<u>Samuel Terry Absolute Return Fund</u> – June 2005 monthly report

The fund had another poor month in both absolute and relative terms. The table shows fund performance compared to the Australian All Ordinaries Accumulation Index and the MSCI World Equities Index in Australian dollars.

To 30 June 2005	STAR	All Ords	MSCI ($A)
1 month	-0.46%	4.46%	-0.01%
3 months	-3.63%	3.94%	1.79%
6 months	-3.87%	6.42%	1.62%
1 year	7.87%	24.75%	0.93%
Since inception (%p.a.)	9.26%	21.19%	8.30%

Repeating a painful pattern, most of the fund's worst performers have been among its Australian shares. Worst performers were:

A Sydney land developer (2.5% of the fund), fell 22% on small volume for no obvious reason. It is a speculative share, whose value could potentially rise five to ten times if it can rezone its land, but it could go to zero if its attempted rezoning fails and if Sydney real estate prices fall sharply. The shares trade at around half of current net asset value.
Bangkok Land bonds (4.4% of the fund), fell from 39% to 37% of face value for no obvious reason.
Infomedia, an Australian software company (3.6% of the fund), fell 8% despite affirming its earlier profit estimates. Infomedia has been a disappointing investment, but with growth prospects, no debt, a P/E of 12-14x, and a dividend yield of about 6%, I remain comfortable holding the shares.
Central Exchange, an Australian investment company (2.7% of the fund), fell 11% even though its shares trade at a 50% discount to net assets per share and the company is buying back shares.

There was some good news.
Chesnara, a UK life assurer (5.9% of the fund), rose 19%, perhaps because of corporate action at Britannic, a much larger closed life fund.
ITL Ltd, an Australian medical supplier (3.6% of the fund), rose 17% after it affirmed its earlier profit estimates and a director bought some shares.
Telewest, a UK telephone company (3.5% of the fund), rose 9% presumably on rumours of a merger with NTL, the other UK cable telephone company. Such a merger would be very beneficial for both companies.
PZ Cussons, a UK soap maker (3.7% of the fund), rose 2% after announcing that it would give voting rights to its non-voting shares. Unfortunately for the fund, the deal was struck on terms that were much more favourable to the non-voting shares than I had expected. The fund would have benefited much more if it had switched to non-voting shares, but it did not do this for tax reasons.

There were three additions to the fund during the month.

4.3% of the fund has been invested in a newly listed UK company valued by the stock-market at £6m. Its only assets are £1.5m cash and ownership of a pension fund surplus worth £20-25m. Pension fund surpluses are complex assets, probably worth substantially less than face value but I am confident that, in time, shareholders will realise more than a quarter of the surplus.

2.4% of the fund has been invested in **Surya Citra Media**, a leading Indonesian TV station. Like TV stations in most countries, Indonesian TV stations have superb economics, but Indonesian TV stations have stronger growth prospects than their peers in most other countries. The fund bought SCM shares at a historic P/E of only 9x and at a dividend yield of 5.6%. At this price, it paid very little for SCM's growth potential. My opinion on the shares appears to be shared by three canny investors (led by Australian media and advertising tycoon, John Singleton) who bought a 20% stake in late 2004, but the fund paid about 10% less than they did.

The fund bought Australian **ASX 200 Index put options** exercisable at 4300 points until March 2006. The reason for this is not that I am bearish on the Australian share market. It is that option prices, as measured by their "implied volatility" are at close to record lows. In plain English, the fund has bought insurance against the market falling and paid close to record-low premiums. 50% of the fund has been protected against the risk of the index falling for nine months by paying a premium equivalent to 1.5% of the fund's value. I regard this as money very well spent even if the options turn out to be worthless.

At month end, net asset value per unit was $0.9719. 17.6% of the fund was in cash (mostly $A), or 23.6% if you include Telstra shares which are protected by an in-the-money put option. The fund owned securities issued by 23 companies.

Fred Woollard
18th July 2005