

## Samuel Terry Absolute Return Fund – August 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 31 August 2013	STAR	All Ords	MSCI (\$A)
1 month	2.12%	2.59%	-1.14%
3 months	2.09%	5.36%	7.06%
1 year	27.87%	23.23%	34.52%
3 years (%p.a.)	22.71%	9.57%	12.30%
5 years (%p.a.)	16.56%	4.11%	3.66%
Since inception on 1 Nov 2003 (%p.a.)	10.47%	9.14%	4.80%

The Fund had a mixed month. Our biggest winner was Australian gold miner **Saracen** (6.4% of the Fund) which rose 72%, helped by a 6% increase in the \$A gold price. As part of our risk management, we sold some Saracen during the month.

The Fund was helped by a repayment of 2.17c/unit from **BAO Trust** (4.3% of the Fund) which had the effect of lifting its value in the Fund's accounts by 20%. BAO is an investor in Australian unlisted property trusts. In late 2012 BAO decided to delist its units, slowly sell all its assets and repay the proceeds over time to its unitholders. After paying us 3.2c/unit so far, BAO's current NAV<sup>1</sup> is 9.24c/unit, much of which looks likely to be repaid in the next year or two. As we stated when we bought BAO at 6.6c/unit, we continue to price our BAO units at a 45% discount to NAV, the same discount at which we bought the units.

Our biggest loser in August was **Kangaroo Island Plantation Timbers** (6.3% of the Fund), which fell 18% for no apparent reason<sup>2</sup> on tiny volume. KIPT is a debt free company that owns 8,874 hectares of land on Kangaroo Island. The value of this land is difficult to estimate, but is almost certainly much higher than KIPT's market value of \$2m. KIPT valued its assets at \$14m in its June 2013 accounts. As the Fund owns 49% of KIPT, the gap between underlying asset value and the share price is potentially very material to unitholders in our Fund.<sup>3</sup>

BAO and KIPT are only two of the highly illiquid securities we own, where the gap between share price and underlying asset value is both wide and where we expect the gap to narrow significantly in the next year or two. Nigel and I estimate that over 25% of the Fund is in such securities. As a result it has become very difficult to value these securities in a way that is fair to both subscribers for new units and to existing unitholders. Thus, in order to protect existing unitholders **we are temporarily closing the fund to new subscriptions**. This decision does not affect the rights of existing unitholders to redeem part or all of their investment in the Fund.

The Fund's NAV per unit was \$1.3754 at month end. The Fund owned securities issued by 22 companies. 14.4% of the Fund was in \$A cash.

Fred Woollard  
10 September 2013

<sup>1</sup> Net Asset Value, usually expressed here on a per share or per unit basis.

<sup>2</sup> I am a director of KIPT.

<sup>3</sup> To put these numbers into context, the Fund's total assets are \$14.4m.

*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.*