COLLINS ST

VALUE FUND

March 2021

Quarterly Report

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

Performance (to 31 March 2021)*

Period	Return
March Quarter 2021	5.73%
6 months	30.42%
12 months	82.28%
24 months (annualised)	24.22%
36 months (annualised)	21.27%
Annualised Return (since inception)	17.71%

*Net returns.

Collins St Value Fund Annualised return **17.71% p.a**	ASX/S&P200 Accumulation Index **10.55% p.a**
Collins St Value Fund Value Add **7.16% p.a**	Inception Date **February 2016**

After generating a strong 5.73% return for the quarter, Collins St Value Fund has maintained an annualised return since inception of 17.71%, a 7% annual outperformance over the market during the same period.

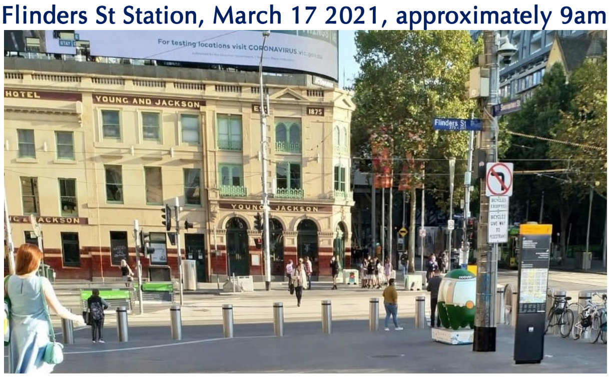
A Quieter Quarter:

After a year of lockdowns, political and social unrest, huge crashes and rallies in the stock market and a global pandemic, it was a pleasant change of pace to see the markets generate more normalised activity and returns during the March quarter - even with the significant amount of company reporting in February.

ASX200 March Quarter 2021

Despite a couple of snap lockdowns related to Covid and the closing of JobKeeper, it appears that consumer sentiment and business activity has continued to recover strongly. This is a very interesting development as the rate, and sustainability of domestic economic growth could see interest rates in Australia rise earlier than the 2024 timeline flagged by the Reserve Bank – highly relevant to the outlook and pricing of companies with longer dated cash flows (such as the Buy Now Pay Later sector) which will be discussed in more detail later in this report.

Flinders St Station, March 17 2021, approximately 9am



Flinders St Station, April 9 2021, approximately 9am

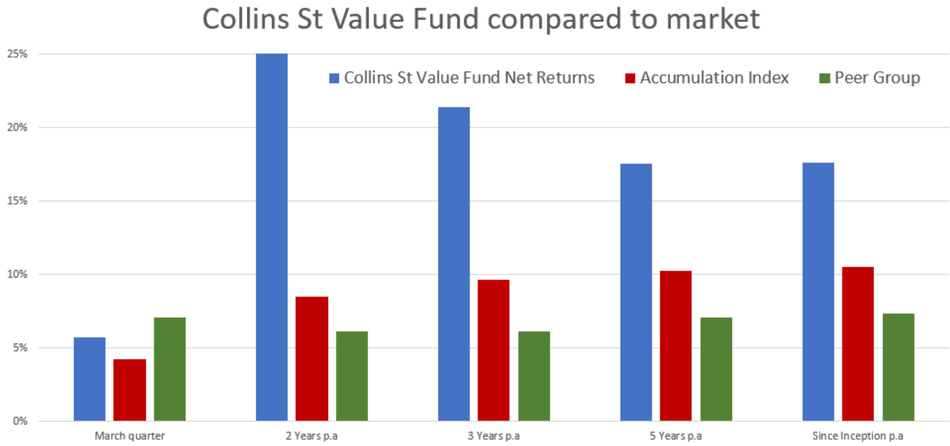
Fund Holdings*

Aurizon Limited
Basket of Uranium Companies
Boom Logistics Limited
Cash Converters Limited
Coronado Global Resources
Decmil Group Limited
iSelect Limited
Litigation Capital Management
Mermaid Marine Limited
National Tyre & Wheel
Paradigm Biopharmaceuticals
Redflex Holdings
Retail Food Group
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	Peer Group (Value Funds)	ASX200 Accum Index
March Quarter 2021	**5.7%**	**7.1%**	**4.3%**
1 Year	**82.3%**	**40.5%**	**37.5%**
2 Years p.a	**25.1%**	**6.1%**	**8.5%**
3 years p.a.	**21.4%**	**6.1%**	**9.7%**
5 years p.a.	**17.5%**	**7.0%**	**10.5%**



* net returns

In support of the re-opening of our domestic economy, and purely on an anecdotal basis, we've noticed a material increase in traffic in the Melbourne CBD (see our comparative photos of Flinders St on the previous page), clearly the office market and CBD life in general is far from dead! Moreover, if capital city property prices are any indication of sentiment (up as much as 5% this quarter in some locations), it is clear that 'animal spirits' are starting to re-emerge from their COVID-19 enforced hibernation.

