Samuel Terry Absolute Return Fund and Samuel Terry Absolute Return Active Fund (together, *the Fund*) – September 2020 quarterly report

The Fund's performance (pre-tax, net of fees) and those of the Australian All Ordinaries Accumulation Index and the MSCI World Equities Index, are as follow:

To 30 September 2020	STAR F-units*	All Ords	MSCI ($A)	STAR A-units*
1 quarter	-0.5%	0.4%	4.2%	-0.4%
1 year	9.0%	-9.4%	3.3%	8.1%
3 years (%p.a.)	17.6%	5.2%	9.5%	15.9%
5 years (%p.a.)	21.5%	7.6%	9.4%	N/A
7 years (%p.a.)	23.0%	6.2%	11.6%	N/A
10 years (%p.a.)	22.0%	6.9%	11.8%	N/A
Since inception on 1 Nov 2003 (%p.a.)	15.6%	8.0%	7.6%	N/A

Performance during the quarter was driven by losses in **Diamond Offshore bonds** (4.6% of the Fund) which fell 24% and cost 1.9% of the Fund. We are involved in Diamond's restructuring and are consequently restricted from trading and limited in what we can say. Other losses in **AMP** (4.8% of the Fund) and **UK Banks** (4% of the Fund) erased a further 2%, but were more than offset by gains in **gold** (18% of the fund), **Nine Entertainment Co** (4.6% of the Fund), **Carnival Corporation bonds** (4.9% of the Fund) and several undisclosed positions.

We did not add any new names to the portfolio during the quarter, although continued to buy securities issued by several undisclosed companies. We remain overweight gold, commodities and "traditional" financials. Less than 1% of the Fund is invested in technology companies.

Changes at STAM: Ouafaa Karim has joined as Chief Operating Officer. Ouafaa has more than 25 years' experience in fund compliance, operations and management. We have all worked with Ouafaa previously and are delighted to welcome her to Samuel Terry.

The Fund's net asset value was $285m or $2.79 per Founder unit and $10.6580 per A Class unit at quarter end. 26.2% of the Fund was in cash, mostly gold. The Fund owned securities issued by 29 companies.

Fred Woollard, Nigel Burgess and Mitch Taylor
15 October 2020

https://twitter.com/FredWoollard

*Performance numbers are net of all fees and admin costs. The difference in returns between F units and A units is due to A units having a lower performance hurdle for calculating performance fees.

SAMUEL TERRY
ASSET MANAGEMENT

Samuel Terry Absolute Return Group - A Class Units

15 October 2020

Fund Summary

Fund Name	Samuel Terry Absolute Return Group comprising Samuel Terry Absolute Return Fund and Samuel Terry Absolute Return Active Fund*
APIR Code	STP9437AU
Fund inception	November 2003
Fund Size	A$296m
Base Currency	Australian Dollars
Investor eligibility	Wholesale investors only
Fund Liquidity	Monthly for applications and redemptions
Administrator and Custodian	Link Fund Solutions
Auditor	Grant Thornton
Management fee	1.5% plus GST p.a
Performance fee	20% of benchmark outperformance, with a high water mark, paid annually
Benchmark	RBA cash rate plus 2% p.a
Buy/Sell spread	0.5%
Platform availability	Powerwrap, Netwealth, Ausmaq

*See Appendix A for representation of legal structure

People | Small team. Experience through market cycles and across asset classes

Investment Team

Fred Woollard
Founder and Managing Director

Fred has worked in financial markets since 1981. Prior to founding Samuel Terry in 2003, Fred worked for Hunter Hall International Limited, a European family office and various stockbroking firms in Australia and the UK. Fred has an Economics degree from University of Sydney.

Nigel Burgess
Director

Nigel has worked in financial markets since 1985. Prior to joining Samuel Terry in 2009, Nigel also worked at Hunter Hall International Limited, the same European family office, Friends Provident and GIO Australia. Nigel has an Economics/Finance degree and an Accounting Masters degree, both from University of NSW.

Mitch Taylor
Portfolio Manager

Mitch has worked in financial markets since 2009. Prior to joining Samuel Terry in 2017, Mitch worked for a boutique Australian fund manager. Mitch has a Commerce degree from University of Sydney and a Master of Applied Finance from Macquarie University.

Support Team

Therese Cochrane
General Manager

Therese started work as a banking and finance and commercial lawyer in 1987. She has worked in private practice in Sydney and in-house for investment banks in London. She has an Economics degree, majoring in Accounting and Economics and a Law degree, both from University of Sydney and a Masters in Law from University of Cambridge.

