<u>Samuel Terry Absolute Return Fund</u> – July 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 July 2013	STAR	All Ords	MSCI ($A)
1 month	6.87%	5.46%	6.50%
3 months	8.64%	-1.81%	16.97%
1 year	27.50%	22.67%	41.41%
3 years (%p.a.)	23.89%	8.38%	11.95%
5 years (%p.a.)	16.63%	4.40%	5.44%
Since inception on 1 Nov 2003 (%p.a.)	10.33%	8.93%	4.96%

The Fund's good performance in July had several causes. Our biggest winner was French toll road owner **Macquarie Atlas Roads**, which rose 16%, helped by good traffic data. We sold half our shares during the month, reducing our weighting to 4.7%. The reason for this is that because of the shares' strong performance, my expectation of long-term return has fallen to around 10-13%pa. The riskiness caused by French politics and European instability is too serious to justify a large exposure to a French toll road at such a low expected return. I still like this asset, but managing risk is as much a part of my job as generating returns.

Other notable winners included:

- Australian gold miner **Saracen** (4.9% of the Fund) rose 39%, helped by a 9% increase in the $A gold price.
- Australian wind electricity generator **Infigen** (5.3% of the Fund) rose 20% helped by encouraging production data.
- Australian insurance company **Calliden** (4.9% of the Fund) rose 19% for no obvious reason. We sold some of our shares.
- US investment bank **Goldman Sachs** (7.6% of the Fund) rose 8%, helped by good quarterly profits.
- Japanese property owner **Astro Japan** (4.8% of the Fund) rose 16% for no obvious reason.

We sold our shares in US finance company **CIT Group** (formerly 4.3% of the Fund). We bought CIT bonds in 2009, shortly before CIT went bankrupt. CIT's restructured bonds[1] and shares have generated a total return for us of about 33%pa, which is very satisfactory considering that CIT's strong asset value protected our downside when we bought the bonds.

We started buying an Australian junior mining company at just over half its cash backing, but by month-end had invested only 0.6% of the Fund in this company.

The Fund's net asset value per unit was $1.3468 at month end, after paying a distribution of $0.1231 per unit. The Fund owned securities issued by 22 companies. 9.4% of the Fund was in $A cash.

Fred Woollard
13 August 2013

[1] When CIT went bankrupt in late 2009, our old bonds (which cost us 55% of face value) were cancelled. We received new bonds worth 70% of the old bonds' face value, and we received CIT shares, as the old shareholders were wiped out. The new bonds were repaid in early 2011.

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