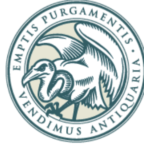


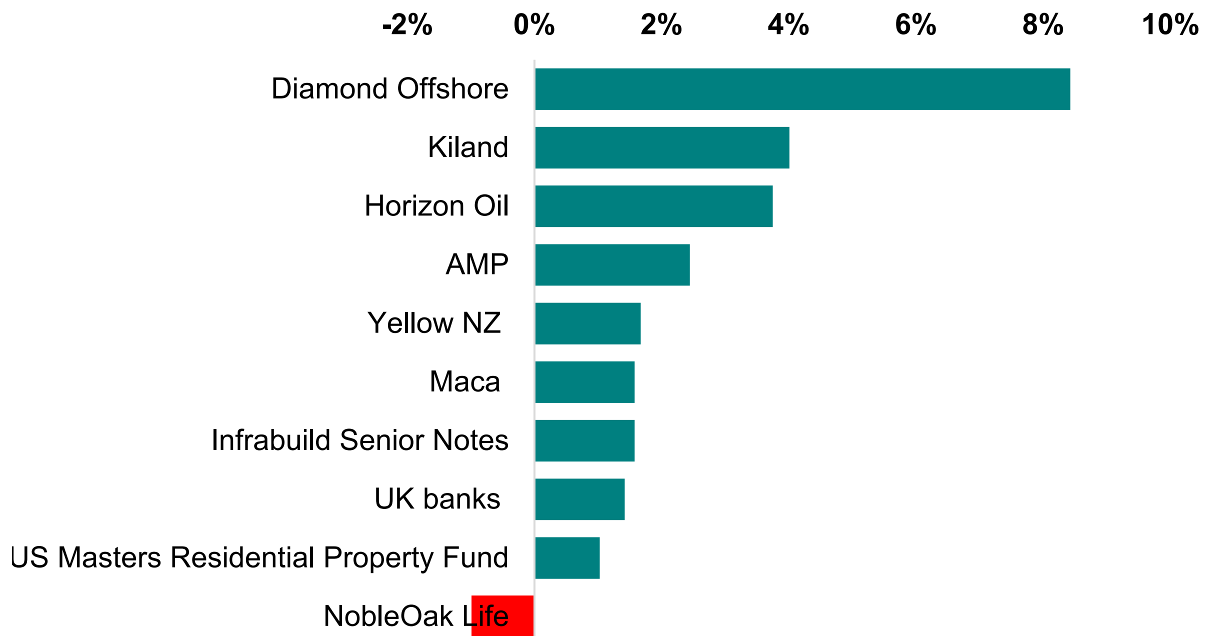
Dear Unitholders,

Our Fund had a good year, both in absolute terms and relative to global markets.

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

To 30 June 2023	STAR Founder Class	All Ords	MSCI ($A)	STAR A Class[1]
1 year	29.2%	14.8%	20.2%	26.2%
3 years (%p.a.)	20.8%	11.4%	12.3%	18.6%
5 years (%p.a.)	17.7%	7.3%	9.8%	15.6%
7 years (%p.a.)	20.0%	9.0%	11.4%	
10 years (%p.a.)	23.7%	8.8%	12.0%	
Since inception in 2003 (%p.a.)	16.6%	8.6%	8.2%	

Top contributors to 2023 return[2]



Once again, the Fund benefited from its oil exposed holdings, despite a 35% drop in the oil price.[3] Our largest holding, Diamond Offshore rose 142%, because of increased rental rates for drill ships. We sold some of our Diamond shares during the year and have continued to sell recently for risk management purposes. Horizon Oil generated a 37% total return, mostly in the form of cash distributions to shareholders.

[1] Please note that the returns for A Class Units and the Founder units are different as the Founder units in STAR have a different hurdle rate than the A Class Units.
[2] STAM internal calculation of contribution to NAV return.
[3] Using US Brent spot futures price.