Ouafaa Karim
Chief Operating Officer

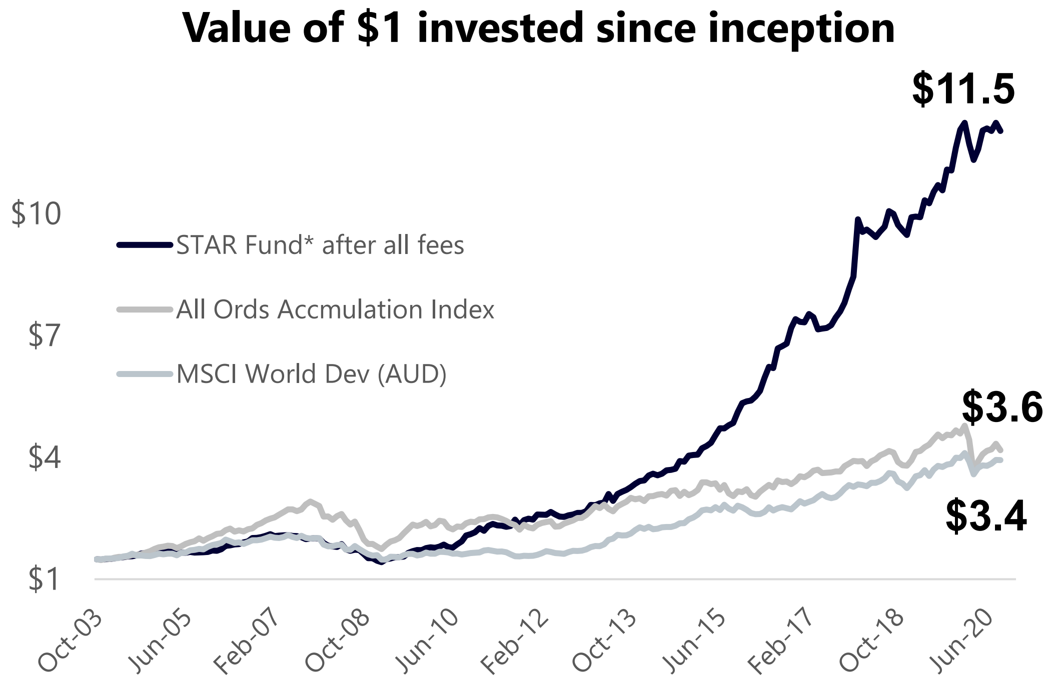
Ouafaa has over 30 years experience in the financial services industry in the fields of operations, compliance and company secretarial. Prior to joining Samuel Terry, Ouafaa worked with CBA, AMP and MLC. Ouafaa also worked at Hunter Hall International Limited. Ouafaa has a Bachelor of Arts and a Masters in Commercial Law from Macquarie University.

Mike Conway
Business Development

Mike has worked in financial markets since 1993. Mike was a leading institutional stockbroker at UBS and Bank of America before retiring from stockbroking in 2016. Mike has relocated to Byron Bay and remains entrenched in financial markets. Mike has a business degree from UTS.

Performance | Good returns for 16 years

To 30 September 2020	STAR Fund* after fees	All Ords Accumulation Index	MSCI World Developed Index (AUD)
1 month	-1.7%	-4.1%	-0.1%
1 quarter	-0.5%	0.4%	4.2%
1 year	9.0%	-9.4%	3.3%
3 years (%p.a.)	17.6%	5.2%	9.5%
5 years (%p.a.)	21.5%	7.6%	9.4%
7 years (%p.a.)	23.0%	6.2%	11.6%
10 years (%p.a.)	22.0%	6.9%	11.8%
Since inception	15.6%	8.0%	7.6%



*Founder units – A class units have a different hurdle rate.

What makes the fund different? | We have significant personal investments in the fund… we eat our own cooking

Flexible

- NOT attempting to track any index.
- Invests globally, although have a bias to Australia.
- Looks beyond equities. At times capital allocated to distressed debt and options.
- Invests across the range of market capitalisations, from Microsoft to <$50m.
- Willing and able to invest in unlisted and illiquid securities.
- Willing and able to be active investors.

Conservative

- Often holds lots of cash. Since inception, the average cash weighting has been 18%.
- NO borrowing or leveraging of the fund.
- NO short selling
- Does not write options, will only buy them periodically.
- The majority of investments are usually in companies which themselves have net cash. This helps us sleep at night, especially when markets are slumping.

Uncomplicated

- Invests only in companies and financial instruments we understand.
- Low frequency traders. Since inception, annual portfolio turnover has been less than 50%.
- We have limited brain space and limited good ideas. Invests heavily in our best ideas. The portfolio is more concentrated than most.
- If we cannot find investments which offer attractive risk/reward, we will hold cash and wait.
- Provides a high degree of transparency.

We aim to maximise post tax returns for our Australian unit holders.

What makes the fund different? | Unique Approach. Wide opportunity set, looking for simple characteristics

"One way bets"

Heads, I win...
Tails, I don't lose...

Typically ~80% of capital employed.

"Irrational odds"

Heads, I win $5...
Tails, I only lose $1...

Typically less than 20% of capital employed.

