



SAMUEL TERRY  
ASSET MANAGEMENT

**Samuel Terry Absolute Return Group (the Fund) – Dec 2021 quarterly report**

The Fund's performance<sup>1</sup> (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 December 2021	STAR Founder Class	All Ords	MSCI (\$A)	STAR A Class
1 quarter	-2.6%	2.5%	11.1%	-2.6%
1 year	10.6%	17.7%	31.9%	9.7%
3 years (%p.a.)	17.4%	14.8%	21.1%	15.0%
5 years (%p.a.)	16.3%	10.4%	15.0%	
7 years (%p.a.)	22.2%	9.6%	13.4%	
10 years (%p.a.)	22.1%	11.0%	16.2%	
Since inception on 1 Nov 2003 (%p.a.)	15.9%	9.3%	9.1%	

The result for the quarter was mostly due to a 14% fall in **Diamond Offshore** (16.8% of the Fund<sup>2</sup>) which cost the Fund 2.6%. Diamond fell despite reporting encouraging financial results and a material improvement in daily lease rates. Diamond shares currently trade in a grey market – we expect to see them list on an exchange soon. We remain optimistic about this investment for reasons outlined in [our 2021 annual letter](#).

We bought more shares in **AMP**, lifting our weighting from 7.3% to 10.5% of the Fund. AMP's market valuation prices in potential negative scenarios. It trades on a low multiple of earnings, a discount to tangible book value and a large discount to break-up value. Fallout from the Royal Commission is now largely complete. AMP's business units are at-scale and have industry tailwinds underpinning growth opportunities. Despite shareholder friendly returns of capital and a run-off strategy seemingly adopted by the current Board, investors have no faith in AMP. If a low-risk wind-up strategy is continued, the upside is large. The biggest risk to the potential upside is adoption of an acquisition led growth strategy – a strategy we do not believe AMP's shareholders would support.

We bought more shares in **Namoi Cotton** (3.8% of the Fund) and now own over 19% of issued shares. Namoi Cotton owns Australia's largest cotton ginning network. It started in 1962 when a small group of pioneering cotton growers established a single gin in Wee Waa, NSW. For most of its existence the business was structured as a co-operative and therefore was owned by customers.

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<sup>1</sup> 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.

<sup>2</sup> Our investment in Diamond is split between 12.4% in ordinary shares and 4.4% in secured debt.

The co-operative structure encouraged a strategy focused on capacity gains and keeping ginning prices low. Since Namoi Cotton converted to a company in 2017, the board has reduced costs, reduced capacity and restructured to a lower risk operating model.

Cotton ginning annual cash-flows are heavily influenced by the size of the cotton crop. The cotton crop is in-turn heavily influenced by availability of water in growing regions. Accordingly, cotton ginning has been, and will be cyclical. We are reminded of [John O'Brien's iconic 1919 poem Said Hanrahan](#).

Namoi Cotton's corporate restructuring mostly occurred during a severe drought so the business has not yet seen buoyant conditions under the new operating model. We bought most of our shares during the drought at distressed prices significantly less than 'hard' asset value and on a low multiple of average annual cash-flow. The drought has now broken and the outlook is constructive - we expect significant cash-flow generation over the next few years.

At 31 December, the Fund's net asset value was \$412m or \$3.3942 per Founder unit and \$12.5797 per A Class unit. 19.2% of the Fund was in cash and gold. The Fund owned securities issued by 23 companies.

Fred Woollard, Nigel Burgess and Mitch Taylor  
19 January 2022

 <https://twitter.com/FredWoollard>

*Samuel Terry Asset Management Pty Limited (AFSL 278294) does not guarantee the repayment of capital or any particular rate of return from the Fund. 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.*