

To: Culibrk Partnership Partners
 From: Stefan Culibrk
 Date: July 5, 2017

Dear Partners,

The Partnership recorded a gain of 15.1% during 1.4.2017. – 30.6.2017.

	Return	S&P 500
Quarter	15.1%	3.1%
Current year	22.6%	9.3%
Since inception (Jan 2015)	84.2%	23.8%

I have always struggled with the widespread academic mantra that risk in investing is correlated with returns. This is true in a deterministic world. I think a more sensible approach is to estimate probabilities of different outcomes and expected payoffs if those outcomes occur.

Knowing this method is the easy part. Our knowledge of the matter at hand will guide the quality of our estimates of probabilities and expected payoffs. There is no such thing as a high risk or a low risk investment. There are good and bad investments, whose attractiveness depends on the price paid and estimates of probabilities and payoffs. I spend my time making sure I get better at estimates, making sure I skip bad investments and jump in size on the good ones when the price is right.

Investing is wonderful because we can pass on all those opportunities where our estimates of probabilities and payoffs are unreliable.

A high degree of conviction in our estimates of probabilities and payoffs, coupled with modest success, often leads to overconfidence, that leads to appetite for leverage. A cardinal sin in public equity investing, it is bound to take increasing presence in rising markets. Even in a small portion of the portfolio, taking leverage is similar to practicing stop losses. It makes our investments path dependent. If I think a company at hand is a fantastic investment at \$5 per share and it gets offered at \$3, selling sounds like the dumbest thing to do. We wouldn't panic out of an unlisted business because someone offered a portion of it at a lower price than what we initially paid for it.

I know I have a job because the market has pockets of inefficiency and irrationality. I see no reason to risk permanently losing money if the market gets slightly more irrational. The benefit of a few extra percentage points per year is not worth it.

Sizing adjustments

Idorsia

In February and March, we have acquired shares of Actelion at \$270 per share. In June we have received \$280 and a share of Idorsia per each share of Actelion. Idorsia went public on June 16th as Actelion was taken over by Johnson and Johnson.

Idorsia is a biopharmaceutical company with an ownership of 10-20 phase I, II and III drugs, 20,000 patents, CHF 1bn and agreements with Johnson and Johnson on commercialization of ACT-132577, as well as Cadazolid and Ponesimod. I have significantly increased the position in Idorsia on top of the shares we have received as Actelion shareholders.

Idorsia is one of the strongest demonstrations of management conviction I have ever seen. It gets more interesting - Idorsia operates in an industry where insiders have a vastly better understanding of the quality of the company. During 2016 and early 2017, Mr. Clozel, CEO of Actelion at the time, has repeatedly rejected offers from suitors such as Sanofi and Johnson and Johnson. He claimed that their offers drastically undervalued the product pipeline. One could have accused him of playing with fire - premium built into Actelion share price was worth tens of billions of dollars. His personal wealth and that of other shareholders would suffer (on paper) if suitors walked away. Fast forward to January and the suitors of Actelion paid \$280 per share for the commercial products. Mr. Clozel hung to his cherished drug pipeline - it was agreed it will be separated into a separate company when the takeover closes.

Mr. and Mrs. Clozel became CEO and Chief Science Office of Idorsia. They brought along their board, 380 researchers and 100 chemists. By 2023, the Clozel couple expects to have three commercial products and a pipeline that can deliver \$5bn in sales. They will use CHF 1bn of cash and their state of the art research center to help them achieve their goals.

I expected Idorsia price to follow a pattern often seen with merger securities, especially relatively small ones as Idorsia is relative to Actelion. Index funds and large passive mutual funds typically sell shares in the first days of trading, depressing the price. After the investor base shifts, the stock continues its rise or fall towards fair value.

I didn't foresee the Clozel couple going after Idorsia shares as aggressively as they have. They have bought 22m shares, a 18% stake, on the open market in the first week of trading, paying around CHF 13.7/share. The two are now the largest shareholder, holding 27.2m shares (22.1%). Rudolf Maag, a renowned investor that was an early backer of Actelion, owns 7.7m shares (7.2% stake).

Board members elected to take compensation for this year in stock options, a total of 4.9m options with a CHF 17.7 strike price that expire in 2027.

These expressions of conviction are unprecedented and remind me of John Malone moves when he was forming Liberty Media.