Current Portfolio | Portfolio Snapshot at 15 October 2020

- 31% of capital invested in companies with net cash, of which 4% is in companies whose net cash exceeds their market capitalisation.
- 20% of capital is invested in corporate credit.
- We aim to hold securities issued by 15-35 diverse names.
- Top 20 holdings represent 92% of capital. The Fund currently owns securities issued by 30 names.
- 48% is invested in Australian securities, 28% is invested in non-Australian securities

Top Holdings	% of NAV
Cash (gold is 18.0% of total)	23.7%
Undisclosed corporate bond	6.8%
Australian Banks (Westpac and NAB)	6.3%
Kangaroo Island Plantation Timbers	6.2%
Nine Entertainment Co	4.9%
AMP	4.8%
Carnival Corporation 2022 bonds	4.7%
Diamond Offshore Drilling bonds	4.6%
Undisclosed corporate bond	4.3%
UK banks (Virgin Money, Barclays, Lloyds)	4.0%

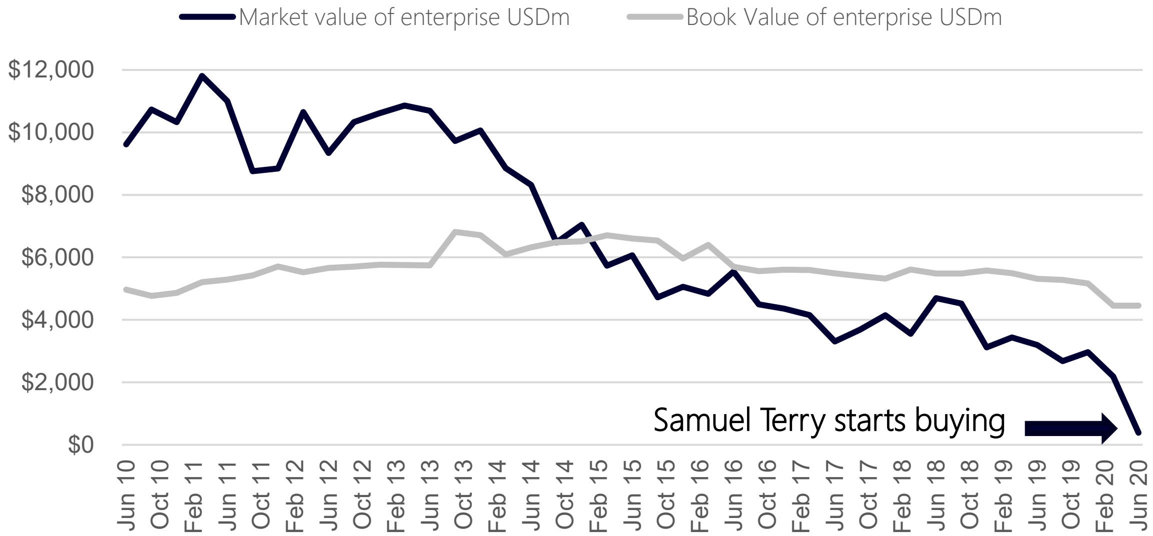
Top Sectors

Cash & Gold	Financials	Energy
23.7%	18.1%	10.0%

Current Holding | Diamond Offshore Drilling unsecured bonds. EV: USD160m

- Diamond is an offshore driller with a history of rational capital allocation decisions. It owns and operates 15 drilling vessels with a book value in excess of USD4bln.
- In April 2020 Diamond selectively entered Ch11 bankruptcy to restructure its USD2.4bln of debt and create a sustainable capital structure. In response, Diamond's unsecured bonds were sold aggressively in the secondary market.
- We bought 6.5% of Diamond's outstanding unsecured bonds at around 12c per dollar of face value. This equates to an enterprise value of less than USD250m, a fraction of the market value just 6 months ago.
- With approximately 60% of the fleet under contract for the next two years, a simple capital structure and no shipyard liabilities; short term visibility of cash flow is better than peers.
- Diamond is currently negotiating with creditors. We hope and expect our claim will be converted to equity. We expect Diamond will emerge from bankruptcy within 12 months with limited debt, however may need more capital at some stage.
- Offshore drilling is cyclical. In the future, oil companies could restart exploring for oil offshore, and Diamond's ships could again be very valuable. In the meantime, we are comfortable holding the least leveraged player with rational managers.

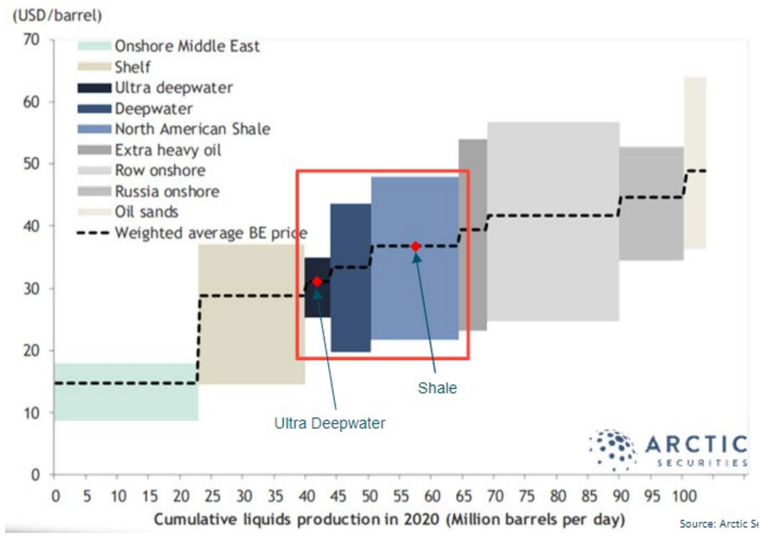
Diamond is trading cheaply, when compared to history



