COLLINS ST

VALUE FUND

December 2020
Quarterly Report

You can get rich slowly or you can get poor quick. Outcomes and time frames rarely cross over.

Performance (to 31 December 2020)*

Period	Return
December Quarter 2020	32.21%
6 months	49.94%
12 months	43.59%
24 months (annualised)	39.81%
36 months (annualised)	25.54%
Annualised Return (since inception)	23.77%

*Gross returns.

Collins St Value Fund Annualised return **23.77% p.a**	ASX/S&P200 Accumulation Index **10.50% p.a**
Collins St Value Fund Value Add **13.27% p.a**	Inception Date **February 2016**

In a market dominated by fear and uncertainty, the Collins St Value Fund delivered a +43% gross return during 2020 - outperforming the market by 40%!

The Year that was:

The Chinese proverb; 'may you live in interesting times' is often misinterpreted as a blessing. It is in fact a curse. And, 2020 (dare I risk saying it) couldn't have been more interesting.

The year started innocuously enough. Major news focused on the Boris Johnson election victory and its impact on Brexit, the Australian bush fires, and the death of basketball star Kobe Bryant. There was some talk of a virus affecting some regions of China (from as early as November), but for the most part it was a normal start to an Australian summer.

Fast forward to the end of February (at which time our team was presenting and participating at a conference in Sydney), and our world drastically changed.

Markets having got wind of the lockdowns in Wuhan began to panic, and over the next 4 weeks dropped 40% of its value.

Media panicked, investors panicked, and governments around the world panicked.

This was fair enough given how little clear information was coming from China, and the frightening early numbers coming out of Italy. Initial commentary suggested a mortality rate closer to 10% than the current ~1.7%, which appears to reduce to almost zero for patients without any underlying conditions.

Given all that was going on it was unsurprising to see markets collapse, but what was surprising was to see how quickly they recovered.

S&P/ASX 200 - Year 2020 chart

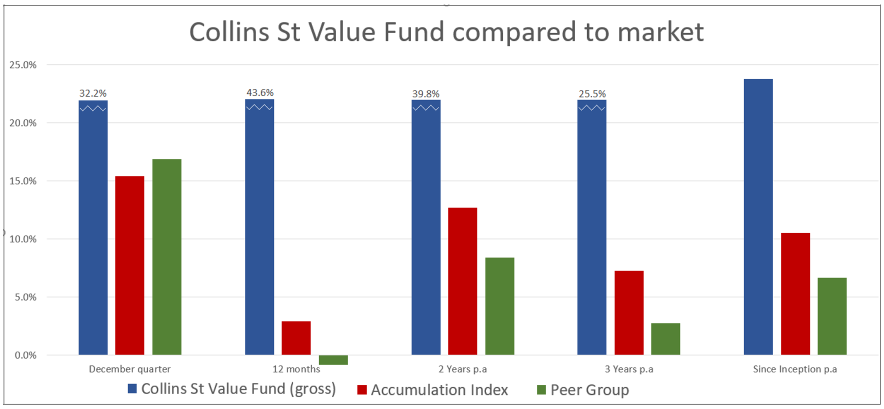
Fund Holdings*

- Aurizon Limited
- Basket of Uranium Companies
- Boom Logistics Limited
- Cash Converters Limited
- Coronado Global Resources
- Decmil Group Limited
- iSelect Limited
- Invex Therapeutics
- Litigation Capital Management
- National Tyre & Wheel
- Paradigm Biopharmaceuticals
- TPG Telecom Limited

* During the quarter. In the interests of investors, the Fund does not disclose all its positions.

Comparative Returns*

	Collins St Value Fund returns	All Ordinaries Index	ASX200 Accum Index
Dec Quarter 2020	32.21%	14.00%	15.39%
1 Year	43.59%	0.71%	2.91%
2 Years p.a	39.81%	9.53%	12.68%
3 years p.a.	25.54%	3.56%	7.25%
Since Inception p.a	23.77%	6.37%	10.50%



* gross returns to 31 Dec 2020

Interested in making an investment or increasing your holding with us?

Contact Rob Hay 0423 345 975

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www.csvf.com.au

We are pleased to advise that once again Collins St Value Fund ranked #1 amongst our peers for 2020!

