Dear Unit holders,

Thank you to our unit holders for your continued support in the 2014 financial year.

The fund achieved pleasing returns with a 30.8% total return for the year, net of fees. This continues the strong track record of the fund, which has achieved a gratifying return of 24.8% p.a. over the past 5 years and 11.5% p.a. over more than 10 years. It compares favourably with returns of the Australian All Ordinaries index (including dividends) and the MSCI World Index, as you can see in the following table.

To 30 June 2014	**STAR**	**All Ords**	**MSCI ($A)**
1 year	30.8%	17.6%	19.3%
3 years (%p.a.)	21.0%	9.7%	15.3%
5 years (%p.a.)	24.8%	11.0%	11.4%
Since inception on 1 Nov 2003 (%p.a.)	11.5%	9.3%	5.6%

The performance during 2014 came from investments in a wide range of securities. Our best returns came from investments in gold miner Saracen Minerals and sandalwood grower TFS Corporation, both of which tripled during the year. Investments in French toll road owner Macquarie Atlas Roads generated a 72% return and Japanese property owner Astro Japan generated a 42% return.

Liquidation securities – and our decision to temporarily close the fund to new subscriptions

In August 2013 we temporarily closed the fund to new subscriptions because over 25% of the fund was in liquidation securities trading at a large discount to their expected recovery values. This wide gap between underlying value and stated value made it too difficult to price these securities in a manner that was fair to both existing and incoming investors.

Closing the fund to new subscriptions does not affect your right to withdraw some or all of your investment from the fund.

Closing the fund proved to be a good decision for unit holders as about half of our return during the year came from our liquidation securities, and we expect further benefits from them. Many investors shy away from such securities, but we believe we can generate good returns from them, especially the more illiquid and complex liquidations where few other investors compete against us. If bought correctly, such securities can offer high returns, with modest downside risk, as these companies all have solid balance sheets.

The following table lists our securities in some form of liquidation at 30 June 2014:

NAME	**Fund Weighting**	**Price**[1]	**NAV per share**[2]	**Discount to NAV**
Asset Resolution Ltd	4.8%	0.01	0.03	67%
BAO Trust	2.1%	0.026	0.048	45%
Hamilton Securities	2.7%	0.50	1.04	52%
Kangaroo Island Timber Plantations	14.6%	3.00	8.61	65%
Others	1.2%			26%
TOTAL	**25.4%**			

[1] This is the price at which the securities were valued in the fund's accounts at 30 June 2014.
[2] This is the net Asset Value per share as per the underlying companies' most recent published accounts.

The NAV numbers are based on public information, but are inherently very imprecise. They are not predictions and we caution against reliance on these numbers. We have included them to illustrate our view that the reported value of our fund understates the actual value of our assets. The key point to note is that all of these securities are, in some form or other, liquidations, where the gap between the share price and the underlying value is likely to close as the underlying assets are liquidated and the proceeds returned to shareholders.

We hope to reopen the fund for subscriptions in the next few months.

Macroeconomic views and the fund

We do not have the ability to accurately predict economic and market conditions. For that reason we aim to diversify in a way that can be expected to do reasonably well across the widest possible number of potential scenarios. This requires that our strategy is able to overcome not only occasional bear markets and dislocations, but all of the other hurdles that are endemic to active investment management.

The list includes bad luck, bad timing, and occasional mistakes in judgment. Most importantly, any truly robust long-term investing strategy must be built to survive the worst possible scenarios the market can throw at us and allow us to live to play another day. If we do this, we are unlikely to be the best performers in any given year, but we do have a good chance of continuing to generate satisfactory overall returns.

Although we do not regard ourselves as “macro” investors, our broad economic and market views do influence how we allocate the fund’s capital, so we thought you should be aware of the key themes that influence the portfolio’s composition.

1) Global fixed income markets (e.g. bonds and preference shares) are the most risky major asset class, and current yields on both high quality and low quality bonds are often absurdly low. Investors chasing “safety” and “income” through the bond market in response to global money printing are exposing themselves to much greater risks than they probably know.

   Examples of this in “high quality” bonds include Italian 10 year government bonds yielding 2.4%, despite Italy’s high debt level, deficits and declining population. German 3 year bond yields are *negative* 0.25%. Germany’s strength is beyond doubt, but it is still remarkable that people are willing to pay the German government for the near-certainty of being repaid.

