SAMUEL TERRY
ASSET MANAGEMENT

<u>Samuel Terry Absolute Return Group (*the Fund*)</u> – March 2021 quarterly report

The Fund's performance[1] (pre-tax, net of fees) and those of the Australian All Ordinaries Accumulation Index and the MSCI World Equities Index, are as follow:

To 31 March 2021	STAR Founder Class	All Ords	MSCI ($A)	STAR A Class
1 quarter	7.0%	3.6%	6.5%	6.5%
1 year	29.8%	41.1%	27.8%	26.0%
3 years (%p.a.)	15.5%	10.1%	12.1%	13.1%
5 years (%p.a.)	22.3%	10.6%	13.3%	
7 years (%p.a.)	24.1%	8.1%	12.4%	
10 years (%p.a.)	22.3%	8.0%	12.6%	
Since inception on 1 Nov 2003 (%p.a.)	16.4%	8.9%	8.2%	

The Fund's good result for the quarter was due to strong rises in a variety of holdings, especially banks and energy companies. However, the result was held back by an average 23% cash weighting.

During March and early April we sold our shares in **Goldman Sachs, National Australia Bank, Nine Entertainment and Westpac Bank**. All of these were bought near the lows in March 2020 and were sold at a large profit.

Our biggest winner was senior secured bonds issued by **Paladin Energy** (13.3% of the Fund), an Australian company which owns one of the world's largest uranium deposits. At the end of 2020, the bonds were priced at 65% of face value. In March 2021, Paladin announced it would repay the bonds at 102% of face value in April.

Diamond Offshore Drilling bonds (8.7% of the Fund) rose 37% during the quarter. This was partly because Diamond announced that it will emerge from Chapter 11 bankruptcy on 23rd April. Upon emergence, our old bonds will be converted to equity and Diamond will complete a rights issue of new bonds to holders of the old bonds. The oil price rose more than 20% during the quarter, which improved rig utilization across the industry. Continued scrapping of old rigs and mergers among rig owners (most of whom have recently been bankrupt) are likely to lead to higher daily lease rates and profitability. The attached presentation explains why we are optimistic about Diamond.

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

Our biggest loser was Australian fund manager, **AMP** (5.8% of the Fund), which fell 19% because of the failed sales of the whole company and its real assets division[2]. We bought the shares not just because AMP shares are statistically "cheap", but because we believed that after many years of poor decision making, AMP's board and management had finally started running AMP in the best interests of shareholders.

Recent events, such as the $22m wasted on a "strategic review" have made us question our confidence in management. AMP is holding its annual meeting on 30 April. We will be voting against the remuneration report and against director re-election.

<u>AMP should cease to exist in its present form</u>, meaning its parts need to be demerged or sold. AMP's share price is so low that it is already discounting a continuation of the present failed strategy. However, if there were to be a change of strategy, the potential upside is large.

After receiving the Paladin bond repayment and subscribing for the Diamond bond issue, the Fund now has approximately 45% of its assets in cash and nearly 20% in Diamond.[3] We recognise that this is an unusual asset mix, but feel comfortable with the approach. Every day we see examples of unsustainable speculative enthusiasm in equity and credit markets. We cannot predict the timing of the top of the cycle, but are confident that sooner or later we will find good uses for our cash. Until then, we will wait patiently and only deploy capital when the odds are overwhelmingly in our favour. This could cause our Fund to underperform a rising market.

At 31 March, the Fund's net asset value was $351m or $3.3983 per Founder unit and $12.635 per A Class unit at quarter end. 34% of the Fund was in cash and gold. The Fund owned securities issued by 24 companies.

Fred Woollard, Nigel Burgess and Mitch Taylor
16 April 2021

https://twitter.com/FredWoollard

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[2] The real assets division manages real estate and infrastructure assets.
[3] This is after allowing for the issue of new bonds and associated shares which will occur on 23rd April.

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Samuel Terry Absolute Return Group - A Class Units

16 April 2021

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$368m
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

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.

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.

