When is time more important than timing?

FEATURE ARTICLE

COLLINS ST
ASSET MANAGEMENT

Quarterly Report

September 2024

Collins St Value Fund
Collins St Convertible Notes Fund
Collins St Special Situation Fund No. 1
Collins St Special Situation Fund No. 2

Available to Wholesale Investors only. ASFL 468 935.

When is time more important than timing?

What to do when expectations and outcomes don't align

A man walked into his local florist and started ordering flowers. The order grew and grew until, unable to restrain her excitement the florist asked, "Is this a surprise for your wife?" "It sure will be," replied the man. "She was expecting diamonds."

Our expectations drive our satisfaction, as much if not more than the actual outcomes.

Expectations in investing

The popular adage spoken and heard by many investors (often to themselves), usually uttered after a disappointing announcement or share price drop, sounds something like: "It's fine, it's a long-term investment." Sometimes the internal rationalisation is enough and inner peace is found. Other times, investors can be forgiven for throwing the nearest object through the nearest window.

When investing in any risk asset (any asset that isn't cash), investors need to have a reasonable expectation of how long their investment will take to bear fruit.

After all, if your investment horizon is 3 years, but it takes 10 years for the thesis to play out, your experience is unlikely to be enjoyable.

This is not a question of lowering expectations; investors should always retain high but *realistic* expectations.

Understanding different assets and timelines

PROPERTY Given holding costs, taxes, transaction costs and the time it takes to list and sell a property, it's easy to understand that an investment in property will be a long-term commitment. For most investors, time frames are measured in decades.

This view is not controversial, and it would be rare indeed for an investor to participate in property markets with a 6 month time frame.

Historically, property investments have generated outsized returns relative to cash. The cost of that outperformance is lower liquidity and higher volatility. It's only with the benefit of time that the better returns can be confidently realised.

SHARES Shares are more volatile than cash and property but have generated better returns (over the long term) than either.

Even though both property and equities share the trait of being risk assets and are subject to volatility, it is only in shares where that volatility is visible with daily pricing.

For that reason, amongst others, investing in equities is viewed quite differently to other risk assets.

Even amongst equity investors, not all share their approach:

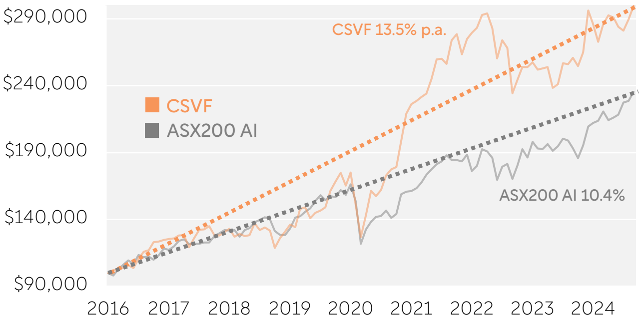
- **institutional high frequency investors** seek to fill a gap in inefficient market liquidity and measure their investment time frames in seconds,
- **day traders** seek to speculate on very near-term news flow and think in terms of minutes or hours,
- **technical analysts** seeking to exploit market momentum measure their returns in days or months.

Our preference is to assess the fundamental value of underlying businesses. This approach takes more time — both for us to consider, and for the investments to play out — until markets appreciate the value. Nevertheless, we happily trade that effort and time for the greater confidence we get in likely outcomes.

When investing in equities it's of utmost importance to both understand the risks and understand the investment timelines.

Volatility is the cost of outperformance

Collins St Value Fund Net Returns



A person who invested $100,000 with the Collins St Value Fund in 2016 would have ~$300,000 today (assuming dividend reinvestment). The same investor would be $64,300 worse off doing an equivalent $100,000 investment with the ASX200. ***Past performance is not a reliable indicator of future performance.***

As a general rule, the perceived risk of volatility in certain companies leads to steeper discounting of those companies by investors. The steeper the discount, the more opportunity for fundamental analysis to uncover quality undervalued assets.

However, it's important to understand that volatility does not always reflect risk. For instance, some investments will provide outsized returns in good times, but also provide outsized losses in down times. In those circumstances, movements are simply a magnification of market movements, both for profit and for loss. In these cases the volatility *is* a reflection of risk.

