

COLLINS ST

— ASSET MANAGEMENT —

Challenging the status quo

COLLINS ST

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December 2023 Quarterly Report

Available To Wholesale Investors Only.

AFSL: 468 935

COLLINS ST

ASSET MANAGEMENT

Our role is to help our investors grow their wealth for their families today and into the future.

We appreciate that our investors have spent a lifetime building their wealth and supporting their families, and we are passionate about helping support that effort to last for generations.

Collins St Asset Management is an independent, boutique, Melbourne based fund manager.

The business was established in 2015 by Michael Goldberg and Vasilios Piperoglou, with our flagship fund the Collins St Value Fund opening to investors in 2016. Each of our subsequent funds were established as the result of identifying a new opportunity as part of our ongoing research for the flagship fund.

Our objective is to provide a suite of funds that are best in breed in their categories.

Our funds manage money for a broad range of wholesale investors including superannuation funds, financial planning groups, charitable foundations, family offices, and individual investors.

- Founded in 2015
- Over \$300 million in funds under management
- Offices in Melbourne, Sydney, and Gold Coast



Our Investment Philosophy



Patient
Objective
Value Investing



Hands on
In-depth
Primary research
process



High
Conviction
Portfolio
Construction



Align interests
with investors

COLLINS ST ASSET MANAGEMENT LAUNCHED FUNDS

COLLINS ST VALUE FUND

A high conviction portfolio of our most compelling Australian listed ideas.

Not benchmarked against any index, the Fund simply seeks to generate an absolute positive return over the medium term.

The fund has no fixed management fees. The only fee is performance based.

Since inception in 2016, the Fund has generated net returns of 14.73% p.a.

COLLINS ST CONVERTIBLE NOTES

A portfolio of convertible notes primarily in Australian listed companies.

Loans secured against the assets of the company, with potential upside from an option to convert the debt to equity.

The Fund is not currently open to new investors.

Launched in 2022.

COLLINS ST SPECIAL SITUATION 1

A concentrated portfolio of internationally listed offshore oil services companies.

Seeking to take advantage of the dysfunction in the Traditional energy space, and particularly in the services sector.

A closed ended fund launched in 2021 to be wound up approximately 3 years after launch.

Net return since inception: >85%

CSAM GPI FUND

GPI is a business that primarily provides consumables for the smash repair industry.

GPI also owns businesses in corporate merchandising and consumer sports goods.

The fund is a 4 year closed ended fund, with the business to be ultimately sold to industry participants or listed via an IPO.

Launched in 2022.

COLLINS ST SPECIAL SITUATION 2

A portfolio of listed Australian and international gold companies.

Seeking to benefit from both the high levels of inflation and negative real interest rates.

A closed ended fund launched in 2023 and expected to be wound up after 3 years.

Zero ongoing management fee.

FUND SUMMARY

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Welcome to our Q4 2023 investor letter.

In the following pages we will provide readers with some insight into our thinking and where we see opportunity. Specifically, we share our thoughts about the nature of change within investment philosophy, considering which aspects of the investment process should change, and which ought not.

An overview of key developments for each of our funds is provided below. More detailed commentary is provided in the dedicated quarterly reports.

The Collins St Value Fund: The fund generated a total return of 13.47% for the quarter, outperforming the broader market by almost 5%. The month of December provided the bulk of returns for both the Fund and the market. For the past 12 months, the Fund has generated a total return of 16.59% buoyed by a number of positions but in particular our holdings in Link (up almost 70% this quarter, thanks to a new take over offer) and Carnarvon (up 40% this quarter).

Collins St Special Situations No.1: The offshore oil and gas services fund generated a negative 6.58% return for the December quarter. However, having seen consolidation in the underlying share prices in the past couple of months the Fund remains not far from its highs. Having returned almost 120% of the original capital already, there remains an additional \$25 million (or almost 65% of the original investment) which we expect to distribute during 2024.

Collins St Special Situations No.2: The global gold and precious metals fund has performed well over the last quarter (to December 31, 2023). As equity markets show early signs of improvement for small and medium sized gold companies, several of our positions have been positively impacted.

From an investment perspective the Fund has recovered from as low as -20% to a current position that is not far from the original capital invested.

