10.13%	2.60%

The Fund's best performer was **Timbercorp bonds** (previously 0.7% of the Fund) which repaid us 56% of face value. We bought the bonds at 27% of face value just before Timbercorp collapsed in March 2009. I reasoned that if Timbercorp survived then we would make nearly four times our money, and if not, then the assets securing the bonds were worth more than we paid.<sup>1</sup>

Our second best performer was Japanese industrial property owner, **J-Rep** (3.6% of the Fund), which rose 35% on reports that it is close to selling a large part of its portfolio. Even after the recent rise, J-Rep shares still trade at less than half of their net asset value.

2.5% of the Fund was invested in **Collection House**, an Australian company that buys defaulted credit card and other consumer debts. Collection House pays about 10% of face value for the debts, and has systems in place to maximise recovery from its loan book. We bought the shares at a 30% discount to net asset value, at 7x earnings, and at a 9% fully franked dividend yield. I was pleased to see 3 directors bought shares at the same time we did. By month-end, the shares were up 15%.

We sold most of our **CIT bonds** (previously 3.2% of the Fund) at about 101% of face value, or a yield of about 5-6%. While CIT is a quality credit, there was little upside remaining in the bonds. As 4.6% of the Fund is in CIT shares, I was uncomfortable having extra exposure to CIT risk, when the yield (in absolute terms) on the bonds was so small. The bonds we kept are due to be repaid in the next few weeks.

We bought some more **Microsoft** shares, lifting our weighting to 4.6%. This was in response to the shares falling as much as 7% during the month, to the point where the P/E ratio fell to under 10. I regard this as a very cheap valuation for one of the world's best businesses.

The Fund's net asset value per unit was \$A 1.345 at the end of March. The Fund owned securities issued by 22 companies. 10.9% of the Fund was in \$A cash. The Fund owned in-the-money ASX 200 Index put options protecting 37% of the Fund against declines in the Australian index.

Fred Woollard  
15 April 2011

---

<sup>1</sup>In the absence of any market price, the Timbercorp bonds have been valued at cost in the Fund's accounts and monthly valuations. Although it is possible that there may be further value in the bonds, in the interests of conservatism they will be valued at zero until there is evidence of any future value.

*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.*