To: Culibrk Partnership Partners
From: Stefan Culibrk
Date: July 1, 2016

Dear Partners,

The Partnership recorded a loss of 1.5% during 1.4.2016. – 30.6.2016.

	Return	S&P 500
Quarter	-1.5%	2.5%
Current year	-4.7%	3.8%
Since inception	24.7%	5.3%

Every effort to predict short-term market action is useless. At the end of June, British citizens voted to leave the European Union. Prized consultants and experts were shocked. The result of the referendum led to significant markdowns on assets across the world and especially so in Britain.

Markets go through gyrations. Euro crisis raged from 2010 to 2012. Swiss franc spooked millions in January 2015. Chinese hard landing has been the story of the day for years. History doesn't repeat itself but it rhymes. The above-mentioned crises brought uncertainty. Uncertainty brought gifts to patient investors.

In order to pull the trigger during the states of uncertainty, Partnership relies on the concept called margin of safety. Take bridge building as an example.
An engineer would make a bridge that can bear 50 tons; even though the reasonably expected maximum is 20 tons. We can thank Warren Buffett for this metaphor and his and our teacher Benjamin Graham for teaching the concept so vividly.

Partnership would pass investing at 100$ if the fair value was 105$. The gap between the market price and our conservative estimate of fair value has to be large. We want to be able to weather the unknown unknowns and make money.

When they asked US car drivers if they drive better or worse than the average, 93% of them said they are better than average. Same holds for portfolio construction. We like to observe the performance of our portfolio companies in times of stress. I doubt one can understand how hundreds of companies are faring in a downturn. That is the time to jump on opportunities.

Culibrk Partnership
Largest Gains and Loses
For the Three Months ended June 30th 2016
(% Contribution to the portfolio)

Largest Gains	Largest Losses
Zedge (+1.77%)	Liberty Ventures (-2.63%)
Outerwall (+1.1%)	Sports Direct (-1.34%)
Liberty Broadband (+0.3%)	Fiat Chrysler (-1%)
Berkshire Hathaway (+0.27%)	Interactive Brokers (-0.58%)
Barnes and Noble Edu. (+0.25%)	S&P 500 hedge (-0.53%)

Liberty Ventures

During the second quarter of 2016, Charter completed the long awaited takeover of Time Warner Cable. Charter and Comcast are the only cable operators that can have some leverage with the content providers. Our conservative estimates of free cash flow in 2018, 2019 are making the company look undervalued even though they rallied 30% year to date. We are happy to back insider's multibillion-dollar bet on Charter. Combined Liberty entities are 31% of the portfolio.

When it's raining gold, we are there with a bucket.

Zedge

Zedge is an IDT spinoff. Spinoffs happen under circumstances that make them a fertile hunting ground for opportunities. Index funds such as Vanguard and Blackrock own more than 20% of IDT. Upon the spin, owners of IDT become owners of Zedge. As IDT is a larger company than Zedge, they do not belong to the same indices. Index funds are judged by the tracking error. If they keep Zedge shares, they are infringing on their mandate, as a drop in Zedge shares would increase the tracking error. Aggressive selling pressure took Zedge from 7.5$ to 3.9$ in a matter of days. Although a mobile-app maker is not a typical investment for the Partnership, we think that short-term risk/reward is attractive. We also suspect that one of the reasons for the spinoff was possible takeover by a larger company.
We invested at 3.9$.

Sports Direct

A series of unfortunate events gave us a chance to invest in Sports Direct at a price that is 60% lower than prices seen in 2015.

During the past year, Sports Direct was accused of bad corporate governance.

1) "Victorian" attitude to employees: low wages and poor working conditions
2) Weak leadership of Mr. Hellawell
3) Nepotism by the founder Mike Ashley whose several family members are working for Sports Direct

Adding insult to the injury, Britain's exit from the EU brings:

1) Weak GBP that raises import costs
2) Decline in consumer confidence
3) Real estate price decline
4) Possible immigrant deportation back to Eastern Europe that would:
    a. Raise labor cost in Britain
    b. Reduce the number of shoppers in Sports Direct stores

Corporate governance risks are not worrying us. Majority of Mike Ashley's net worth is invested in Sports Direct (55% stake is worth 1bn£). He is certainly eating his own cooking. We are not troubled by his lack of executive title as he is ever-present in the offices and clearly calling the shots. Ashley has built Sports Direct from the ground up since founding it in 1982. Today it is one of the few profitable retailers with over 420 locations in Britain. Ashley's business acumen is no cause for concern.
We see no rational reason for the reversal of his fortunes.

Consequences of British departure from the EU are real and potentially tragic. EU has an incentive to be aggressive in the parting negotiation. It will need to set an example for other countries weighing a referendum for independence from EU.

It comes down to the price paid. Even though risks above are dire, we are paying a price that assumes all of them certainly happening. Buying Sports Direct at £3.3 per share is a discount to fair value of 40%.

For a more detailed analysis, please visit www.culibrkpartnership.com.