In other circumstances, investments might be generally volatile but add value to an investor's portfolio in uncertain times.

This is the case with the Collins St Value Fund. Our fund has outperformed the ASX during weaker markets (suffering less than 60% of the down capture in negative months), and managed to capture much of the upside in positive markets. We would argue that the true risk (the risk of permanent loss of capital) may be lower than the market, even as our returns over the long term have been higher.

Understanding what we can control (and what we can't)

The challenge for investors is to recognise what is in their control and what is out of their control.

For long term investors that means building in enough buffer so that even if an investment takes longer than anticipated, the rate of return is sufficient to pay for delays.

In our control	Out of our control
Making the effort to uncover investment ideas	Timing of outcomes *Investors cannot know when a given catalyst will be sufficiently understood to drive repricing in a previously unloved/undervalued company. It may be:*
Scour the markets for opportunities	A gradual realisation by markets
Establish a fair price for those opportunities	M&A activity
Purchase those investments at a reasonable price	The force of cash flows and capital management

"For every worry under the sun there is a remedy or there is none. If there is a remedy, hurry and find it; if there is none, never mind it." – Legrand Richards

It also means that investors must understand the timelines and guidance of companies to ensure that they are happy to wait the required amount of time to achieve the 'promised' returns.

Time in the market

Our view is that most equity investments should be viewed as a five-year venture.

Taking a five-year view won't necessarily completely remove the volatility risk associated with investing in equity markets, but it ought to give investors sufficient time to experience most of a cycle, for the underlying business to deliver on its promise, and for markets to cotton-on to the intrinsic value of the business.

> *Some years ago, my children and I were baking a cake. After mixing the ingredients, pouring the mixture into the pan — and most importantly licking the spoon — we put the cake in the oven to bake for 30 minutes.*
>
> *After cleaning up, we all left the kitchen to wait for the cake to bake.*
>
> *A few minutes later, I walked past the kitchen again only to find my youngest two children trying to open the oven to have a closer look at the progress of our efforts.*
>
> *I explained to my kids that the process takes 30 minutes, and no amount of wishing, prodding or supervision would change the outcome – indeed, it would lead to a worse result.*
>
> *Taking the message on board, the two of them stood guard to make sure that none of their siblings would disturb the progress.*

Lessons learned from baking a cake:

- *Don't remove the cake from the oven after five minutes because you're impatient.*
- *Once you've done your job, (combined the ingredients and set the cake to bake) leave it alone. Let the oven and time do their jobs.*

That's not to suggest that in the investment world outcomes cannot occur sooner. They certainly can and particularly so when investors are considering single stocks or highly concentrated portfolios. However, taking the longer view tends to be the wiser (if less exciting) approach.

Volatility is the price we happily pay for outperformance

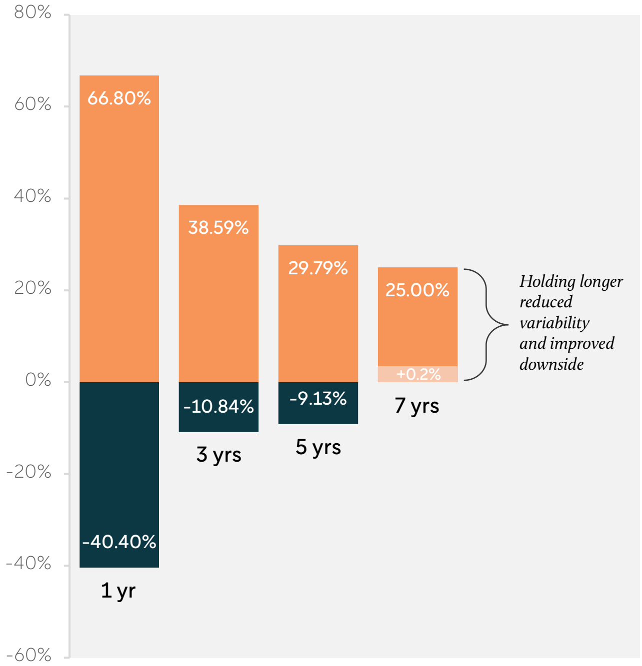
The payoff for patience

Historically, equity markets have outperformed less volatile asset classes. Volatility is the price we happily pay for that outperformance.