Current Holding | Diamond Offshore Drilling unsecured bonds. EV: USD160m

- At the price we paid for Diamond, not a lot needs to go right.
- Offshore oil accounts for approximately 30% of global oil production and now operates at attractive "break-even" oil prices. We think offshore oil production will exist in 10 years, however the industry is likely in structural decline.
- High oil prices from 2011- 2014 spurred a boom in offshore oil drilling, and corresponding a boom in new vessel building. Drilling vessels take years to build and some are only just completing.
- Since 2015 the industry has been oversupplied. Although offshore drilling has sustained, shorter (higher break-even) paybacks available in unconventional oil, and lower general oil CAPEX has limited demand. We don't think demand will return to 2014 peaks.
- Legacy term contracts have enabled the industry to stall the inevitable retirement of sub-economic vessels. Recent oil volatility has prompted majors to defer CAPEX. The likely impact is a string of bankruptcies. New vessel owners may be more pragmatic on rig retirement decisions which could in-turn reduce supply to more sustainable levels.

Deepwater oil has high CAPEX but attractive break-even



The market for vessels was oversupplied even before COVID-19

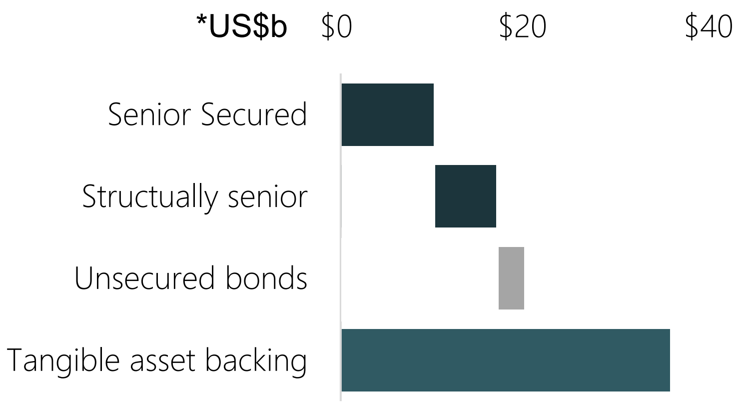
Source: Rystad Ucube, IHS

Current Holding | Carnival Corp unsecured bonds due 2022: EV: USD25bln

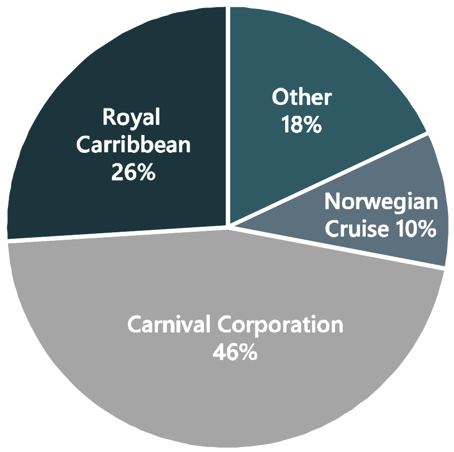
- Carnival Corporation is the world's largest owner and operator of cruise ships. It owns 104 ships including the now infamous Diamond Princess and Ruby Princess.
- The outbreak of COVID 19 has forced the company to stop operating, cut costs and refund customer deposits. The shut-down will cost Carnival USD1bln per month. Carnival's shares have fallen 80%, and bonds more than 30%. To fund anticipated losses, the company has been forced to raise USD6.25bln in debt and equity.
- We bought the 2022 unsecured bonds in the secondary market at a yield above 17%.
- Our bonds have significant asset coverage with a total LVR less than 60%. On last year's earnings, even after adjusting for this year's anticipated losses, the group's total debt is less than 4x EBITDA.
- Carnival is the largest player in a global oligopoly, has a history of consistent returns on assets, a favourable demographic exposure and pays negligible tax.
- If the situation only halts operations for 1 year and Carnival eventually returns to profitability, or if it gets worse but Carnival continues to have positive equity value – we will earn 17% for the next few years.
- If the situation gests significantly worse and cruise operators are closed for the next two years, litigation spikes or significant capital is required – we will likely be converted to equity at what we expect could be attractive prices.

