<u>Samuel Terry Absolute Return Fund</u> – June 2012 monthly report

The Fund's performance (net of fees), and those of the Australian All Ordinaries Accumulation Index and the MSCI World Equities Index, are as follow:

To 30 June 2012	STAR	All Ords	MSCI ($A)
1 month	-2.43%	0.25%	-0.43%
3 months	-1.93%	-5.64%	-4.52%
1 year	14.05%	-7.04%	-2.05%
3 years (%p.a.)	24.84%	5.86%	3.04%
5 years (%p.a.)	5.45%	-4.09%	-5.88%
Since inception on 1 Nov 2003 (%p.a.)	8.65%	7.08%	1.60%

The Fund's poor result was mainly due to Australian timberland owner **RuralAus** (7.8% of the Fund), which fell 37% for no apparent new reason. My guess is that the fall was caused by a combination of tax-loss selling and growing shareholder frustration at the company's lack of progress at turning its assets into cash.

Elsewhere, the Fund had a good month. The highlight was an announcement by Deutsche Bank that it will redeem **Nexus bonds** (15% of the Fund) at $85.10. This compares to our entry price of $72.00 in February. Our 18% return is better than it looks because the investment was almost risk-free.[1]

Other good performers this month included Indonesian TV station **Indosiar** (7% of the Fund), which rose 29%, Australian medical supplier, **ITL,** (5.2% of the Fund), which rose 15%, and Australian distressed finance company, **Keybridge,** (5.7% of the Fund) which rose 14%.

We bought more shares of **Infigen** (4.1% of the Fund), Australia's largest wind farm owner. Infigen's future cash flows and its financial structure are both very hard to understand, but when the shares are cheap enough (as I believe they were recently), one can view Infigen as a "heads I win, tails I don't lose" type of investment. Most of the assets, debts and complicated structure reside within subsidiaries whose debts are non-recourse to the parent. Those subsidiaries *could* be worth several times the current share price within 5-10 years if conditions are favourable. On the other hand, the parent company has assets (mostly net cash) worth about the share price we paid, protecting us from significant risk of loss. I am also encouraged by large buying in recent months of Infigen shares by its largest shareholder, a well-regarded and successful hedge fund, which has a representative on the board.

I estimate the Fund's 2012 distribution will be around 15c per unit, which will be paid in the next few weeks, once it has been formally calculated. The Fund's net asset value (cum-distribution) per unit was $1.2801 at month end. The Fund owned securities issued by 24 companies. 1.1% of the Fund was in $A cash.

Fred Woollard
11 July 2012

[1] The main risk we ran was that Deutsche Bank would collapse, and the German government would allow senior creditors, such as the Nexus Bondholders to suffer losses. I regard that combination of risk as extremely improbable, but not zero.

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