

## **Samuel Terry Absolute Return Fund – December 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 31 December 2012	STAR	All Ords	MSCI (\$A)
1 month	2.04%	3.43%	2.54%
3 months	3.98%	6.78%	2.66%
1 year	10.61%	18.84%	14.41%
3 years (%p.a.)	19.65%	2.83%	2.12%
5 years (%p.a.)	7.67%	-1.98%	-3.96%
Since inception on 1 Nov 2003 (%p.a.)	8.90%	8.38%	2.40%

The Fund had another quiet month. Our biggest winner was Australian insurance company **Calliden** (5.6% of the Fund) which rose 23% after announcing an improved outlook for 2013. Calliden shares, as always, look cheap at about 85% of tangible book value, and 4x 2013 expected profits. These ratios reflect Calliden's long history of disappointing investors and failing to meet forecasts. Despite this, we continue to hold Calliden because it is worth well above the current price in a takeover bid, and I hear that Calliden's major shareholders are (finally!) losing patience, and will force change if acceptable profits are not achieved.

Other notable winners included investment banks **Goldman Sachs** (6.4% of the Fund) and **Macquarie** (5.9% of the Fund) both of which rose 8%, presumably because of strong global share markets.

Once again, our biggest loser, was Australian gold miner **Saracen** (5.3% of the Fund), which fell 15% for no apparent new reason.

In recent months, the Fund has been making small bets (0.5% - 1.0% of the Fund) buying equal amounts of call and put options on the Australian ASX200 Index. The reason we have been doing this is that expected volatility (as implied by the option price) is close to a 20 year low, and is substantially less than average long-term actual volatility. This is not unique to Australia. Implied volatility in global share and bond markets is also historically low. In effect, the markets are forecasting unusual stability for the next few months. By buying options, we are betting that markets will **not** be unusually stable. My reasons for this belief include political issues (e.g. Iran/Israel, China/Japan) and economic issues such as the unresolved debt problems in Europe. As well as protection against calamity through put options, we also have exposure to the market going up through call options. So far, this strategy has generated profits for us, and at month-end 2% of the Fund was in index options.

The Fund's net asset value per unit was \$1.2395 at month end. The Fund owned securities issued by 25 companies. 6.9% of the Fund was in \$A cash.

### **CHANGES TO THE FUND'S TRUST DEED**

This notice is to inform you about proposed amendments to the trust deed for the Fund.

## **Amending the Trust Deed**

The trust deed for the Fund (**Trust Deed**) allows the Trustee to make any modification, addition or deletion to the Trust Deed by supplemental deed, if in its opinion the modification, addition or deletion is not adverse to the interests of unitholders as a whole and the Trustee provides unitholders with 30 days' prior notice of the proposed amendments.

### **What are the proposed amendments to the Trust Deed?**

It is proposed to amend the Trust Deed by supplemental deed for the following reasons:

#### Taxation Issues:

to allow distributions to be made to unitholders in the absence of the trustee determining the amount of distributable income for the Fund; and

to reflect a reduction in the marginal tax rate; and

to provide the trustee with increased flexibility in situations where the unit price cannot be determined within one month of the trustee receiving application money from an investor.

The proposed amendments will not change the fees payable by the Fund.

### **Implementing the proposed amendments to the Trust Deed**

The proposed amendments to the Trust Deed will take effect approximately thirty days after the date of this letter.

A copy of the Trust Deed is attached to this e-mail, with the proposed amendments shown in red and blue.

If you have any questions about the proposed amendments to the Trust Deed or about the Fund, please call me on 0400 001976.

Fred Woollard  
10 January 2013

*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 the 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.*