COLLINS ST
ASSET MANAGEMENT

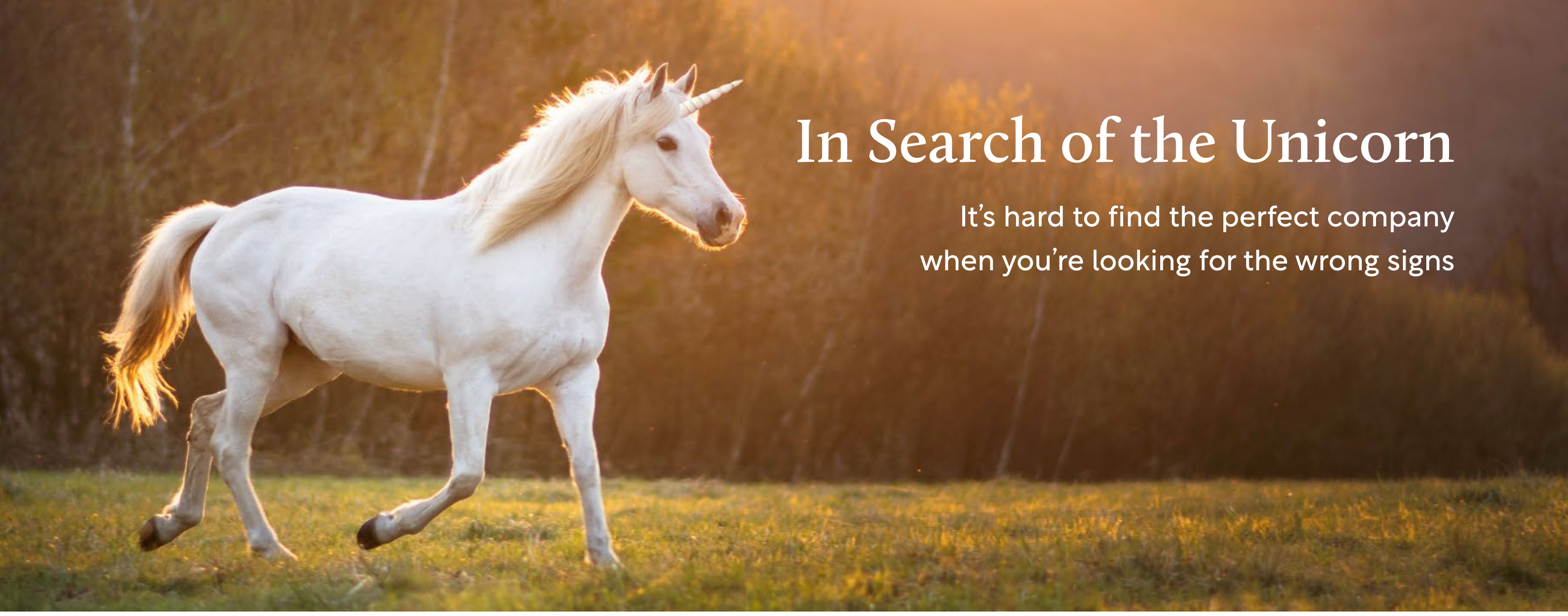
In search of the unicorn

FEATURE ARTICLE

Quarterly Report

June 2024

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



In Search of the Unicorn

It's hard to find the perfect company when you're looking for the wrong signs

It's hard to find the perfect stock. Companies that are both high quality and cheap enough to attract our interest are almost as rare as the mythical unicorn.

Yet, those businesses are the bedrock of any value focused portfolio.

Indeed, every value investor is forever in search of the perfect company: one whose price is right, with highly qualified management who have aligned their interests, in a sector with significant growth and a product with a wide moat protecting it from competition.

There have been so many pages written and time spent contemplating what a perfect business looks like that investors can be forgiven for wondering if the perfect company even exists.

> Everything popular is wrong.
> - Oscar Wilde

Finding the 'ideal' investment

In real life, there are no perfect companies. Businesses are organic, ever-changing, challenging, evolving, and made up of imperfect people.

Good businesses are common but *great* businesses behave in uncommon ways. They recognise that challenge is inevitable, and rather than seek ways to avoid it, they embrace it, improve from it, grow from it.

There is no such thing as a perfect (investment) company, but a company doesn't have to be perfect to be a perfect investment opportunity.

