COLLINS ST

VALUE FUND

December 2021
Quarterly Report

Performance (to 31 December 2021)*

Period	Return
December Quarter 2021	0.40%
12 months	25.57%
2 years (annualised)	28.90%
3 years (annualised)	27.81%
5 years (annualised)	17.06%
Annualised Return (since inception)	18.69%

*Net returns.

Collins St Value Fund Annualised return **18.69% p.a**	ASX/S&P200 Accumulation Index **11.33% p.a**
Collins St Value Fund Value Add **7.36% p.a**	Inception Date **February 2016**

For the calendar year 2021 Collins St Value Fund generated a return of 25.57% after fees. This was an outperformance over the ASX200 Accumulation index of 8.34%

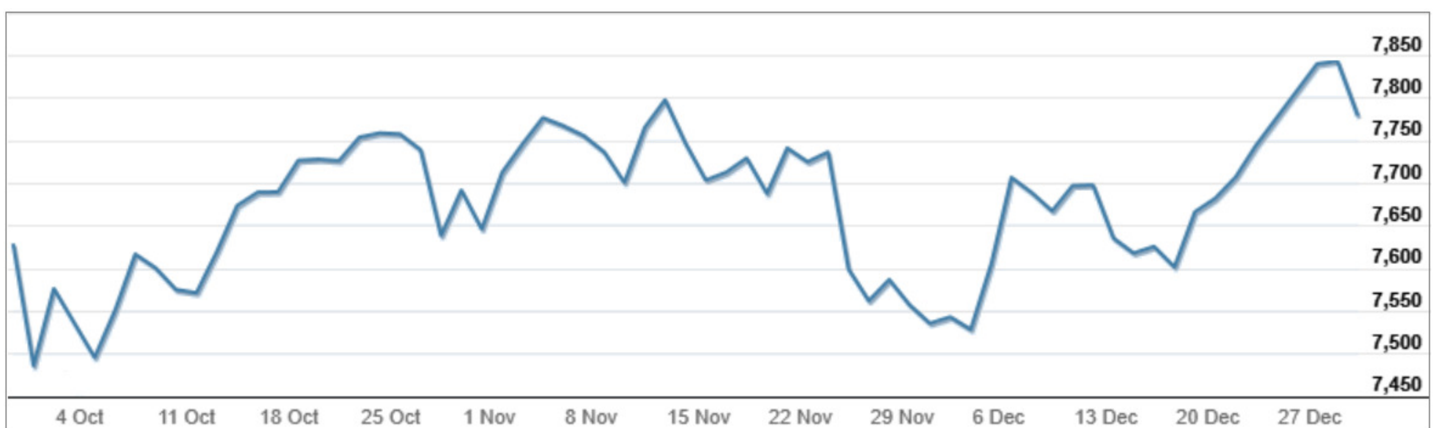
If you have any questions about this report or any investing related matter please don't hesitate to be in touch with our team. Rob Hay is available at rhay@csvf.com.au. Our office number is 03 9602 1230.

With 2021 now behind us, we take the opportunity to reflect. To think about what drove markets during the year, what challenges we faced, and what lessons or insights we can take away to help us deliver better outcomes in the future.

The Markets:

Despite what could be best defined as a challenging year, 2021 actually generated some strong returns across the markets.

