

Samuel Terry Absolute Return Fund – December 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 December 2013	STAR	All Ords	MSCI (\$A)
1 month	2.31%	0.92%	3.90%
3 months	7.91%	3.42%	12.23%
1 year	33.80%	19.66%	43.67%
3 years (%p.a.)	18.29%	7.99%	15.17%
5 years (%p.a.)	23.28%	12.67%	10.34%
Since inception on 1 Nov 2003 (%p.a.)	11.13%	9.44%	5.87%

The main reason for the Fund's good performance was its holding of **call options on the ASX 200 Index**, which gives us leveraged exposure to any upside in the index worth more than 150% of the value of the Fund. Our maximum potential loss is only 0.3% of the Fund. We bought these options because implied volatility was at close to a 20 year low, meaning the odds of this "bet" were in our favour. By month end, the position had grown to 1.6% of the Fund.

Part of the rationale for wanting to own cheap call options is that Nigel and I believe that the bull market in Australia and globally probably has further to run, but the bull market is well past its early phase when attractive investments are easy to find.

In both credit and equity markets there are signs of frothiness (eg the recent surge in IPOs in Australia and junk bond issuance globally) that make us want to hold more cash, but on the other hand monetary conditions in most of the developed world continue to push investors to chase yield. Options markets are pricing in an unusual degree of stability, but we worry that the world remains riskier, both politically and economically than the option markets appear to believe.

We benefited from a 6% increase in **Keybridge Capital**, an Australian investor in distressed assets (10% of the Fund) and a 5% increase in **Goldman Sachs**, a US investment bank (7.6% of the Fund).

The Fund's net asset value per unit was \$1.5109 at month end. The Fund owned securities issued by 25 companies. 18.1% of the Fund was in \$A cash.

Fred Woollard
10 January 2014

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.