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 17 years

To 31 March 2021	STAR Fund* F units after fees	STAR Fund A units after fees	All Ords Accum Index	MSCI World Developed Index (AUD)
1 quarter	7.0%	6.5%	3.6%	6.5%
1 year	29.8%	26.0%	41.1%	27.8%
3 years (%p.a.)	15.5%	13.1%	10.1%	12.1%
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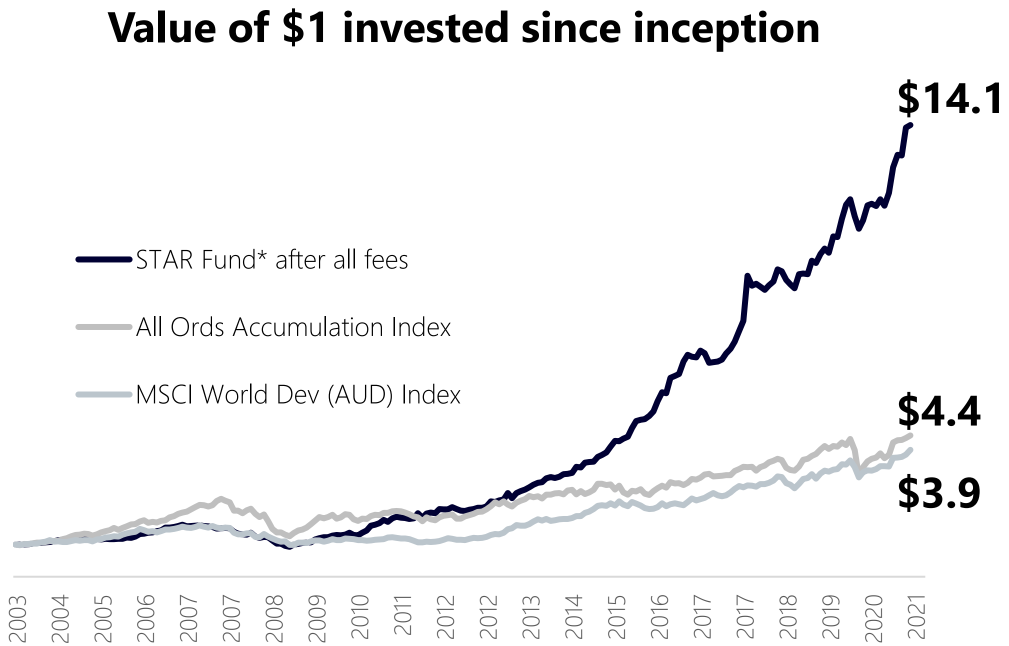
7 years (%p.a.)	24.1%		8.1%	12.4%
10 years (%p.a.)	22.3%		8.0%	12.6%
Since inception	16.4%		8.9%	8.2%



*Founder units – A class units have a different hurdle rate for performance fee. A Class Units have an inception date of 30 September 2016.

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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 Goldman Sachs 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. We Invest 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

<u>"One way bets"</u>

Heads, I win…
Tails, I don't lose…

Typically ~80% of capital employed.

<u>"Irrational odds"</u>

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

Typically less than 20% of capital employed.

Current Portfolio | Portfolio Snapshot at 16 April 2021

- 43% of capital invested in companies with net cash.
- 9% of capital is invested in corporate credit.
- We aim to hold securities issued by 15-35 diverse names.
- Top 20 holdings represent 99% of capital. The Fund currently owns securities issued by 23 names.
- 32% of capital is invested in Australian securities, 22% is invested in non-Australian securities (excl gold)
- 0% of capital is invested in technology shares

Top Holdings	% of NAV
Cash (gold is 12.4% of total)	46.3%
Diamond Offshore Drilling unsecured bonds*	8.5%
UK Banks (Virgin Money, Barclays, Lloyds)	6.7%
AMP	5.2%
Kangaroo Island Plantation Timbers	4.1%
Karoon Energy	3.3%
NobleOak Life	3.1%
Loews Corporation	2.8%
Deterra Royalties	2.6%
Undisclosed listed equity	2.3%