All Ordinaries December Quarter



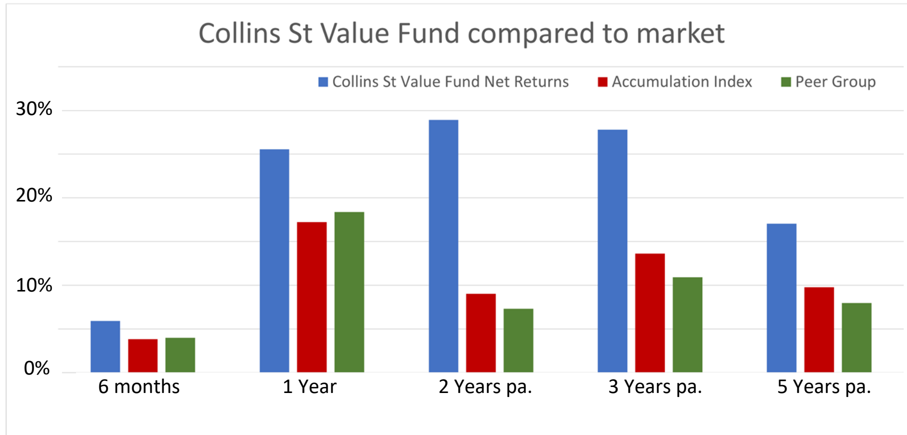
Looking at the markets, the All Ordinaries actually generated a better than average return, coming in at around 13% for the 12 months – with the ASX200 accumulation index performing even better.

At Collins St Value Fund we generated a return of 25% for 2021. Our returns were generated by a broad range of ideas, from thematic investing (in uranium and oil) to identifying high quality companies that were

Comparative Returns*

	Collins St Value Fund returns	Peer Group (Value Funds)	ASX200 Accum Index
Dec Quarter 2021	0.4%	0.9%	2.1%
1 Year	25.6%	18.4%	17.2%
2 Years p.a	28.9%	7.3%	9.0%
3 years p.a.	27.8%	10.9%	13.6%
5 years p.a.	17.1%	7.9%	9.77%

* net returns



Sectoral Holdings

Financial Services	21%
Consumer Discretionary	21%
Energy	20%
Special Situations	19%
Infrastructure	6%
Cash	5%
Industrial	4%
Consumer Services	2%
Healthcare	2%

trading under the radar (like National Tyre & Wheel). We have been especially pleased to find once again that we have been able to identify exciting investment opportunities in both weaker and stronger markets.

Lessons we can learn from 2021

Despite the concerns of the experts as COVID-19 continued to impact global movement and economies, markets performed strongly. Earnings have been good, and many of the companies that looked to be expensive in light of the disruption through 2021 saw their earnings catch up to their outlook.

So what can we learn from our experience over the last 12 months?

- First and foremost, we'd suggest that 'experts' are fairly poor at predicting the future.
- Secondly, while markets are not perfectly efficient (if they were we wouldn't have a job), they are more often than not a fairly good reflection of the commonly knowable information.

Expertise in complex systems:

Studies of both political science and economics have found that experts are particularly bad at predicting the future, and substantially worse than the less informed masses. The same studies have found that it isn't their lack of knowledge that lets them down, but quite the contrary. It is precisely because of their expertise that experts have an over inflated perception of the likelihood of their predictions coming true.

Some studies have suggested that rather than relying on experts, algorithms or data from a consolidated survey of amateurs are much more accurate predictors.

The basic idea is that outcomes are most accurately predicted when considered against the base case (also known as mean reversion), and that a reliance on specific expertise is unhelpful in a complicated system or

"One of the great challenges in life is knowing enough to think you're right but not enough to know you're wrong"

***Neil deGrasse Tyson** - Astrophysicist*

market where outcomes are significantly driven by unknown unknowns.

A study by Nobel Prize winning psychologist Dr Daniel Kahneman in conjunction with the Israeli air-force discovered an interesting phenomenon. After an especially poor flight by a pilot, the commanding officer would (as was his habit) let the pilot know in no uncertain terms that the effort was unacceptable. In dressing-down the pilot, the officer explained to Dr Kahneman that the next flight by that pilot would be significantly better.

The officer was correct. It seemed that each time a pilot performed badly, the officer would reprimand them and the next flight would improve. From this sequence of events, the officer determined that it was his efforts and feedback on the poor flight that produced the improved outcome. Nothing that Dr Kahneman could say would convince the instructor otherwise.

When given the opportunity to work with the air force again, and in the absence of the officer (he was there, but was not in view, nor could he provide feedback), the pilots generated identical outcomes.

