COLLINS ST

VALUE FUND

September 2021
Quarterly Report

Performance (to 30 September 2021)*

Period	Return
September Quarter 2021	5.50%
12 months	54.28%
2 years (annualised)	30.19%
3 years (annualised)	27.43%
5 years (annualised)	18.45%
Annualised Return (since inception)	19.52%

*Net returns.

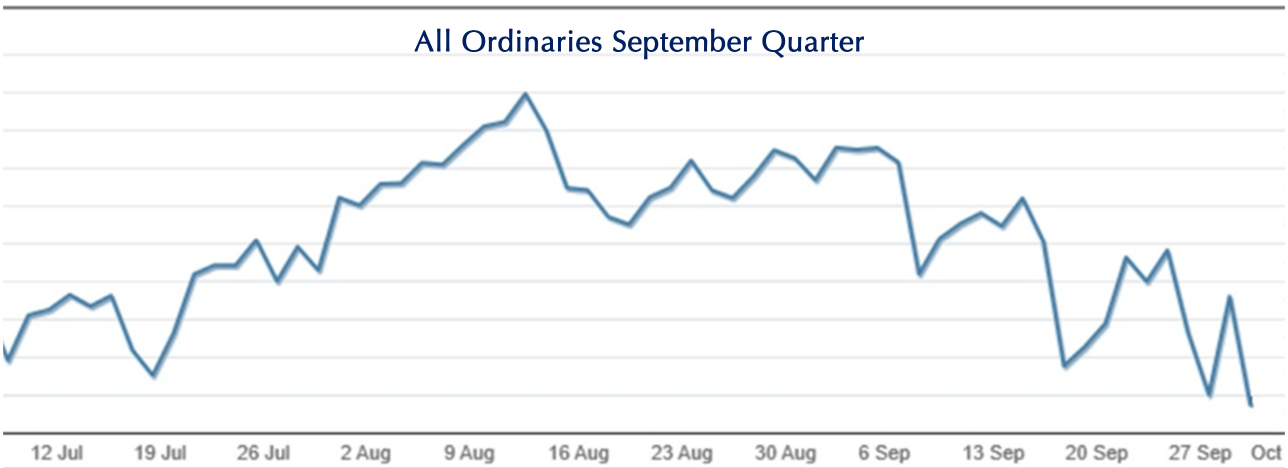
Collins St Value Fund Annualised return **19.52% p.a**	ASX/S&P200 Accumulation Index **11.46% p.a**
Collins St Value Fund Value Add **8.06% p.a**	Inception Date **February 2016**

The Markets:

Another quarter of mixed returns and uncertain signalling has come to an end.

In global headlines we saw the US Federal Reserve call out transitionary inflation while simultaneously taking steps to reduce quantitative easing that suggests the permanence of the risk. We saw technology stocks at great heights followed by volatile moves lower. Similarly (and perhaps relatedly) we've begun to see some significant interest in energy stocks. Uranium stocks made new highs driven by a squeezing of the discount in spot markets, power outages in China, petrol shortages in the UK, and European gas prices up 600%.

In ordinary times, inflation fears, volatile markets, and a fuel crisis would be more than enough to panic the markets. Today (having lived through global political turmoil and a pandemic) it's just a Tuesday!



On the local front we saw a strong June and July before all the market gains were 'given back' due to some significant pricing pressure on Iron Ore producers (BHP↓35%, RIO↓30 % FMG↓50%, Iron Ore Spot Price↓45%).

Having acknowledged the above, I think it's important to state that none of it matters!

- Firstly, we don't own 'the market'. Instead, we own a select number of businesses in which we have a high degree of conviction, and

- Secondly, except that it may influence our outlook and the long term make-up of our portfolio, global activity rarely provides more value to us than a topic of consideration and conversation (though I note that we have gradually moved our portfolio holdings to reflect our concerns for long-term inflation).