*Samuel Terry forecast

Asset coverage anticipated at end 2020*



Global share of cruise ship market



Source: Bloomberg

Current Holding | AMP Limited. Market Cap: A$4.9b

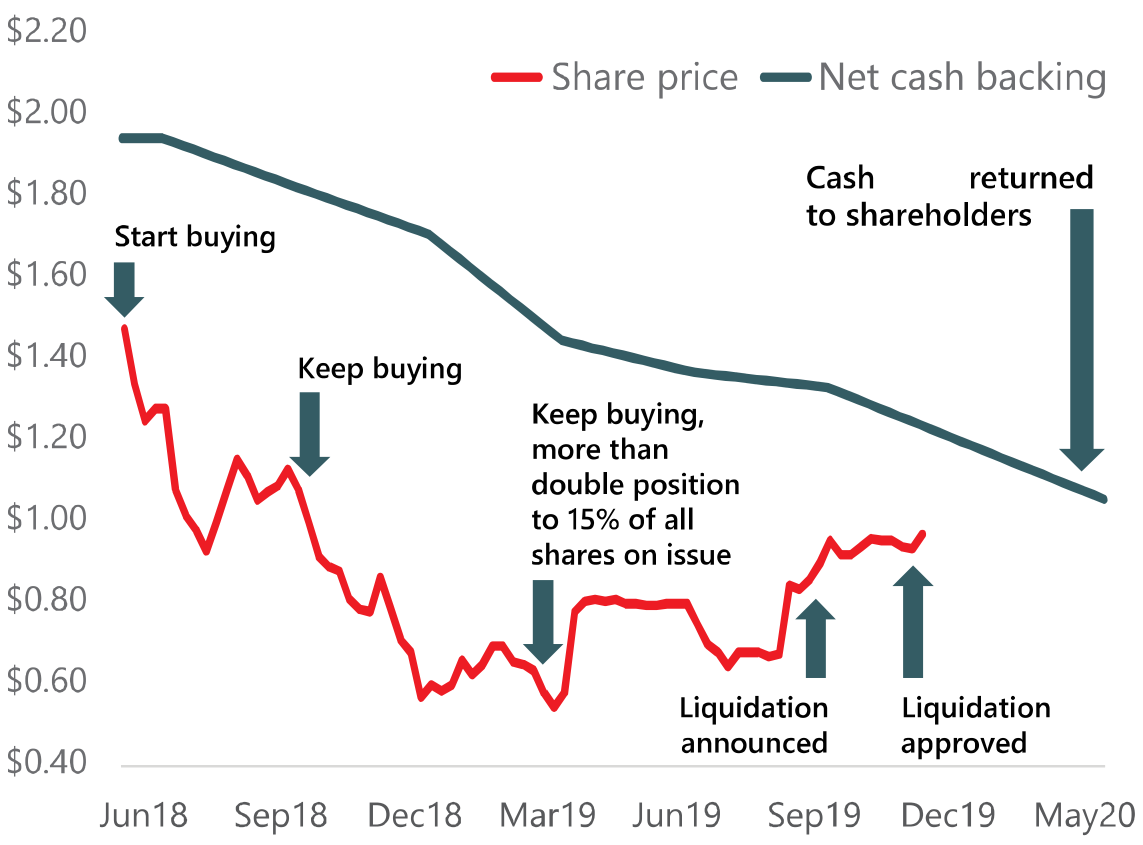
- AMP is a dirty acronym. The long time "fifth pillar" of Australia's financial system has suffered severe reputational damage following revelations of systemic overcharging and a "toxic" culture.
- AMP has a poor track record of capital allocation. Until recently, the company seems to have been run largely for the benefit of its financial advisors and employees, not shareholders. Continued underperformance combined with a "me too" culture scandal spurred a shareholder revolt and subsequent resignation of key management and Board members. In response the new chair has formally launched a strategic review to consider a sale of some or all of AMP.
- We think the strategic review is real and that there will be strong interest in AMP's infrastructure and property funds management business. In this context the implied value of the remaining business units is appealing at the current share price of $1.41. We think the margin of safety is generous and the risk/reward is attractive.

AMP Limited – A$m	Est. NTA	Est. Value	Est. Value / share	Comment
AMP Capital – Infrastructure	$125	$2,500	$0.73	$26bln (mostly) external FUM. Top 10 global player in growing market. Easy to disaggregate from AMP.
AMP Capital – Property	$125	$1,000	$0.29	$28bln (mostly) external FUM. Top 5 local player with poor reputation. Peers trade at 5-8% of FUM. Easy to disaggregate from AMP.
Excess Cash	$674	$674	$0.20	Cash in excess of that required to fund and run operations.
AMP Wealth Management	$607	$1,500	$0.44	At discount to recent peer transactions (13x P/E). Includes ~$600m booked provision for conduct and further $300m unbooked provision for future conduct and/or class action.
AMP Bank	$1,076	$1,000	$0.29	Attractive bank at ~10x P/E.
AMP Capital – Stub	$280	$1,000	$0.29	More than $100bln of FUM. Mostly internal.
New Zealand Wealth Mgmt	$89	$450	$0.13	Profitable mkt leading franchise.
China Life Pension Company stake	$350	$500	$0.15	Profitable and growing.
Resolution life stake	$500	$500	$0.15	Retained minority interest
Corporate overhead	($208)	($1,250)	($0.36)	Ongoing corporate costs.
Total:	$3,618	$7,875	$2.28	

Historical Holding | OneMarket Limited. Market cap: $112m (immediately prior distribution in June 2020)

- OneMarket is a former technology business, now in liquidation. The company will return $1.08 in cash to shareholders in June 2020.
- Spun-out of Westfield Corporation in June 2018. For every $100 worth of Westfield shares, holders received less than $1 of OneMarket shares. Many holders were motivated sellers.
- We originally bought shares because they were trading for less than cash backing and a fraction of invested capital. We thought investing in the company's technology was a worthy investment with significant upside.
- The management and Board were first class, we expected they would act rationally and return cash if further investment in the technology was irrational.
- Unfortunately the technology did not work out. However, the company was liquidated with significant cash remaining.
- We still made a profit.

