

**Samuel Terry Absolute Return Group, comprising Samuel Terry Absolute Return Fund and Samuel Terry Absolute Return Active Fund (together, the Fund) – December 2019 quarterly report**

The fund’s performance (Founder units, 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 Dec 2019	STAR	All Ords	MSCI (\$A)
1 quarter	9.3%	0.7%	4.8%
1 year	28.9%	24.1%	26.8%
3 years (%p.a.)	19.2%	10.4%	12.9%
5 years (%p.a.)	26.5%	9.3%	11.5%
7 years (%p.a.)	26.9%	10.1%	15.9%
10 years (%p.a.)	24.7%	7.9%	11.6%
Since inception on 1 Nov 2003 (%p.a.)	16.4%	9.1%	8.0%

The fund’s good performance was partly due to Australian catalogue distributor **Salmat** (8.2% of the Fund) which rose 55% after announcing the sale of its two businesses and its intention to return the proceeds to shareholders. We also made healthy profits from options over gold and the S&P 500 Index.

Our biggest loser was **Kangaroo Island Plantation Timbers** (“KPT”), which fell 22% because of fires on its properties. The fires worsened in early January and have now affected most of the company’s trees.

At the end of December, 12.8% of the fund was invested in KPT<sup>1</sup>. The shares have been suspended from trading since 3<sup>rd</sup> January when the situation became more serious. We do not know what the share price will be when KPT resumes trading, but believe any impact to the fund will not be serious.

KPT is currently assessing the impact of the fires on its assets and corporate strategy. It is therefore too early to make confident statements about KPT’s future, but we make the following observations:

- We expect KPT to receive a substantial (but as-yet undetermined) insurance payout for the fire damage, which will leave KPT with significant net cash.
- There is a high probability that some of the trees in fire-affected areas are alive and/or can be salvaged.
- KPT owns about 25,000 hectares of land, of which over 15,000 hectares remain high quality future timberland. Regardless of the severity of the fire damage, we remain confident in the forestry industry’s long-term prospects on Kangaroo Island.

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<sup>1</sup> KPT shares were halted from trading in late December because of the fire. When they resumed trading on the 2<sup>nd</sup> January, the shares fell to \$1.98. This is the price we have used to value KPT in our 31 December Net Asset Value. We felt it was unfair to unitholders to use the last sale price of \$2.25 in December, which was before the fires started.

- Notwithstanding what has happened, plantation forestry can play a big role in efficiently sequestering carbon, so it is possible that KPT will one day benefit from a future carbon pricing regime.
- KPT's wharf project is still potentially very valuable. If the wharf development is still economically viable, it could bring much needed jobs to Kangaroo Island.

Based on the above observations, we expect KPT to survive. We will be in a better position to assess the damage in the coming weeks and months.

The greatest negative impact on the fund from these fires is the loss of large potential upside in the shares. Most of the likely gains from wharf approval and entering production were not yet incorporated in the share price, which was one reason we maintained such a large weighting in KPT shares.

We believe climate change was a major cause of the severity of the recent Australian bushfires. We and other investors need to be more mindful of climate change risk when assessing investments.

During the quarter, the fund raised \$50m from external subscriptions. We welcome our new investors.

The fund's net asset value was \$203m or \$3.337 per Founder unit and \$12.91 per A Class unit (up 8.5%) at quarter end. 20% of the Fund was in \$A cash. The fund owned securities issued by 24 companies.

Nigel Burgess, Mitch Taylor and Fred Woollard  
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*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.*