

## **Great Southern, GTP**

[Ospraie Funds](#), the world's biggest commodities hedge fund firm with over \$7 billion under management, is a major holder of Great Southern. During late February early March they increased their holding to 15%, this increased their holding by around 8% at prices ranges from \$1.55 - \$1.70.

Things have not always gone well for Ospraie and they had to close their Point Fund in 2006 after significant losses, being down 29% in the five months.

For more on Ospraie and its founder Dwight Anderson check out this interesting [Bloomberg Article](#).

As management predicted GTP had an abysmal first half to 2008. They will release full results in the last week of May, but have [informed the market](#) that they only received \$51M into their Managed Investment Schemes, MIS, in the first half. Management had previously flagged this and reiterated that sales would be heavily skewed to the second half. Their notice pointed out the difficulty in comparing results to previous years, particularly as last years results included \$78M in Beef Cattle Project that are not offered this year and as their forestry project has not yet received an ATO ruling. Despite the poor first half results the company stated it will endeavour to capture its share of anticipated growth in the MIS sector for 2008.

Fusion Funds has decided to invest 11% of its initial \$1M capital in GTPGA. \$122,500 will be invested at \$75 a convertible note for an initial investment of 1500 notes.

Based on a 15% tax rate applicable to self managed super funds, SMSF, the expected return between now and 31 October 2009 is 54% for a 31% CAGR. We believe this return has a strong risk adjusted profile and will perform considerably better than the S&P ASX 200. The Funds principle began investing in GTP TREES2 and 3 several weeks ago at slightly higher prices.

### **Associated links**

<http://www.ospraie.com/>

<http://www.bloomberg.com/apps/news?pid=newsarchive&sid=a5ReSgLY0jAE>

<http://www.asx.com.au/asx/statistics/showAnnouncementPDF.do?idsID=00828211>

## **Previous Thoughts on GTP TREES**

posted on Motley Fool Liquid Lounge

Sorting through the mirth and attitude of the replies I did find my first and second golden rules in my fledgling foray in to convertibles.

1. Security of loan. How sure are you to get your initial capital back. Every investment has risk, some is so statistically minimal that it can be called risk free. Most investments have a meaningful amount of risk and as et said you must consider risk. Bonds are only as good as the strength of their underlying security.  
Check where you rank in debt obligations.
2. Know the terms of conversion. Are there any positive kickers, any pit falls, what are the likely outcomes.
3. Read the entire contract, PDS or whatever it is called in your neck of the woods. Take notes and make sure you understand and evaluate the covenants, read and evaluate the risks etc
4. Determine probabilities and reduce to an expected outcome.

## **My Convertible Notes/Bonds Primer**

*A Convertible Note is a type of coupon paying debt security that converts to the issuers ordinary shares (equity) at maturity.*

*Generally speaking these securities pay a fixed (or floating) return until a certain date when the security can be converted into the underlying shares of the issuer. **ASX***

ATO's tax take on convertible notes

<http://www.ato.gov.au/individuals/content.asp?doc=/Content/36723.htm>

*The Handbook of Financial Instruments By Frank J Fabozzi, Inc NetLibrary*

<http://tinyurl.com/2h35p7> provides some excellent information on valuing convertible bonds.

*The allure of convertibles is more evident in their attractive long-term risk/reward profile. The typical convertible fund's returns over the past 10 years doesn't trail the venerable S&P 500 by much, and it has been much less volatile to boot.*

<http://ibd.morningstar.com/article/article.asp?CN=NSC123&id=79901>

## A Quick Analysis

1. Security of loan – the underlying is extremely unlikely to default, 1% chance. However, there is no guarantee the coupons will be paid and payments rely on the company having distributable profits. Coupons are paid in priority to dividends. The notes are subordinate to other debtors. If the coupon is not paid the notes are callable at face value. If they miss coupon payment I get to ask for my \$100 back sooner. Whether other debtors will get in ahead of my claim depends on their agreements.
2. Terms of conversion. These notes were originally sold with the kicker of participating in growth of underlying above \$4.40, with the underlying trading at \$1.71 that upside has eviscerated. All that remains is a note with a face value of \$100 being sold at \$87 for the 20 month note and \$77 for the 2.5 year out note (which has slightly different terms). So the notes are respectively selling at 15% and 30% discount.
3. Covenants all appear extremely safe and unlikely to be triggered. The main two are liabilities will not exceed 65% of the Group's assets and net assets will not fall below \$280 million.  
Going back to the long winded title of these notes, perpetual subordinated reset convertible notes, it seems to me that rather being too many syllables marketing decided to shorten the name by dropping a reference to the non-cumulative nature of the note. The name may have been perpetual subordinated reset convertible non-cumulative notes. It is what it says on the tin; each word has meaning and is simple enough to understand.
4. Probabilities. My calculations show I need to insert a 23% risk of total capital loss for the probability of a capital loss. As I said earlier I believe 1% is appropriate. Heck if I go up to 5% it still looks like a good deal to me.

Buying TREES2 should yield 15% capital gain, which unfortunately in Australia will be considered income and a 15% dividend payable in four instalments over the next 20 months. The total return should be 30% with a 17% CAGR, not risk adjusted. [Note: 7-Apr-08 returns are 54% with 31% CAGR]

Buying TRRES3 should yield 30% capital gain and 27% dividend payable in six instalments over the next 2.5 years. 57% return 18% CAGR, not risk adjusted. [Note: 7-Apr-08 returns are 81% with 26% CAGR]

After the amazing run the Australian share market has had over the last five years I expect both investment to have a better than fair chance of outperforming the ASX indexes. However, for comparative purposes these funds are invested instead of cash holdings.