<u>Samuel Terry Absolute Return Fund</u> – February 2016 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 29 February 2016	STAR	All Ords	MSCI ($A)
1 month	1.94%	-1.47%	-1.28%
3 months	3.30%	-4.31%	-7.4%
1 year	34.03%	-12.2%	-4.27%
3 years (%p.a.)	29.04%	3.23%	16.79%
5 years (%p.a.)	22.41%	4.59%	11.46%
Since inception on 1 Nov 2003 (%p.a.)	13.95%	7.86%	6.24%

Our biggest winner was Australian mining company, **South32** (7.2% of the Fund)**,** which rose 28% because of improved sentiment towards mining shares and an encouraging half-year result. A profit of $US 26m might not sound like much for a company valued at $US 4.7bn, but in the current tough market conditions it was a great result. We are excited by the profits that South32 could generate *when* commodity prices recover. Just as importantly, uniquely among major miners, South32 has almost no debt, making it well positioned to buy assets cheaply from troubled competitors.

Australian wind energy producer **Infigen** (7.3% of the Fund) and French toll-road owner **Macquarie Atlas Roads** (3% of the Fund) both reported good results and rose 5% and 10% respectively.

Once again, we were hurt by a 7% fall in US investment bank, **Goldman Sachs,** (4% of the Fund), probably because of general weakness in bank shares.

We invested 3% of the fund into **CYBG plc**, a UK company that owns the Clydesdale and Yorkshire banks. We bought the shares immediately after CYBG demerged from National Australia Bank. CYBG had long been a drag on NAB's profit and share price and we expected many NAB shareholders would sell CYBG soon after it started trading as a separate company. For most NAB shareholders, it was a small holding in a troubled asset on the other side of the planet. Unlike NAB, CYBG has a history of poor returns and will pay no dividends until at least late 2017.

So why did we buy it? The above factors made us suspect that CYBG would start trading at an attractive price. CYBG has started independent life with a strong and clean balance sheet. It is modestly profitable, has high market shares in its areas of the UK and is well regarded by its customers. Freed from its Australian parent, it has considerable scope to cut costs. We particularly like the fact that NAB has retained most of the legal liability for past misconduct. We bought the shares at 58% of net asset value, a ratio that priced CYBG at the bottom end of UK banks. Other banks at that valuation ratio have much worse histories and prospects than CYBG. Banks comparable to CYBG trade at closer to 100% of net asset value.

The Fund's net asset value was $31.4m or $2.0263 per unit at month end. The Fund owned securities issued by 25 companies. 11% of the Fund was in $A cash.

Fred Woollard and Nigel Burgess
8 March 2016

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