

Samuel Terry Absolute Return Fund – February 2012 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 29 Feb 2012	STAR	All Ords	MSCI (\$A)
1 month	-0.10%	2.41%	3.86%
3 months	4.96%	6.07%	6.35%
1 year	15.24%	-6.67%	-6.20%
3 years (%p.a.)	31.18%	14.78%	5.08%
5 years (%p.a.)	5.99%	-1.36%	-5.55%
Since inception on 1 Nov 2003 (%p.a.)	9.31%	7.98%	1.70%

The highlight of the month was investing 10% of the Fund in **Nexus Bonds**, a complex Australian security which is in reality a three year zero coupon bond guaranteed by Deutsche Bank. The bonds are very illiquid, but we became aware of a parcel being sold by a distressed seller and bought them at 72% of face value, providing a yield of 10% pa. This is a very high yield for bonds issued by Germany's largest bank. Although the German government does not formally guarantee Deutsche Bank, in practice, the German government could not possibly allow it to fail. There is however more to Nexus Bonds than a very safe 10% pa yield over three years. Deutsche Bank¹ is obliged to make an offer to buy back the bonds in June 2012 at "market value". I have been unable to find out precisely what this means, but believe that Deutsche Bank will *probably* offer to buy our bonds at 80-85% of face value, because it would be in their interests to do so.

Our biggest loser was Australian gold miner, **Saracen** (6.8% of the Fund), which fell 15% because of disappointing production numbers and the CEO selling half his shares. Australian timberland owner **RuralAus** (12.2% of the Fund) fell 9% for no apparent reason. We were also hurt by a 33% drop in Australian media company **Commstrat** (1.4% of the Fund) after it announced cash flow problems. Australian insurer **Calliden** (2.6% of the Fund) fell another 21%. Despite Calliden's dismal history, we bought some more shares, this time at about half of net tangible assets.

The Fund's performance was helped by a 31% rise in Indonesian TV network **Indosiar** (4.5% of the Fund) for no new reason, and a 15% rise in Australian finance company **Collection House** (4.9% of the Fund) helped by improved results.

We sold our shares in **Jumbo Interactive**, an Australian internet lottery seller, realising a profit of over 100% in the two years we owned them. I bought Jumbuck because it had strong growth prospects and a good business, but the share price was underpinned by profits from its Australian monopoly, which ends in 2013. Once the share price doubled, I estimated the prospective gains were much less and we no longer had as large a margin of safety protecting our downside risk.

The Fund's net asset value per unit was \$1.3088 at month end. The Fund owned securities issued by 24 companies. 2.7% of the Fund was in \$A cash.

Fred Woollard
15 March 2012

¹ Technically, the offer will be made by Nexus Bonds Limited, but the decision on what price to pay will be made by Deutsche Bank, and the money will be paid from an NBL account at Deutsche Bank.

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