The challenge for investors is that those greatest opportunities both appear and feel anything but extra-ordinary. They are volatile, the companies often face internal and external challenges, and at times finding sufficient liquidity to make a material investment can be a chore. The greatest investments we've made have been those that casual observers would scoff at. Companies that are a little complex, businesses that are unloved or misunderstood, shares that can make you feel like anything other than what you'd like a great investment to feel like.

The Challenge of the Contrarian

And so, when facing the markets and the doubters head-on, it's necessary to perform a deep analysis of the business you intend to own. To do that extra work. To do what others won't to achieve results that others don't.

Investing where others won't means that you will be accused of being foolish, or of making a terrible mistake. Even when your analysis pans out, your results will be written-off as a fluke.

Yet even after doing all the work, there remains the risk of undoing it all by being influenced by the markets.

Avoid emotion and ignore the noise

Having put so much time and effort into getting to know a business, it's easy to 'fall in love' with an idea. In psychology it's called confirmation bias.

Indeed, we've seen this happen time and again, where amateur (and professional) investors become so attached to their investments that they start making terrible investment decisions.

Even a great business can be a catastrophic investment

Some investors hold their stocks long after they have reached full value while others rush to sell at the first opportunity to lock in a profit. For each silly decision, there is an equal and opposite financial anecdote to justify the decision. Consider:

'You never go broke taking a profit'

'Cut your losses, and let your profits run'

Despite both ideas being unreconcilable with each other, both are as commonly witnessed, and quoted!

In the financial world you can find a quip for any decision you decide to make. Yet in my observation the most common experience for new investors has been to 'cut their roses and water their weeds.'

It's the inevitable outcome of not having done the work to properly and fully understand the value of the assets they have bought.

There is no such thing as a perfect (investment) company, but a company doesn't have to be perfect to be a perfect investment opportunity.

Don't buy stocks. Buy businesses.

In a world where we are in control of so little, the one decision we can control is when to buy or sell an investment. Yet without a basis from which to understand the value of the asset, all other decisions are impossible. **Understanding value is the cornerstone of all fundamental investing.**

Buying is one of the toughest tasks of value investing, but it doesn't hold a candle to the challenges of selling.

Selling is hard.

Selling can be emotional

Whether it's the excitement one can feel as the animal spirits of the markets rush headlong into higher prices, or the pain of sitting on a loss, emotions can have a huge impact on decision making if investors are not careful. That's true when investments go well, but all the more so when it comes to making decisions when your investment has not performed well.

Selling is hard.

Unlike buying, selling rarely feels good. There always remains that question of 'Did I sell too soon?' (Did I leave too much profit still on the table, or did I sell just before the companies' fortunes were about to improve?)

We would encourage investors to make unemotional selling (and buying) decisions, and to remove a company from their watchlists for at least six months after they sell – but we don't expect anyone will actually follow that advice.

Why and when to sell

To our mind, there are only four legitimate reasons to sell a position - none of which are simply because the share price went up or down.

1. The investment has achieved its goals

Once an investment reaches your estimation of intrinsic worth, sell.

This might seem simple enough, but there is no counting the number of times I've seen amateur (and professional) investors change their views as share prices move higher.

Emotionally it's very easy to justify why a company you thought was worth $1 when you bought it for 50c is now worth $2 when its trading at $1. *Don't do that.*

2. The story has changed

If the basis for your investment has not been achieved, or the company has pivoted in its focus, it might be time to sell.

This is not a trigger that *must* result in a sale, and in the absence of dishonesty from management, it is possible to re-assess the company and consider retaining an investment. But a major change in strategy or direction is often a sign of trouble.

If an industrial company decides to pivot into technology, or a coal miner decides that they have discovered a lithium project, or (as happened frequently in 2020) a business pivots to crypto currency, it's probably time to move on.

3. A better idea becomes available

By itself, finding a better idea isn't enough to justify a sell.

For most investors there will be a tax consequence for realising a sale of an existing holding. Additionally, most of the time there will be an insight gap between new and long held ideas. It's always difficult to know what you don't know about a new investment.

Still, if after doing the work a new idea looks materially better than an existing holding, selling is appropriate.

In an ideal world, investors would be able to draw on a cash reserve to fund a new investment but that isn't always an option.

We understand how hard it is to identify new qualifying ideas, and as professional fund managers we like to maintain a cash balance so that we can act immediately if a genuine opportunity arises.

4. Life happens

Sometimes life demands liquidity: An important life event, an emergency home repair, an appeal from a favourite charity, or a transfer of wealth between generations. Life has a way of finding ways to enrich and challenge in ways that often demand a little extra cash on hand.