Top Sectors

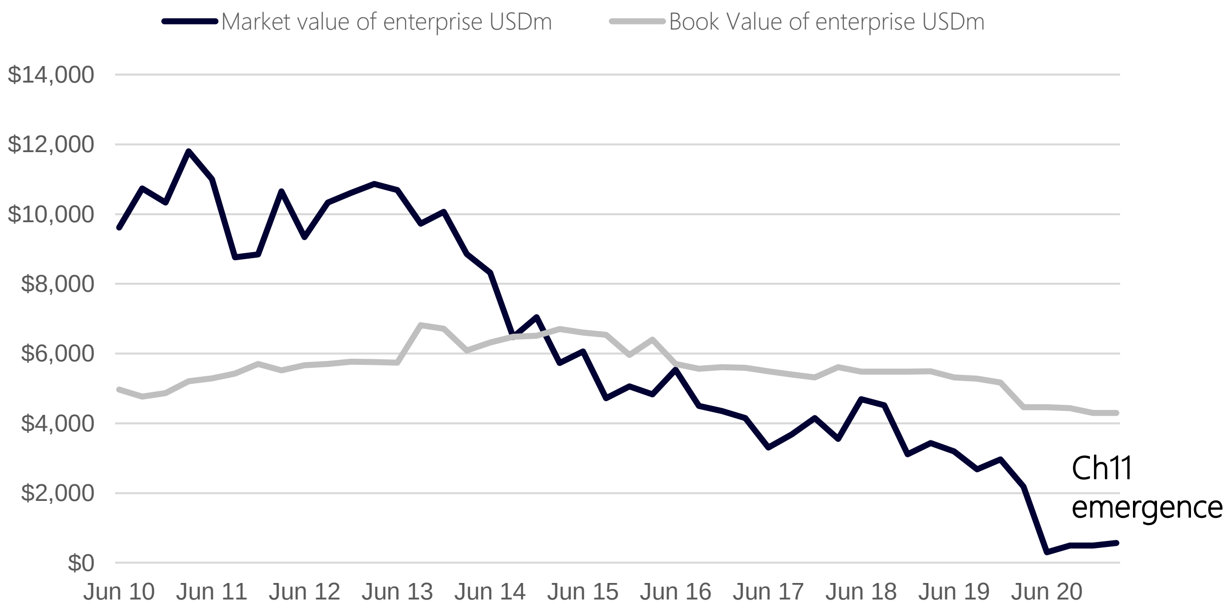
Cash & Gold	Commodities & Energy	Financials
46%	17%	15%

*Diamond unsecured bonds will be converted to equity on April 23 2021, when the company emerges from bankruptcy.

Current Holding | Diamond Offshore Drilling. Market cap: USD500m

- Diamond is a tier one offshore driller with a history of rational capital allocation decisions. It owns 13 and operates 16 drilling vessels with a book value in excess of USD4bln.
- In April 2020 Diamond 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 the unsecured bonds at around 12c per dollar of face value and subsequently joined a creditors committee which negotiated Diamond's exit from bankruptcy.
- In April 2021 Diamond will emerge from bankruptcy and conduct a capital raise. As part of the bankruptcy plan, our unsecured bonds will be converted to equity. We participated heavily in the capital raise and will own approximately 8% of Diamond's reorganised equity and 2% of Diamond's reorganised debt.
- Diamond now has a new Board with strong alignment, less than $100m of net debt and sufficient undrawn debt facilities to sustain anticipated cash out-flows in the next two years.
- Offshore drilling is cyclical. In the future, Diamond's vessels could again be very valuable. Diamond's assets still have the potential to generate attractive returns. At the price we paid, not a lot needs to go right.

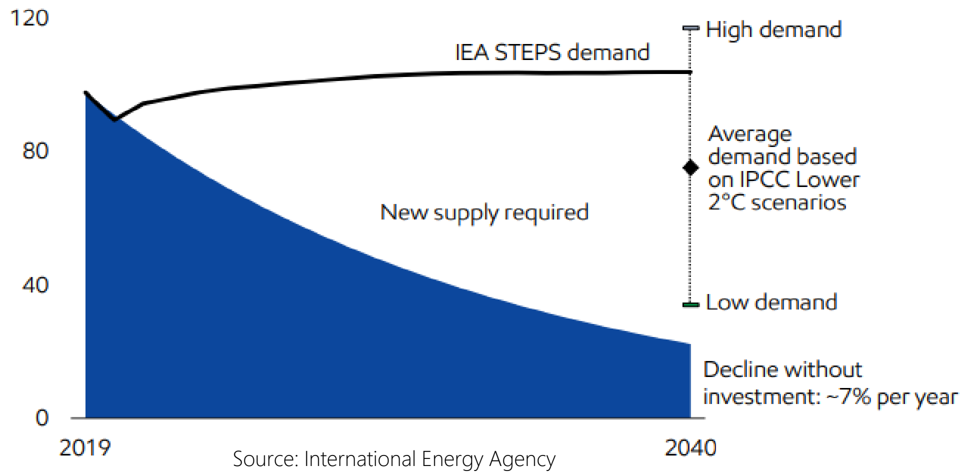
Diamond is trading cheaply, when compared to history



