

COLLINS ST

— VALUE FUND —



DECEMBER 2016
QUARTERLY REPORT

FEAR IS A POWERFUL EMOTION. LEFT UNCHECKED IT CAN LEAD TO CATASTROPHIC INVESTMENT DECISIONS.

OUR ONLY ROLE IS TO ENSURE THAT WE PRESERVE AND GROW OUR INVESTORS CAPITAL. EMOTION HAS NO PLACE IN INVESTMENT DECISION MAKING.

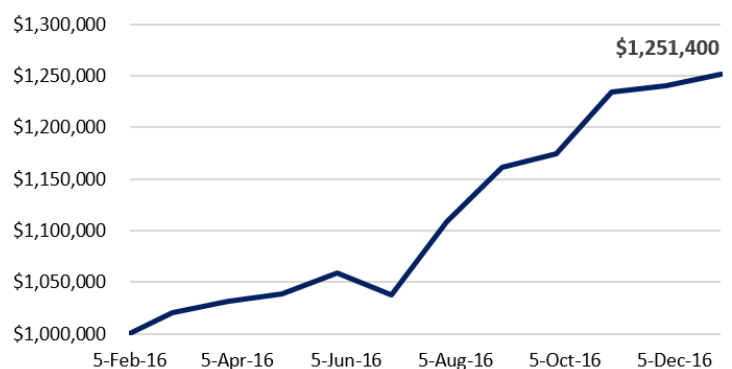
Performance after Fees (to 30th December 2016)

3 months	↑	6.53%
6 months	↑	20.62%
9 months	↑	21.30%
Since Inception	↑	25.14%

Performance is after fees and assumes re-investment of distributions. Inception 05-02-16

Our only fee is performance based. Our team only benefits when we succeed in growing our investors' wealth sustainably over the long term.

Total Return from \$1m invested in the Fund



The above comparison of the Fund is net after fees & assumes reinvestment of all distributions. Please note that past performance is not a reliable indicator of future performance

INTERESTED IN MAKING AN INVESTMENT OR TOPPING UP?

03 9602 1230 admin@csvf.com.au

To make an investment in the Fund, please contact our office

www.csvf.com.au

Commentary & Performance

Since inception in Feb 2016, our Fund has delivered a total return after fees of 25.14%.

We are pleased with our results, particularly so given that it was done in an environment where achieving returns was so difficult for value investors. We are especially pleased that these results were made without the use of derivatives or leverage of any sort - and continue to be horrified at how willing some investors seem to be to accept the material risks associated with gearing.

We continue to be satisfied with our unashamedly boring investment process and philosophy. Our expectation remains that the simplicity of our process will continue to generate attractive long term results.

As good as our returns have been, we are committed and motivated to continue to work hard. We appreciate that successful investing is about looking ahead rather than looking behind, and we are fully aware that past performance is no guarantee of future results.

We do not expect to generate returns of this magnitude each calendar year. We simply promise to remain steadfast to our process and philosophy, and at all times avoid the temptation to follow the latest investment fads.

Our continuing goal is to achieve medium to long term double digit annual returns. To achieve this, we are unconcerned with short term uncertainty and absolutely focused on the efficiency of our process, philosophy, and our long term outcomes.

We enter 2017 on solid footing and are confident, and excited by the upcoming reporting season.

To all our unitholders thank you for your support in 2016. We look forward to being able to continue to reward your trust in us.

Fund Unit Price (to 30th December 2016)

Buy Price	\$ 1.2342
Unit Price	\$ 1.2280
Sell Price	\$ 1.2218

Buy Price and Sell Price are subject to a 0.5% spread
 *Unaudited unit price, calculated by White Outsourcing

Underlying Yield (to 30th December 2016)*

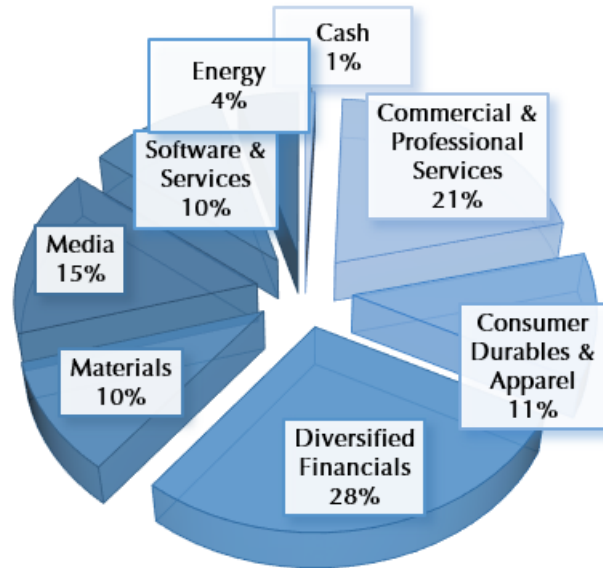
Net	7.15% p.a.
Gross	9.39% p.a.