We remain optimistic about the long-term outlook for oil and oil shares, provided that companies are disciplined with their capital allocation.

Kangaroo Island landowner, Kiland, rose 58% as the company made good progress on its plan to convert its burned timber plantation into farmland, biochar and carbon removal credits.

The Fund sold its majority stake in Yellow Holdings, owner of the NZ Yellow Pages, realising a substantial profit over its four-year holding period.

We invested 9% of the Fund in Infrabuild notes and 8% in Theiss Holdings bank debt. Both positions generated returns of over 15% pa but were low-risk due to their substantial secured asset coverage. Thiess has since repaid us and Infrabuild is due to repay us in October 2024.

Change to redemption policy

Until now, unitholders have been able to redeem part or all of their investment in the Fund by giving notice two weeks before the end of any month. We are in the process of amending the Fund's Information Memorandum to require three months' notice of withdrawal.

As an example of how this will work: if you give notice to redeem in November, it will be treated as an application to redeem at the end of February, and you will receive proceeds in March.

This change will better align our assets and liabilities. *When* the next financial crisis occurs, it is important to ensure that we can snap up bargains (as we have done in previous crises) from forced sellers, rather than being forced sellers ourselves.

How we see our role

We want to remind unitholders how we try to 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 employer 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 employer is 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 aligned with our unitholders.

Outlook

The world is fragile and unstable, whether one looks at geopolitics, economics or financial markets. We cannot predict the future, but we try to ensure our Fund is strong enough to survive difficult conditions and also capitalise on attractive opportunities that may arise.

A key financial risk is excessive government debt and wide budget deficits in many developed nations. The US predicament is particularly concerning; with a federal budget deficit of 7% when the economy is strong, and the nation is at peace. Unfortunately, neither side of politics have an appetite or incentive to reduce this deficit.

When the US next experiences a recession or war, the deficit is likely to worsen significantly. Concurrently, the Federal Reserve continues to de-leverage by running off its enormous bond portfolio, and certain sovereign buyers are reducing their exposure to US government debt amid heightened geopolitical uncertainty.

This might not end well. Markets may increasingly recognise that long term US government bonds are not risk-free assets.[4] Potential consequences of higher rates and inflation could be nasty, both for the US as a country and for global markets. This reinforces our desire to be cautious, to favour lowly leveraged real assets, and to be ready to take advantage of market dislocations. We remain concerned about inflation, despite its recent falls in some countries. This is one reason we try to keep about half the Fund's cash in gold.

On a bright note, Australia's government has a budget surplus. We hope this continues, at least until Australia next faces recession.

A decade of persistently low rates encouraged risk taking. Many corporates - especially those owned by private equity sponsors - borrowed enthusiastically at low interest rates over the last few years. Now that interest rates are higher and credit standards tighter, many issuers are over leveraged, and some are coasting towards bankruptcy. We continue to find attractive opportunities in these markets and anticipate a growing opportunity set.

Increasing interest rates and structural changes in the way Australian retirement savings are invested is reducing capital flows into Australian listed small companies. As a consequence, Australian listed small companies are relatively cheap. We are finding attractive opportunities to invest passively, as well as to incentivise and partner with existing management teams to realise value. Corporate managers who are sick and tired of waking up to an irrationally low share price and would like an incentive to realise the difference to value are encouraged to give us a call.

We are comfortable with the current portfolio and are finding new securities to buy.

We thank you for your support.

Fred Woollard, Nigel Burgess and Mitch Taylor

6 November 2023

Samuel Terry Asset Management Pty Limited (AFSL 278294) does not guarantee the repayment of capital or any particular rate of return from the Fund. 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.

[4] Some argue the USA cannot default because it can print its own currency. This argument is technically correct, but it does not invalidate our view that US government debt is not risk-free. The ability to print money converts the risk of formal default into the risk of receiving cash with purchasing power much less than it was when the bond was bought. Any large-scale monetisation of US government debt would likely lead to higher interest rates and lower bond prices.