To: Culibrk Partnership Partners
From: Stefan Culibrk
Date: April 10th, 2018

Dear Partners,

The Partnership recorded a gain of 1.3% during 1.1.2018. – 31.3.2018.

	Return	S&P 500[1]
Quarter	1.3%	-0.8%
2018	1.3%	-0.8%
Since inception (Jan 2015)	113.2%	37.2%

In Intelligent Investor (1949), Ben Graham first mentioned "Mr. Market" as an allegory for stock market fluctuations. Mr. Market is a manic-depressive fellow, offering us stakes in all kinds of businesses at wildly different prices. He doesn't mind if we ignore him for months on end. He'll always be there tomorrow. We think his companionship is one of the three major benefits of investing in publicly listed companies.

Another benefit of investing in publicly listed companies is sizing of the opportunities. Companies we invest in are orders of magnitude larger than our total portfolio. We can size our bets as we see fit. A rare no-brainer gets an appropriately large weight in the portfolio.

Most lucrative benefit is the ability to silently back owner operators. We love paying 0&0 fees to invest alongside people with long track records, expertise and real skin in the game (both on the upside and on the downside). Take Charter as an example. Mr. Market values Charter equity at 25% less than 8 months ago, partly due to potential competitive challenges from 5G. Telecom is a capital-intensive industry. Technological change has been the only constant. Being aligned with a savvy capital allocator focused on intrinsic value per share makes our investment more resilient to the unknowns that the future carries. Dr. John Malone, Charter shareholder that controls 25% of the votes and Tom Rutledge, Charter CEO, won't be opportunistically investing in 5G. Rate of return on doing so is uncertain. Competitors will also be slow to invest. Their shareholders are used to large dividends. After competitors invest and if they prove that 5G is lucrative, Charter can jump on the opportunity. If an attractive takeover offer appears, Mr. Malone will consider selling. Management and controlling shareholders that are mindful of time value of money and nuances of capital allocation are a major asset we like to have and one that is never shown on the balance sheet.

When do we get a chance to use the above mentioned benefits of public markets? Over the past thirteen quarters, investments we have made belong in at least one of the three buckets:

1) Mr. Market obsesses over what is next vs. what the business is worth
2) Ignorance of the importance of capital allocation and management alignment
3) Confusion over corporate structure/business model complexity

On a rare occasion, as in the case of GCI Liberty (Dr. Malone-controlled vehicle through which we are shareholders of Charter), our investments belong in all three buckets at the same time. We look forward to exploiting many such opportunities in the years to come.

[1] Note: S&P 500 returns measured by SPX

New position

GCI Liberty preferred

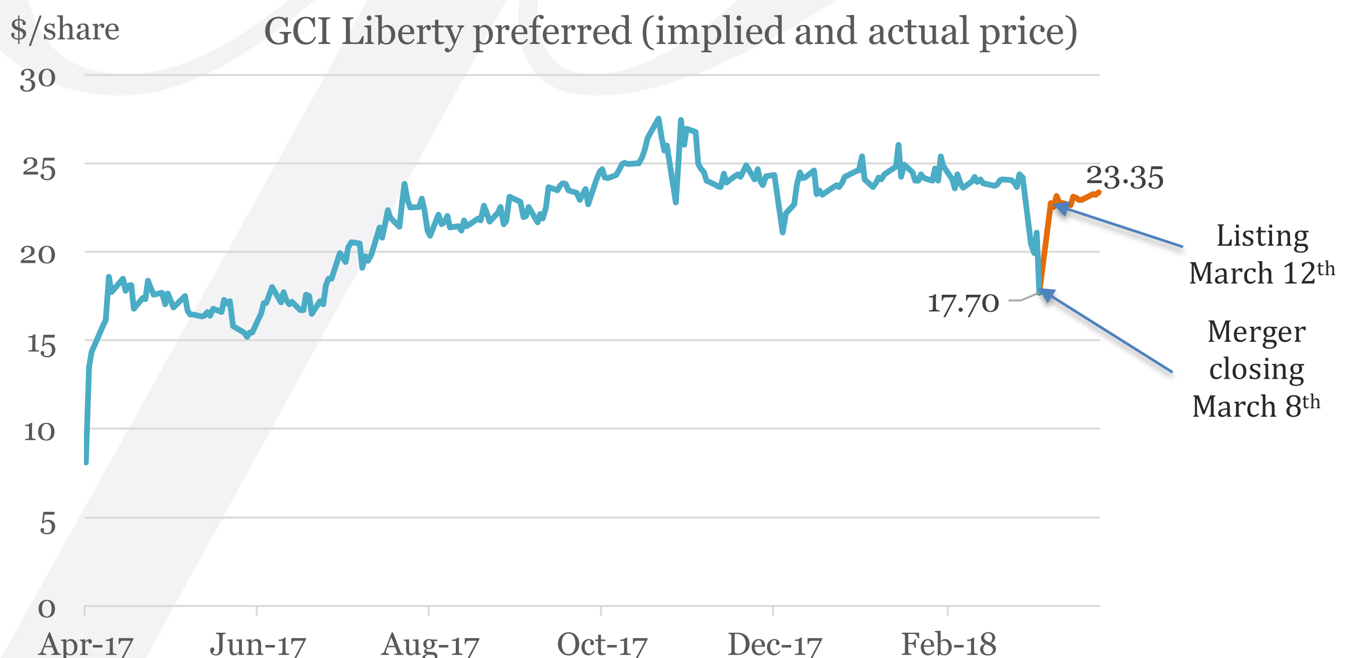
Merger securities have been a fruitful area for Culibrk Partnership. Vista Outdoor (2015), Idorsia (2017) and in the first quarter of 2018, GCI Liberty preferred. When we hear about a merger security, we leave all that we are doing to focus on it. General Communication, Alaskan cable operator and Liberty Ventures, our largest investment, announced a merger on April 4th 2017. New company was to be named GCI Liberty.