MORNINGSTAR ★★★★★

Overall Morningstar rating

3 year Morningstar rating

Morningstar – Collins St – Top 10 Value Funds 2016-2017

Morningstar – Collins St – Best Performing Large Value Fund 2018

Mercer – Collins St – Top 10 Australian Equity Funds 2018-2019

Mercer – Collins St – Top 5 Australian Equity Funds 2019

Morningstar – Collins St – Top 5 Australian Value Funds 2019

Mercer – Collins St – Top 5 Australian Equity Funds 2019-2020

Morningstar – Collins St – #1 Australian Value Fund 2019-2020

By June, markets had run 40% higher from their lows, and by the end of 2020 the ASX200 (accounting for dividends) returned a 3% profit - a solid outcome given near zero interest rates and inflation.

This being achieved despite ongoing Brexit uncertainty, new outbreaks of COVID-19, and until this week a US election that was still being contested by the incumbent.

Collins St Value Fund:

Despite what was a difficult year and a rather weak return from the Australian market compared to historic averages, our Fund was able to produce an exceptional return in 2020.

Driven by a broad range of holdings our Fund produced a gross return of 43% for the year, massively outperforming the index.

We are of course thrilled with the performance of our Fund this year (and the 23.8% p.a generated since inception 5 years ago), but would caution our newer investors, especially those fortunate to have joined us after February, that we do not anticipate returns of this sort regularly. Capital preservation must always remain our foremost concern and we will endeavour never to depart from our process and philosophy in pursuit of the latest investment fad.

"Investors underestimate the likelihood of rare events happening when they haven't happened recently, and they overestimate them when they have." ***Anthony Bolton, Fund Manager.***

Some of the main drivers of our returns this year:

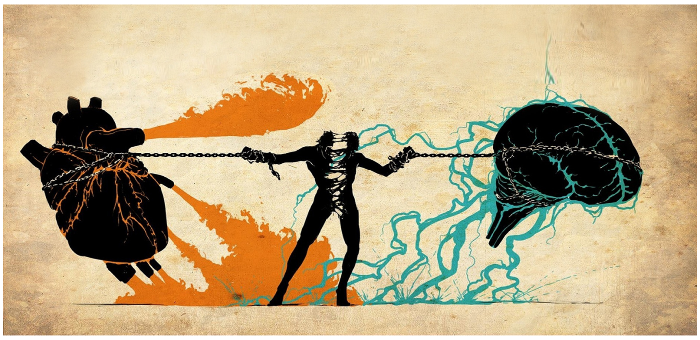
Company	Sector	Return
Paladin Energy	Energy	150%
National Tyre & Wheel	Retail	105%
Boom Logistics	Infrastructure	80%
Coronado	Materials/Infrastructure	58%

In the following pages we consider how a person's psyche plays a part in their investment decision making and identify some tools that investors can use to ensure that they are making their best decisions based on reason - rather than becoming caught up in the inevitable emotion that comes with managing money.

If you have any questions, would like to discuss any of the matters considered in this quarterly, or would simply like to talk to us about the Fund, please feel free to be in touch through our website (www.csvf.com.au), or directly via Rob Hay at rhay@csvf.com.au or 0423 345 975

Intelligent Decision Making:

Thinking Beyond Emotion



There is no escaping it. Every decision we make in life is influenced by a combination of emotion, intellect and circumstance.

Whether it is the flavour of ice cream we order on a sunny summer day, or an investment decision pertaining to your super fund. Each decision will be influenced by these three factors.

When ordering an ice-cream, the implications of ordering a double scoop of chocolate instead of a single scoop of low-fat vanilla is unlikely to have a meaningful impact on ones long term outcomes (so long as it's only the occasional double scoop - with chocolate chips). The cost of a poor decision in ice-cream decision making is non-substantial, and so, most people don't give it more than a second thought.

In fact, most choices that people make on a day to day basis don't have a high cost, and so many people get comfortable with 'going with their gut' (pardon the pun).

The same *should* not be expected in more important choices such as relationships, rearing children, investing, and selecting a job or career. But sadly, for many they have become so accustomed to 'going with their gut' that when the time comes to think with their head, they have made a choice before it's even registered.