   In the low quality bond market, examples are legion. My favourite was that in July, Greece issued 5 year bonds at a 5% yield, despite Greece’s many problems and the fact that Greece had defaulted on its government debt less than 3 years ago. Even after Greece forced bondholders to write off 70% of their investment, Greece still has an unsustainable debt level and serious social and economic problems. A 5% yield on a Greek bond is ridiculously low.

   If that’s not bad enough, changes in the “plumbing” of bond markets make it very likely that when investors fall out of love with bonds, they may find some bonds very hard to sell, except at a large loss.[1] This could create a vicious circle of forced selling because some people have borrowed against their fixed income assets to generate higher income. If bond prices fall sharply some investors will be hit with margin calls and forced to sell, pushing prices down further.

[1] The reason for this is that regulations governing investment banks have forced them to cut market-making capacity in the bond market by about 80% in the last five years, which significantly reduces market liquidity. This is likely to make bond prices more volatile, especially in a nasty bear market.

Unsurprisingly, we have no exposure to fixed income assets. We expect that some time in the next few years this area will provide us with plentiful bargains.

2) Global money printing has caused share markets to rise substantially since their low in March 2009, in part because bond yields are so low. We believe that we are in the second half of a major bull market, but are unsure if we are yet at the top. In general, share prices are high and we see plentiful evidence of froth in markets. In Australia, there is strong IPO activity, especially from private equity vendors whose business model is predicated on maximising the price at which they sell. In America, popular technology shares (eg Tesla, Amazon and Netflix) trade at valuations which make sense only if those companies continue to experience huge growth. On the other hand, there is still value to be found in certain areas, and many investors are still fearful. For these reasons, we are not avoiding equities, but we are trying to be more careful than usual.

3) We are worried about Australia's economy. This may seem odd, as Australia has performed well for the last decade and shows few signs of distress. The reasons for our concern are Australia's large direct and indirect exposure to China, combined with high levels of domestic debt to fund rampant property speculation. We do not know if China's slowdown will be serious, and if so, to what extent it will hurt Australia. What we do know is that China has massive internal debt, much of which has been spent on assets unlikely to generate a decent return, especially in property. History provides many examples where similar circumstances have been followed by serious economic and financial dislocation. If China were to follow those precedents, then the impact on Australia could be significant, not just on commodity exports like iron ore and coal, but also on Australia's banks and property prices.

   We do not regard this scenario as inevitable, but we regard it as sufficiently probable to be worth protecting ourselves against it. We are doing this by increasing our exposure to non-Australian assets and to Australian companies which benefit from a fall in the Australian dollar. We have also bought put options as a form of insurance, but only when put option prices have been unusually attractive. We have no exposure to Australian bank equities and little exposure to Australian mining or oil companies.

Outlook for the fund

Since 30 June, the fund is up about 6%. We are still finding interesting opportunities, despite the strong performance of world share markets in recent years,

Our investment approach remains unchanged and we will continue to invest the assets of the fund with the objective of generating double-digit annual returns whilst minimising risk. The Fund's robustness is assisted by our longstanding policy of having the majority of the fund in cash, or in securities issued by companies with net cash on their balance sheet. As we both have large personal stakes in the Fund, capital preservation remains a priority.

We enjoy meeting our unit holders and are happy to meet with our current unit holders or anyone you know who may be interested in becoming a unit holder.

Yours sincerely,

Fred Woollard and Nigel Burgess

31 October 2014

LIST OF HOLDINGS AT 30 JUNE 2014

AIMS Property Securities Fund	5.1%
Air Change International Ltd	0.5%
Ask Funding Ltd	0.1%
Asset Resolution Ltd	4.8%
BAO Trust	2.1%
Centuria Capital Ltd	6.8%
Commstrat Ltd	0.5%
Greenvale Mining NL	0.8%
Hamilton Securities Ltd	2.7%
Hunter Hall International Ltd	0.4%
Infigen Energy	3.5%
ITL Ltd	2.0%
Kangaroo Island Plantation Timbers	14.6%
Keybridge Capital Ltd	8.4%
Nexus Energy 8.5% notes due Jan 17	0.9%
Premium Income Fund	0.3%
P-REIT	1.2%
Saracen Mineral Holdings	4.7%
TFS Corporation	1.4%
White Energy Company Ltd	0.5%
TOTAL	**61.0%**

Overseas securities

Astro Japan Property Group	5.1%
Co-Operative Bank plc	4.7%
Galileo Japan Trust	1.9%
Goldman Sachs	6.6%
Macquarie Atlas Roads	6.1%
TOTAL	**24.4%**

Options on $A, oil, CBA, S&P 500 Index and ASX 200 Index	4.8%
Cash, receivables and trade creditors	9.9%