<u>Martin Raymond Real Return Fund</u> – January 2005 monthly report

The fund had its first decline in January as NAV/unit fell by 1.1%. The fund underperformed the Australian market, which rose 1.3% during the month, but outperformed the world index, which fell 1.7% in $A terms.

<u>Internal matters</u> Six (!) months after applying, my company, Samuel Terry Asset Management received its Australian Financial Services License on the 19th January, and has become trustee and investment manager of the fund with effect from the 1st February. On the same date, the fund changed its name to the Samuel Terry Absolute Return Fund.

The previous unitholder decided to redeem its units on the 31st January, and new unitholders joined the fund on the 1st February. Unfortunately, selling some of the fund's more illiquid assets to fund the redemption caused some losses to the fund. The losses were ameliorated by a co-operative approach from both the outgoing and the incoming unitholders.

The time and expense involved in selling the fund's assets to fund a large redemption has demonstrated the need to discourage short term investors from investing in the fund.

<u>The fund's performance during the month</u> was most impacted by **Infracorp**, whose shares fell 28% for no obvious reason, cutting NAV/unit by about 0.9%. Infracorp is one of the few Australian property companies whose shares trade at a discount to their asset value. The company is attempting to rezone its main asset, which if successful could add to the company's value. The fund's weighting is only 3.0% because the company has high gearing.

Performance was also hurt by sharp falls in five holdings, mostly for no obvious reason. In order of impact, these were:
Retail Cube, a small Australian retailer (2.5% of the fund), fell 15%.
Infomedia, an Australian software company (3.7% of the fund), fell 9%.
MCI, a US telecom company (4.2% of the fund), fell 4%.
Indosiar, an Indonesian TV station (3.7% of the fund), fell 4%, partly because of the fund's selling.
Molins, a UK packaging machinery manufacturer (formerly 2.3% of the fund), fell 9%. The fund has sold its Molins shares.

There was some good news.
Our largest holding, **Bangkok Land** bonds (5.2% of the fund) rose 11%.
Chesnara, a UK life assurance company (4.3% of the fund), rose 8% in response to corporate action in the sector. Sadly, the fund missed most of this rise because of the redemption.
Petrosea (4.5% of the fund) rose 5% after a big contract win, but once again, the redemption meant that it missed some of this rise.
PZ Cussons (4.2% of the fund) rose 8%.

The fund sold its **Village Roadshow** shares after a 4% rise.

The **Commonwealth Bank options** expired with a profit, just enough to more than offset the loss on Rio Tinto options.

At the close of the 31st January, the fund's assets were all cash.

At the fund's opening on the 1st February, 40.3% of the fund was in $A cash.

The fund added two new holdings on the 1st February, and now owns securities issued by 17 companies.

Fred Woollard
8th February 2005

<u>The percentage weightings stated in this report are those at the start of trade on 1st February 2005.</u>

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