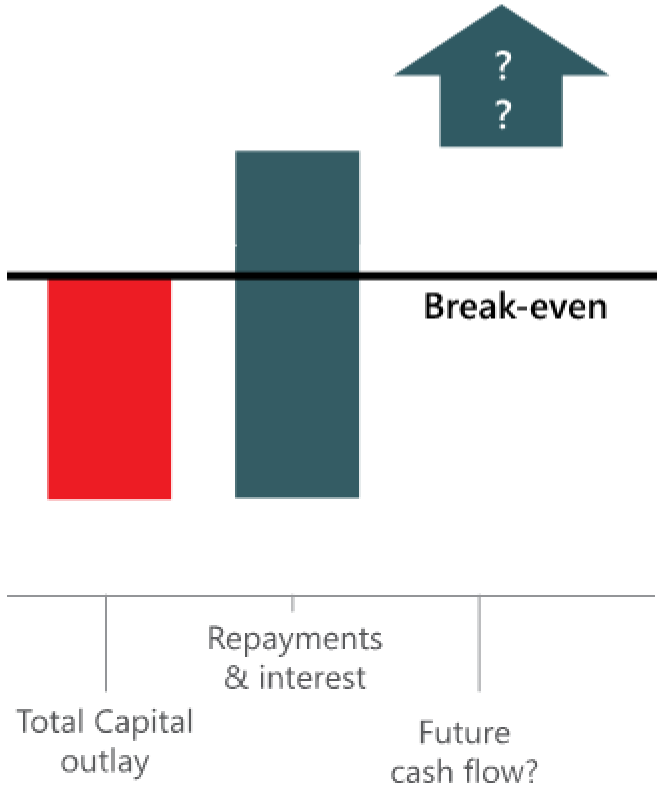
OneMarket Limited share price vs net cash backing



Current Holding | Yellow Holdings NZ. Unlisted

- Yellow Holdings is an unlisted company which owns the NZ yellow pages and a suite of associated digital businesses. We own 79%.
- Sold by Telecom NZ to private equity in 2007 for more than $2bln. Since then Yellow has been through numerous restructurings. It has consistently generated cash, at a declining rate.
- We acquired our interest between Dec 2018 and August 2019 in the secondary market. We bought from motivated sellers at attractive prices.
- Since taking control, we have restructured the Board, capital structure and management incentives. We are now in safe hands.
- Cash generation has continued. We have already been paid back more than our investment.
- The company should continue to generate cash at a declining rate. It has no material long-term liabilities.
- We are optimistic about the company's outlook despite it being part of a declining industry.

Investment cost vs cash flow %

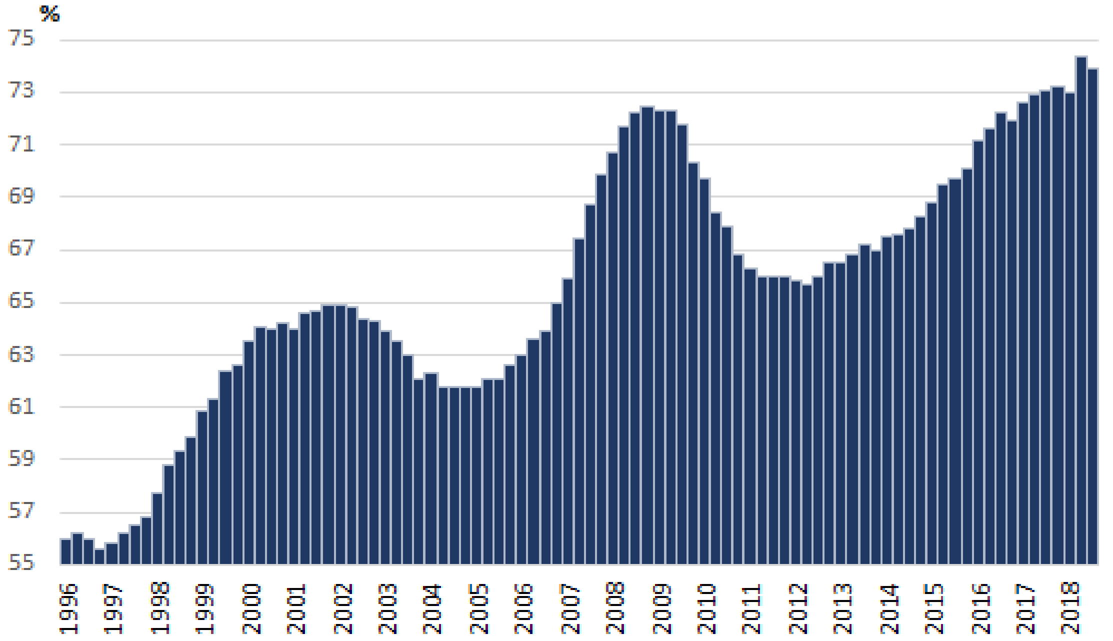


Opportunities in distressed debt

Over the last 5 years, corporates have taken advantage of low interest rates and increased borrowings

