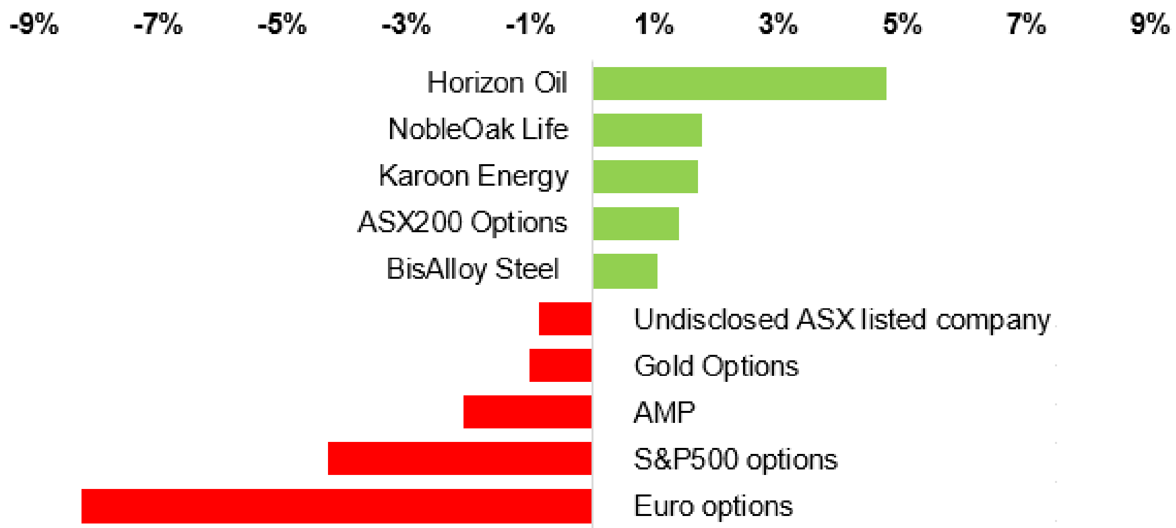
Dear Unitholders,

The Fund's results during the year are shown in the following table, which compares the Fund's return (pre-tax, net of fees[1]) to the Australian All Ords Index and the MSCI World Index:

To 30 June 2022	STAR Founder Class	All Ords	MSCI ($A)	STAR A Class
1 year	-1.5%	-7.4%	-9.4%	-1.4%
3 years (%p.a.)	16.4%	3.8%	6.6%	14.9%
5 years (%p.a.)	18.8%	7.2%	8.9%	17.2%
10 years (%p.a.)	22.7%	9.4%	13.0%	
Inception in November 2003 (%p.a.)	16.0%	8.3%	7.5%	

The Fund generated a negative return but performed less badly than world markets.

Top contributors to 2022 return[2]



The largest positive contributors to our returns were our oil holdings, helped by a 52% increase in the oil price[3]. Horizon Oil jumped 57% as the company pivoted to a strategy of distributing cash flow to shareholders. Diamond Offshore, Karoon and FAR also made useful returns for us.

The largest negative contribution came from options trading, which reduced our annual return by 12%. The Fund has a long history of options trading. We periodically buy options when expected volatility is compressed and bought options offer irrationally priced odds.

[1] Please note that the returns for A Class Units and the Founder units are different as the A Class units have a different hurdle rate for performance fees.
[2] STAM Internal estimate of contribution to NAV return before fees.
[3] Calculated using the Brent spot futures price.

We don't write options – our capital at risk has been and will be limited to the bought option premiums. Overall, this has contributed substantially to our returns over time, despite periodic losses.

Traditionally, we have sized our option investments so that the Fund would only suffer modest losses if all the positions went to zero. The rosy market conditions of 2021 compressed volatility expectations and presented what we believe were irrationally priced opportunities. We were particularly encouraged by the opportunity set and consequently decided to more than double the traditional acceptable loss threshold. This was soon followed by a string of option losses[4].