In the following pages we consider a question that has come up somewhat regularly over the last few months: **What does the future hold for value investing?**

This is a complex question as not all value investors are the same and not all value managers are entrusted with the same type of investment mandate or focus on the same type of financial outcomes. It's therefore not unusual to find that the fortunes of value investing will vary considerably across the investment universe. The Collins St Value Fund has a very unique and contrarian approach to value investing which brings to life a distinctively different approach to value investing - we hope you find value in our thoughts and welcome your feedback and questions on the topic.

To that end, 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.

Planting seeds:

Setting and Understanding Goals

Why invest: The simple answer to the fundamental question of why we invest is of course to make money. Perhaps to build personal wealth, or perhaps to build a nest egg for the next generation. For other investors, such as ourselves, the starting point is more about capital preservation and the protection of capital that has been carefully accumulated over time.

However, high level answers such as these don't specifically help us in planning or moving forward. To understand or establish our level of satisfaction with any outcome, we need to understand what we were aiming for.

No doubt every investor will have different goals, but at least broadly speaking, people invest their capital in the hope of discovering that their invested capital in the future is worth at least as much as it was at the point of investment plus a premium for inflation.

In addition, most investors hope to generate a return above and beyond the cost of inflation, generally at a rate that at a minimum surpasses their personal cost of living.

What do we measure against: We are often asked how our Fund has performed relative to the broader stock market, yet to be perfectly blunt we don't care.

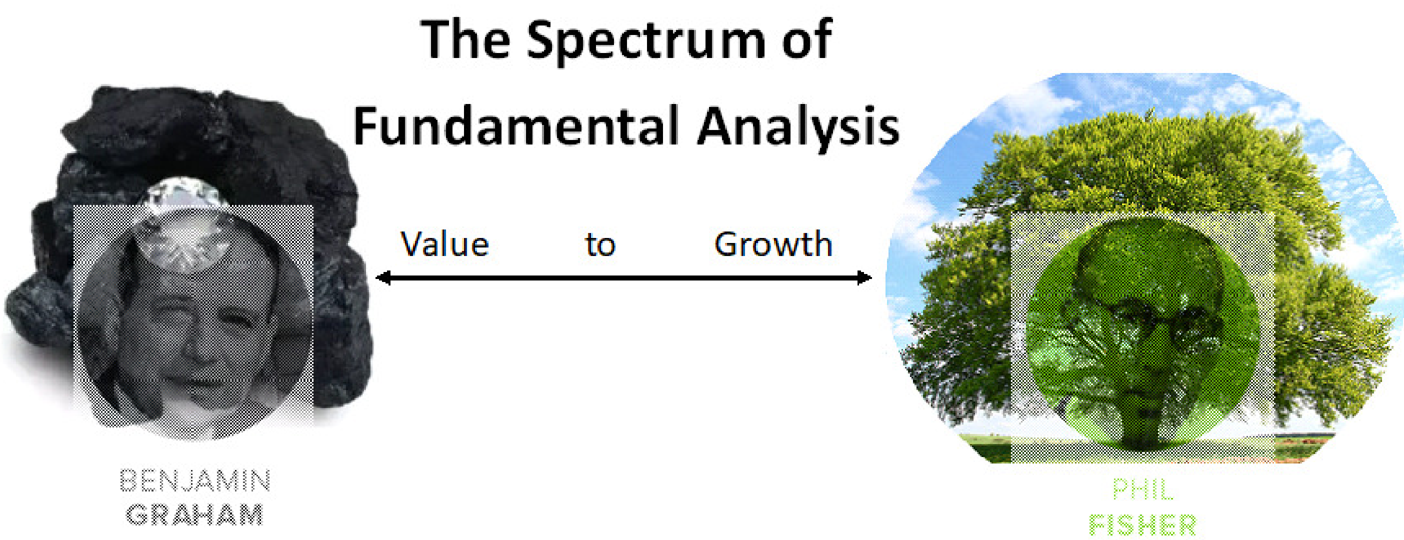
While we have won best performing awards throughout our journey and most recently in 2020, that won't always be the case. We are okay with that because our true goals are our own. Outperformance relative to other funds is not our goal. It matters not to us how 'the market' has performed, how 'momentum trading' has performed relative to 'fundamental investing', nor does it matter to us if 'Growth' is outperforming 'Value'. Sure, all these topics make for interesting conversation, but the only factor that investors should consider is whether or not they have achieved a satisfactory return for their efforts measured in absolute terms rather than relative.

