

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

Dear Partners,

The Partnership recorded a gain of 12.1% during 1.4.2015. – 30.6.2015.

	Return	S&P 500
Quarter	12.1%	0.3%
Current year	30.6%	1.2%
Since inception	30.6%	1.2%

It is virtually certain that the net returns recorded in the first half of 2015 are a rare occasion. We have seen countless managers who perform extraordinarily up to a point where their success spells the doom of their outperformance. Savvy investor with modest assets under management has a much wider range of potential opportunities than his competitors. Partners need not worry. I believe that threshold is above \$100,000,000.

Peter Minuit bought Manhattan in 1626 from the Manhattan Indians. It is thought he paid for 58 km² in goods worth 60 gulden (around \$951 in today's dollars). One would think that Peter made a great deal. Today that land hosts the financial capital of the world. It is worth \$1,400,000,000,000¹. Compounded annual return was a paltry 5.6%. Maybe Indians had a greater insight after all.

Partnership will exist as long as we think it is a better place to invest than buying a low cost index fund that represents ownership of the largest global companies. Rest assured that the Partnership would close its doors to new Partners if their capital starts adversely affecting the returns we are able to deliver to the old ones.

The returns will sometimes be negative. On a decade-long journey, we expect the market as a whole to drop 30%, rise 50% and anything in between in any given year. We aim to be on pace with the market in the up years and outpace the indices in the down years. Having in mind the relatively high asset prices at the moment, I doubt that the broad market will push us significantly into the right direction. We invest as if we were facing a headwind, keeping the margin of safety in mind at all times.

¹ <http://www.vox.com/2016/1/6/10719304/manhattan-land-value>

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

Largest Gains

Halyk Bank (+4.05%)
China Cord Blood (+2.28%)
Geospace Tech. (+1.17%)
Fiat Chrysler (+1.09%)
Markel Corp. (+0.71%)

Largest Losses

Posco (-0.24%)
FRP (-0.22%)

Three largest contributors to the portfolio:

Halyk Bank

Price increase and the dividend contributed handsomely to the portfolio performance. The gap between the price and the value narrowed.

We have grown skeptical on the quality of Halyk. Last management call made us reconsider the hypothesis we had on the drivers of credit growth.

Majority of population in Kazakhstan works in the state or state owned enterprises. Price of oil brought austerity to Kazakhstan. The government is not in the position to raise salaries. We started questioning whether credit growth is a convenient instrument of social peace, its growth dictated from the president's office. Most of the credit growth comes from salary-backed loans. In the last standing USSR dictatorship, it is easy to imagine a scenario where debt is forgiven to the unemployed. We have a strange feeling that the shareholders would pick up that tab. While the price is attractive, we have reduced the position until we become more comfortable with the direction that the management wants to take.

China Cord Blood

Partnership invested in a stem cell storage operator present in four Chinese regions. In a country with one child policy, no dime is spared on the health of offspring. That includes the unlikely diseases such as the ones stem cells can currently legitimately solve. The central government issues one license per region. The market is wrong in valuing the company:

- 1) Misunderstands the business model. Clients pay years in advance. Revenues are recognized upon realization, but cash comes through the door immediately. Cash flow is superb in comparison to net income.
- 2) Reputation of Chinese reverse merger companies in the US is dismal

Geospace Technologies

Geospace is the leading seismic equipment maker. Geospace specializes in wireless devices, a new industry standard. Geospace pioneered it in 2008. Oil companies do seismic research in order to understand the geologic properties of the specific lots of land (or sea). If no seismic research is conducted, there will be no new oil discoveries. If there are no new oil discoveries, all the oil companies are effectively in liquidation mode. Oil price decline of 50% in a year will put a halt on exploration. The focus has steered to maximization of production. Most of the seismic research is done by intermediaries such as Dawson Geophysical, who loaded up on seismic devices during the boom of 2013. They can utilize those devices for several years. Geospace will likely have no real business any time soon.

The market is valuing Geospace at a significant discount to book value. Its cash at hand is enough for four years of cash burn with current levels of revenue (read: almost none). Geospace has no debt. The management is prudent, has been around for decades and is ready for a long trough of the cycle. Most of Geospace's competitors are levered and suffering. Once the cycle turns, Geospace will prosper. We bought shares of Geospace at a 20% discount to its liquidation value.

Investing in a loss-making enterprise is an anathema for most of the investors. In the case of Geospace, we see sizeable asymmetry between risk and reward. It is a function of the price paid.

The returns from this investment will not be linear. It is entirely possible that the price plunges to a level even lower than the one today. We don't have a crystal ball and have no real insight into the path of oil prices. In the long run, we doubt that oil majors are not going to liquidate themselves without a fight. It helps that the global break-even cost of barrel extracted is higher than the market price today. When it comes to investing in Geospace Technologies, one needs the patience of a man observing the grass grow.