Alternatively, sometimes an investment itself might create angst.

If life or wellbeing demands it, sell.

There is no way to avoid life's little surprises, but there are occasions where planning can help.

In our most recent roadshow visit to Queensland, we presented alongside Will Douglas from Koda Capital who provided some fascinating insight into the role of planning for intergenerational transfers (of both ideals and capital). To the extent that investors can consider what their future might look like, there is some planning they can do to mitigate the impact on their portfolio.

As mentioned above, we like to maintain a minimum cash balance which can act as an emergency fund. Regular investors too might be advised to maintain an emergency fund (and seek advice for generational matters).

How to ensure that emotions aren't driving decisions

This is not intended to be a comprehensive guide for how to overcome emotions in decision making. That requires far more time (expertise, and possibly therapy!) than can be shared in these pages.

However, we've touched on these topics in the past regarding buying decisions, and the same holds true when it comes to selling.

Keep a log to keep yourself honest

As a first step in the process, you need to be clear what you expect from an investment. Keep notes of your expectations and assessment of intrinsic value. When later considering a sale, reflect on your earlier notes to consider if your decisions now are aligned with your initial expectations, or if your decisions are instead being driven by something new.

You can't trust yourself

As my piano teacher used to say (after asking if I'd practiced each day that week), 'You can fool yourself, but you can't fool me.'

Always let your 'investing buddy' be your guide

It is frightfully easy to lie to yourself. Most people don't have the ability or tools to identify when it's happening. The proof is that when you ask someone else about their investing track record, they tend to talk up their wins and minimise their losses.

There is an ancient Jewish maxim that states when a person is seeking to become an expert in a pursuit they must 'find a teacher and acquire a friend.'

A teacher can illuminate the right path, but only a friend can make sure you don't go astray.

Every investor should have an 'investment buddy' who they can rely on to challenge them on investment ideas. A friend can challenge your thinking in a way that you simply can't do alone. They will keep you honest even when you'd rather be convinced otherwise.

There are no guarantees when it comes to investing, but if investors can be present, honest with themselves and aware of their own process, they at least have a chance of generating the sort of outcomes that will make share investing a meaningful part of their wealth plan.

We understand that not everyone has the time or the interest to do all their own investment research and maintenance. **If you'd like to talk to us about any of our Funds and how we might be able to help you on your investment journey, please reach out to Rob Hay via email at rhay@csvf.com.au or by phone on 0423 345 975.**

Recent examples of disciplined selling

MMA Offshore

Initially bought for ~$0.34 per share, we held the view that the company was trading at almost a third of its net tangible assets and that, under the right market circumstances, could trade at a premium. Our price target was ~$1.50 p/s and we were able to realise a greater than 4x profit on our investment over two years.

Whilst we continued to like the business and viewed the industry dynamics as favourable, what was at first a 'value' play started becoming more of a 'speculative' investment. As tempting as it was to retain our position, we reminded ourselves of our initial investment thesis and the importance of staying true to our value philosophy — of buying at a discount to intrinsic value and selling when that value is reached.

Uranium

In 2017, the Value Fund was an early investor into a basket of deeply unloved ASX listed uranium stocks. Stocks such as Paladin (PDN.ASX) were bought for less than $0.10 p/s and held for nearly four years before being sold for ~$0.54 p/s, a 5x gain.

During the four-year holding period share prices remained flat before sharply re-rating in late 2020 off the back of a legislative certainty from the markets largest buyer (the USA). Being able to maintain a position that we had conviction in for this period allowed us to see it reach a pleasing exit price rather than be forced to sell or otherwise question the wisdom of our decision based on shorter-term market sentiment.

Paradigm Biopharmaceuticals

We have been owners of Paradigm Biopharmaceuticals at different points in time (and are currently holding a position in the Value Fund). The company has a very interesting drug that seeks to treat the root cause and flow on effects of osteo-arthritis and has been subject to a special access scheme in Australia for some time. Currently the company is in phase 3 trials and on the cusp of commercialisation. Historical holding periods have participated in growth in the share price from $1 to $4 in a very short space of time, only to fall to well under a $1 in more recent times following a series of highly dilutive capital raises. Our focus on understanding the company's financials and corporate strategy enabled us to time our entries and exits in/out of the stock such that we were able to achieve a very profitable outcome and mostly avoid the consequences of the subsequent capital raisings. Being clear about what you are in an investment for and what constitutes a genuine catalyst for exit is essential to achieving a satisfactory return on your capital. ■

