

Samuel Terry Absolute Return Fund – February 2015 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 2015	STAR	All Ords	MSCI (\$A)
1 month	4.41%	7.00%	4.95%
3 months	5.10%	12.36%	11.02%
1 year	21.93%	13.57%	22.51%
3 years (%p.a.)	21.17%	15.17%	24.19%
5 years (%p.a.)	23.79%	9.46%	14.16%
Since inception on 1 Nov 2003 (%p.a.)	12.33%	9.84%	7.23%

The Fund underperformed this month, as it usually does when markets in Australia and elsewhere rise rapidly. One reason for this is our 20% cash weighting, and having over 50% of the Fund in companies which themselves have net cash. We have also chosen to avoid the popular high-yielding securities like Telstra, real estate trusts and the Australian banks, which have performed well recently. We believe that such companies are much riskier than is generally believed.

We were also hurt by the bankruptcy of **Commstrat**, a small Australian media company which had tried to convert from a magazines business into a digital media company over the last few years. Writing it to zero cost the Fund 0.8% this month.

Our biggest winner was **Hamilton Securities** (4.2% of the Fund), an Australian company whose sole asset is cash, which rose 43% because of a share buy-back.

Australian property manager **Centuria** (5.5% of the Fund) rose 17% after reporting good profit results. Investment bank, **Goldman Sachs**, (7.8% of the Fund) rose 10%.

We bought our first high-yield bond in several years¹. 2.2% of the Fund was invested in a bond which we bought at a large discount to face value. We believe that there is a reasonable chance that this company will survive, in which case we will receive the bond's yield, which was in the high-teens when we bought it. If the company does not survive, which is quite possible, then the value of the company's assets is significantly greater than the price we paid for the bonds. This gives us a good chance of doing well, even if the company fails. We hope to buy more of this bond and expect to add other bonds with similar characteristics to our portfolio over coming years. This is one reason we are trying to increase our cash weighting.

The Fund's net asset value per unit was \$1.5118 at month end. The Fund owned securities issued by 21 companies. 19.7% of the Fund was in \$A cash.

Fred Woollard and Nigel Burgess
12 March 2015

¹ Fred has been occasionally investing in high-yield and distressed bonds for over 25 years. Despite this experience, the cyclical extremes of those markets still continue to amaze him. After the crazy highs of global bond markets in recent years, we think a nasty bear market in bonds, especially high-yield bonds, is a strong probability, but we wish we could know when it's coming...

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