The problem of maintaining too great a focus on market movements or financial headlines is that investors run the risk of becoming so caught up in the noise or excitement of the headline events that they lose track of what's important.

Sure, iron ore is a significant input for Australian GDP, but just because Fortescue's share price is lower doesn't mean that there weren't some wonderful and profitable ideas in several other sectors of the economy that played out behind the scenes during the same period.

The only thing that should matter to an investor is the fortunes and prospects of the few companies, funds, or assets that they own. Any energy spent on concern or even worry about the macro-environment is energy stolen from better understanding a current or prospective position.

Fund Holdings*

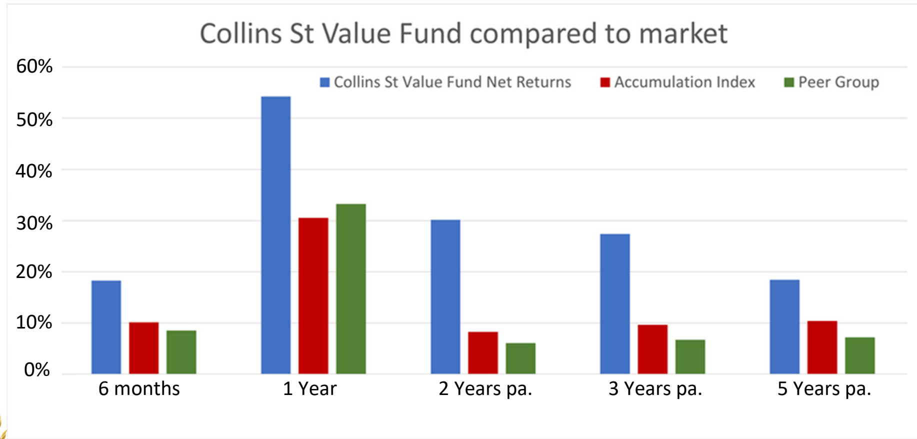
Aurizon Limited
Beach Energy Limited
Boom Logistics Limited
Challenger Group Financial
Coronado Global Resources
iCar Asia Group
Orica Group Limited
Litigation Capital Management
MMA Offshore Limited
National Tyre & Wheel
Paradigm Biopharmaceuticals
Retail Food Group
RPM Automotive Group
TPG Telecom 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
Sept Quarter 2021	5.5%	3.9%	1.7%
1 Year	54.3%	35.6%	30.6%
2 Years p.a	30.2%	7.1%	8.3%
3 years p.a.	27.4%	7.4%	9.7%
5 years p.a.	18.5%	7.6%	11.5%

* net returns



Collins St Value Fund:

The September quarter was one of the busier periods we have experienced in recent times. We exited our Uranium exposure (at a wonderful profit), we purchased a new holding in Beach Energy, and became substantial holders in iCar Asia, and RPM Automotive.

"It is impossible to produce a superior performance unless you do something different from the majority"
Sir John Templeton

We've been thrilled with the early results from Beach Energy (from both a share price and an operations perspective), and we have high hopes and expectations from RPM over the coming years. Not only did we purchase regular shares in RPM, but the Fund also originated a convertible note agreement with the company, providing highly competitive borrowing rates for the company, and a significant opportunity for our investors to share in what we believe will be future success for this company.

For the period of the September quarter the Fund returned 5.5% after all fees and costs compared to All Ords which rose by just 0.6%.

Whilst we remain focused on sustainable longer term performance, it is pleasing to be able to deliver such substantial returns for our investors during the challenging September quarter.

What's been on our minds:

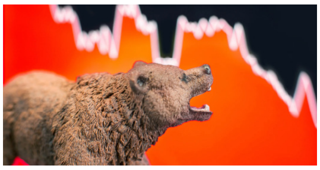
We share the US Federal Reserve's concerns for inflation and have done so for some time. As far back as 9 months ago we began to see significant unofficial inflation unfolding on the ground in the US and elsewhere in part due to constraints in the supply chain including: labour shortages, COVID related lockdowns in some jurisdictions, rising fuel import cost and constraints on available freight transport options that suggested inflation was already an issue in many areas of day to day living. Discussions with a range of industry participants showed a three to five time increase in the cost of freight per metric ton that ultimately must be passed on in the form of higher pricing at the checkout or the destruction of profit margins, something that is ultimately unsustainable.