As the following chart illustrates, any five to seven year time frame would have seen investors reduce downside risk and the total-return volatility, regardless of whether it included the worst years since 1900.

Time is more important than timing

Maximum and minimum returns per holding period
(ASX All Ords, All years 1900-2023)



Two World Wars, a Great Depression, a GFC and a plethora of recessions occurred in the last 120 years. For any 7-year period, returns were positive.

As the chart shows, the difference between a positive experience and a negative one can be as simple as extra time in the market.

For instance, a 3-year investment from 2007-2009 (including the GFC and one year of recovery) would have generated a -0.6% annualised return, yet a 7-year investment to the same end date would have generated *almost 12% p.a.*

When we invest, we attempt to match the company's goals with our own expectations over a five-year time frame. As such, our recommendation to clients, keen to extract the best experience from our funds, has been that they too should match our expectations and adopt a five-year outlook. And, while there has been variance year to year in our returns over time, we have been very pleased with the almost 14% p.a. we've been able to achieve over the last 8½ years.

The potential cost of mistiming the cycle

Being in the market through the cycle is essential. Indeed, being in the market (especially) when things seem most uncertain is one of the keys to outperformance.

Historically, the periods after the deepest falls have been the ones that have generated the greatest returns. Missing even just a few of those most positive days in the market can dramatically affect your outcomes.

For instance, since 2009, the ASX200 has generated a return of approximately 7.8% p.a. However, if an investor were to have missed out on just the best 1% of days, their return would have been an underwhelming 1.5% p.a.

For this reason, investors must get comfortable being in the market, even during the times that are most uncomfortable. That's not to suggest that investors ought to allocate capital haphazardly, but to recognise that once they have established that their investment process works, they ought to give that process the time it needs to fully exploit the opportunity.

Expected time frames and outcomes are frequently misaligned. It's our job as investors to set reasonable expectations and position ourselves for success even when outcomes are delayed.

If you have any questions about the article or our quarterly reports, please reach out to Rob Hay via email at rhay@csvf.com.au or by phone on 0423 345 975.

COLLINS ST
ASSET MANAGEMENT

September 2024 Quarterly Report

Collins St Value Fund

Best Ideas Australian Equities Fund (Flagship)

Inception: February 2016 Status: OPEN

Unit Price: $2.1031

Investment Team


Vasilios Piperoglou


Michael Goldberg

- A concentrated portfolio of our most compelling ideas
- Best performing long Australian Equities Fund over 5 years according to the MercerSurvey (to Dec 2023)[1]
- Returned over 13.5% p.a. net since inception in 2016

1

How the market performed

After a sluggish start to FY25, the market managed to generate one of the best September quarters of the last 10 years.

Driven by a broad-based rally in equities, the All Ordinaries generated a return of 6.55%.

Looking forward, it is hard to know what will drive future returns. However, the prospect of Chinese stimulus, falling global inflation, and additional interest rate cuts by the US Federal Reserve have played a part in the more bullish outlook for equities.

How our Fund performed

The Fund continues to perform well, having generated over 5.5% for the September quarter. As the portfolio currently stands, we hold large positions in a number of companies and sectors that will be driven by specific (non-market) catalysts.

For instance, the fund owns a major holding in Carnarvon Energy.

Carnarvon Energy

Having been part of a change in the Board over the last twelve months, we expect the next six months to be a period in which the company prepares itself to realise the value of its assets. The company has engaged with bankers and mandated them to market the company's assets.

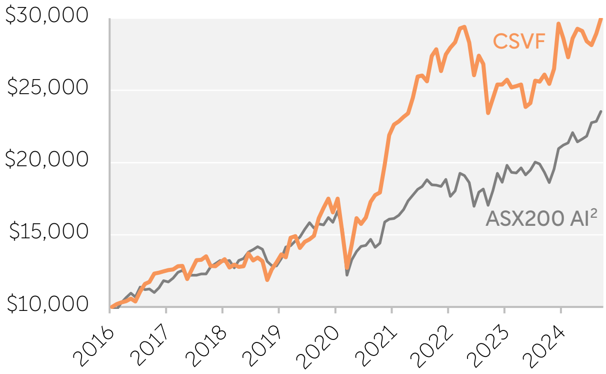
We expect any sale or corporate activity to help materially close the gap between the share price and our assessment of the company's intrinsic value. While the timing of outcomes cannot be perfectly forecast, we remain positive about the business and its prospects over the coming months.

