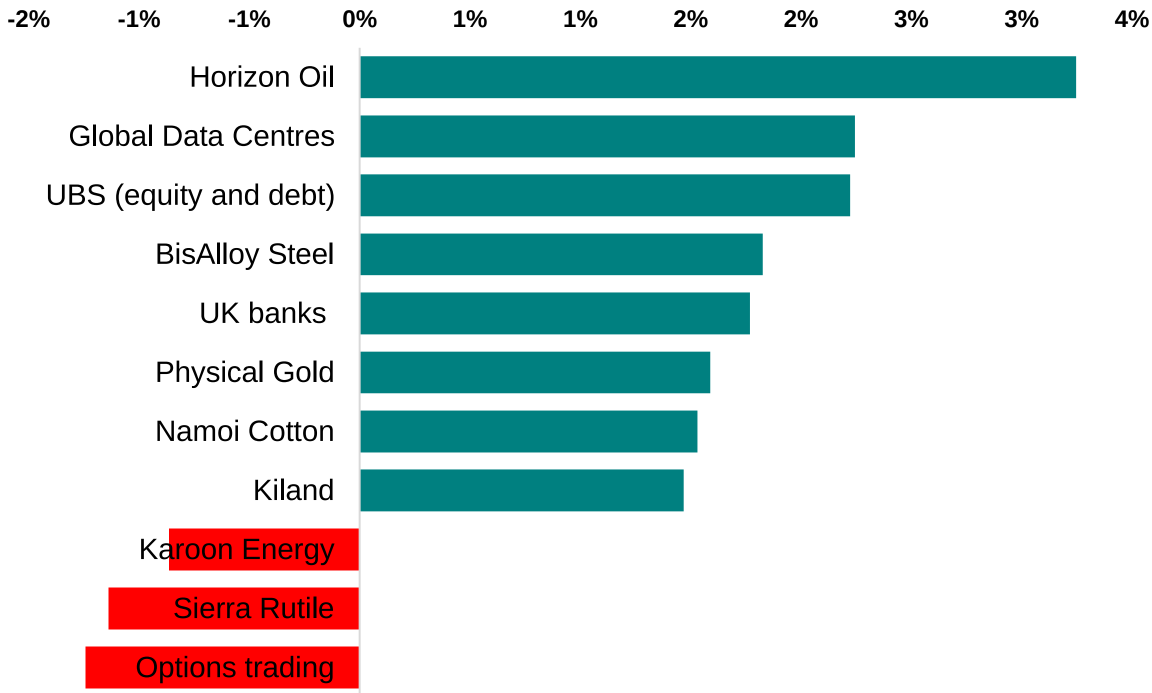
14 November 2024

Dear Unitholders,

Below is a summary of the performance of the Samuel Terry Absolute Return Group (the **Fund**) for the year, comparing our return (pre-tax, net of fees) with the Australian All Ords Accumulation Index and the MSCI World Index:

To 30 June 2024	STAR Founder Class	All Ords	MSCI ($A)	STAR A Class
1 year	14.2%	12.5%	16.7%	13.5%
3 years (p.a.)	13.3%	6.1%	8.3%	12.2%
5 years (p.a.)	18.4%	7.6%	11.2%	16.8%
10 years (p.a.)	22.0%	8.3%	11.7%	
Since inception in 2003	16.5%	8.8%	8.6%	

Top Contributors to 2024 Returns[1]



The Fund achieved satisfactory returns in FY 2024, although performance was tempered by holding an average of 15.8% in low-yielding cash. Our lack of exposure to popular tech stocks, like Nvidia, also impacted relative returns.

This year, we invested 7.0% of the Fund in the bank debt of Accolade Wines, Australia's largest wine producer. The commercial wine sector faces challenges, and Accolade's prior equity value was entirely erased as creditors took control. We played an active role in restructuring Accolade's debt, transferring ownership to creditors, and facilitating the planned

[1] STAM internal calculation of contribution to NAV return.

acquisition of Pernod Ricard's global wine business. This merger will create a diverse global platform with strong tangible assets and growth potential.

In another notable development, Diamond Offshore merged with Noble Drilling, with consideration in a combination of cash and Noble shares, which now represent 3.5% of the Fund. Our original investment in Diamond began in 2020, when we acquired bonds at distressed prices amidst oil market turmoil. This experience reinforces our appreciation for market sentiment cycles.