We have since concluded the increased loss thresholds are not appropriate for the Fund. In any options trading, the Fund will revert to the traditional lower risk thresholds[5]. We presently have no outstanding option positions.

How we see our role

We want to remind unitholders how we manage your capital. When thinking about the assets we hold in the Fund, we do not think of our role as running a traditional fund.

Instead, we think of ourselves as running a family office with a long-term investment horizon. We think of our investors as highly averse to any risk that could severely reduce their net worth. They are rational risk takers, smart enough to accept moderate losses on individual trades, provided the odds on the trade are highly advantageous. Our investors are also willing to have a large proportion of their net worth in one security, provided the downside is small and the upside large. They will accept a bumpier ride, provided that, overall, it is likely to make them a lot richer.

We do not see ourselves as takeover raiders, but if the opportunity arises to buy control of a company on incredibly attractive terms, we are open to having a large proportion of the Fund in such an asset.

Our views on these matters are significantly influenced by the fact that we all continue to have a high proportion of our own net worth invested in the Fund. Unlike many fund managers, our interests are strongly aligned with our unitholders.

Outlook

2022 has, so far, been a poor year for most asset classes, including bonds, equities and real estate in major western countries. Overall, "safe" government bonds are down over 15% this year and some are down over 50% (!) in the last twelve months[6].

Despite these falls, few asset classes are attractive. Even after inflicting large losses, government bonds yield much less than inflation, and the extra yield available for lending to companies mostly provides inadequate compensation for the potential losses one might suffer in a recession. Recent market conditions have prompted corporate exuberance, leverage and

[4] Strings of losses are a feature of our kind of options trading, as are occasional large profits.
[5] In order to allow us and our unitholders to take positions reflecting different risk appetites we have established a separate options vehicle for future trades. For further information on the structure please see our September 2021 Quarterly Report available here < https://samuelterry.com.au/pdf-reports/2021-Sep_QR-for-STAR-Group.pdf>
[6] The 1.25% 30 year US Government bonds issued in 2020 are presently trading below 50c. Other examples include the Austrian Government 0.85% 2120 bond, and the UK Government 2068 inflation-linked bond.

unsustainable operating models. The “all you can eat” phase of the credit cycle has passed; the tide is now going out…

The one sector of the market we continue to regard as generally attractive is the oil industry. We aggressively allocated to this sector in 2020 and have been rewarded to date. During 2022 we took profits and reduced our oil exposure by approximately one-third for risk management purposes during the year. We remain optimistic despite our sales; approximately 25% of the Fund remains invested in oil exposed securities.

Global oil demand is continuing to grow, especially in poorer countries, but oil companies are not spending enough to replace reserves. Over time, this could lead to sustained higher prices, and cause some oil companies to increase development and exploration spending. This is part of the reason 15% of the Fund remains invested in Diamond Offshore, which rents drill ships to oil companies.

Governments across most of the developed world are running large deficits and have printed massive amounts of new money. We are now seeing the high inflation that was an inevitable consequence of those policies. We expect a time will come, possibly soon, when central banks and their political masters will face an ugly choice between letting inflation worsen and the severe economic pain (recession, large scale corporate bankruptcies and much higher unemployment) necessary to get inflation and government finances back under control. Neither alternative is good news for most bond or equity investments, however any associated market dislocations could present attractive investment opportunities.

The world appears unusually fragile and unstable, whether one looks at geopolitics, economics or financial markets. We cannot predict the future, but we do try to ensure that our Fund is strong enough to survive difficult conditions.

We have increased our cash weighting to 21% of the Fund, even as inflation is eating away at the value of that cash. We are doing this so that we are prepared to “go shopping” when markets are next “on sale”. As interest rates on cash remain low, a large cash weighting will continue to harm our short-term returns. We regard this as a price worth paying to have the ability to buy when no one else is willing or able to do so.

We are comfortable with the current portfolio and optimistic about our continued ability to generate attractive returns.

We thank you for your support.

Fred Woollard, Nigel Burgess and Mitch Taylor.

31 October 2022