We are understandably 'value investors' focused on the equity markets, but we hold no animus to other approaches or asset classes. In fact, we suspect that many of the perceived differences (especially within the scope of investments made based on fundamental analysis) between approaches and assets are imagined.

As distinct from speculators, most investors are just looking to buy an asset worth $1 for $0.50.

Nevertheless, over the last few months we have seen a lot of interest in the fortunes of growth investing relative to value investing.

Before we get into the details and discuss the differences between approaches, I would note that we don't make a <u>clear</u> distinction between styles. Each approach has different considerations,



"To look to the future we must first look upon the past. That is where the seeds of the future were planted"

Albert Einstein

and different goals.

Comparing different investment philosophies is akin to comparing cricket with AFL. Sure, both are popular Australian pastimes, but just because cricket teams may deliver a score higher than your average AFL match, does not make it a better sport or pastime. Just as a run in cricket is not comparable to a goal in football, so too investment philosophies seek to fulfill different desires.

The spectrum of fundamental investing:

As previously suggested, there is no clear distinction between where value investing ends and growth investing begins. Instead, most investors find themselves somewhere along the spectrum.

That being said, there are certain economic drivers that will affect certain types of investments differently to others.

Low interest rates "new world":

Low interest rates drive asset prices higher for two reasons.

1). Given no other alternatives to keep up with inflation and personal cost of living increases, people tend to put money in riskier assets in an effort to maintain the value of their capital over time. Be it gold, crypto currency, art, collectables, given that the alternative cash options are offering a low or no return / coupon, the perceived risk becomes worthwhile.

This is speculation for sure, and any gains are made due to someone being prepared to pay more tomorrow than was paid yesterday. But history shows that as cash and bonds becomes less attractive, speculative assets appreciate.

2). As interest rates fall, the cost of capital falls with it. As a result, the discount rate on future earnings is reduced and cash flows in the years to come are ascribed more value than they would have been had interest rates been higher.

These factors tend to see companies with large future earnings profiles benefit the most. Specifically, companies without current earnings, but the expectation of strong future earnings tend to see their fortunes leveraged to interest rates and the cost of capital. This is because a business without tangible assets or current earnings is likely to be valued on the basis of its future prospects.

Therefore, many growth stocks are highly sensitive to interest rates for both reasons:

1) Speculation and hype draws interest to 'exciting' opportunities and new technology when alternative (boring) investments offer lower returns, and

2) Future cash flows are highly sensitive to the cost of capital.

The correlation between interest rates and growth stocks can be illustrated by comparing 10 year (US) government treasuries and a major US based growth managed fund Ark Innovation EFT (US:ARKK).

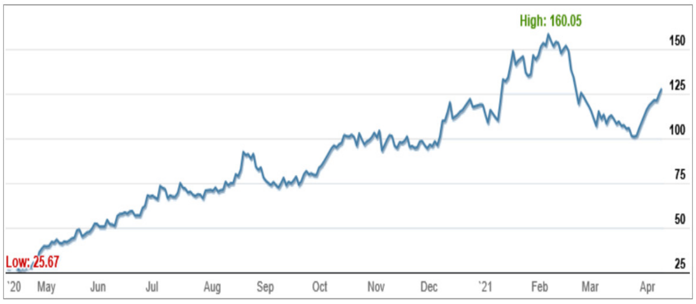
As the following graph highlights, as treasury yields fall, growth and speculative investments performed exceptionally well. However, as US rates begin to increase the impact on many of the prospective and growth businesses has been significant.

ARKK vs US 10 Year Treasury Bonds

Though the graph above is too subtle to see the true impact of recent interest rate increases, since US yields increased above 1.25% in February the ARKK fund has fallen by over 20%.

Locally companies like buy-now-pay-later leader Afterpay have seen their fortunes rise in a world of low interest rates. So much so that at its peak APT had a larger market cap than Woolworths, Wesfarmers, Telstra, Woodside Petroleum and Brambles, despite not having yet made a profit.