Current Holding | Diamond Offshore Drilling. Market Cap: USD500m

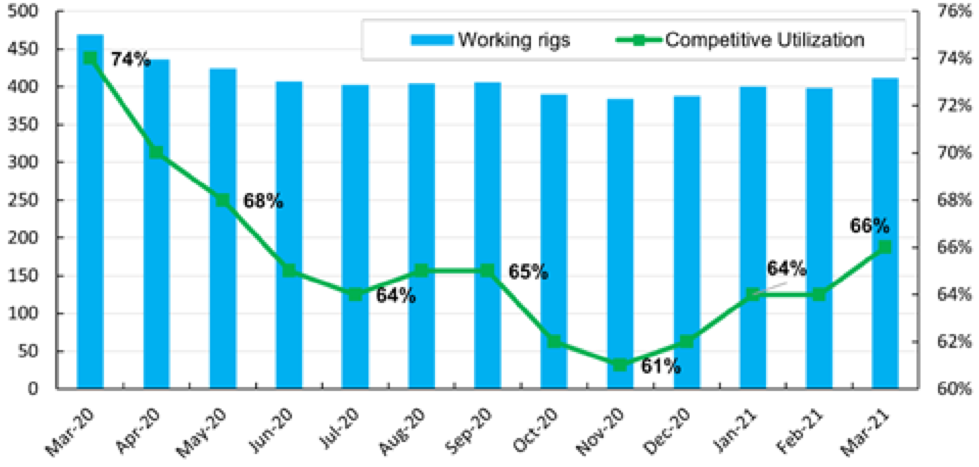
- Despite the global push into renewables, the world continues to need oil. Existing production declines at ~7% per year without new sources of supply.
- Offshore oil accounts for approximately 30% of global oil production. Current oil prices offer attractive economics. Offshore "break-even" production costs are estimated to be below $45 per barrel.
- High oil prices from 2011- 2014 spurred a boom in offshore oil drilling, and a corresponding a boom in new vessel building. Drilling vessels take years to build and some are only just completing.
- Since 2015 the offshore drilling industry has been oversupplied. 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 enabled the industry to stall the inevitable retirement of long term sub-economic drilling vessels. Oil volatility in 2020 prompted majors to defer CAPEX which in-turn caused most of Diamond's peers to enter bankruptcy.
- After bankruptcies, the new vessel owners may be more pragmatic on rig retirement decisions which could reduce supply to more sustainable levels.
- Industry consolidation is likely.

Global Oil Supply and demand (Mbd)



Source: International Energy Agency

Offshore rig utilisation is starting to improve



Source: Bassoe Analytics

Current Holding | AMP Limited. Market Cap: A$4.1b

- AMP has a negative brand name. 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. In 2020 continued underperformance and media attention spurred a shareholder revolt and subsequent resignation of key management and Board members. In response, the new chair launched a strategic review which is likely to result in the sale or demerger of funds management division, AMP Capital.
- AMP should cease to exist in its present form, meaning all of its parts need to be demerged or sold. AMP's share price is so low that it is already discounting a continuation of the present failed strategy. If there were to be a change to that strategy, the potential upside is large.

