

## Samuel Terry Absolute Return Fund – May 2015 monthly report

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

To 31 May 2015	STAR	All Ords	MSCI (\$A)
1 month	4.73%	0.58%	3.43%
3 months	8.49%	-0.93%	3.53%
1 year	30.36%	10.12%	27.79%
3 years (%p.a.)	24.41%	16.71%	25.58%
5 years (%p.a.)	25.52%	10.00%	14.35%
Since inception on 1 Nov 2003 (%p.a.)	12.84%	9.53%	7.39%

The main reason for the Fund's good performance this month was a 21% increase in **Kangaroo Island Plantation Timbers** (19.3% of the Fund) after KIPT announced that it had received a valuation of \$22m for its trees. As KIPT owns land worth about \$13m and has a market capitalisation of about \$10m, this is an important development. A copy of this announcement is attached.

The key issue in valuing KIPT is not just the value of its trees, but the probability of a port being developed on the island, and the fees that KIPT will incur to use that port. We believe that the probability of a port being developed (on terms advantageous to KIPT) has risen substantially in recent times, which has probably contributed to the strength of KIPT's share price.

Unlike many companies whose shares trade at a large discount to underlying asset value, KIPT has a high quality board and management team with strong incentives to achieve good returns for shareholders.

Much of our activity during the month was assisting **Hamilton Securities** (3.4% of the Fund) with its takeover bid for **Asset Resolution Ltd** (8.8% of the Fund), an unlisted Australian investment company. The Fund owns 47% of Hamilton (on a fully diluted basis) and Fred is a director of Hamilton. During the month, Hamilton raised its ARL takeover bid price by 20%, which was reflected in the Fund's unit price.

We are sad to report that **BBY Stockbrokers**, from whom we have rented office space for three years, collapsed during May. This had no impact on the Fund, but forced us to move office. Next week, we will be moving into an office shared with two other small funds management businesses.

The Fund's net asset value per unit was \$1.6402 at month end. The Fund owned securities issued by 21 companies. 30.6% of the Fund was in \$A cash.

Fred Woollard and Nigel Burgess

10 June 2015

*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 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.*



The Manager  
Companies Announcements Office  
Australian Securities Exchange

Tuesday, 19 May 2015

### **Valuation of biological assets**

The Company has, in recent years, maintained a policy of valuing its standing timber at \$0, on the basis that no deep-water port exists on Kangaroo Island, through which the timber could be exported to markets in Asia. There has been no change to this policy.

However, over the past two years, the Company has acquired a deep-water port site in close proximity to its plantations, commissioned bathymetric analysis of the adjoining seabed and has been working with local and state governments and with other timber owners on Kangaroo Island to develop an affordable route to market. This could be achieved either by the construction of a deep-water berth or trans-shipment to a waiting vessel at depth.

The Company announces that it has commissioned and received a report and valuation model from Geddes Management Pty Ltd (Geddes), a reputable and experienced firm of consultant foresters. The model allows the Company to estimate the value of its timber under various scenarios, and to consider the impact of variables within and outside the Company's control, such as harvesting costs, internal road construction costs, haulage, port charges, exchange rates and international timber prices. Like any forward-looking valuation, the outputs are sensitive to the choice of discount rate.

The Company is conscious of its obligation to keep the market informed of all matters that might reasonably affect the price of its shares. The valuation of its biological assets is such a matter. At the same time, the Company is aware that it has a duty not to mislead the market by disseminating, without qualification, information that may not be directly applicable at the current time. The Geddes valuation, at the Company's request, is based on affordable access to a port that is not yet designed, approved or constructed. It should be understood in this context. Geddes values the Company's timber at \$22.3m.

Before issuing its 2015 Annual Report, the Company will consult with its auditors in deciding whether and, if so, to what extent, it will change its policy regarding the valuation of its standing timber. In doing so, the central issue remains an assessment of the likelihood that an acceptably-priced route to market will be available on Kangaroo Island in the near future.

The immediate value of the work conducted by Geddes for the Company, however, is that it provides:

- Confirmation that western and central Kangaroo Island are excellent locations in which to produce hardwood and softwood timber;
- Confirmation that a multi-user bulk freight port on Kangaroo Island is economically viable;

# **Kangaroo Island**

## **PLANTATION TIMBERS**



- Updated and more detailed timber inventory information;
- Estimates of the proportions of each grade of log that will be recoverable;
- A cutting and wood flow plan;
- Estimates of costs for harvesting, internal road construction and haulage;
- Estimates of the scale of reasonable port charges (including, receiving, scaling, marshalling, stockpiling, fumigation and stevedoring); and
- Advice on a thinning program.

Information on the updated inventory will be made available on the Company's website.

Sincerely,

A handwritten signature in blue ink, appearing to read 'V Allinson', with a horizontal line extending to the right.

Victoria Allinson  
Company Secretary