For each share of General Communication stock, its A and B shareholders would receive 0.63 shares of newly formed GCI Liberty and 0.2 shares of GCI Liberty preferred. For each share of Liberty Ventures its shareholders would receive 1 share of newly formed GCI Liberty.

Characteristics of GCI Liberty preferred stock: redeemable at $25 after 21st anniversary of deal closing, 5% coupon growing to a 7% coupon upon reincorporation in Delaware (expected as soon as practicable after the merger closes).

For an exposure to one GCI Liberty preferred share, investor needed to buy 5 shares of General Communication and short 3.15 shares of Liberty Ventures (5 * ratio of 0.63).

Prior to the completion of the deal, creating the implied preferred carried the exposure of the preferred, but also deal risk. Given that Liberty Ventures offered a hefty premium to General Communication undisturbed market price, deal collapsing would certainly cause damage to the General Communication stock price. Deal risk would explain why the implied preferred traded sub-$20 from April to July 2017. Closer to the completion date, deal risk declined and the implied preferred started trading near fair value ($21-27 range since August 2017).



In the week of the deal closing, the implied preferred declined from $24.19 to $17.7, a 27% drop. While we have no desire to hold a 7% coupon instrument until its 2049 maturity, I thought the short-term market action was irrational. At $17.7/preferred share, yield to call was close to 10% and 350+bps wider than the yield on GCI Liberty debt. We converted all of our Liberty Ventures shares into General Communication shares and used the available cash to buy General Communication, while shorting Liberty Ventures in an appropriate ratio, for a combined 5% position in GCI Liberty preferred. As the preferred began normal course of trading, the price recovered to $23.35, a 32% return on the preferred stub we created.

Exited position

We narrowed the focus of the portfolio by selling our stake in Zedge, an IDT spin-off. We realized a 22% profit when we sold at a 48% higher price than our last purchase in October 2017.

Sizing changes

We increased our stake in GCI Liberty by 50% and our stake in Liberty Broadband by 10%. As of 31st March 2018, the combined position, which we see as an investment in Charter at a discount, was 26% of the total portfolio.

We are excited as ever about the prospects of Charter, which we see as a unique collection of assets that act as a tollbooth on the internet and have unconstrained pricing power. Growing number of customers, expanding margins due to high incremental profitability of data-only customers and decreasing capital intensity will lead to free cash flow doubling over the next four years. As in 2017, we expect that most of Charter free cash flow, as well as incremental borrowings, will be deployed towards share buybacks. Investing in Charter via GCI Liberty and Liberty Broadband allows us to buy Charter at a discount while having direct alignment with Dr. John Malone, who controls Liberty Broadband, which in turn controls 25.01% of Charter. Earlier in 2017, reports circled that Softbank offered a large premium to acquire Liberty entities, potentially avoiding a full-blown takeover of Charter. Dr. Malone reportedly rejected this deal as it was unfair to the rest of Charter shareholders. While we are quite sure Dr. Malone won't put his stake ahead of the rest of Charter shareholders, it is comforting to be invested in the same vehicle alongside him (especially at a discount).

We increased our Liberty LiLAC stake, while reducing our stakes in Cimpress, Idorsia, Discovery and Fiat, as the prices inched closer to fair value amid January "melt-up". We have also decreased our stake in LGL Group.

We sold 50% of our stake in PICO Holdings at $11.8, as the strategic alternatives process was unsuccessfully concluded. While there is little doubt regarding the value of the assets, slower path towards monetization will likely reduce the rate of return for the equity holders. Inferior compensation for management in the case of the outright sale (vs. more protracted liquidation of the assets) probably didn't help the strategic alternatives process.

As of March 31st 2018, cash was 26% of our portfolio.

