

Samuel Terry Absolute Return Fund – September 2009 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 30 Sep 2009	STAR	All Ords	MSCI (\$A)
1 month	3.87%	6.05%	-0.24%
3 months	13.76%	21.55%	7.22%
1 year	-2.29%	7.40%	-12.35%
3 years (%p.a.)	-7.67%	1.74%	-9.59%
Since inception on 1 November 2003 (%p.a.)	3.13%	11.00%	0.89%

The Fund was once again helped by good performances by some of our Australian holdings. These included gold explorer **Saracen Minerals** (7.6% of the Fund) which rose 33%, and investment bank **Macquarie Group** (3.4% of the Fund) up 16%. In order to reduce risk, I sold part of both positions.

We were also helped by a lift in our **CIT bonds** (4.6% of the Fund) from 52% to 58% of face value. CIT is a large American finance company, which is likely to soon have its debts restructured, either voluntarily or through bankruptcy. I expect that this process will lead to us receiving new securities that will eventually be worth at least 100% of face value for our bonds.

2.7% of the Fund was invested in **Challenger Kenedix Japan Trust ("CKT")**, an Australian trust that owns 20 Japanese shopping centres. The attraction of the trust is that on a "see-through" basis, it is as if we have bought a part share in the properties on a 6.2% p.a. ungeared yield (net of management expenses), but financed 81% of the purchase price from non-recourse (to us) bank loans at 2.0% p.a. By buying CKT, we don't just buy property with positive gearing, and no recourse to us, but we get newish buildings, long leases and competent management in place. I calculate that we bought the shares on a P/E of less than 5, even generously allowing for depreciation expense. The trust pays a dividend yield of about 10%.

Despite its attractions, I do not want to make CKT a large part of the Fund for two reasons. One is the high debt. Provided the banks behave rationally, and with a long-term orientation, the banks and we will do well from CKT. Unfortunately the last 12 months have shown that one cannot always assume such behaviour from bank lenders. If the banks force a fire sale of the assets, they will lose a bit, and we will lose the lot. Second, Challenger, as manager of the Trust does not have incentives aligned with us. Although Challenger's behaviour has, so far, been commendable, I am not prepared to wager large amounts of our Fund on them continuing to put our interests ahead of theirs.

The Fund's net asset value per unit was \$A 0.8724 at the end of September. 7.7% of the Fund was in \$A cash. The Fund owned securities issued by 23 companies.

Fred Woollard
15 October 2009

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 up as well as down. 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.