To: Culibrk Partnership Partners
From: Stefan Culibrk
Date: October 1, 2015

Dear Partners,

The Partnership recorded a loss of 4.8% during 1.7.2015. – 30.9.2015.

	Return	S&P 500
Quarter	-4.8%	-6.4%
Current year	24.2%	-5.3%
Since inception	24.2%	-5.3%

You'll notice that the market thinks that 500 biggest companies are worth 6.4% less than at the end of June. While certainly painful, the extent of such a drop is no rarity for long-term investors. The same index fell 20.4% in a day in 1987. Price corrections of all sorts are perfectly normal in the business of investing. They present a danger and a lead to a permanent loss of capital when investors overreact. Mixing price and value, they sell, realizing losses. Selling because someone else is panicking is not a particularly clever thing to do. Especially if the rationale that led you to invest in the first place remained intact. Partners unwilling to see the value of their portfolios drop 50% should reduce the stakes or leave the investing game entirely.

We look at daily fluctuations as non-binding offers. We can accept the offer only when we are close to certain it is in our favor. There are no hard feelings. Would you sell your own house if your neighbor is a drug addict and is selling his for peanuts?

Investors (and Partners) are buying businesses. Speculators are gambling. When the price drops, investors should revisit their thesis and look for fundamental changes in its validity. If the thesis is intact, the investment is even more attractive at the lower valuation.
Speculators try to predict what others will think. They would bet on the change in the price of oil, soybeans or interest rates. If the speculator is having a bad day, he permanently loses capital. There is no underlying value to his portfolio. His destiny is determined by short-term price moves. Investor's fate is determined by operating performance of the business he invests in.

Benjamin Graham, father of the school of investing I practice is clear: "Speculation is not illegal, nor immoral, nor fattening (for your bank account)".

Culibrk Partnership
Largest Gains and Loses
For the Three Months ended September 30th 2015
(% Contribution to the portfolio)

Largest Gains	Largest Losses
Charter (+0.37%)	Halyk Bank (-3.89%)
OPAP (+0.16%)	POSCO (-0.98%)
Amerco (+0.08%)	Geospace Tech. (-0.27%)
Nomad Foods (+0.04%)	FRP (-0.14%)
Berkshire (+0.02%)	Interactive Brokers (-0.12%)

Three largest contributors to the portfolio:

Halyk Bank

Skepticism we sounded in the last quarter led us to sell our shares of Halyk Bank. Unfortunately, we sold after the turn in the share price. National Bank of Kazakhstan left the fixed exchange rate and turned to a floating regime, sending the value of the local currency (tenge) plunging 50%. Violent currency movements are extremely complex to manage for a bank, especially the one with local and USD deposits and loans.

We spoke to the management in the wake of the devaluation. We left the meeting unconvinced. We felt the management is not honest as we would like and that they would choose to speak bureaucrat language instead of facts if that would help the government agenda. Financially, the investment paid off. This does not reduce our error. Lectures from the market are rarely cheap. Rest assured we took notes.

POSCO

During the first half of the year we accumulated a small position in the Korean specialty steel maker. We bought POSCO at a steep discount to its book value. Over cycles, POSCO managed to throw off returns on capital in excess of 10%. We reasoned that such a business deserves to trade around book value. This is 200% above today's closing price. We expect the steel prices to recover to the level close to the average cost of production. POSCO is one of the lowest cost producers. Its manageable debt burden means it will be around to benefit when the price reverses. In the third quarter, price of steel fell steeply, driven by seemingly unlimited amounts of supply from China. POSCO shares declined 28%.

Charter

Partnership used the brief market panic to invest in an American cable provider, Charter Communications. The company offers cable television, high-speed internet and landline telephone services to companies and households.

Cable industry created and continues to create tremendous wealth for shareholders. We have identified some of the drivers:

1) Predictable cash flows – annual contracts ensure recurring revenue. Although cable bundle prices are significantly higher than in most of the developed world, TV is still the cheapest source of fun for an average American household.

2) Limited competition– in the rural US, cable companies are not competing. The rational is simple. Infrastructure costs make it an unprofitable venture for two cable operators. Competitors do exist, but mainly with inferior technologies for internet access such as DSL and satellite.

3) Price hikes – cable bundle costs are outpacing inflation two to one. Prices are unregulated as the government thinks there is ample competition between cable operators, telecoms providing DSL (AT&T, Verizon) and satellite (Dish, DirecTV). Only cable operators offer a key service – high-speed data. Data-hungry Netflix, YouTube, virtual reality and internet of things are in high demand. Cable operator's competitive advantage will widen in the years to come, to the benefit of its shareholders.

4) Economies of scale – the largest cost for the operators are content rights (programming), owned by Disney (ESPN is the priciest part of the bundle), Discovery, Time Warner, NBC, etc. Larger cable operators have more bargaining power with the content owners. Lower prices mean more returns for shareholders. Charter is in the process of acquiring Time Warner Cable, dramatically enhancing economies of scale in programming.

5) Disciplined capital allocation – John Malone steers Charter Communications capital allocation. Capital allocation answers the question: What do we do with this cash flow we have just made? The options are limited: pay off debt, reinvest in the business, acquire someone, pay a dividend, buy back stock. When the stock is undervalued, John Malone uses free cash flow to buy it back. The buyback increase ownership for the remaining shareholders, including Dr Malone and his family.

   For example, a company that has 100 shares outstanding runs a buyback program and purchases 50 own shares on the stock exchange. Prior to the buyback, each share represented 1% of the ownership. After the buyback, there are only 50 shares outstanding and each represents a 2% ownership stake. If the buyback is done at prices per share lower than fair value per share, shareholders will rapidly grow their wealth.

6) Debt – Predictable revenues make room for leverage. Financial debt is an additional source of firepower to be used for takeovers or buybacks. As long as the growth rate is higher than the interest rate, the value being created is unlimited. With interest rates at a historically low level and widely available, John Malone is aggressively borrowing and buying back stock.

Charter is about to take over Time Warner Cable by the end of 2015. Tom Rutledge and John Malone will have a larger field to demonstrate their operational and capital allocation prowess. The management believes that capital intensity is going out of business soon after the digital upgrade of the footprint. The cash available for accretive buybacks is staggering.

We invested in Charter via Liberty Ventures and Liberty Broadband. Those John Malone controlled vehicles that represent an undervalued way to gain exposure to Charter.