Despite a 15% rise in oil prices, the share price of our largest holding, Karoon Energy (9.5% of the Fund), declined by 6% over the year, while Horizon Oil (7.3% of the Fund) delivered a 50% return, benefiting from effective management and strategic capital allocation. Despite our efforts to drive improvement at Karoon, the stock continues to underperform.

This contrast between Horizon and Karoon highlights the importance of management quality and alignment with shareholder interests. Over the years, we have sometimes overly prioritised low-priced securities over high-quality leadership. Without abandoning our value-oriented philosophy, we aim to increase our focus on well-managed companies with boards and management teams committed to shareholder value.

The Fund benefited from asset realisations, which were pursued with a strong alignment to shareholder interests. We continue to be amazed by the power of alignment and incentives, as demonstrated by the gains from Global Data Centres (6.1% of the Fund, up 90%) and Namoi Cotton (4.4%, up 52%), where management-led sales programs effectively unlocked value.

We welcome corporate managers, who are interested in addressing undervaluation through shareholder alignment strategies, to reach out to us.

This is Not Our Market…

Historically, our most rewarding investments have emerged during times of limited capital and heightened uncertainty, when businesses face challenges and market participants are wary of the future. In today's environment, however, liquidity is abundant, and the outlook for business conditions appears relatively stable. As a result, finding compelling new investment opportunities has become more challenging.

As interest rates normalised, we anticipated more opportunities to buy debt of over-leveraged companies, yet we have consistently found ourselves outbid by "private credit". A wall of money seems to be chasing yield. The spread on US High Yield debt[2] is now at its lowest since 2007, with CCC-rated debt (debt rated 1 notch above default) offering yields of less than 10% p.a.[3] In our assessment, a 10% yield does not adequately compensate for the default risk. The increasing use of "back leverage"[4] being adopted by private credit players is concerning, and has the potential to increase risk in many portfolios. We are worried this trend will continue for some time and we may continue to find ourselves "priced out".

As positions have naturally rolled off, our cash weighting (including gold and cash equivalents) has recently increased to over 25% of the Fund. While we are still finding select opportunities, it has become more difficult to find the "heads I win, tails I don't lose" opportunities we like.

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[2] This measures the additional interest rate or "spread" investors receive for investing in high yielding corporate bonds compared to lower yielding and safer short term government securities

[3] As referenced in Grants Interest Rate Observer, Nov 2024 issue.

[4] "Back leverage" refers to the practice where private credit investors borrow a proportion of the funds required for their loan from a bank to increase returns (and risk) on capital employed.

This is not to suggest that valuations are too expensive, or sentiment is irrational. It's just not our market. We will remain patient in deploying capital. We acknowledge that this cautious stance might result in underperformance if global markets continue to rise aggressively.

Our Investment Approach

We approach asset management with a "family office" mindset, focusing on preserving and generating value over a long-term investment horizon. Rather than operate as traditional fund managers, we view our role as stewards of capital with a mandate to make rational, high-conviction investments whilst carefully weighing risks.

We keep at the forefront of our mind our typical investor: a rational risk-taker, preferring investments where the odds are strongly in their favour. They are comfortable allocating a substantial portion of their portfolio to a single security, provided the potential downside is limited and the upside is considerable. While they can accept moderate losses on individual trades and tolerate some volatility, they are highly averse to any risk that could significantly impact their long-term net worth. Ultimately, their goal is to achieve substantial, sustained wealth growth.

With this investor profile in mind, we are prepared to take meaningful positions in assets that offer limited downside and significant upside potential. Our investment philosophy is strengthened by our personal alignment with unitholders, as each of us maintains a considerable portion of our own net worth in the Fund.

Outlook and Bolstered Team

We were pleased to welcome Dave Birrell to our investment team this year. Dave brings over 20 years of financial market experience, previously serving as a stockbroker and fund manager. We are confident he will add value to the Fund.

We are seeking to position the Fund to endure and will remain patient in deploying capital, focusing on select investments and maintaining an opportunistic mindset.

Thank you for your continued support.

Fred Woollard, Nigel Burgess and Mitch Taylor

Samuel Terry Asset Management Pty Limited