COLLINS ST
ASSET MANAGEMENT

June 2024 Quarterly Report

Collins St Value Fund

Best Ideas Australian Equities Fund (Flagship)

Inception: February 2016   Status: OPEN

Investment Team


Vasilios Piperoglou


Michael Goldberg

- Outperformed the ASX200 by 5.5% for the year ended 30 June 2024
- Generated a return of 17.8% for the year ended 30 June 2024
- Maintained a return of over 13% p.a. since inception in 2016

• 2019-2023 • According to the Mercer Survey of Australian Share Funds — MercerInsight — COLLINS ST VALUE FUND — Ranked 1st over the 5 year period [1]

How the market performed

After a sluggish start to FY24, the broader market (ASX200) managed to generate an above average return of 12.1% — including dividends, even as it went backwards in the June Quarter.

This was an especially pleasing result given that it was achieved against the backdrop of the outbreak of war in the Middle East, uncertainty about who might lead the free world, and what inflation and interest rates might or might not be doing.

Looking forward, we are hopeful that investors continue to see increased economic stabilisation and a normalisation of interest rates, and in doing so begin to attribute a premium to quality business and their earnings.

How our Fund outperformed

The Collins St Value Fund generated outperformance of 5.5% above the Australian equity market, netting a 17.8% return for investors. This year's performance sees us maintain an annualised return since inception of almost 13.25%, significantly outperforming the broader market which has returned 9.75% during that same time.

The Fund was driven by a combination of our long-held industrials, our energy positions, and more recently our holdings in gold stocks.

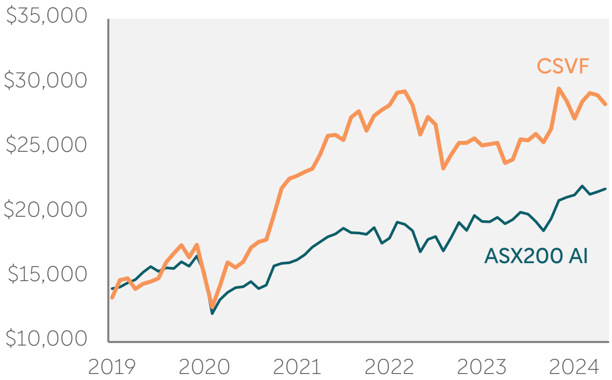
We've noted for some time that value stocks and small and mid-cap stocks have underperformed in the face of general uncertainty and a flight to better recognised brands. We believe that as companies provide earnings updates and results, the markets will once again begin to attribute value to those earnings (rather than myopically focus on inflation and interest rates). We believe that this gradual shift will see value portfolios — particularly those willing to invest outside of the ASX100 — outperform in the coming years.

Net Returns

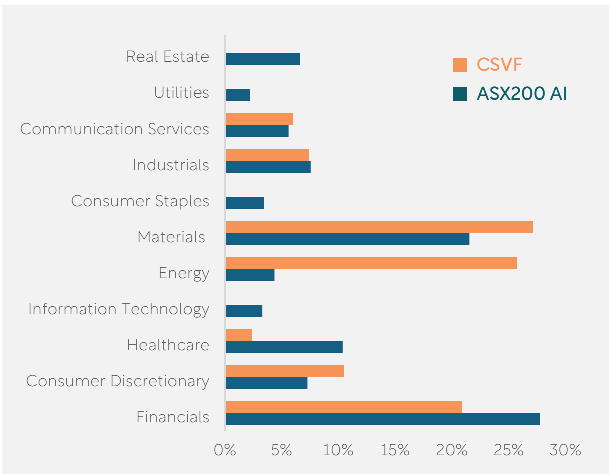
	CSVF	ASX200 AI[2]	Value Add
3 months	-0.72%	-1.05%	0.33%
1 year	17.79%	12.10%	5.68%
3 years p.a.	3.04%	6.37%	-3.33%
5 years p.a.	14.11%	7.26%	6.85%
Since inception	184.03%	118.41%	65.62%
Since inception p.a.	13.23%	9.75%	3.49%

Past performance is not a reliable indicator of future performance.

Value of $10,000 invested over five years



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.