Net Returns

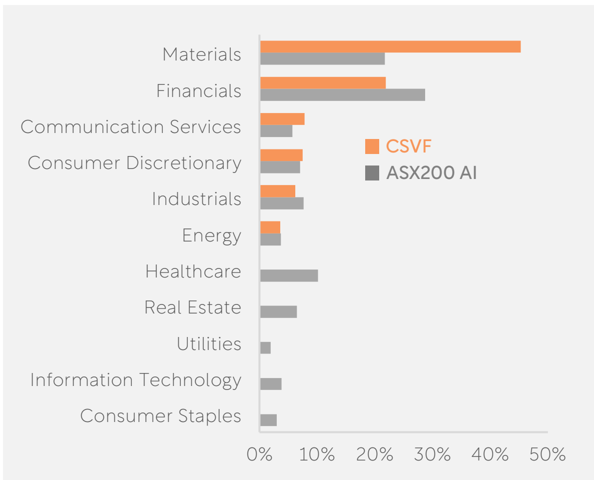
	CSVF	All Ords	Value Add
3 months	5.24%	6.55%	-1. 31%
1 year	14.85%	17.77%	-2.92%
2 years p.a.	13.08%	13.06%	0.02%
5 years p.a.	13.20%	4.66%	8.54%
Since inception	199.72%	68.85%	130.87%
Since inception p.a.	13.50%	6.23%	7.27%

Past performance is not a reliable indicator of future performance.

Value of $10,000 since inception



Current Sector Exposures[3]



[1]According to the MercerSurvey, December 2023. Information contained herein has been obtained from a range of third-party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party. [2]ASX200 AI represents the ASX200 plus dividends. [3]ASX sector weights exclude Listed Investment Companies.

Litigation Capital Management

Another low-correlated holding within the fund is Litigation Capital Management (LCM). LCM has a 25-year track record of successfully funding litigation in Australia, Europe, and South-East Asia, and is looking to make inroads in the USA.

The business has performed exceptionally well over its journey, winning almost 90% of all cases funded and generating an IRR of approximately 77% p.a. Additionally, the company's earnings are driven by specific court-directed outcomes which are not influenced by general market conditions, making LCM an especially attractive investment in uncertain times.

For instance, in early October, LCM won an almost $500 million case against the Polish Government, which we estimate will deliver $50 million in earnings to LCM.

When considered against earnings expectations for 2024, it's outcomes like these that can drive outperformance. LCM has many smaller cases which have been moving towards completion over the last 6 months, and a couple of large cases which we don't believe the market is appropriately valuing.

Gold Holdings

The Value Fund also has material holdings in medium- and small-sized gold companies. Though gold prices have increased from US$1,900 to US$2,750/oz over the past year (to October), many of the smaller gold companies we have been accumulating have not yet seen the expected share uplift.

We are excited about the prospects of these companies over the coming six months and remain surprised that the 'gold trade' continues to fly under the radar for most institutional investors.

Key features

Fund Name	Collins St Value Fund ABN 72 216 927 242
Trustee	Collins St Asset Management Pty Ltd ACN 601 897 974 ASFL 468935
Custodian	Sandhurst Trustees Limited
Registry/Unit Pricing	Apex Fund Services (Australia) Pty Ltd
Auditors	Pitcher Partners
Fund Inception Date	February 2016
Investment Objective	The Fund seeks to create strong investment returns over the medium and long term.
Investment Strategy	The Fund invests in a concentrated portfolio of securities issued by entities listed mainly on the Australian Securities Exchange. 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, Australian securities, including convertible notes (and cash).
Leverage	None
Minimum subscription	$250,000 (unless otherwise agreed) and only open to investors considered 'wholesale investors' as defined by 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	0.35%
Applications	Monthly
Management Fee	Nil
Performance Fee above Hurdle Rate	25% (Hurdle rate is the 10 year Australian Government Bond Rate)
High Water Mark	Yes
Platform Availability	Netwealth, Hub24 and Power Wrap (wholesale investors only, no minimum investment when transacting via platforms).