Recognising the risk, our team began to gradually transition our portfolio into one that will survive and thrive in a more inflationary environment. Much like our actions in 2017 protected our holdings from the drop off in consumer spending in 2018/19, we anticipate that our current holdings will not only perform well in ordinary times, but also provide us with significant protection during inflationary times.

Historically the best hedge against inflation has been real assets. None has been as effective as investing in value stocks. Purchasing value stocks (if done right) can provide exposure to real assets *at a discounted price*. However, not all of our positions have been in companies trading at a discount to the value of their assets (think MRM – trading at 1/3 the value of its fleet), some of our holdings also operate in 'inflation proof' industries and will have pricing power (think RFG) even in an inflationary environment.

We can't be certain that inflation will manifest in Australia in the coming years but we can protect ourselves against the likelihood by doing what we always seek to do; that is buy good quality businesses (or assets) cheaply. If an inflationary scenario bears out, we will be well positioned. If instead governments find a way to navigate around the spectre of inflation, we will still be the happy owners of wonderful businesses we purchased cheaply.

If you have any questions, about this report, or would simply like to talk to us about the Fund, please feel free to get in touch through our website (www.csvf.com.au) or talk directly with our Head of Distribution & Investor Relations Rob Hay at rhay@csvf.com.au or 0423 345 975.



"Every past market crash looks like an opportunity, but every future market crash looks like a risk"

Morgan Housel

Aligned interests:

The secret to better outcomes

Some of our most important considerations when we looked to launch our Fund in 2015 was to ensure that we as managers had aligned our interests with our customers (our investors). Ultimately, we determined that the best way for us to achieve that goal was to waive all fixed management fees and rely solely on a performance-based remuneration.

Similarly, when we consider a business that we would like to invest in, one of our first considerations is: "how is management being rewarded?"

If we find that the team are incentivised to grow earnings per share, we are excited that we have found a team who have aligned their interests with shareholders. If instead we find that the team are incentivised to generate some other measure of success (be it revenue, store, or product growth) we hesitate and re-consider the strength of the business. After all, we've found that human nature dictates that people can be relied upon to act in their own best interests. If a management teams interest lies somewhere other than with ours, we can be fairly sure that theirs will be achieved, even at the expense of our own.

Recently we've started to see articles on (and have been asked about) the benefits of founder lead businesses. It is an interesting topic, as founder lead companies do tend to tick several of the boxes we are cover off in our discovery process.

What we like about Founder led businesses:

- The person at the head of the company has a forensic understanding of the business.
- They tend to be both entrepreneurial and passionate about the business. This drive can often see a company achieve far more than could be reasonably expected.
- The founder tends to have significant financial interest (and shares) in the business. This alignment of interests should motivate the leadership to achieve the greatest outcomes for all shareholders.

A clever, passionate, and entrepreneurial leader is likely to be the sort of person you'd want in charge of your business. When that person has also aligned their interests with you, it is a powerful combination.

In fact, recent data presented in various media on the topic of founder led businesses suggested that they outperformed the alternative by as much as 3-5% (depending on the country) over the long term. I find the outcome of the study unsurprising, but I do question whether it proves causation or merely correlation.

Afterall, all businesses start off as founder led. We wonder if the outsized returns might be explained by the life cycle of businesses in general. That is, earlier stage businesses are more likely to be founder-run than mature companies (though this is not a fixed rule). As such, founder-run businesses are more likely to be experiencing the growth phase of their lifecycle than the alternative board-run business.

This is not a criticism of the study, nor is it our attempt to question the benefits of strong leadership. Quite the contrary, our view is that a strong leader (founder or otherwise) with aligned interests will inevitably generate better outcomes for investors.

