**<u>Samuel Terry Absolute Return Fund</u> – January 2010 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 31 Jan 2010 | STAR | All Ords | MSCI ($A) |
|---|---|---|---|
| 1 month | 1.53% | -5.85% | -2.72% |
| 3 months | 5.56% | -0.48% | 3.39% |
| 1 year | 34.50% | 38.25% | -0.80% |
| 3 years (%p.a.) | -7.17% | -3.24% | -11.02% |
| Since inception on 1 November 2003 (%p.a.) | 4.23% | 9.96% | 0.91% |

The Fund's performance was helped by a 100% rise in **IFC Capital**, a Sydney based cash shell (3.0% of the Fund), after it announced plans to buy a "green" air-conditioning manufacturer. We sold a few shares after the rise. We were also helped by a 22% rise in Indonesian TV company **Surya Citra Media** (5.9% of the Fund) and a 15% rise in American lender, **CIT** (6% of the Fund).
On the other hand, **Saracen Minerals**, an Australian gold miner (7.5% of the Fund) fell 10% despite it commencing production.

2.6% of the Fund was invested in **Macquarie Atlas Roads** ("MQA"), a newly listed Australian company which we bought soon after it demerged from a much larger toll road company. MQA owns a portfolio of stakes in global toll roads. Its largest assets are the M6 motorway in the UK, and 20% of one of France's longest motorways. MQA is widely known in Australia as "Bad MIG".

MQA's underlying assets are highly cash generative, and likely to generate solid long term growth, but they are burdened with debt over 25 times MQA's market capitalisation. Fortunately, the debts are in the individual toll road companies and are non-recourse to each other and to MQA. Provided its lenders give MQA's toll roads time to repay their loans, MQA shares *could* grow 10 times in 10 years, but success is far from assured.

The attractions of MQA shares are both financial and behavioural. We bought MQA at a P/E ratio of 2 and less than half of Net Asset Value. Net cash of 50 cents per share is more than half the share price.

MQA has a fee structure which gives management a large incentive to grow the share price, but the base level for their performance fee calculation is the average price in the first 30 days' trading. This means that management has a strong incentive to keep the share price as low as possible at this time. They will be helped by the tendency of many investors to immediately sell spin-offs, especially complex unpopular ones such as MQA, regardless of price.

The Fund's net asset value per unit was $A 0.9418 at the end of January.
2% of the Fund was in $A cash. The Fund owned securities issued by 25 companies.

Fred Woollard
15 February 2010