We are excited about the direction in which the sector and our shares are headed.

Collins St Convertible Notes Fund: The fund has seen no material changes this quarter. The three remaining holdings within the fund continue to make progress while the wind-up process of AHQ remains ongoing. We expect a capital return to be processed in the first quarter of 2024, and will keep investors regularly updated.

GPI Fund: Despite issues related to shipping (international shipping lane closures and DP World system down), the business continues to put in place the building blocks, including the final components of the senior management team, to position the company for growth. A slow down in sales due to consumer sentiment is offset by a positive outcome from cash flows which could see the business exceed budget by \$1,000,000.

Change



Some things change, some stay the same

There is an old Jewish saying that “you can’t ask questions of a parable.”

I understand the wisdom in the sentiment, but it occurred to me that some common lessons (however they may be taught) are simply wrong and unhealthy.

For instance, the old Benjamin Franklin quip that nothing is certain but death and taxes suggests that we are not masters of our own destiny, that free will has limited impact, and that success or failure are determined by luck.

While I appreciate that ‘certain’ is an absolute term, I don’t like the suggestion (implicit) that we as individuals are unable to impact or affect our own outcomes.

In fact, I believe that our efforts directly impact our outcomes (not always as anticipated), and I’d suggest that President Franklin, ought to have added ‘change’ an additional certainty in life - though I note the revised sentence would be somewhat less quotable.

We see change every day and in every aspect of our lives. Not the least in those complex investment markets. Those interconnected systems that operate in a continual state of flux. Where thoughtful, flawed, considered and

emotional people from all four corners of the globe, each with their own unique timeframes, motivations, and conflicting pressures operate and drive market outcomes.

Recognise that Change is constant:

Change has always been a constant, and the noise coming from those speculating on the consequences of that change is incessant, distracting and harmful.

That noise and speculation has been amplified in modern times due to the wonder of modern technology, to the point that uncertainty and volatility in markets are more impactful (over the near term) than could be imagined just a few years ago.

These conditions, as frustrating as they may be over short periods of time, create an amazing opportunity for the fundamental investor to identify mispricing and generate compelling long term profits.

The key is to recognise and come to peace with the idea that whilst change is inevitable, not everything changes at the same pace or even at the same time.

For instance, your investment philosophy which includes consideration of matters such as the appropriate degree of diversification in a portfolio, valuation principles and suitable methods of gaining legitimate information advantages is something that should be developed carefully over a long period of time such that it can endure throughout your investment journey.

The systems, tools and resources you use to bring that investment philosophy to life when assessing an idea might change once every few years, and the portfolio holdings that are the output of the philosophy and process might change more frequently again (depending on your philosophy of course!).

"The only constant in life is change"

- Heraclitus, Greek Philosopher, 535 BCE



i-Ching (32): Persevering

"Be consistent, regular, stable. Persist in your normal way of life and what you feel is right...Put your ideas to the test. Impose a direction on things. Have a place to go. These things bring profit and insight."

Identify what you can impact:

An important question for the fundamental investor is how to navigate change in a way that profitably aligns with their investment goals. Activity and productivity are not always the same thing and sometimes the best course of action is to be patient, wait, and allow an investment thesis to play out over time.

i-Ching (26): Great accumulating

"Gather all the different parts of yourself and all your many encounters. Take the long view. Think of yourself as raising animals, growing crops or bringing up children. Tolerate and nourish things. Develop an atmosphere in which things can grow. Putting your ideas to the test brings profit and insight. Don't stay passive. Be active"

Sometimes however, a better course of action is to redefine what it means to be active.

Different investors have different avenues available to them when being active in the management of their holdings. At a base level it could be as simple as buying or selling shares as a way of expressing our view on the direction of a company.

Whilst our approach to active portfolio management has varied and evolved over time, the majority of our investments have been driven by our belief in the underlying business, and management's ability to deliver returns from it. Over time, we've found that the average holding period in our flagship Collins St Value Fund is

around 18 months. However this figure is somewhat skewed by shorter term take-over arbitrage opportunities (usually less than a year) which are somewhat offset by longer term compound growth stories (some of our current holdings are over 6 years in the portfolio).