COLLINS ST
ASSET MANAGEMENT

Investment Team

Vasilios Piperoglou

Michael Goldberg

Collins St Convertible Notes Fund

Distribution payments currently made quarterly

Inception: April 2022 Status: CLOSED

- Fund currently paying income distributions quarterly of approximately 4% p.a.
- Assets include two performing Notes, one in wind-up, one asset being exited in November
- Additional capital returns expected this financial year

	Performing	Maturity	Interest Rate	Conversion
Allegiance Coal Limited	No	Currently in wind-up	N/A	N/A
Ashby Resources Pty Ltd*	N/A	Exiting	10%	N/A
GBM Resources Limited	Yes	October 2025	10.5%	$0.015
Matrix Composites & Engineering Limited	Yes	December 2025	10.5%	$0.31

**Due to commercial sensibilities, the details of a refinance partner cannot be provided until all approvals have been achieved. The terms of the agreement will be provided in an upcoming communication.*

The Fund generated an income distribution of approximately 4% p.a., distributed quarterly.

The status of the assets

Matrix continues to perform well. We've seen increasing consolidation globally for businesses in the offshore oil and gas services sector. In the event that M&A activity does eventuate, we will seek to maintain our security or be paid out early. Either option must be expected to provide our investors with upside and security.

Matrix Composites & Engineering Stock Price

GBM is monetising some assets which may result in the repayment of our Note. Most recently, the company announced that it had come to terms on a deal worth $12 million at its Twin Hills Project. The farm-in deal with Wise Walkers Limited (subject to shareholder approval) will see GBM receive a $6 million cash injection with an additional $6 million over the next 18 months towards the development of the project. Subsequently, Wise Walkers will own 70% of the project and GBM will own the balance.

GBM also owns the Mount Coolon gold project which has a $25 million farm-in deal with Newmont, and several smaller projects which it has identified for divesture.

We continue to believe that GBM provides good upside optionality, and based on company announcements, believe that there is a better than even chance that an early repayment (most likely from the proceeds of the Twin Hills deal) will enable an additional capital return to investors prior to the expiry of the Note in October 2025.

Ashby We will provide an update on our exit from this Note in the coming weeks.

Allegiance Coal The remaining US assets are subject to an ongoing court process. Current indications are that a court determination is likely next year .

Additionally, we have engaged with the valuation company that provided a valuation on the US assets (which provided a valuation well in excess of what has been received). The counterparty is an Australian company, so the process of pursuing them will be more familiar, less costly, and faster than if the company were US based.

We will keep our investors informed on any material progress via periodic communications.

COLLINS ST
ASSET MANAGEMENT

September 2024 Quarterly Report

Investment Team


Vasilios Piperoglou


Michael Goldberg

Collins St Special Situation Fund No. 1

Global Basket of Offshore Oil and Gas Services Companies

Inception: July 2021   Status: CLOSED   **Unit Price: $1.1293**

- Already returned approximately 120% of invested capital back to investors in first two years
- Investors were provided an opportunity to fully redeem their holdings in the September 2024 Quarter. Those investors generated an approximately 95% return.
- Fund extended for investors seeking to generate potential additional returns

How the Fund performed

Though oil markets have weakened over the last 12 months, oil continues to trade within a band of US$65 and $90. This range is a sweet spot for service companies which profit from oil and gas production volume rather than from higher commodity prices. Within the current sport price range, producers of oil and gas remain motivated to produce (at a profit), yet prices are not so high as to impact consumer demand.

While the last quarter has seen a pull back in performance from the fund, we believe that the moves have been driven not by the fundamentals of the underlying businesses, (which are trading on low multiples) but by the uncertainty created by the closeness of the US election.

Markets hate uncertainty

This report is not the place to discuss the intricacies of the Democratic or Republican views on energy, but suffice it to say that historically, the parties have had materially differing views on fossil fuels and traditional energy. With certainty of outcome from the US elections due in the December quarter, we anticipate continued strong performance from our holdings (irrespective of who wins the elections).