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	0.50%
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

June 2024 Quarterly Report

Collins St Convertible Notes Fund

Distribution payments made quarterly

Inception: April 2022   Status: CLOSED

Investment Team

Vasilios Piperoglou

Michael Goldberg

- **Fund paying distributions quarterly of approximately 4% p.a.**
- **Assets include three performing Notes and one in wind-up**
- **Additional capital returns possible this financial year**

	Maturity[1]	Interest Rate	Conversion
Ashby Resources Pty Ltd	August 2025	11%	$0.24
GBM Resources Limited	December 2025	10.5%	$0.02
Matrix Composites & Engineering Limited	December 2025	10.5%	$0.31
Allegiance Coal Limited	Currently in wind-up	N/A	N/A

How the assets performed

The Fund anticipates an income distribution of approximately 1% for the June quarter.

Each of Ashby, GBM and Matrix were compliant during the quarter, providing their interest payments in time.

During the quarter, we have had several conversations with each holding. We anticipate that there is a better prospect than not that the majority of the Notes will be refinanced before the maturity date. If they are, this would provide the Fund with an opportunity to return additional capital to investors earlier than what was otherwise anticipated.

The status of the assets

Ashby has appointed a corporate adviser in the resources industry with a mandate to market its assets with a view to improving its balance sheet and paying down some or all of our Note.

We retain first ranking security on Ashby's assets.

GBM has been actively selling assets over the last 2 years and have already repaid more than a third of its Note with us. The current balance of GBM's loan is $6.568m, including a stake paid in equity (at a discount to the share price at the time).

GBM has made a couple of new announcements in recent weeks that we anticipate will generate additional capital for the company (via asset sales) which we expect will be used to pay down our Note further.

Matrix continues to perform well. As previously noted, our conversion price is approximately 30.5c. The company has been trading at around 34c per share and as high as 36c per share in recent weeks.

We are pleased with management's efforts in ramping up the capacity of its facility, and (given a late 2025 maturity date) do not presently intend to convert our Notes into shares.

Allegiance Coal continues to slowly wind up. The two outstanding items are a cash balance in the USA and the ongoing sale of its New Elk coal mine in Colorado.

We visited the mine site in June and continue to engage with a buyer for the asset. We are hopeful for a deal to be done in the coming months, and we will update investors as appropriate.

 [1]First maturity date.

COLLINS ST
ASSET MANAGEMENT

June 2024 Quarterly Report

Collins St Special Situation Fund No. 1

Global Basket of Offshore Oil and Gas Services Companies

Inception: July 2021 Status: CLOSED

Investment Team


Vasilios Piperoglou


Michael Goldberg

- **Already returned approximately 120% of invested capital back to investors**
- **Continues to hold equities worth circa 65% of the original invested capital**
- **Total return of approximately 85%**

How the Fund performed

Though the correlation between offshore service companies and oil and gas are not perfect, it does exist. As such, the last 6 months which saw oil prices flat has seen our Fund underperform the broader market. Nevertheless, our returns over (almost 3 years) have significantly outperformed both the ASX200 and the S&P500.

Though we do not seek to forecast the price of energy going forward, we are confident that energy prices will remain historically high and anticipate the long-term oil price to be sustained between US$65 and US$100.

At those levels, the anticipated increase in demand for offshore service companies is expected to be substantial, generating increased utilisation of assets and day rates.

Ultimately these increases should translate to higher earnings, increased consolidation in the industry, more profitable businesses, and higher share prices.

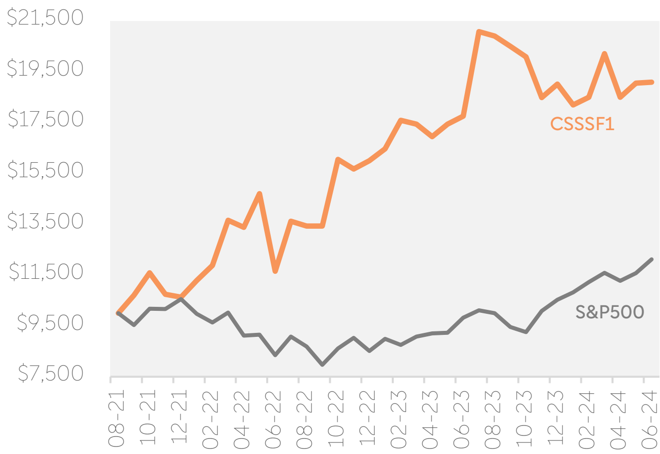
As previously noted, we have already seen significant increases in earnings and consolidation. Indeed, one of our holdings — Noble Corporation — has been involved in the consolidation process. In this case, the distraction of the M&A activity (although very good for the long-term prospects) has impacted the company's share price such that it has not performed as well as others within our portfolio.