Another more hands on approach to active management involves robust engagement directly with management teams, sometimes in concert with other like minded shareholders, sometimes without. With over \$200M of funds under management in our flagship Collins St Value Fund, we do have the ability in some circumstances to go down this path to unlock shareholder value.

Often this form of active management is in response to a substantial disconnect between the traded value of the company and the underlying value of its assets (often cash or heavily discounted hard assets) which the existing team are unable or unwilling to address. In some circumstances, management teams may be distracted, focussed on personal pet projects, legacy building or simply 'clipping the ticket' and ensuring their own longevity and fortnightly salary last for as long as possible.

Such circumstances can be challenging and may require a change in approach to what was intended when the asset was first bought.

That change could be to simply sell the stock and leave the value to 'the ages'. Another approach, and one which we have employed several times along the journey, is to reframe the problem, think outside the box and seek a process to accelerate change.

i-Ching (51): Arousing

Reimagine what you are confronting. Let the shock shake up your old beliefs and begin something new. Don't get flustered. Don't lose your depth and concentration. What at first seems frightening will soon be a cause to rejoice.

Such accelerated change could include aggressive agitation for the divestment of non-core assets, enhanced capital management initiatives like share buy-backs or special dividends and, in some cases, a drastic change at the Board level.

Of course such change has a time and a place and it is incumbent upon us not to expend energy and resources on the right idea at the wrong time.

Consultation with others allied in your outcome, consideration of survivorship impacts on the company and the reaction of other market participants is key. Experience matters. Timing matters. The protection and growth of investor capital absolutely matters.

i-Ching 49: Revolution

Eliminate what has grown old and useless so that the new can be seen. You must wait for the right moment to act...when the right moment arrives, act with confidence.

Having said this, it is important to reinforce the point that experience matters. Disagreement, even if entered into with the most noble of intentions, has the potential to spiral downward and become focussed more on personal glory than portfolio profit.

Having the support of a team, being able to challenge ideas with a 'devil's advocate' (we spoke about this in detail in the September 2023 Quarterly Report) and having an ecosystem that centres you on a profitable outcome in the best interests of investors is a mandatory 'ticket to the game' before pursuing any form of shareholder activism.

i-Ching (6): Arguing

...clarify and actively express your viewpoint without trying to escalate the conflict.Dispute things. Present your case... Demand justice. Don't be afraid or intimidated....Don't give in, but don't exaggerate or get involved in petty wrangles...

After all the only principle worth going to court over is one that comes with interest!

At Collins St Asset Management we take our stewardship of investor capital seriously. Alignment of interests is central to the investment philosophy that underpins all of the decisions made across each and every one of our funds. Where those interests need to be pursued via activist active management we will not shy away from doing so.

Such an approach can lend itself to volatility over the short term. However, as we say in our welcome letter to all new clients we view volatility as simply the cost of doing business. Volatility (or short term movements based on sentiment and trading volume) is not the same as risk (which is the probability you won't succeed). We seek out the opportunity provided by the former, and attempt at all times to avoid the latter.

As a team we are entrepreneurial, inquisitive and active and with an almost eight year track record of outperforming the broader Australian market (by over 4% p.a. after fees) we are confident that our investment philosophy and uniquely contrarian approach to active management will continue to deliver strong long term returns to our investors.

"Some things change, some stay the same"

- The Pretenders'

If you have any questions about this quarterly report please reach out to our Head of Distribution and Investor Relations Rob Hay on 03 9602 1230 or via email at rhay@csvgf.com.au

The i-Ching is a classic ancient Chinese text on identifying, dealing with, and understanding change. It provides a framework for thinking about the world rather than solutions to implement. Though the framework of the text is described through the prism of ancient belief systems and may be foreign to many, the underlying wisdom is undeniable. References to the I Ching have been sourced from The Elements of the I Ching by Stephen Karcher (1995) published by Element Books Limited.