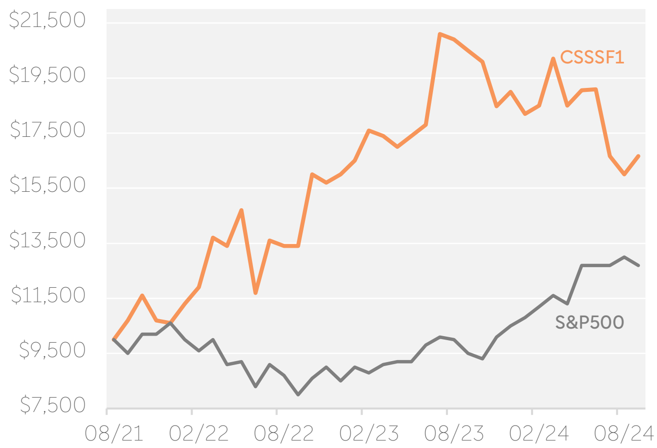
In the meantime, demand for offshore oil and gas services remains strong, there is still little competition from new entrants into the sector, and utilisation and day-rates remain high. These factors suggest that the

Net Returns

	CSSSF1
3 months	-16.33%
2 years p.a.	9.08%
Since inception p.a.	**15.93%**

Past performance is not a reliable indicator of future performance.

Value of $10,000 invested over 3 years



next couple of reporting periods should reflect less uncertainty, higher earnings, and ultimately higher share prices from our holdings.

Substantial holdings

	Listed in	Sub-sector
Borr Drilling	New York	Shallow water jack-up drilling rigs
Matrix Composites & Engineering	Australia	Buoyancy services for offshore infrastructure
Noble Corporation	New York	Shallow and deepwater drilling services
Valaris Capital	New York	Diversified drilling services

Collins St Special Situation Fund No. 1 was open to Wholesale and Sophisticated Investors only. Capital is not guaranteed.

Key features

Fund Name	Collins St Special Situation Fund No.1 ABN 73 536 295 715
Trustee	Collins St Asset Management Pty Ltd ACN 601 897 974 ASFL 468935
Custodian	Bell Potter Securities
Registry/Unit Pricing	Apex Fund Services (Australia) Pty Ltd
Auditors	Pitcher Partners
Fund Inception Date	August 2021
Investment Objective	The Fund seeks to create strong investment returns over the investment term (expected to be three years), with capital preservation a priority.
Investment Strategy	The Fund invests in a concentrated portfolio of international securities. It focuses on identifying deep value investment opportunities within the offshore oil services sector. This is achieved by identifying sustainable businesses trading at a discount to our assessment of intrinsic value.
Benchmark	Index unaware
Asset Class	Long only global securities and cash (no derivatives).
Leverage	None
Minimum subscription	N/A
Investment Term	The 3 year investment term concluded in September 2024. Redemptions, transfers and retentions were implemented according to investor instructions. The Fund does not intend to accept new applications from the time of this report.
Distribution Frequency	Annually (reinvested)
Entry Fee	Nil
Buy/Sell Spread	Nil
Applications/Redemptions	Nil
Management Fee	Nil
Performance Fee	25% of performance

This quarterly update is prepared by Collins St Asset Management ('CSAM'). 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 Special Situation Fund No.1 ('CSSSF1'), 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' as defined by the Corporations Act. Please obtain an Information Memorandum from CSAM before making a decision in relation to the fund. Please note that past performance is not a reliable indicator of future performance.

COLLINS ST

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Investment Team

Vasilios Piperoglou   Michael Goldberg

Collins St Special Situation Fund No. 2

Global Gold and Precious Metals Fund

Inception: April 2023   Status: CLOSED

Unit Price: $1.1734

- Create a global portfolio to defend against the impact of geopolitical uncertainty
- Early signs suggest that small and medium gold companies are beginning to rally
- Portfolio up over 20% since 2023

How the Fund performed

The Fund has performed strongly with significant returns over the last 12 months.

Much of the performance can be attributed to the strength of the gold market (USD$1,700 to USD$2,700/oz) but also from the gradual shift in sentiment towards medium and smaller gold companies.