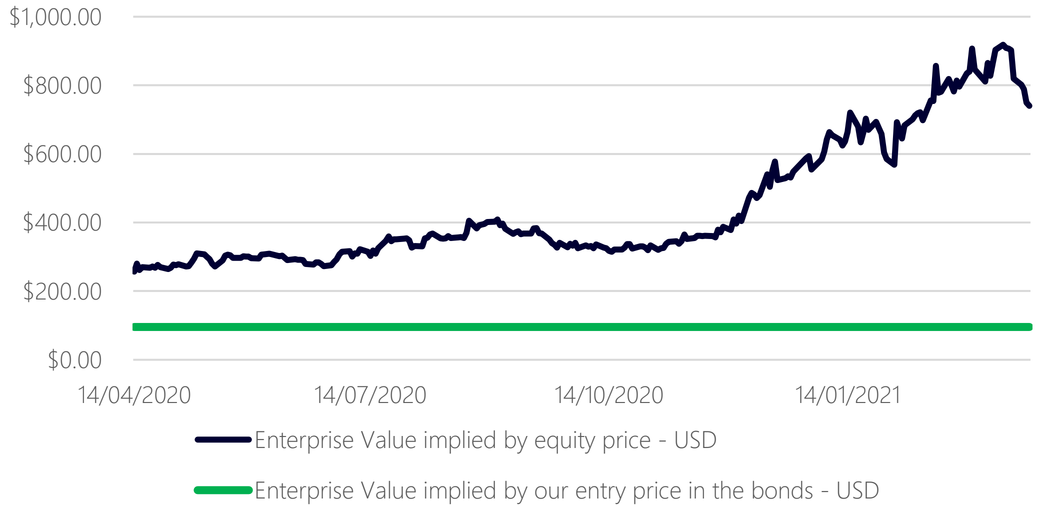
AMP Limited – A$m	Est. NTA	Est. Value	Est. Value / share	Comment
AMP Capital – Infrastructure	$500	$2,500	$0.73	$26bln (mostly) external FUM. Top 10 global player in growing market. Easy to disaggregate from AMP. Est. disaggregated EBITDA ~$150m. Peers trade at ~20x EBITDA.
AMP Capital – Property	$20	$1,000	$0.29	$29bln (mostly) external FUM. Top 5 local player with poor reputation. Peers trade at 5-8% of FUM. Easy to disaggregate from AMP.
AMP Capital – Stub	$60	$500	$0.15	More than $100bln of FUM. Mostly internal.
Excess Cash	$700	$700	$0.20	Cash in excess of that required to fund and run operations.
AMP Wealth Management	$600	$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	$1,150	$1,150	$0.33	Attractive bank at ~10x P/E, discount to recent transactions.
New Zealand Wealth Mgmt	$50	$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	($180)	($1,250)	($0.36)	Ongoing corporate costs.
Total:	$3,750	$7,550	$2.20	

Historical Holding | Paladin Energy Senior Secured notes.

- ASX listed Paladin Energy controls the Langer Heinrich uranium mine situated in Namibia, as well as an extensive portfolio of exploration assets.
- A bear market in uranium forced Paladin to place the Langer Heinrich mine in care and maintenance and restructure its debts in 2018. The mine restart requires US81m and would not make sense unless the uranium price increased.
- As part of the restructuring Paladin issued USD115m of 5 year, 10% senior secured bonds with an option for interest to be capitalised.
- We owned 23% of the outstanding bonds which were bought in the secondary market at 65c in the dollar, on a yield to maturity of more than 30%.
- The security of the bonds was paramount. We believed the asset backing of the company was multiples of our cost. In the event Paladin couldn't find market support to refinance or repay our bonds, we would have happily converted our claim to equity. The alternative 30% yield to maturity was also appealing.
- When we bought the bonds at a discount, the ASX market value of the shares was greater than the market value of the bonds.
- In March 2021, Paladin raised A$219m in new equity to repay the bonds early. We received 102c cash in April 2021.

The modern Langer Heinrich mine cost over USD500m to construct

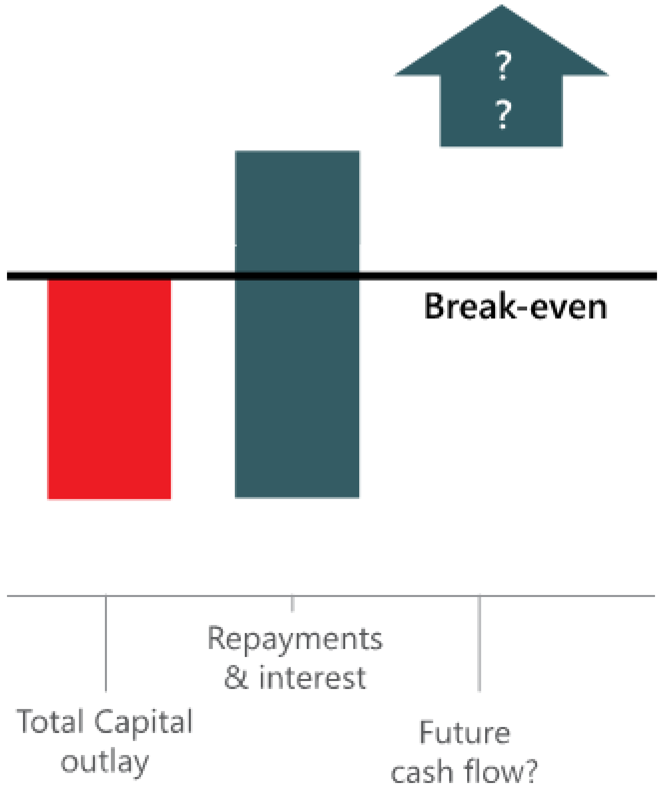
Equity markets implied a disconnect in valuation