Culibrk Partnership
Largest Gains and Losses
For the Three Months ended March 31st 2018
(% contribution to the portfolio)

Largest Gains	Largest Losses
Cimpress (+1.94%)	Aimia (-1.77%)
GCI Liberty preferred (+1.2%)	PICO Holdings (-0.8%)
Fiat Chrysler (+0.81%)	Liberty Global LiLAC (-0.36%)
Ryman Healthcare (+0.34%)	Discovery (-0.2%)
Interactive Brokers (+0.32%)	Seritage Growth Prop. (-0.15%)

Cimpress

We expect to hold shares of Cimpress for a very long time. A business with a large tailwind of bricks and mortar to ecommerce switch, high incremental returns on capital, customer-centric culture and sleepy competitors is an appealing proposition. Founder Rob Keane is young, energetic and has no intention of stopping until he reaches his goal of growing Cimpress into the world leader in mass customization. His large stake in the business and aligned incentive plan will make sure that Rob Keane reaches his goal while maximizing intrinsic value per share. Cimpress is 9% of our portfolio.

Aimia

Warren Buffett built Berkshire Hathaway into what it is today with a generous help from its ever growing float. Float can be described as money that a business is holding today that will eventually go to other people. If money eventually paid to other people is replaced by new money that comes into the business, a float can be seen as a revolving fund. If float is long-enduring and costless, the value of this liability is far lower than the accounting value.

Four main generators of float are suppliers, customers, employees and government. In the insurance business, float arises because most policies require that premiums are prepaid and because it takes time for an insurer to hear about and resolve loss claims. We invested in Ryman Healthcare, which is using its long-enduring, less than costless float coming from the occupancy advances to keep growing the number of their retirement villages.

Capital allocators use their low (or negative) cost of float to grow their business, buy other businesses, pay dividends or do buybacks. Businesses with floats are delicate machines. Give them to a great capital allocator and he will build it into Berkshire Hathaway, a compounding machine fiercely protecting its reputation which ultimately leads to its negative cost of float. Give them to a poor capital allocator and he will quickly drive the business into the ground.

In hindsight, history of subpar capital allocation at Aimia (using float to pay dividends) and low insider ownership, should have acted as warning signs. A simple checklist item was born - when investment thesis is based on a discount to the sum of the parts, it is essential to have a vigilant management that will ring-fence valuable parts from the rest. Especially if the downside is unwinding of the float that could lead to a permanent loss of capital.

In the first quarter, Aimia sold Nectar, the leading UK loyalty program, to its largest client, Sainsbury's, for CAD 105m. This price is c. 2x free cash flow. As part of the transaction, Aimia agreed to pay Sainsbury's redemption liabilities of the business (CAD 183m) as well as working capital adjustments (CAD 96m), effectively forcing the wind down of the float and selling a profitable business at less than zero.

This bizarre capital allocation decision led Aimia shares to decline from CAD 3.7 to CAD 1.7. The acceleration of redemptions at Aeroplan, its Canadian loyalty program, didn't help.

Management argues that the sale was "the best risk-adjusted decision". Sainsbury's was by far the largest client of Nectar. If it left when the contract expired in 2019, Aimia could have been left with all the liabilities and without the CAD 105m consideration it received. On the other hand, it could have generated a year of cash flow (which would equal half of the consideration it received), putting it in a better spot to negotiate with Sainsbury's, whose independent rollout of the program would carry significant cost. Aimia's management didn't have a great set of cards, but it didn't have a poor one either. Folding the cards quickly when the downside was limited and without thinking that the opponent might have a worse hand, can at best be described as poor judgment. Aimia bought Nectar for 15x EBITDA in 2007 when EBITDA was CAD 47m and had 12.5m members. They sold it for less than 2x EBITDA in 2018 when EBITDA was CAD 60m and had 19m members. When management with no skin in the game speaks of "risk-adjusted decisions", get nervous.

Aimia's unencumbered 48.9% stake in PLM, Aeromexico's loyalty program, is currently worth more than Aimia itself. PLM generated c. CAD 100m in EBITDA in 2017. After tax and at a 10x EBITDA, Aimia's stake is worth CAD 380+m. At CAD 1.7/share, Aimia's market capitalization is CAD 259m. Continuation of current management practices could lead to a fire sale of PLM in order to plug the gap that Aeroplan's unwinding float is creating. That would be a disaster. A sale of the stake and an immediate dividend or a spin-off of the stake, even a fully taxable one, would protect the downside for equity investors such as ourselves. Mittleman Brothers, a hedge fund that is Aimia's largest shareholder and owns 16.3% of the company, has notified the board it demands changes (February 6th 2018) and later in March agreed to a standstill until July 2019 amid management concessions. Phil Mittleman, CEO of the fund and Jeremy Rabe are nominated for election to the board of directors at the annual meeting to be held on April 27th 2018.

We think Aimia has an attractive risk-reward profile at CAD 1.7/share. However, we are steering clear of increasing our position as the risk of a permanent loss of capital is not negligible. Aimia is currently 1% of the portfolio and has been a 94bps negative contributor to the portfolio as of 31st March 2018.

GCI Liberty preferred

Please see commentary above under "New position".