Almost without fail, a poor flight by any one particular pilot was followed by an improved flight, and the same phenomena was observed in the reverse – after an especially good flight by a pilot, the next flight tended towards the average. The officer was dumbfounded but unwilling to let go of his preconceived notion – that his input made a difference.

This was a perfect example of expertise bias leading to poorer outcomes. Though the flight instructor was convinced that it was his feedback that generated changed behaviour, it was in fact simply the law of averages and a reversion to the mean.

Predicting markets is similar. Experts concerned about one matter or another are at best equally likely to be correct as they are to be wrong. Even if they are able to accurately predict a macro issue, it is impossible to know how governments, business, and investors will all react. There are simply too many unknowables.

To suggest that one can accurately predict the outcome of 2,500 individual businesses (also known as the Australian Stock Market), each being driven by their own specific and unique factors, and to suggest that we can actually accurately predict how governments and billions of private citizens will react and influence those outcomes would be the height of hubris. No man can accurately predict such things and attempting to do so is pure folly.

The best we can hope to do is recognise when markets or sectors have performed outside of the normal standard deviation, and recognise that it is likely to revert to its mean.

These opportunities are most prevalent during

*"Those who have knowledge don't predict.
Those that predict don't have knowledge"*

Lao Tzu - *philosopher*

extreme periods, times of market crashes and significant corrections. These periods are not especially hard to recognise. However it can be difficult for investors to act even when they have recognised the circumstance.

For those investors able to make the tough/contrarian decisions at the height of market pessimism, investing in this way can be highly profitable. Unfortunately, these sorts of opportunities are rare, and waiting years between investments while awaiting for the next bear market is not a tenable investment strategy for most investors.

Rather than attempting to predict the future, our approach is to identify outcomes that have already happened. Placing a bet after an event is much easier to do then trying to predict what might happen in the future.

Though we certainly have some concerns for what the future may bring - inflation, disease, war, economic and social unrest - we believe that investing should be simple (though perhaps not easy). In all markets but especially in an uncertain world, all we can do is seek to own businesses with pricing power and real assets, and buy them at steep discounts to their intrinsic value.

Doing this has generated wonderful outcomes for us over many years, and we expect that it will continue to deliver similarly pleasing outcomes for many years to come.

Related Thoughts and Lessons from 2021:

Expectations around outcomes *and* timeframes are rarely met. Just because an asset is cheap doesn't mean it can't get cheaper. Just because an asset is expensive doesn't mean it can't become more so.

Speculating on market noise is not the same as investing in the fundamentals of a business. There may be a time and a place for speculation but it's not now, and it's certainly not within the Collins St Value Fund.

Certain areas of the market are more/less efficient than others. To truly take advantage of the opportunities that exist, investors need to be willing to look at any company and judge it on its merits - whatever sector or market-cap.

Finding an Investment Advantage:

Aligned interests

"Show me the incentive, and I will show you the outcome" – Charlie Munger, Chairman Berkshire Hathaway

There are many factors we consider when looking to invest in a company. No doubt the basic matters such as balance sheet strength, return on equity, and competent management rank highly, but even when all of those factors are in place, a conflict of interest between the incentives for the management team and the interests of shareholders can see an otherwise attractive investment opportunity devolve into an expensive 'learning experience'.

It should go without saying that a management team and investors should make all possible effort to ensure that their interests are aligned, but shockingly it is far less common than one would expect.

Where investors are concerned with positive long-term outcomes, strong balance sheets, return on assets, return on invested capital, and primarily an increasing share price, many management's incentive schemes (both short term and long term) stunningly disregard some (or all of those factors) in lieu of more 'inventive' measures of success.

We've seen many management teams align their incentive schemes to revenue, or market cap growth. We've even seen some propose that the management team be rewarded for product growth.

