

Samuel Terry Absolute Return Fund – January 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 January 2013	STAR	All Ords	MSCI (\$A)
1 month	7.06%	5.08%	4.46%
3 months	9.25%	8.97%	7.88%
1 year	11.39%	18.68%	17.14%
3 years (%p.a.)	21.78%	6.67%	4.55%
5 years (%p.a.)	10.82%	1.39%	-0.98%
Since inception on 1 Nov 2003 (%p.a.)	9.62%	8.88%	2.86%

The Fund's biggest winners this month were our **ASX200 Index¹ option positions**, which contributed a net 1.3% of our gain. During the month, we bought more call and put options on the index, still at levels of implied volatility at close to 20 year lows, despite surging stockmarkets. At month-end, 2.8% of the Fund was in these options, whose exercise value covers 85% of the Fund. The effect of this is that if the market has a rapid rise, the value of our fund should go up even faster; if it is flat or goes down, our losses should be small². I regard this combination as a very attractive bet, provided the options are bought cheaply enough to ensure favourable odds.

Other big winners included investment banks **Goldman Sachs** (6.9% of the Fund) and **Macquarie** (3.7% of the Fund) which rose 16% and 8% respectively. Goldman Sachs shares were helped by a superb fourth quarter result. Despite my belief that the outlook for most investment banks and stockbrokers is bright, the Fund sold part of its Macquarie holding during January for risk management reasons.

We sold out of Australian debt collector **Collection House** (3% of the Fund last month) after the shares rose 30% because of a much-improved profit result. I had always had doubts about the company, but was willing to put these aside while the shares were trading at very low prices relative to earnings and asset value. During the two years we owned them, the shares delivered a total return of over 100%.

Australian property fund manager **Centuria** (6.7% of the Fund) rose 13% for no obvious reason.

Japanese property owner **Astro Japan** (4.5% of the Fund) rose 19% because of a favourable debt restructuring which improved Astro's balance sheet and added to its NAV³ and dividend per share. I estimate that Astro trades at a discount to NAV of over 35%, at about 6x earnings and its likely dividend yield is about 6%. I think there is a strong probability that the discount to NAV will narrow over the next few years.

The Fund's net asset value per unit was \$1.327 at month end. The Fund owned securities issued by 23 companies. 12.5% of the Fund was in \$A cash.

Fred Woollard
8 February 2013

¹ This refers to the index of Australia's 200 most valuable companies.

² The reason for this outcome is that in addition to the options, 85% of the Fund is in equities. If the market goes up sharply, then our call options and our shares should both go up, but if the market falls then the rise in the put options should offset some of the fall in our shares.

³ Net Asset Value

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.