

Samuel Terry Absolute Return Fund – August 2011 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 Aug 2011	STAR	All Ords	MSCI (\$A)
1 month	8.65%	-2.00%	-4.42%
3 months	8.33%	-7.60%	-10.01%
1 year	37.26%	2.61%	-4.18%
3 years (%p.a.)	16.92%	-1.55%	-6.80%
Since inception on 1 November 2003 (%p.a.)	9.10%	8.12%	0.90%

The Fund took advantage of volatile world markets by buying two well-known investment banks, **Macquarie Group** (4.6% of the Fund) and **Goldman Sachs** (3.9% of the Fund) at less than their net tangible asset value. Both companies are well run, have ample capital and liquidity, and are regarded by their governments as "too big to fail", meaning that the risks of them being killed by a bank run are minimal (but not zero). Macquarie and Goldman have strong franchises and employ very talented people, ensuring that they are likely to earn double-digit returns on equity for many years to come, although probably not the 20% that they have often earned in the past. The companies have widely publicised difficulties, but these will pass, and are amply reflected in the companies' share prices.

Despite losing 8% on Indonesian TV network **Surya Citra Media** (5.9% of the Fund), we started buying **Indosiar**, another Indonesian TV network (1.3% of the Fund). The folk who control SCM recently bought control of Indosiar. I believe that this "merger" will lead to significant increases in revenue and reductions in costs at both companies. Unlike SCM, Indosiar has been poorly run and generated dismal results.

One of our biggest losers (again!) was American finance company, **CIT Group**, (3.5% of the Fund), which fell 13%. I suspect this was because of the general sell-off of financial shares, despite CIT's balance sheet being much stronger than that of most banks. We were also hurt by a 10% fall in **Hunter Hall**, an Australian fund manager (3.7% of the Fund) after a mildly disappointing profit result. Hunter Hall is a superb business, with long term growth prospects, that trades at about 12x earnings.

Our winners included an Australian distressed mortgage security (5.9% of the Fund last month), which we sold at 150% above last month's price. Australian gold miner, **Saracen** (7.8% of the Fund), rose 21%, due to a 15% rise in the \$A gold price. Saracen shares remain cheap at about 4-5x earnings, despite having enough reserves to last 6-7 years and substantial exploration potential to extend its mine life.

Starting this month, White Outsourcing, the Fund's administrator, will be sending a monthly statement to all unitholders by e-mail. This will show the number of units you hold, and the value of your holding.

The Fund's net asset value per unit was \$A 1.2332 at the end of August. The Fund owned securities issued by 24 companies. 15% of the Fund was in \$A cash.

Fred Woollard
15 September 2011

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 down as well as up. 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.