

Samuel Terry Absolute Return Fund – June 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 30 June 2014	STAR	All Ords	MSCI (\$A)
1 month	2.64%	-1.41%	0.56%
3 months	2.69%	0.47%	3.22%
1 year	30.75%	17.64%	19.26%
3 years (%p.a.)	21.01%	9.69%	15.31%
5 years (%p.a.)	24.77%	10.99%	11.36%
Since inception on 1 Nov 2003 (%p.a.)	11.49%	9.25%	5.64%

The Fund's biggest winner in June was **Kangaroo Island Plantation Timbers** (14.5% of the Fund) which rose 17%. Even after this rise, KIPT shares still trade at less than half of their net asset value. KIPT is 48% owned by the Fund.

Other winners included:

- Australian gold miner **Saracen** (4.7% of the Fund) rose 19% due to an encouraging gold discovery.
- Australian property investor **BAO Trust** (2.2% of the Fund) made a large payment to its investors, causing a 23% lift in the price at which it is valued in our books.¹
- Australia's largest wind farm owner **Infigen** (3.4% of the Fund) rose 20% after Clive Palmer² appeared to change his mind on renewable energy regulations.

Once again, our biggest loser was our growing position in a variety of call and put **options**. These cost us about 0.6% of the Fund.

As discussed last month, options across a variety of asset classes are trading at close to record low prices, implying that markets believe we are in a very safe world, both politically and economically. I do not share the apparent view that turmoil is highly improbable. During the month, we bought put and call options on each of the S&P 500 Index, oil and the Australian dollar. We still have call and put options on the Australian stock market and put options on CBA, Australia's largest bank.

By month end, we had a total of 4.6% of the Fund in 11 separate option positions. I have structured it so that our monthly losses from options will probably be less than 1% of the Fund and are unlikely to exceed 2%.

All of this may sound risky, but it does have important benefits for our unit holders. Most importantly, we are fully hedged against a major decline in world markets. We also have substantial leverage to rising markets. From the point of view of our US investors, nearly half the Fund's Australian dollar exposure is hedged.

Markets have remarkably short memories, and many people are "reaching for yield" by writing cheap options, forgetting that when markets turn ugly, they can turn very ugly, very fast.

¹ BAO is in liquidation and has delisted from the Stock Exchange. In the interests of conservatism, we value it at a 45% discount to its Net Asset Value ("NAV"). Whenever BAO makes a payment to its investors, the effect is to unlock part of that discount and lift our unit price.

² Mr Palmer is a coal baron whose Palmer United Party controls the balance of power in the Australian Senate. Until this month, Mr Palmer had not been sympathetic to renewable energy.

Unlike many fund managers, we are willing to tolerate small losses to make our fund safer, provided we are comfortable that the odds are unusually favourable.

The Fund's net asset value per unit was \$1.6478 (cum-distribution) at month end. The Fund owned securities issued by 25 companies. 9.8% of the Fund was in \$A cash.

Fred Woollard
8 July 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.