We have no special expertise as it relates to relationships, rearing children, or selecting a career path (though each of our team is married, have children, and enjoy our jobs), but we like to think we know a thing or two about investing.

Recognising Our Limitations:

As Warren Buffet has famously said, an investors job is to *"be fearful when others are greedy, and greedy when others are fearful."* That is to say, recognise that emotions play a part in decision making, and use them to your benefit.

We can't expect to disconnect ourselves entirely from the impact of emotions when making investment decisions, but we can put in place a process that ensures that we are not driven by them.

Practical Steps

Know the Value - In past publications we have spoken and written at lengths about our process of establishing intrinsic value. In the drama and mystery of it all, it's easy to forget why it's so important to have 'intrinsic value' as a starting point.

The reason it's so important is because it allows us to move forward. In a world (market) so dominated by emotion, fads, and talking heads, the only factor we can truly control is the price we are prepared to pay or sell at. To establish those points, the starting point must always be 'what's it actually worth'.

Today as we read the latest news from the financial media all the talk of growth vs. value, momentum vs fundamental analysis, quantitative vs qualitative analysis, all the talking and distraction simply distances investors from the only questions that matter; 1). ***What is this company's earnings?*** 2). ***What am I prepared to pay for those earnings?***

Ignoring either of those fundamental questions leads to some interesting, and often scary situations.

Tech stocks that have never made a cent of profit are trading at nose bleed heights; speculative companies with little hope of a profit in the foreseeable future trade as if the sky is the limit.

This isn't healthy, and its unlikely to be sustainable.

Even with companies like Xero and Afterpay, which may at some point become worth the market cap they now demand, investors really need to ask themselves if they are **investing** in the businesses **or speculating** on the share price.

Company	Market Cap	2020 EPS	2021 EPS	2022 EPS	2023 EPS	2021 PE	2023 PE
Xero	$21.7 Billion	3.3c	39c	55c	$1.11	469 x	133 x
Afterpay	$32.3 Billion	-5c	14.1c	49c	79c	2,338 x	144 x
NextDC	$5.4 Billion	-13c	-0.4c	5c	11c	~~	107 x

Understanding the difference between the two and being able to identify which you are doing is absolutely essential for long term peace of mind (and fortunes).

Have a sounding board - Be it a process that ensures you are being honest, or (more practically) a friend who isn't afraid to tell you when you are acting outside of your best interests.

Being able to avoid the trappings of falling in love with an idea, a company, or a way of thinking is absolutely essential to long term results.

If you aren't constantly and independently challenging your assumptions, chances are you've already fallen into the trap of group think or bias.

Without Charlie Monger, there may not have been a Warren Buffett

Ignore the market - The market is just noise.

Too much value is ascribed to the machinations of the index as if it were some all-knowing being, capable of prophesising the future.

It is not. It is simply the whim of some 5 million investors, each of whom are making decisions on individual companies based on how they felt when they woke up that morning.

The magnitude of the misplaced value ascribed to the 'all powerful' 'all knowing' market is highlighted by the significant differences of the companies that make up the indices.

We prefer to think of it as 'a market of stocks' rather than 'The Stock Market'.

After all, to suggest that a company like Telstra, CBA and BHP are somehow intrinsically connected is patently silly. Each is driven by distinctly different factors, and very few (if any) intersect. Yet, when we quote 'The Market', we do so as if it were a singularity, connecting each of the companies that make up the index as if there were all driven in the same direction by the same drivers.

Be brave - Once you've come to a conclusion and are ready to make a decision, act with conviction.

Once the hard work is done, putting it into action is the final and most important step.

This is especially so in times of extreme conditions. Extreme conditions create the most attractive investing opportunities, with some 90% of market returns being earned over just 5% of trading days.

To quote Eric Thomas (minister, author, and American motivational speaker), "***everyone wants to be a beast until it's time to do what beasts do***".

Everyone wants to invest successfully until it's time to do what successful investors do.

Being uncomfortable is part and parcel of the process. It's in recognising that discomfort and realising that therein lies the opportunities that the greatest investors make the most spectacular returns.

It's precisely during those times that all those around you think you are crazy, when even your 'gut' insists that you're making a mistake that true long term profits are established.

> "Be fearful when others are greedy, and greedy when others are fearful".