In each of those circumstances we've seen time and again, management teams sacrifice balance sheet strength (via leverage), long term share prices (with dilutionary capital raisings), and margins (in search of wider and less profitable products). None of that behaviour suits shareholders, but all too often the powers that be who create long and short term incentives get lost in the excitement of a good story or an exciting 'opportunity' and forget that the only role a management team should be playing is that of enriching the company's shareholders.

When management have misaligned interests

Now it's important to note that even a perfect alignment of interests is not a guarantee of success.

There have been plenty of companies with the best of intentions that have failed. However, we would suggest that over the long term even if aligned interests are not a guarantee of success, misaligned interests *are* a guarantee of failure.

How to align interests:

There is no one-size-fits-all approach, but broadly speaking there are a few basic things a Board should look to do.

1. A good place to start is to incentivise success.
    - Stock options provide a good start but are imperfect in their implementation of alignment. That is, options will certainly encourage the team to strive for a higher share price (assuming the options are priced at a premium to the prevailing share price), but by themselves options do not provide alignment to the downside (capital preservation).

2. The next logical step to point 1 is to align managements interests with shareholders by insisting that they become shareholders.
    - Managers who own significant amounts of stock in a company are going to be motivated to both protect their capital and generate attractive returns over the long term. Colloquially referred to as "skin in the game", we most often see directors with significant stakes in a company when they used to be the founder. Having been a founder also (often) further aligns management interests with shareholders, as the founder is not only financially committed to the business but also emotionally (though that can come with risks as well).

3. Once we've seen management align their interests to both the upside and the downside of the company, we also like to see the directors consistently increase its stake in the business.

- Consistent and considerable increases in management's stake in the business indicates both an ongoing commitment *and* confidence in the operations of the business. Manager selling is also an indicator - but not in the same way that buying is. There is no reason other than confidence in the business to buy, but there can be many reasons why a manager might need to sell, many of which are unrelated to business operations. Still, selling is something we pay attention to, and when it appears out of character we seek to understand the reasoning.

If we can find a competent team that is prepared to support the company and align their interests with shareholders, it is one of the best indicators we can find for positive outcomes.

Again, there is no guaranteed method for ensuring success, but knowing that the management team are working towards the same goals that we investors seek, and that a loss to investors will be equally felt by the management team, is as good an indicator of the quality and prospects of a business as any we've been able to identify.

What alignment looks like (LIT)

One company that we've held for quite some time is Litigation Capital Management. Originally listed in Australia in 2016, the company more recently moved to London to take advantage of the appetite for alternative investments that is more prevalent in London than in Australia.

The move was a strange one for investors in the company and many questioned the wisdom of the move.

Nevertheless, Managing Director and founder of the company Patrick Maloney insisted that moving to London would be better for both the operating business, and the prospects for the share price. Given that Patrick was the major shareholder of LIT at the time, local shareholders were placated, and the move was eventually made with little fuss.

The move provided precisely the impact Patrick had projected it would. And, as the company continues to achieve its goals, management have regularly been seen in the market increasing their personal stakes.

Most recently, a hiccup related to staffing issues saw the company's share price fall by 25% overnight.

Rather than fretting, Mr Maloney and his Chairman entered the market buying a significant number of shares.

Once again, the team spoke most loudly via their actions. In response, investors gained confidence in the business despite the hiccup, and the share price had recovered within 2 weeks.

Aligning Management interests:

There are no perfect solutions, but there are some simple steps we can take, and some indications we can look out for.

- Do the short term and long term incentives align with the corporate goals?
  - If the company is consolidating, incentives should reflect that. If the company is growing, then the incentives would be reflective of that.
- Do the incentives attract and retain good employees and prevent bad leavers from taking advantage?

    - Its worth offering highly attractive incentives to entice and retain quality staff. At the same time, it's important that those benefits are earned.
- Are the employees and Board being remunerated with shares?
    - If the company's employees and Board are confident in the outlook of the business, receiving part of their salary in equity is enticing.
- Is corporate culture a consideration when remunerating the team?
    - A toxic culture may achieve seemingly good outcomes in the short term but could have catastrophic consequences in the long term.