Afterpay 12 Month Chart



This is not to suggest that established businesses are not impacted by cheap money, they are. The key difference is that stable companies are not an exciting place to speculate - their earnings are too predictable. Additionally, established businesses tend to be valued on the basis of their assets and ongoing business and not predominantly on the basis of its future expectations.

Know if you are investing or speculating:

There is no right way or wrong way to invest. In fact, even speculation has a place in many people's portfolios. All that matters is that investors identify what they are doing, that they understand why they are doing it, and are fully aware of where the risks lie.

Our experience:

As is to be expected, in an environment of increasingly cheaper capital, companies with leverage to future earnings and speculative opportunities have outperformed investments in established businesses.

Nevertheless, not all established businesses are the same and not all value investors will achieve the same results.

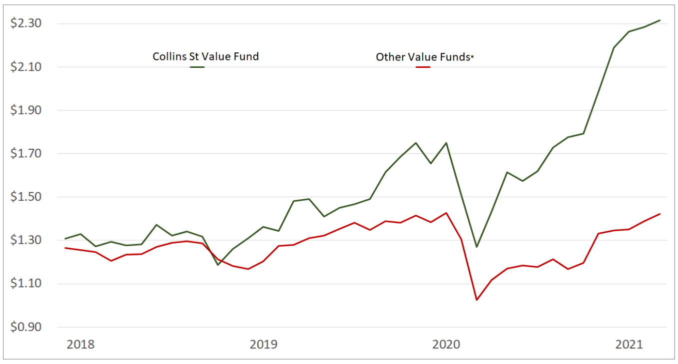
There have been some exceptionally performing established companies over the last few years and there have been poorer performing companies as well. So too there have been strong performing (growth and) value funds as well as some weaker ones.

JBH and TLS 3 year chart

We have been fortunate at Collins St Value Fund.

We are not bound by arbitrary restraints as our mandate allows us to invest with conviction and take concentrated positions. In being mandated to only invest in our favourite ideas, our returns have been very pleasing.

CSVF and its Peers 3 Year Chart



It hasn't happened by accident. Our view is that there is always an opportunity to uncover a wonderful business trading at too great a discount to its intrinsic value if investors are prepared to be a little patient and search a little harder than the average investor.

Our challenge as it is for all investors is remain steadfast to our ideals and avoid becoming caught up in the latest and greatest alternative investment.

We endeavour to remain focused on our goals. Be satisfied in achieving them and avoid risking them in an effort to chase ideas we don't understand.

This is not because you can't make money from all sectors and investment types, but because it's ideas that you don't fully understand, or the ideas that you misunderstand that turn into traps.

Investing in something you don't understand is a cardinal sin of money management.

Collins St Asset Management Portfolio Movements:

There was a reasonable amount of activity within the Fund this quarter. Some of the major changes included:

- An increase in our National Tyre & Wheel position.
- Becoming a substantial share holder in Retail Food Group.
- Taking a substantial position in Redflex Holdings.
- Reducing our exposure to Uranium - due to the exceptional recent performance.

National Tyre & Wheel (ASX:NTD)

On the 23rd of February, the company announced that one of the major brands it distributes (Cooper tyres) was to be sold to Goodyear.

The company went on to explain that NTD was contracted to distribute Cooper Tyres in Australia for the next six and a half years, and suggested that given NTD's track record and success in distributing them, there was reason to suspect that the agreement would be extended beyond 2027.

Nevertheless, the investment community noted that Cooper tyre sales contribute some 25% of NTD profits and sold the shares down from $1.14 to 78c.

Somewhat confused by the reaction, we were in touch with management to confirm that at worst NTD would continue to trade with Cooper till 2027, and additionally discussed what the company's options would be thereafter.

Fortunate to be able to reach management and spend some time discussing matters with them and satisfied with the explanation, we were comfortable enough to substantially increase our exposure to the business and in doing so become a substantial shareholder.

Since then, the business has provided a positive trading update and is trading at 97c.

Retail Food Group (ASX:RFG)

RFG is a franchise business which owns brands including Gloria Jean's Brumby's, Donut King and Michel's Patisserie.

Having suffered from multiple challenges over the last few years, Retail Food Group had seen their fortunes flag, their share price falling from $1 three years ago to as low as 2.6c during the Covid crash.

However, it wasn't just Covid that saw the business in trouble (though it does partly account for the hugely dilutionary capital raising that the company underwent). Previous management had grossly mistreated the franchisees, with the ACCC stepping in to put an end to it.

Combining a shake up of the board with weakening sales (in part) due to Covid and the threat of substantial fines from the ACCC, it was unsurprising that the company had fallen out of favour.