The Covid-19 test

Not every person is a good investor. If that were un-true, then funds such as ours would add no value.

We've seen through history that some of our brightest minds have proven to be pretty terrible at investing. Digging into why that is the case is the subject for another time, but when push comes to shove, the proof of the pudding is in the eating.

How does one react in times of distress, when the markets move against them. When all the research they've done says one thing, yet the markets are moving in the opposite direction?

Most investors panic. Most investors panic at the bottom and are motivated to action near tops. It's not their fault, it is the pull of the crowd, and it is an incredibly powerful force.

Recognising one's limits and the risk of ignoring them is an essential skill in every aspect of life.

The other day I met with a friend of mine (a doctor) and asked him what he thought of a legal matter that had come up. Rightfully, he told me not to be stupid, and to go ask a lawyer.

It's unclear to me why so many people feel that they must be experts in every field. If I need a plumber, I call a plumber. If I need a legal advice, I call a lawyer. And, if I need medical advice I call a doctor.

For many the Covid crash and recovery was a lesson in limitations. For some it was an extremely expensive lesson. Nevertheless, a lesson well learned is invaluable.

Most people are capable of training themselves to become better investors, but for most people it's simply too much effort, or not a priority.

That's fair enough. Whether an investor has worked a lifetime to accumulate capital, or are too busy earning their fortune today, for most investors we meet their goal which is to become more available as a spouse , a parent, or even a hobbyist.

Spending the hours necessary to comb through announcements and financial reports is not everyone's cup of tea, and it doesn't need to be.

At Collins St Value Fund, we had the same internal debates as most other investors would have during the crash:

- Is now a good time to invest?
- Could things get more out of hand?
- Should we sell in anticipation of worse?

Inevitably, by applying the above tools the answer always came to the same resolution:

It's not our job as investors (distinct from speculators) to guess whether markets will rise or fall. Our job as investors is to simply understand the businesses we are considering, identify if they are cheap or expensive, and on that basis buy or sell.

Everything else is a distraction.

Talking the talk and walking the walk - **COVID Transactions**:

It's not enough for us to talk a good game if when push comes to shove we hide behind clever sounding words, and don't act in the same way we prescribe others too.

For readers who have followed us for some time you'll know that we generally subscribe to the "Lethargy bordering on sloth" philosophy as described by Buffett in his 1990 letter to share holders. That is, if we find more than one new idea per quarter we are thrilled. And, over the journey most years will see us identify just a couple of ideas that we can get excited about.

This year was not like most years. This year, was our most active since the Global Financial Crisis in 2009.

DECMIL **Decmil Group** - An engineering company that found itself on its knees due to a combination of unfortunate managerial decisions combining with a once in a century pandemic. When DCG was introduced to us in March it was as a company looking to raise money to save itself from administration.

The bones of the company were strong, but poor decisions had compounded to the point that DCG required additional capital.

Once we gained confidence that the mistakes of the past would not be repeated (with the exit of old management and replacement with experienced, high quality people) and noted that the capital raising would resolve the businesses problems, we were prepared to participate in the raising.

Done at 5c per share (after the previous trade being at 20c), we took a substantial position with the view that we believed the company to be worth between 12c and 16c.

The company has progressed wonderfully since March and given the opportunity to prove its earnings capability over the next 18 months, we think the gap between the current share price 6c (equivalent) and our valuation will be closed.

Victory Offices - The serviced offices company found itself in trouble as the full extent of COVID-19 began to be reflected in interest in their offering, and a general reduction in office tenancy.

Having traded at as high as $1.60 in early 2020, the impact saw the company's share price fall to the point that a raising was done at 37.5c.

As we viewed, investing in VOL provided us with leveraged exposure to the recovery in office usage as the world exited lock downs.

Little did we know that after having purchased our stake Victoria would experience an outbreak and extreme lockdown measures. Nor did we expect the entire world to suffer from so significant a second wave of virus (and accompanying lock downs).

Nevertheless, we like Victory for its Australia only exposure, and believe that once some semblance of normality returns to the work space, the prospects for VOL are significant.

We believe that Victory has a strong enough balance sheet to make it to the other side of Covid (especially with vaccines soon to become available in Australia). Based on pre-Covid earnings, adjusted for the new capital raised, we think Victory should earn as much as 15c per share in 2022.