Net Returns

	CSSSF1	ASX200 AI	S&P500
3 months	-5.55%	-1.05%	4.58%
6 months	0.37%	4.22%	15.06%
1 year	7.53%	12.10%	23.33%
2 years p.a.	27.99%	14.15%	20.48%
Since inception p.a.	**24.81%**	**5.90%**	**6.81%**

Past performance is not a reliable indicator of future performance.

Value of $10,000 invested over 3 years



We believe that industry dynamics remain favourable and that well-capitalised businesses with strong management teams are best placed to drive shareholder value moving forward.

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
Transocean Limited	New York	Ultra-deepwater drilling services
Valaris Capital	New York	Diversified drilling services

Collins St Special Situation Fund No. 1 is 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 Fund is closed-ended with an expected liquidity event 3 years from the date of launch (September 2024). 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

COLLINS ST
ASSET MANAGEMENT

June 2024 Quarterly Report

Collins St Special Situation Fund No. 2

Global Gold and Precious Metals Fund

Inception: March 2023 Status: OPEN

Investment Team


Vasilios Piperoglou


Michael Goldberg

- **Invest in listed equities to acquire exposure to global gold and precious metal markets**
- **Create a portfolio to defend against the impact of fiscal recklessness and global uncertainty**
- **Invest in companies which have not yet materially benefited from increased gold prices**

How the Fund performed

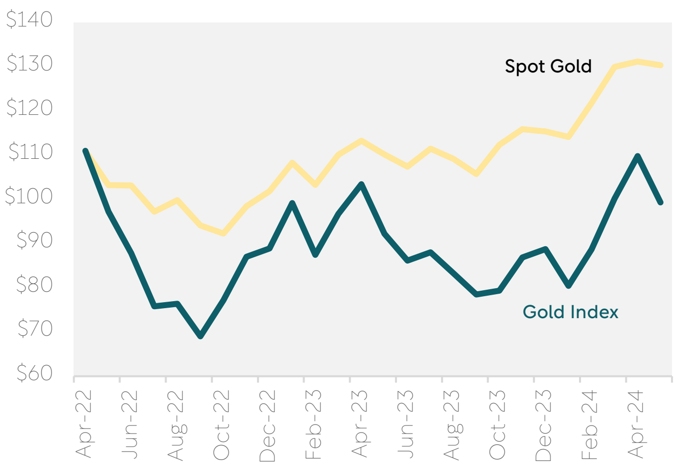
The Fund has performed strongly over the last 12 months, with particularly significant returns generated over the last 9 months.

The performance can be attributed to a combination of factors including improved and stabilised gold markets, and an increased appetite for medium sized (and smaller) companies.

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

The dislocation between gold prices and gold companies has been a fundamental principle underscoring our belief in the investment mandate, and from the activity we've begun to see in the sector, it does appear to us that for many of the companies we've identified, that (although there is a long way to go) the gap in share prices is beginning to close, as shown below.

Spot Gold Price vs Gold Index[1]



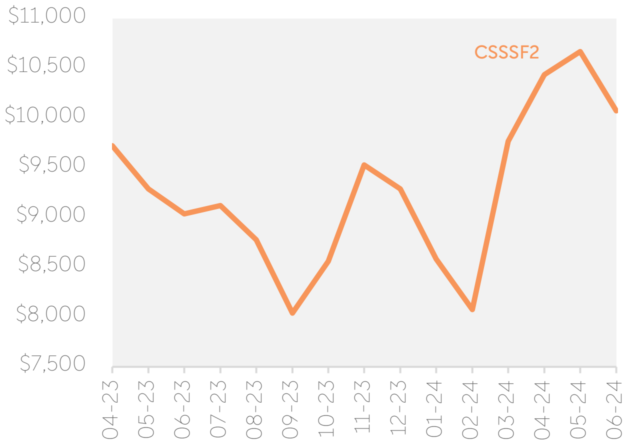
Source: World Gold Council, Yahoo Finance

Net Returns

	CSSSF2	Gold Index[1]
3 months	3.13%	6.37%
6 months	8.45%	10.3%
9 months	25.29%	30.22%
12 months	11.44%	14.31%

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
Catalyst Metals	Australia	Australia	Producer
Black Cat Syndicate	Australia	Australia	Developer

Collins St Special Situation Fund No. 2 is 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	March 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.