We remain pleased with our portfolio, especially compared to the Philadelphia Gold and Silver Index[1], which includes many larger companies. Not only has our portfolio generated less volatility over the duration of the Fund (Monthly Std.Dev 7.88% vs 8.33%) but also has outperformed the index since inception.

As we continue to see a sentiment shift towards smaller and medium sized gold stocks, we hope to see our performance pull further ahead of the index.

In recent times we've seen significant improvements in our underlying holdings and continue to remain confident that as markets come to terms with higher gold prices, those companies with defined reserves, quality management and an ability to bring projects to market will perform strongly over the coming couple of years. Indeed, some of the Fund's holdings have experienced exceptional growth:

- Astral Resources (+92%)
- Black Cat Syndicate (+82%)
- Catalyst Metals (+201%)
- G Mining Ventures (+209%)

Due to a combination of factors we believe that the outlook for gold and gold companies remains bright. Some of those drivers include:

- lower energy costs
- global unrest
- increased demand for physical gold
- a gradual shift away from US dollars, and
- increasing margins within the sector

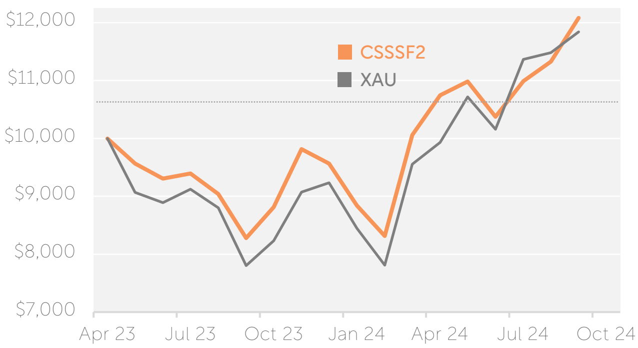
Nevertheless, it is worth noting that our portfolio has been specifically designed to not be reliant on higher gold prices. Our portfolio is made up of a mix of medium and smaller gold companies that have lagged. Our thesis is built on the premise that ultimately the weight of earnings will force the market to re-rate these companies.

Net Returns

	CSSSF2	Gold Index[1]
3 months	16.49%	16.53%
6 months	20.13%	23.95%
12 months	45.95%	51.75%
Since inception	20.82%	18.41%

Past performance is not a reliable indicator of future performance.

Value of $10,000 invested since inception[1]



Substantial Holdings

	Listed in	Projects	Stage
Equinox Gold	New York	Canada	Producer
Calibre Mining	Toronto	Canada	Producer
Aris Mining	New York	South America	Producer
Discover Silver	Toronto	South America	Developer
Brightstar Resources	Australia	Australia	Explorer

Collins St Special Situation Fund No. 2 was open to Wholesale and Sophisticated Investors only. Capital is not guaranteed. [1]XAU is the Philadelphia Gold and Silver Index, composed of large-cap US-listed precious metal miners.

Key features

Fund Name	Collins St Special Situation Fund No.2 ABN 32 625 732 270
Trustee	Collins St Asset Management Pty Ltd ACN 601 897 974 ASFL 468935
Custodian	Bell Potter Securities
Registry/Unit Pricing	Apex Fund Services (Australia) Pty Ltd
Auditors	Pitcher Partners
Fund Inception Date	April 2023
Investment Objective	The Fund seeks to generate opportunistic investment returns over the investment term (expected to be three years).
Investment Strategy	The Fund invests (equity and debt) in a concentrated portfolio of precious metal securities of listed companies globally. It focuses on companies in the local and international gold sector that have been identified as trading at a significant discount to CSAM's assessment of intrinsic value.
Benchmark	Index unaware
Asset Class	Global securities and cash (no derivatives).
Leverage	None
Minimum subscription	$250,000, or as otherwise determined by the Trustee.
Investment Term	The Fund is closed-ended with an expected wind-up 3 years from the date of launch. The Fund may be wound up earlier if the expected returns have been achieved.
Distribution Frequency	Annually (reinvested)
Entry Fee	A 2% entry fee (to be rebated from future performance fees).
Buy/Sell Spread	Nil
Applications/Redemptions	Nil
Management Fee	No ongoing management fee.
Performance Fee	25% of performance.