* Underlying Net Yield (excluding franking credits) or Gross Yield (incl franking credits) is based on current year's consensus of the distributions paid to the Fund by its underlying equities held (excl Cash). Actual Distributions paid by the Fund to investors will vary due to the Funds profit and loss within a given period being a Unit Trust structure.

Fund Holdings* (to 30th December 2016)

ANZ Banking Group
BPS Technology
Clarius Group
Collection House Ltd
Computershare Ltd
Delta SBD Ltd
Flexigroup Ltd
Money 3 Corp
NZME Limited
Pioneer Credit Ltd
Prime Media
IVE Group Ltd
Shriro Group
Spotless Group Ltd
Karoon Gas Aust Ltd

* In the interests of investors, the Fund does not disclose shares it is in the process of purchasing, selling or considers a 'special situation' play.



Portfolio Weighting (to 30th December 2016)

No direct leverage in the Fund

ASX securities	99%
Cash	1%

An Asset Play – Karoon Gas Aust Ltd

We tend to avoid commodity type businesses and prefer to invest in businesses that possess positive cash-flows and sustainable earnings. However, on occasion we discover alternative investments (which we call asset plays) that demand our attention.

The premise of an asset play is identifying a company trading at a significant discount to its realisable tangible value.

In March 2016, Karoon Gas Ltd (ASX:KAR) drew our attention for that very reason. At the time, KAR had a market cap of \$320 million despite net cash

of \$480 million, and oil reserves of 89 million barrels (worth in excess of \$450 million). The company had come into this enviable position thanks to the sale of exploration assets to Origin Energy for \$600 million in 2014.

Our initial idea was to purchase a stake in the company and encourage management to reduce the valuation gap by implementing a capital return or buy back. The greatest risk in our mind was that in doing nothing, the company was at risk of wasting away its cash position.

Having purchased shares at \$1.30, we were comfortable in the knowledge that the business

had over \$1.80 of net cash sitting in its balance sheet. Essentially we purchased \$1 worth of cash for just 70c. Even ignoring the oil reserves, our thinking was that this investment would be a low strategy to generate a 40% return.

Our ability to purchase stock so cheaply was born from the fact that investors had become impatient with the company's lack of development in the two years since the sale of assets to Origin. We had watched Karoon for some time, but it was only at the point of maximum pessimism that we were prepared to buy.

"Most victories came from exploiting your opponents stupid mistakes, and not from any particular brilliance in your own plan."

Orson Scott Card

Initially our suggestion to management was for a capital return of \$1 per share (leaving them with over \$200 million to pursue projects). However, when it quickly became clear that management were not interested in a return, we decided to set in motion a process of corporate agitation.

Our first preference is always to work with management on adding shareholder value, but on occasion there is a need to step outside of our comfort zone, and vigorously pursue the best outcomes for our investors.

Our next step involved corresponding with our network of industry experts, discussing our thoughts with majority shareholders, seeking potential board members with expertise and exemplary reputations, and requesting the share registry for the purposes of calling a general meeting.

Fortuitously, just two weeks after we had requested the share registry and explained to KAR management what our intention was, the company announced that they were in late stage discussions with Petrobras (a Brazilian Oil company) to acquire significant oil assets.

Though details of the transaction were very limited

at the time (October 2016), the market was thrilled that management were putting their capital to use. As a result, the share price quickly rallied above net cash backing.

Being satisfied that our goals had been achieved (and with no material information available about the transaction), our fund began to exit.

As Murphy's law would have it, the share price continued to rise, with the peak coming in at \$2.63 after the company provided additional details of the purchase process, and OPEC cut oil production for the first time in two years.

However, an opportunity was not lost. As fate would have it, an industrial pay dispute between Petrobras and the Brazilian workers union spilled over, leading to the union slapping an injunction on the Petrobras sales process (Petrobras are in the process of selling many of their assets in a bid to drastically reduce their overwhelming debt). As a result, Karoon's share price fell back to \$1.80, with cash backing still worth that much, and the oil reserves worth materially more.

With new information now available we were able to get comfortable that the injunction will be overcome, that the cash backing is confirmed, that the value of their current oil assets is worth materially more than the market cap and that management have displayed their interest in making good use of the company's capital. We are confident to re-enter KAR (and have done so, at slightly below cash backing).

We are not traders and we have no interest in trying to be smarter than everyone else. Our goal is to be better informed than other investors.

At the point that we were able to digest information faster than much of the market (due to the work we had previously done on the company), we were able to see through the current market concerns and invest in KAR for a second bite of the cherry!

Market's Folly – Emotional investing & herd mentality

Human nature is such that we are driven by emotions, and the desire for immediate gratification. Balancing that desire with the realities of investing is about recognising that foregoing immediate gratification is often the price of excellent long term outcomes.

There is a strong human compulsion to feel part of a group. The idea of “safety in numbers” may have been a good idea in historic times when physical danger was a concern, but when applied to investing the outcomes are consistently poor.