Current Holding | Yellow Holdings NZ. Unlisted

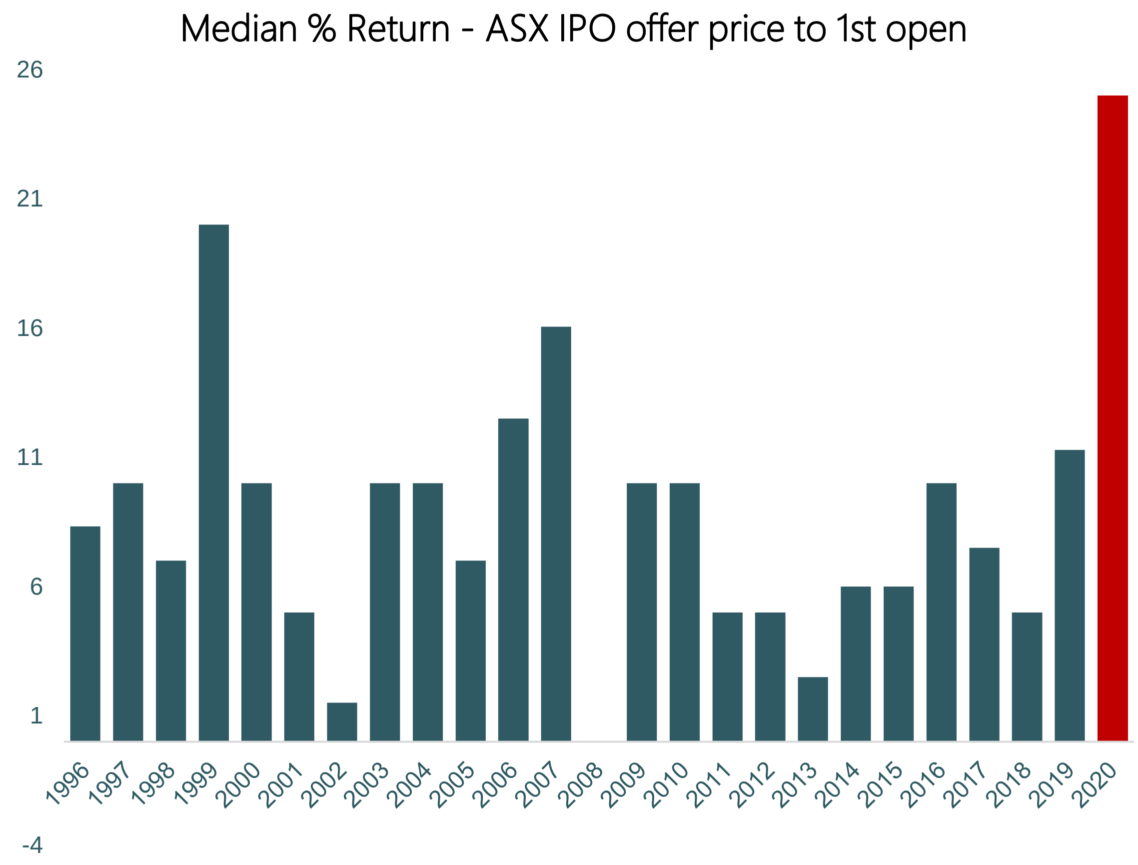
- Yellow Holdings is an unlisted company which owns the NZ yellow pages and a suite of associated digital businesses. We own 79%.
- Sold by Telecom NZ to private equity in 2007 for more than $2bln. Since then Yellow has been through numerous restructurings. It has consistently generated cash, at a declining 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 %



Current Conditions | Signs of speculative enthusiasm in some parts of the market

The new issue market is running hot



Signs of "mania"?

"Animal spirits" are difficult to forecast. We are exercising caution and "sticking to our knitting".

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 panics of March 2020 and 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

T: 02 9066 9240
E: invest@samuelterry.com.au
W: 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 in STAR Group

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.