However, where some see an uncertain future, others see opportunity.

We believe that the market is overestimating the potential cost of ACCC action and are underestimating the strength of a post Covid recovery for RFG's brands. Combined, we viewed RFG as too cheap at 6.5c and so bought a little over 5% of the company.

If RFG is able to generate close to consensus expectations of 1c per share in earnings next year, re-establish the dividend within the next 2 years, and the ACCC acts reasonably, we believe that the company is worth more than twice what we paid for it.

We can't be sure how long it will take for the market to realise the overreaction to recent news, but we are confident it will eventually.

Redflex Holdings (ASX:RDF) Redflex owns and operates a red-light and speed cameras in the USA and Australia.

In January the company was approached by Verra Mobility and a takeover offer was made at a substantial premium (92c against a 40c share price at the time).

Management were supportive of the takeover, regulators don't seem to have any issues with the transaction, and the key hurdle appeared to be shareholder approval.

We were attracted to the deal at this point due to its potential to generate a circa 6% return, or 17% annualised return, but were hesitant to invest until we could be certain that all major share holders had expressed an interest in accepting the deal. That is not to say that we required commitments, but we were certainly keen to get a sense if there was any major objection.

In an effort to gain that comfort we were in touch with management, brokers, and any of the funds on the registry that we could identify.

Confident that we had identified all the major share holders and their thoughts we decided to press the button and purchase a line of RDF.

The share price has since moved from 87c to 90.5c.

We expect to receive our 92c per share in May.

u308

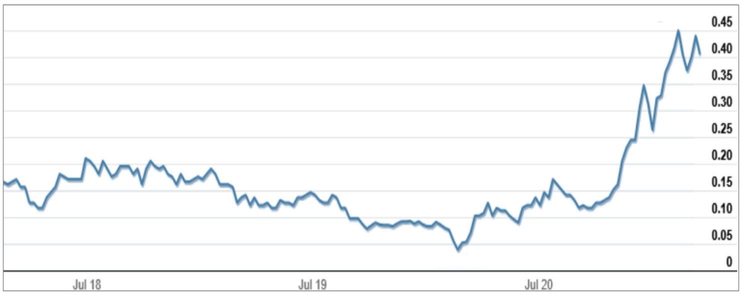
We have held our uranium position without any substantial selling since 2017.

As all of our long term readers will have noted, we have been confident that Australian uranium equities would eventually rebound in line with improving spot price, and our surprise at how long it had been taking was apparent.

That is, until October 2020. Having underperformed all our expectations for some three years, the next 6 months saw an exceptional and rapid turnaround in fortunes.

For example, our largest uranium holding being Paladin saw its share price shoot from a Covid low of just 4c and a Fund average purchase price of 12c to as high as 47c per share in March.

Paladin 3 Year Chart



The results have certainly been pleasing, but our view is that the long overdue rally in uranium equities simply brought the stocks in line with current commodity prices without any additional value being ascribed the additional 40% increase that spot market prices would have to increase to just to make the average global miner break even.

Cognisant that the position had become materially overweight due to strong share price growth we sold a portion of our holding during the quarter.

We continue to believe that our investment in uranium will bear fruit and our current portfolio continues to hold 20% of our capital in the sector.

Please turn to the next page to see the results of our "vote for a cause" campaign.

Supporting Good Causes.

Many thanks to all our investors who participated in the "vote for a cause" campaign.

We have always believed that it is important to support the community and worthy causes and viewed our recent 5 year Fund anniversary as an opportune time to collect feedback from our investors and support a new (for us) charity.

Beyond Blue: Provides support to help everyone in Australia achieve their best possible mental health, whatever their age and wherever they live.

Children's Cancer Institute: Established in 1976 by a dedicated group of parents of children with cancer and their doctors. They opened their own research laboratories in 1984 and since then, have grown to employ more than 300 researchers, students and operational staff and are recognised as one of the leading child cancer research institutes in the world.

Oz Harvest: Founded 2004 OzHarvest has grown to become Australia's leading food rescue organisation. Saving surplus food from ending up in landfill, OzHarvest delivers it to charities that help feed people in need.

The votes have been tallied, and we were pleased to see the level of interest in this venture.

Organisation	Vote %
Beyond Blue	38%
Children's Cancer Institute	31%
Oz Harvest	31%

We pledge to give $10,000 to Beyond Blue, and $5,000 to each of the Children's Cancer Institute and Oz Harvest. We hope to have many more opportunities to support these, and other, very worthy causes.

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:	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.