

Samuel Terry Absolute Return Fund – March 2008 monthly report

The Fund's performance, compared to that of Australian All Ordinaries Accumulation Index and the MSCI World Equities Index, follows:

To 31 March 2008	STAR	All Ords	MSCI (\$A)
1 month	-1.21%	-4.11%	0.96%
3 months	-12.74%	-14.68%	-12.84%
1 year	-16.60%	-6.02%	-14.34%
2 years	-0.42%	7.23%	-6.39%
Since inception on 1 November 2003 (%p.a.)	6.58%	16.95%	5.32%

The Fund had a mixed month. The biggest contributor to the loss was **Neteller**, the world's leading internet gaming payments system (3.6% of the Fund), which fell 15% despite reporting a 2007 result that was better than I had feared. Neteller had a terrible 2007, including a \$US 136m fine by the US government, but it is now cash-flow positive and growing fast. More than half of Neteller's market value is backed by net cash.

We were also hurt by falls in our Australian timber-backed fixed income securities. **Timbercorp** preference shares (3.4% of the Fund) fell 14% and now yield over 30%. I was tempted to buy more, but instead chose to buy more of a Timbercorp first-mortgage bond (5.8% of the Fund) at a yield of over 20%. We also bought more **Willmott Forest** preference shares (7.4% of the Fund) at a yield of over 25% p.a. Both Timbercorp and Willmott are profitable businesses and have assets well in excess of their debts.

Australian fund manager **Hunter Hall** fell 20% at one stage, so we bought more shares, raising the Fund's weighting to 5%. At the prices we paid, the shares were trading at a P/E in the low teens and yielding over 6%. This is very cheap for a great business with good long term growth prospects.

I became a director of **RuralAus Investments**, the Fund's largest investment (18.4% of the Fund). The circumstances leading to my appointment are described in a newspaper article on the next page. As result of my appointment, my future comments on RuralAus will have to be more circumspect. I can say that RuralAus has no net debt, its shares trade at half net asset value, and I am keen to see a much narrower discount to NAV.

Standard Life, a UK life insurance company, (3.4% of the Fund) rose 16% after better than expected 2007 profits. Although Standard Life has modest exposure to low quality credit, its shares have declined with the rest of the insurance sector. At a P/E of 8-9, a 5% dividend yield, and assets in excess of the price, the shares remain cheap.

Net asset value per unit was \$1.0112 at the end of March. 14.6% of the Fund was in cash, of which 8.5% was in \$A and 6.1% in gold. The Fund owned securities issued by 21 companies.

Fred Woollard, 15 April 2008

Woollard wins battle for seat on RuralAus board - "The West Australian" **7 March 2008**

Former Labor MP – turned tax scheme advocate George Gear and ex-Bell Potter Securities investment banker Peter Wallace last night caved in to demands by a renegade RuralAus Investments shareholder for a seat on the board of the struggling timber plantation manager.

The backdown is a major victory for RuralAus's major shareholder, Fred Woollard, who owns 19.9 per cent of the group, coming just hours after he requisitioned a shareholder meeting to force the sacking of Mr Gear and Mr Wallace from the board.

He also threatened to launch a partial takeover bid for an additional 16 per cent of the group to further strengthen his position as major shareholder. The meeting will no longer go ahead.

Before the backdown Mr Woollard told WestBusiness he was frustrated with the board's poor investment decisions, including taking a \$1 million stake in the float of Gage Roads Brewing in 2006 at 40¢ a share. The stake was now worth just \$225,000 following the fall in Gage Roads' shares to 9¢ yesterday.

Mr Gear refused to comment yesterday but the board has previously refused to give Mr Woollard a board seat.

"I've been deeply upset by the share price performance, by the Gage Roads investment and some of the other proposals the company has looked at," Mr Woollard said.

"I believe the best use of this company's cash and assets is a long-term, orderly wind-down and return of capital to shareholders – I'm not talking about liquidating the company in the short-term, but...the company should be buying back more shares and be repaying cash to shareholders."

WestBusiness understands the dispute dates back to a proposal earlier this year by Mr Gear and Mr Wallace for a merger of RuralAus and the directors' private investment company, a move which was blocked by strong resistance from Mr Woollard.

RuralAus's directors, who collectively hold about 16 per cent of the company, also include PKF Chartered Accountants managing director Ian Olson and agribusiness consultant Paul McKenzie.

RuralAus shares closed down 0.5¢ at 15.5¢, valuing the company at \$8.82 million.

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