On that basis, assuming investors have sufficient patience, Victory Offices is simply too cheap.

Peninsula, Lotus & Vimy - Each of Peninsula, Lotus, and Vimy are Uranium miners. PEN based out of the USA, Lotus owns mines in Africa, while VMY is Australia based.

As readers of our reports will know, a Uranium holding has been a significant part of our portfolio for some time.

Over the last 9 months many companies have come to market to raise capital in fear of what the state of affairs might be at a later date, and uranium companies were among them.

Though we despise the idea of companies we own raising capital at prices below our assessment of their intrinsic value, when it does happen, it often pays to participate.

Having purchased PEN at 7.2c, Lotus at 8c, and VMY at 6.6c, each of those topped up positions have performed exceptionally well for us over the last couple of months.

Aurizon - Perhaps a little more conventional than some of our other positions, Aurizon is the old QR National rail business.

We were attracted to the business for a number of simple reasons. Primarily due to its monopoly position in Queensland freight, its highly stable earnings profile, and its excellent return on equity.

Add to those factors that management have been buying back shares at a rate of approximately 5% p.a. and pay a dividend of almost 9% gross, and the attraction of the business starts coming to light.

The opportunity to buy AZJ presented itself as part of the general discomfort investors tend to have towards all businesses related to coal.

Coal haulage represents about 40% of the company's earnings, but only half of that is thermal coal, the balance being Coking coal. Additionally, about 50% of its earnings come from providing access to its lines to third parties, with the balance being made up from bulk haulage.

Our view is that the concern around the coal business is over-blown, but even if that were not the case, a reduction in AZJ haulage would be supplemented by an increase in third party access.

At $3.70, we believed the company was too cheap on its fundamentals, and given the time, that the business will close on its true value which we assess as being approximately $6.50.

Coronado and **Boom Logistics** are also two recent additions to the portfolio. Both were purchased at close to the companies lows, and while the market had little patience for them. For more information on these two companies, see our September quarterly (available on our website).

We hope to learn and improve for the rest of our days. In the meantime, we have built a team and a process that helps us identify when our ideas are sound, and when they are not. We certainly won't get it right every time, but we will strive to rigorously test any investment idea we might have, and we hope that we can continue to avoid the trappings of decision making via emotion.

As such, we will endeavour to worry less about the macro environment and focus instead on the merits of a business. If it is sufficiently attractive, we expect to invest in it. If not, we won't. We will not become preoccupied with market movements, macro economic environments, or share price momentum. Though each of those may be important factors to some, our process has identified that putting too much focus on those matters detracts from our primary goal: **finding wonderful businesses, and investing in them**.

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

With each quarterly update we like to remind our investors of how we run the Fund and what our expectations are from it. We believe communication is the key to building a long term working relationship, and want to ensure that our investors are fully informed about our strategy and the Fund's direction.

Reviewing the following should help answer most queries about our process and performance. However, feel free to be in touch if you have any additional questions.

- 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, constantly identifying sustainable businesses trading at a discount to our assessment of intrinsic value.
- As opportunistic investors, we are 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. We expect that volatility to have no meaningful effect on our long term returns. 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 from our long term aim of strong investment returns.
- After conducting adequate research, we prefer shares in which we are 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 purchase price was slightly higher.
- To achieve the goal of long term outperformance, the cost is often short term volatility. We have implemented procedures to try an reduce volatility, but are aware that it will remain "the cost of doing business".
- We will send out quarterly reports to you that will include the Fund's official unit price. We ask that you consider these reports in context. Returns in a single quarter (good or bad) 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.

Although official reports are distributed once a quarter, we are always happy to take investor calls at any time.

Yours Faithfully,

Vasilios Piperoglou
Founder, Head Analyst
Collins St Asset Management

Michael Goldberg
Managing Director
Collins St Asset Management

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:	Sandhurst Trustees Limited
Registry/Unit Pricing:	Apex Fund Services Pty Ltd
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 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 company securities & Cash (no derivatives).
Leverage:	None
Minimum Subscription:	$250,000 (unless otherwise agreed) 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:	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)
High Water Mark	Yes

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