

Samuel Terry Absolute Return Fund – January 2014 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 January 2014	STAR	All Ords	MSCI (\$A)
1 month	0.56%	-2.76%	-2.23%
3 months	5.87%	-3.22%	6.93%
1 year	25.68%	10.73%	34.54%
3 years (%p.a.)	19.99%	6.97%	12.80%
5 years (%p.a.)	25.01%	13.19%	9.64%
Since inception on 1 Nov 2003 (%p.a.)	11.10%	9.06%	5.59%

Last month, I told you about our gains in **call options on the ASX 200 Index**, which gave us large exposure to any upside in the index. When the market rose, we recorded large gains. This month, when the market fell, the options expired worthless, cutting 1.6% off the value of the Fund. Over the two months, our total loss from the options was only 0.3% of the Fund.

In our share portfolio, our biggest loser was **Goldman Sachs**, a US investment bank (7.2% of the Fund), which fell 7%, partly because of a disappointing profit result.

Our biggest winner was Australian gold miner **Saracen** (6.4% of the Fund), which rose 54%, mostly because Saracen acquired a nearby gold mine at a very low price. We were also helped by a 15% rise in Australian sandalwood grower **TFS** (5.5% of the Fund).

We invested 4.6% of the Fund into **Co-Operative Bank**, a UK bank that recently emerged from a debt restructuring. The attractions of the bank are its low valuation, improving corporate governance and market factors. The bank has not published comprehensive accounts since its restructuring, but I estimate we bought the shares at a 40% discount to tangible book value, and at 5-7 times potential future earnings. This is much cheaper than comparable banks.

Until the restructuring, the bank was owned by a mutual organisation, which (like many mutuals) failed to run the business properly. Since the restructuring, the bank is now controlled by a small group of smart, aggressive US hedge funds. The new owners have made changes to the board and management, and more changes are likely. I have strong confidence that the hedge funds will work hard to fix the bank, in order to lift the share price to a level at which they will be happy to sell.

The shares are not yet trading on the London Stock Exchange, but trade in an unofficial market. This alone will deter many potential investors. As a result of the restructuring, investors who formally owned the bank's bonds involuntarily become shareholders. Many of these new shareholders will want to sell, irrespective of price. A situation in which there are price-insensitive sellers but few buyers, is one that arouses my interest, especially when the company's accounts are opaque.

The Fund's net asset value per unit was \$1.5194 at month end. The Fund owned securities issued by 26 companies. 10.7% of the Fund was in \$A cash.

Fred Woollard
11 February 2014

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