<u>Samuel Terry Absolute Return Fund</u> – November 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 30 November 2015	STAR	All Ords	MSCI ($A)
1 month	4.43%	-0.69%	-1.82%
3 months	12.27%	1.27%	1.41%
1 year	35.90%	3.05%	14.75%
3 years (%p.a.)	31.11%	9.53%	23.42%
5 years (%p.a.)	23.72%	6.78%	14.41%
Since inception on 1 Nov 2003 (%p.a.)	13.92%	8.42%	7.05%

Our biggest winner was **Kangaroo Island Plantation Timbers** (31% of the Fund) which rose 9%.

Asset Resolution Ltd, an unlisted Australian investment company, (5.9% of the Fund) rose 43%, but even after that rise, it is still being priced at a 33% discount to the value of its assets, and at a discount to its net cash backing.

Australian wind energy producer, **Infigen Energy** (6.9% of the Fund) rose 23%, helped by encouraging comments at its annual meeting.

We invested 4% of the Fund into an Australian mining company, **South32,** which was created early this year as a demerger from BHP Billiton, the world's largest mining company. South32 was originally nicknamed "CrapCo" reflecting the fact that its assets are not of the scale or quality of those left in BHP. Demergers of "small ugly" bits of large companies often produce mispriced shares, which was why we looked at South32 after the demerger. Six months later, when the share price had halved, we bought some shares.

This is the first time our Fund has invested in a blue chip mining company (one of our stock brokers queried the buy order when we placed it), so here are our reasons:

- Like most metals, the prices of South32's products (mainly aluminium, silver, coal, manganese and nickel) are at multi-year lows, and many producers are losing money. As a result, sentiment toward the sector is poor and share prices are often at multi-year lows.
- Most of South32's mines are among the lowest cost producers of their products and have mine lives of 20-40 years. Unlike many of its peers, South32 has almost no debt. These factors ensure that if metal prices stay low for an extended period, South32 is likely to be one of the survivors.
- Even at current depressed levels, South32 is modestly profitable. The price we paid for the shares is less than ten times depressed cash flow, and less than two times the average cash flow for its assets over the last ten years. The share price is about half the asset value estimated by BHP when the demerger occurred, and is even cheaper compared to replacement cost.
- South32 claims there are many opportunities to reduce costs, both because of the demerger and because the mining slump has reduced the bargaining power of suppliers and employees.
- If the slump continues, South32 is likely to have many opportunities to invest capital on attractive terms.

- South32's board, management and many of its staff are from BHP. This gives us confidence that the company's operational management is high quality and its reporting can be relied on. This cannot be said about all mining companies.
- There has been significant buying of the shares by South32 directors.

Mining is a very cyclical industry, and will eventually recover. When that happens, we expect that South32 shares will be a lot higher than they are now. Unfortunately we have no idea when that will happen, and have no reason to expect it to happen soon.

We also invested 2% of the Fund into an Australian investment company. This company has one of Australia's best investing track records. For a brief period in November we were able to buy it not just at a large discount to net asset value, but at a small premium to the value of its net cash. Sadly, opportunities to buy such a high quality business at such a cheap price are infrequent.

The Fund's net asset value per unit was $1.9549 at month end. The Fund owned securities issued by 26 companies. 17% of the Fund was in $A cash.

Fred Woollard and Nigel Burgess
8 December 2015