But there are risks:

The same deep understanding of the business we hailed earlier as a positive could result in a controlling micromanaging culture. The passion and control if not properly tempered with the appropriate level of governance could lead to poor decision making. An excessive controlling stake in a business could drive the founder to disregard minority holders and their interests. And, if too much is dependent on a single person within an organisation, there is the risk that the business would suffer considerably if that person became unavailable.

What we look for:

First and foremost, we want to own wonderful businesses and we want to buy them at the right price. Then we want a leader who understands the business deeply, pushes their people to thrive and achieve their greatest potential, and who has aligned their interests with other shareholders.

With the right governance in place, and a leader who understands the importance of delegation and building an exceptional team around them, these sorts of businesses can generate exceptional returns with lower than average business risk.

Over our journey we've invested in several of these types of companies, and we've regularly written and spoken about them.

- Companies like Paradigm Pharmaceuticals, led by Paul Rennie and the exceptional team he has built around him.
- Litigation Capital Management, led by Patrick Maloney. Patrick too has built out his team and business while maintaining exceptional returns and de-risking the business.
- More recently the Fund purchased a stake in RPM Automotive Run by Clive Finkelstein and Lawrence Jaffe. The team have been in the industry for 20-30 years before listing in 2019. They too have been building a solid team of people around them while growing both organically and through strategic acquisitions.

As with all businesses we purchase we are looking to buy value. We want to purchase $1 worth of business for 50c. When we are able to achieve this our results reflect that achievement, and this is reflected in our ongoing outperformance.

The advantage of purchasing a business that is sound, cheap *and* run by the sort of leadership we seek is that over time, that $1 of value can compound. In which case, the outcomes can be extraordinary.

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.

KEY DATA

Annual Returns and Analytics	12 months	24 months	36 months	48 months	60 months	Since Inception
Fund Annual Return per annum	54.27%	30.20%	27.42%	19.22%	18.45%	19.46%
Index Annual Return per annum	30.56%	8.27%	9.65%	10.72%	10.42%	11.42%
Monthly Returns and Analytics	**12 months**	**24 months**	**36 months**	**48 months**	**60 months**	**Since Inception**
Fund Average monthly return	3.68%	2.22%	2.04%	1.48%	1.42%	1.63%
Index Average monthly return	2.25%	0.66%	0.77%	0.85%	0.83%	0.99%
Fund % of Positive Months	92%	79%	78%	73%	77%	78%
Index % of Positive Months	92%	75%	72%	73%	70%	69%
Fund Average +ve Return	4.23%	5.17%	4.94%	4.26%	3.72%	3.58%
Index Average +ve Return	2.66%	3.14%	3.07%	2.82%	2.70%	2.80%
Fund Best Month	10.77%	12.87%	12.87%	12.87%	12.87%	12.87%
Index Best Month	10.21%	10.21%	10.21%	10.21%	10.21%	10.21%
Fund Average -ve Return	-1.51%	-7.82%	-7.13%	-5.37%	-5.49%	-5.26%
Index Average -ve Return	-1.85%	-6.06%	-4.71%	-4.05%	-3.24%	-3.05%
Performance in Negative Markets	**12 months**	**24 months**	**36 months**	**48 months**	**60 months**	**Since Inception**
Number of months market was negative	1	6	10	13	18	21
Fund % positive months, when market negative	100%	50%	60%	62%	67%	67%
Cumulative Fund return in negative market	6.87%	-21.52%	-21.60%	-20.53%	-16.79%	-12.81%
Cumulative Index return in negative market	-1.85%	-32.48%	-39.50%	-42.77%	-45.99%	-49.05%
Down Capture Ratio	-370.51%	66.25%	54.67%	48.00%	36.52%	26.11%

As at 1/10/2021

Data sourced from Australian Fund Monitors. https://www.fundmonitors.com/ancedstats.php?FundID=1310