

## Samuel Terry Absolute Return Fund – February 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 28 February 2013	STAR	All Ords	MSCI (\$A)
1 month	-0.47%	5.18%	2.07%
3 months	8.73%	14.31%	9.33%
1 year	10.98%	21.88%	15.12%
3 years (%p.a.)	21.94%	7.83%	5.23%
5 years (%p.a.)	11.78%	2.36%	0.11%
Since inception on 1 Nov 2003 (%p.a.)	9.49%	9.39%	3.06%

The Fund's disappointing results were due to a writedown in the estimated value of Australian timberland owner **RuralAus** (6.9% of the Fund last month – now 0.1%) from 6.0c to 0.1c. This is because RuralAus will be conducting a large share issue at 0.1c, partly underwritten by the Fund. I am very unsure how to price the shares in this situation, so have decided to err on the side of pessimism.

After the huge losses this company has caused the Fund and other shareholders, pessimism is an understandable reaction. Yet, there are reasons for optimism. RuralAus recently removed its growers and no longer has the costs associated with them. The value of our land and trees is a small fraction of its former value, and what its future value *could* be if timber prices ever recover from their slump, and/or if the Australian dollar ever falls back to its more traditional levels. I also view recent board and management changes as good news for the company.

We were also hurt by a 10% fall in Australian gold miner, **Saracen Minerals** (4.6% of the Fund), partly caused by a 3% fall in the gold price.

Our biggest winner, generating about a 3% gain in NAV, was our position in call options on the Australian ASX200 Index, even after writing off the matching put options. This has been a big winner for us, but unfortunately the options are no longer cheap enough for me to want to buy more<sup>1</sup>.

Other winners included Australian high-yield lender, **Keybridge** (7% of the Fund), which rose 13%, Australian property funds manager **Centuria Capital** (7.6% of the Fund) which rose 11% and Australian medical supplier **ITL** (5.9% of the Fund) which rose 11%, all helped by encouraging profit statements.

Australian oil shale explorer **Greenvale** (1.1% of the Fund) rose 67% after the Queensland government ended the ban on developing its assets. Greenvale is an extremely speculative security, but the leverage of a billion barrel resource at a \$7m market capitalisation appeals to me, despite the company's many challenges.

The Fund's net asset value per unit was \$1.3208 at month end. The Fund owned securities issued by 23 companies. 13.9% of the Fund was in \$A cash.

Fred Woollard  
8 March 2013

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<sup>1</sup> I measure this by the volatility implied by the option price. When we bought the options a few months ago, implied volatility was about 9-10%, close to a 20 year low. It is now about 13%.

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