How we align our interests.

At Collins St Value Fund we take these lessons to heart. We expect the directors of the companies we invest in to align their interests with ours, and we expect nothing less from the investors who have entrusted us to look after their capital.

As such the team have meaningfully invested in the Fund, and have done so on the same terms as all our investors. Additionally, the Fund only receives a fee when our investors have seen real results.

In taking this approach we have become shareholders alongside our investors such that we care very deeply about capital preservation. And, to ensure that all parties involved are reaching for the same goals, there is no fixed management fee, rather our team only get paid when our investors earn real profits.

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,

Michael Goldberg
Managing Director
Collins St Asset Management

Vasilios Piperoglou
Chief Investment Officer
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
Platform Availability	IDPS (sophisticated investors only) platform of: Netwealth, Hub24, Mason Stevens and Power Wrap

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

This quarterly update is prepared by Collins St Asset Management Pty Ltd ("CSAM") and is believed to be reliable. However, CSAM makes no representation or warranty as to its reliability and does not accept any responsibility or liability in relation to such information or for conclusions which the reader may draw from the quarterly update. The information or opinions contained in this quarterly update are of a general nature only and should not be construed to be a recommendation to buy or sell interests in the Collins St Value Fund ("CSVF"), securities, commodities, currencies or financial instruments referred to above. CSAM is not licensed to give financial advice or accept applications from retail clients. CSAM is only able to accept applications from "wholesale investors" under Section s761G of the Corporations Act. Please obtain an Information Memorandum from CSAM before making a decision in relation to the CSVF. Please note that past performance is not a reliable indicator of future performance.

KEY DATA

Annual Returns and Analytics	12 months	24 months	36 months	48 months	60 months	Since Inception
Fund Annual Return per annum	25.55%	28.90%	27.80%	20.28%	17.06%	18.65%
Index Annual Return per annum	17.23%	9.03%	13.62%	9.26%	9.76%	11.30%
Monthly Returns and Analytics	**12 months**	**24 months**	**36 months**	**48 months**	**60 months**	**Since Inception**
Fund Average monthly return	1.91%	2.14%	2.07%	1.55%	1.32%	1.57%
Index Average monthly return	1.33%	0.72%	1.07%	0.74%	0.78%	0.98%
Fund % of Positive Months	83%	79%	78%	75%	75%	77%
Index % of Positive Months	75%	75%	75%	69%	68%	68%
Fund Average +ve Return	3.05%	5.06%	4.76%	4.25%	3.79%	3.56%
Index Average +ve Return	2.07%	3.11%	3.05%	2.85%	2.65%	2.80%
Fund Best Month	6.87%	12.87%	12.87%	12.87%	12.87%	12.87%
Index Best Month	3.47%	10.21%	10.21%	10.21%	10.21%	10.21%
Fund Average -ve Return	-3.46%	-7.80%	-6.48%	-5.83%	-5.49%	-5.27%
Index Average -ve Return	-0.83%	-5.75%	-4.37%	-3.55%	-2.99%	-2.81%
Performance in Negative Markets	**12 months**	**24 months**	**36 months**	**48 months**	**60 months**	**Since Inception**
Number of months market was negative	3	6	9	15	19	23
Fund % positive months, when market negative	67%	50%	56%	60%	63%	65%
Cumulative Fund return in negative market	2.80%	-23.45%	-24.21%	-23.55%	-23.81%	-16.12%
Cumulative Index return in negative market	-2.48%	-31.18%	-34.49%	-43.14%	-45.15%	-49.37%
Down Capture Ratio	-113.16%	75.19%	70.18%	54.60%	52.73%	32.66%

As at 31 December 2021

Data sourced from Australian Fund Monitors. https://www.fundmonitors.com/fund-factsheet.php?