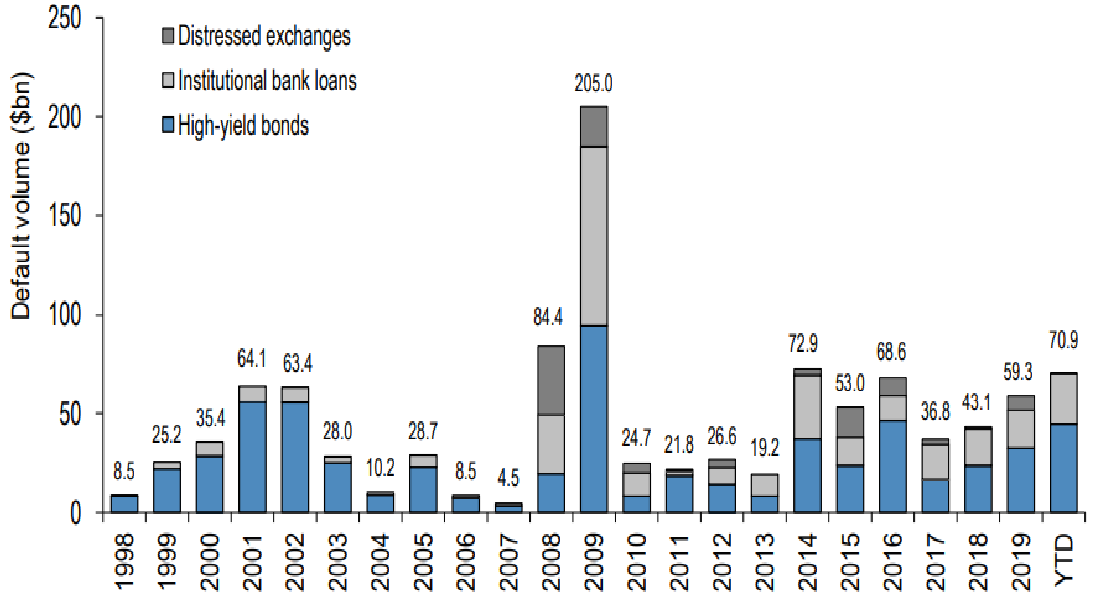
USA Corporate Debt to GDP

Nonfinancial corporate debt as % of GDP



Source of data: BIS WOLFSTREET.com

Year to date US default/distressed exchange volume already ranks as the fourth highest annual total on record, and it is only June



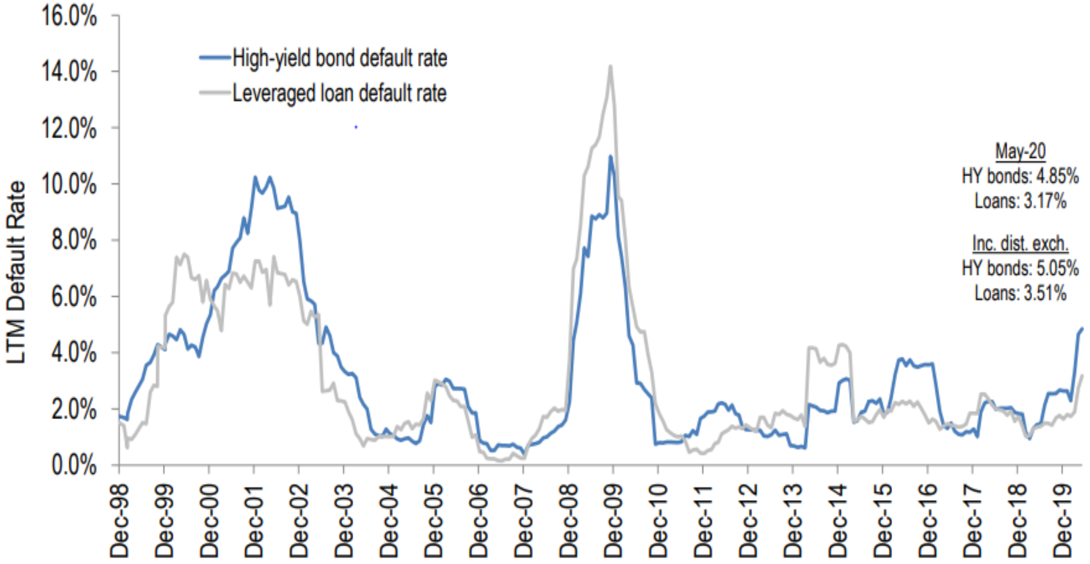
Source: J.P. Morgan.

We have significant experience in distressed debt. However, until recently, we have not had material exposure since the GFC.

Opportunities in distressed debt | Although defaults are already large by volume, there may be a way to go.