Investing is difficult for so many people because the underlying principles require a refined decision making process demanding actions that conflicts with instinctive humane nature.

As your investment managers, we strive for independent thinking. We believe significant investment outperformance comes from making correct non consensus decisions. More often than not, by the time our views become consensus, a great deal of money has already been made.

Given the liquid nature of the stock market, many investors struggle to take a view that extends beyond a few weeks. This approach to the market ensures that those investors struggle to find value or profits from their endeavours.

Although our Fund is just one year old, we have found time and again that we have been able to profit from others' emotional investing.

There have been plenty of times where fear and the drive to follow consensus have driven share prices significantly lower than what we considered fair value. An ability to recognise this overreaction is where we are able to add value.

Sometimes a share price will fall for a valid reason. It's our job to spend the time doing the proper research that enables us to distinguish between the appropriate falls and simple mispricing.

As long as investors continue to behave emotionally and are compelled to follow the herd, we will continue to benefit our investors.

“Remember that the general public is generally wrong. The masses are not well informed about investments and the stock market. They have not disciplined themselves correctly to make the right choices in the right industries and the right places. They are moved mainly by their emotions, and history has proved them to be wrong consistently.”

CLAUDE ROSENBERG JR



What to expect from us and your Investment in the Fund?

With each quarterly update we plan to remind our investors of how we run the Fund and what our expectations are for it. Although somewhat repetitive, we believe in open communication, and want to ensure that all investors are fully informed and are never surprised by our direction. As an investor if you could please re-read this commentary each quarter this should help alleviate any potential queries about our performance for any given period.

- Our aim is to create strong investment returns irrespective of the market over the medium to long term.
- We seek to achieve gains by investing in a concentrated portfolio of Australian listed securities. We focus on identifying deep value investment opportunities all the time, constantly identifying sustainable businesses trading at a discount to our assessment of intrinsic value.
- As opportunistic investors, we are very patient. In the absence of finding a wonderful investment for our capital, we have no hesitation holding a significant amount of cash or investing in short term special situations.
- Our mandate is to generate index unaware, absolute returns. We would much rather miss a 'suspect' opportunity, than purchase a company we are unsure of.
- As the Fund will have a concentrated portfolio of shares, we expect short term volatility to

have no meaningful effect to our long term returns. That is, we are focusing on the destination, not the journey.

- As contrarian value investors with a medium to long term view, we rarely invest for the short term. Attempting to pick short term market movements only acts as a distraction to our long term aim of strong investment returns.
- After conducting adequate research, we prefer shares that we have not fully invested in to fall in the short term. That is, once we are happy to buy a company we would much rather pay a discounted price for that asset even if it means our initial purchases are under water.
- To achieve our goal of long term outperformance, the cost is often short term volatility. We have implemented procedures to try and reduce this volatility, but we aware that it will remain "the cost of doing business".
- We will be sending out quarterly reports to you that will include the Fund's official unit price. We ask that you consider those reports in context. Returns in a single quarter (good or not) are not necessarily indicative of what the Fund will generate over the longer term.
- With our money invested alongside and on equal footing as yours, you can rest assured that we are motivated by the same outcome as you – an increasing unit price. Additionally, our fee structure further ensures that our interests are closely aligned.

Wishing everyone and their families a happy, healthy, and prosperous 2017.

Yours sincerely,



Vasilios Piperoglou
Investment Manager of the
Collins St Value Fund



Michael Goldberg
Investment Manager of the
Collins St Value Fund

KEY FEATURES

Fund Name:	Collins St Value Fund ABN 72 216 927 242
Trustee:	Collins St Asset Management Pty Ltd ACN 601 897 974 AFSL 468935
Custodian:	White Outsourcing (Sub-custodian is JP Morgan)
Registry/Unit Pricing:	White Outsourcing
Auditors:	Pitcher Partners
Fund Inception Date:	5th Feb 2016
Investment Objective:	The Fund will seek to create strong investment returns over the medium to longer term, with capital preservation a priority.
Investment Strategy:	The Fund invests in a concentrated portfolio of Australian listed securities. It focuses on identifying deep value investment opportunities. This is achieved by identifying sustainable businesses trading at a discount to our assessment of intrinsic value.
Benchmark:	Index Unaware
Asset Class:	Long only ASX listed securities & Cash (no derivatives).
Leverage:	None
Minimum Subscription:	\$500,000 and only open to investors considered "wholesale investors" under Section s761G of the Corporations Act.
Investment Term:	There is no fixed investment term. Investors may apply to acquire Units in the Fund at any time the Fund is open for investment. Investors may redeem Units subject to the applicable liquidity and redemption policy.
Distribution Frequency:	Bi-Annually
Entry Fee:	Nil
Buy/Sell Spread:	0.50%
Applications/redemptions:	Monthly
Management Fee:	Nil
Performance Fee above Hurdle Rate:	25% (Hurdle rate is the 10 year Aus Gov't Bond Rate)

For more information about the Fund please obtain a copy of the Information Memorandum which is available upon request.

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