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

Dear Partners,

The Partnership recorded a gain of 18.2% during 1.7.2016. – 30.9.2016.

	Return	S&P 500
Quarter	18.2%	3.9%
Current year	12.6%	7.8%
Since inception	47.4%	9.3%

The purpose of the Partnership is to maintain and grow partner's wealth over long periods of time.

Partnership aims to fulfill its purpose by investing conservatively, in undervalued businesses run by competent managers. If no such opportunities are found, capital won't be invested. Today, Partnership has 20% of its assets in cash.
When assessing performance over a few months or years, one should pay attention to the role of luck. Luck makes the results go up and down. We think we did a good job if we outperform the S&P 500 by 10% annually over long periods of time.

Near-zero interest rates attract returns closer to present, borrowing from the future. Investors devour great companies such as Amazon, Facebook and WD-40, pricing in extremely rosy scenarios. Unmistakably high quality of the mentioned companies is not an excuse to pay an exorbitant price. Please refer to Appendix 1 on page 4 for additional thoughts on WD-40.
Negative events are distorted as well. Bankruptcies are postponed. Capital is flowing around and the debt is cheap. Refinancing is widely available.

Investors haven't adjusted their expectations. They seek the same returns as in the past. They can only try to do so by changing the composition of their portfolios. I think we are close to the beginning of the end of endless yield hunger.

More than $13tn of bonds trade with negative yields. In 2010 10yr US bonds were yielding 4%. Today, Serbian EUR bonds of similar maturity yield around 4%.
We might shift at any time from an overvalued to an undervalued market. Both overvalued and undervalued shares will decline. We can't wait to snap some of the companies from our watch-list at more attractive prices.

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

Largest Gains	Largest Losses
Liberty Ventures/Liberty Broadband (+6.69%)	Sports Direct (-0.46%)
Leidos – Lockheed (+4.18%)	Zedge (-0.42%)
Mongolian Mining Corp. (+2.6%)	Emergent Capital (-0.11%)
PICO Holdings (+1.05%)	
SIGA Technologies (+0.81%)	
Brookfield Business P. (+0,8%)	

Liberty Ventures / Liberty Broadband

Liberty entities continue to be the most attractive way to own Charter, second largest cable operator in the US.

Charter has the traits we look for:

1) Low price in comparison to our conservative estimate of fair value
2) High and sustainable return on invested capital due to:
    a. Limited competition
    b. Recurring and sticky revenues. TV/high-speed internet are still the cheapest way to have fun.
    c. Unregulated pricing
3) Top-notch management

Majority of Liberty Ventures net asset value (71%) is an investment in Liberty Broadband. Majority of Liberty Broadband net asset value is an investment in Charter. Dr John Malone, cable industry veteran, controls all three entities. Dr Malone invested a significant portion of his wealth in the future of Charter. We are happy to join him. We had a chance to invest in this special situation due to its complexity that deters most of the investors.

Partnership currently has 14% of its assets in Liberty Ventures and 8% in Liberty Broadband.

Leidos – Lockheed Martin

Leidos and Lockheed Martin's IT unit merged during August, creating a defense industry giant. Lockheed Martin shareholders had an offer to exchange their shares for the shares of post-merger Leidos at a 10% premium. Partnership bought Lockheed Martin shares and within two weeks realized a positive contribution to portfolio of 4.18%. Similar special situations will be available to the Partnership in the future. Their contribution to the portfolio will decline as value of each account within the Partnership grows.

Mongolian Mining Corp.

Partnership invested 2% of its assets into a near-bankrupt Mongolian coking coal producer at HKD 0.14. This investment is a vivid example of our view that there is a right price for any investment.

Recent change of leadership in Mongolia carries a strong benefit for MMC. Priority of the new government is to get the budget in shape. The easiest way to achieve this is to rationalize commodity production. Lack of efficient transportation from Tavan Togol to China, its main customer, makes Mongolian coal uncompetitive even versus the Australian coal. This should not be the case. Extraction cost is much lower in Mongolia. Smugglers and corrupt officials operating around the boarder were having a bonanza. The government is negotiating railroad construction with a consortium that expressed interest to build it in 2015. Coal price from Mongolia won't change. MMC shareholders will pocket the profits and local smugglers will have to find another source of revenue.

The above development was recognized by the creditors, which have indicated their willingness to convert debt to equity and take a haircut on the current outstanding debt.

We estimate we paid less than one year of normalized profits for the whole company.

Shares of MMC quickly spiked 116%. We are holding to our stock. MMC is dramatically undervalued to its newfound business economics.

Appendix 1
Quality at any price – the case of WD-40

Having quality as the only metric can be dangerous. Take WD-40 for example. It is a ubiquitous household name across the developed world. One can find them in more than 80% of American households. It barely has any competition.
It is virtually certain that the company's products will be around in a few decades time. It is a rare trait in disruptive times of today. Customer habits are strong and WD-40 will be able to get away with price hikes at a rate above inflation. Before we agree that this wonderful business is a wonderful investment, lets consider the price.

In the past 15 years, investors were able to buy WD-40 for roughly 17.5x earnings. Profits grew 6-7% per year and dividends brought a yield of 3% for an annual return of 10%.

Today WD-40 trades for 33x earnings and offers a 1.4% dividend yield.

What can investors buying at today's prices expect? Not much. If profits keep on growing at a 5% pace, and the earnings multiple remains the same (33x), investors will earn an annual return of roughly 6.6% going forward.

In a far more rational scenario, the earnings ratio will retreat to the historic average of 17.5x. If we assume profits keep on growing at 5% per year, investors stand to lose 20% over a ten-year investment period.

We'd like to thank our friends at Ensemble Capital for highlighting WD-40 case.