Default rates are still low in the context of the current recession

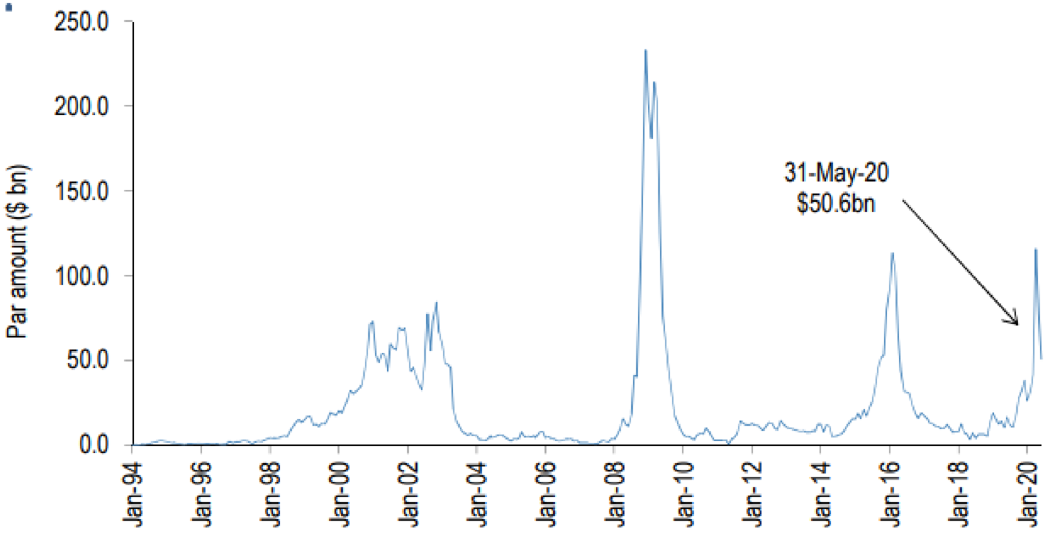
Figure 3: High yield bond and loan default rates



Source: J.P. Morgan.

If default rates rise there may be large increases in distressed debt

Distressed debt



Source: J.P. Morgan

Note: Distressed debt is defined as bonds trading at or below 50% of par or accreted value

We see opportunity for attractive risk/reward in the secondary market as default volumes rise.

Reasons NOT to invest | Our fund is not for everyone

1. The Fund has a more concentrated portfolio than most other funds.

2. Although performance in recent years has been favourable, the Fund has had periods of poor performance, and will do so again.

3. Illiquid and/or obscure securities comprise part of the Fund's portfolio. If you want to invest only in well-known, blue-chip securities, this Fund is not for you.

4. The Fund's illiquid securities could be difficult to sell quickly if the Fund receives a large number of redemption requests at once.

5. At times, a small proportion of the Fund will be invested in speculative securities. Some of these will pay off. Others will become worthless, as some have done.

6. The Fund is managed with the objective of maximizing after-tax returns for Australian residents, rather than maximizing pre-tax returns.

7. The Fund has been designed to be unsuitable for investors seeking a short-term home for their money.

8. The Fund is unlikely to pay a regular income.

9. Most of the Fund's portfolio will usually be risk-averse and defensive; but in times of panic you should expect the Fund to be an aggressive buyer of more speculative securities if their prices fall to levels judged to be ridiculously cheap. Some people do not feel comfortable with this approach, even though it generated good returns for the Fund following the panic of 2008-2009.

Reasons NOT to invest | Our fees are higher than those of many other funds, especially index funds

Management Fee

- 1.5% p.a.

Performance Fee

- 20% above the RBA Cash Rate + 2% pa, with a high-water mark

Still interested?

SAMUEL TERRY
ASSET MANAGEMENT

Feel free to contact us to hear more.

Samuel Terry Asset Management Pty Ltd
120B Underwood Street
Paddington NSW 2021
AUSTRALIA

PO Box R1743
Royal Exchange NSW 1225
AUSTRALIA

Fred Woollard
Founder and Managing Director of Samuel Terry Asset Management
M: 0400 001976
E: fred@samuelterry.com.au

www.samuelterry.com.au

Appendix A – Fund structure

In 2019 Samuel Terry Absolute Return Active Fund (STAR Active) was established to acquire STAR Fund's interest in an operating business (Yellow NZ). This was done in an effort to maximise after tax returns to Australian Unit holders. Unit holders resolved to staple STAR Active to STAR Fund. Stapling in this way is quite common in the market.

Investors

Distributions

Investors hold an equal number of units in each Fund

Dividends (franked)

Samuel Terry Absolute Return Fund

Holds "passive" investments, such as minority investments in listed securities.

Tax status as a managed investment trust, taxed on a "flow through basis" assuming the Fund distributes all of its table income in any year.

Pays annual distribution consisting of realised capital gains and income.

Stapled

Same number of units on issue

Samuel Terry Absolute Return Active Fund

Holds "Active" investments, such as control positions in operating businesses.

Tax status as a Public Trading Trust. Treated like a company for Australian tax purposes.

Can distribute franked and unfranked dividends and/or capital returns to investors, at the discretion of STAM.

STAM receives management and performance fees based on the aggregate net assets of both trusts.

Disclaimer

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 presentation 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.

We cannot and are not providing tax advice, and encourage you to seek independent tax advice before investing.

STAM may pass on part of its management and performance fees to financial advisers and other third parties that introduce investors to the Fund.