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SPECIAL SITUATION FUND NO.1

CHAMBERS

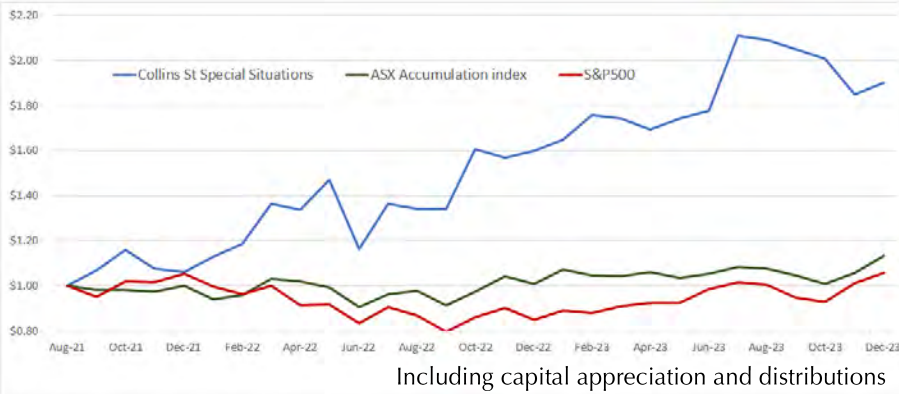


"Sometimes great investing requires great patience, sometimes it requires haste and action."

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SPECIAL SITUATION FUND NO. 1

Value of \$1 Invested



Unit Price: (Q3, 2023)

\$1.35

Total Distribution

approx. 120% of initial capital

Top 5 Holdings:

Borr Drilling

Matrix Composites and Engineering

Noble Corporation

Transocean Limited

Valaris Limited

Having entered the final year of the expected holding period for the Fund, we are thrilled with the returns we have generated so far.

Having returned approximately \$46 million to investors (against an original raise of \$39 million), our investors have already profited, and yet there remains an additional \$25 million of capital still within the Fund.

We have begun to consider what the timing of the wind up might look like based on market determining factors and will certainly communicate with investors once a decision has been made.

We remain positive about the outlook for the sector and the prospects for our holdings.

Update on the offshore oil and gas sector:

In early January, Clarkson Research provided data points to the market on the health and prospects of the offshore oil and gas sector, with a specific focus on service companies - in particular oil rigs and supporting vessels.

The data was fascinating.

Despite general market concern for oil and gas in general, Clarkson's found that demand for offshore oil rigs and support vessels were as high as they have been in over a decade. This was highlighted by a sector wide utilisation rate (that is a measure of what percentage of equipment is currently in use) of over 90%. In fact, utilisation rates had not been this high since 2014.

Additionally, day rates (the rental price companies can charge for their equipment) have also hit all time highs with some of the larger floating oil rigs now demanding over \$500,000 per day (up from

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“Maintain conviction but keep your flexibility

- Sir John Templeton



less than \$200,000 just 3 years ago). On average, the index of subsea day rates rose by 27% in 2023, and is expected to increase substantially once again in 2024.

Driving this momentum is a substantial increase in oil output from the offshore sector which currently represents 27% of global production and is expected to grow by 3% this year. Similarly, offshore gas production represents over 32% of global production and is expected to grow in 2024.

Reflecting those expectations, over \$116 billion has been earmarked for offshore expenditure (based on projects having reached final investment decision status) which is almost 50% higher than the 10 year average. And, over \$125 billion is expected to be spent on capital expenditure in the sector this year.

As a result of those bullish expectations, it is unsurprising that many of the businesses we own in the space have performed so well this year despite a lacklustre result from the energy space in general during the same period.

Pleasingly, the feedback from the drilling and service companies has suggested that the flow of new contracts has continued to grow, with new contracts being drafted significantly in advance of 'need' and for longer periods than historical norms.

We remain bullish about the prospects of the sector and hope to fully benefit from the continuing tail winds that currently prevail.

If you have any questions about this report, please reach out to Rob Hay our Head of Distributions and Investor Relations on (03) 9602 1230 or via email at rhay@csvf.com.au



2023 Guidance Update - November 2023



(denotes prior guidance)



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SPECIAL SITUATION FUND NO.1

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 AFSL 468935
Custodian:	Bell Potter Securities
Registry/Unit Pricing:	Apex Fund Services Pty Ltd
Auditors:	Pitcher Partners
Fund Inception Date:	August 2021
Investment Objective:	The Fund will seek to create investment returns over 3 years by investing in the offshore oil services sector.
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 securities & Cash (no derivatives).
Leverage:	None
Minimum Subscription:	N/A
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. 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
High Water Mark	Yes

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