

Samuel Terry Absolute Return Fund – June 2013 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 2013	STAR	All Ords	MSCI (\$A)
1 month	-6.46%	-2.62%	1.68%
3 months	2.57%	-3.33%	13.86%
1 year	18.84%	20.67%	31.26%
3 years (%p.a.)	23.80%	7.96%	9.85%
5 years (%p.a.)	14.41%	2.19%	3.95%
Since inception on 1 Nov 2003 (%p.a.)	9.67%	8.42%	4.33%

The Fund's poor performance had several causes. Australian timber plantation owner **RuralAus** (8.1% of the Fund) fell 20% because of tax-loss selling. Australian high-yield lender **Keybridge Capital** (9% of the Fund) fell 15%, possibly because of a court decision that could cut its NAV¹ by about 11%. We bought some more Keybridge shares during June, attracted by the 35% discount to NAV at which the shares trade, and the high cash backing.

We were also hurt by a 15% fall in Australian gold miner **Saracen Minerals** (3.3% of the Fund) which was hurt by a 10% fall in the \$A gold price, despite over half the value of the company being supported by its gold forward sales contracts.²

We sold out of **Microsoft**, realising a total return in \$US terms of about 13% pa in 2 years. This is a good result from a low risk investment. Oddly, in the period we owned it, Microsoft's business prospects became more uncertain, yet its shares rose.

We also sold out of Australian investment bank **Macquarie Group**, realising a total return of about 35%pa in under 2 years. When we bought Macquarie it was obviously dirt cheap, but today's higher prices no longer compensate for the inherent riskiness of owning an investment bank. For similar reasons, we sold some of our shares in **Goldman Sachs** (7.1% of the Fund) and US finance company **CIT Group** (4.3% of the Fund).

We bought more shares of an Australian property company³ (5.5% of the Fund), at a discount to NAV of over 75%. This company has no debt, and is publicly committed to selling all of its properties and distributing the proceeds to shareholders over the next few years. Nigel and I have visited most of the properties and are comfortable that they are worth substantially more than the price we paid for the shares. In fact, properties sold, but not yet settled, represent over 50% of the price we paid.

The Fund's net asset value per unit was \$1.3833 at month end, prior to a distribution which I estimate to be \$0.104 per unit. The Fund owned securities issued by 22 companies. 5.1% of the Fund was in \$A cash.

Fred Woollard
10 July 2013

¹ Net Asset Value (usually expressed on a per share basis)

² Saracen has pre-sold 176,000 ounces of gold at an average of \$A 1,681 per ounce, compared to the price on 30 June of \$A 1,303. These forward sales could be cancelled and turned into cash of around \$40-60m, compared to Saracen's market capitalisation of \$68m. Saracen has almost no net debt.

³ This is a different company to the one I wrote about in last month's report.

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