One can, quite rightly, argue that a company like Idorsia is too hard to value without expertise in everything from lupus to pulmonary hypertension. This is true for the types that have a feeling of full control over auto company's fortunes, only to be faced with the unknown unknowns of wrong incentives that lead to an emission scandal that destroy the investment thesis. Passing on Idorsia because it is a biopharmaceutical company with uncertain prospects would be an error of omission. I think, and Mr. Clozel would agree, that Idorsia's assets are alive, well and growing. They are not on the balance sheet. In 2016, more than \$300m was spent in R&D for Idorsia pipeline. Does it make sense to treat this research as any other expense? Especially not when it is directed by one of the savviest capital allocators in Europe in this sector. The price we paid for Idorsia was saying that all the research was wasted money.

Needless to say, the stock shouldn't trade near cash if we get close to Mr. and Mrs. Clozel's goals. Our purchases in the first days of trading and rapid repricing (+97% since June 16th listing) made Idorsia a significant contributor to this quarter performance. In the first days of July, I sold some of our position at CHF 20. As of July 4th, Idorsia has been a 6% position.

Liberty Ventures

Liberty Ventures announced an acquisition of General Communication, an Alaskan cable operator, in the first week of April. As part of the transaction, Liberty Ventures will cease being a tracking stock of Liberty Interactive. GCI Liberty will be asset backed. Transaction is set to close in Q1 2018. This transaction significantly simplifies Liberty Ventures NAV and paves way for an integration into Charter/Liberty Broadband in the near future.

While still attractive, it does not warrant a 30% position in the portfolio it briefly reached upon the 40% rise this year. I have sold 60% of the position at an average price of \$51.9. Liberty Ventures is now a 10% position.

PICO Holdings

PICO Holdings announced a sale of its majority stake (56.9%) in the publicly listed house builder, UCP Inc. The buyer is Century Communities (CCS) and it is paying \$5.32/share in cash and 0.2309/share in CCS shares. The transaction is expected to close in Q3 2017. Upon closing, PICO Holdings will come closer to being a pure play water resource company. It will have 1/3 of its market capitalization in cash and a board eager to return the cash to shareholders in an accretive way. I estimate NAV/share at \$27.5. With a tender offer done at current market prices retiring one third of the shares, its NAV/share will grow

closer to \$34. Further sales and buybacks at below NAV/share are likely and accretive. I think that the company has successfully entered liquidation mode.

Upon the announcement of the transaction, the stock didn't move. In discount to NAV situations, IRR is in large part dependent on timing of the execution. PICO's team is advancing rapidly, which meant fundamentals have improved. I doubled the position at \$13.8. The stock quickly caught up with reality and I reduced some of the recently added exposure at \$17.5. PICO Holdings is now a 7.5% position.

Credit Acceptance Corp.

Three months ago, I noted that, on surface, Credit Acceptance ticks all the boxes of a bad investment. Today, Mr. Market thinks this business is worth 50% more. We can debate whether this ascent is due to the technical factors such as a pause in insider selling and short covering (short interest is 26 days to cover) or due to the market coming to its senses. Either way, our risk/reward changed, because the fundamentals didn't. Our position grew to 7.5% of the portfolio at 50% higher prices. This is still the same misunderstood business that is used as a proxy for shorting auto loan market. I have no doubts about volatility of its stock price in the future. I have reduced the position to 3% and will be quick to add again at lower levels.

New position – Seritage Growth Properties

I have acquired a 1.5% position in Seritage Growth Properties (SRG), a real estate investment trust. I paid \$39/share for the company, as it is caught in the middle of an industry-wide panic and a company-specific Armageddon.

Spun off from Sears in 2015, SRG owns malls and automotive centers. Close to 85% of its available space is occupied by Sears. Sears management (and significant shareholders) has decided to separate SRG via a spin-off/rights offering to protect the downside in case Sears goes bankrupt. Creditors have rightfully complained. As this letter gets published, it will be two years since the spin-off occurred, and no material damage has yet happened to Sears as a consequence of the separation. Chances of creditors having their argument through in court are slim.

SRG is an attractive investment due to its shift in the tenant base. Sears is paying an artificially low rate (\$4/sqft). Tenants that have moved in after Sears has left pay closer to \$15/sqft. SRG has an option to convert a substantial part of Sears-occupied space and, upon refurbishing, lease it to other customers. The price paid for the option depends on store profitability. If the store is not profitable, SRG doesn't need to pay. It gets better - for stores that are converted on Sears initiative, SRG is compensated with a year of rent and costs. Incentives are aligned for the insiders, whose SRG stake is significantly higher (at present market) than their Sears stake, to cherry pick assets and pay as much as possible in compensation to SRG. In case Sears goes bankrupt before SRG has enough cash flow to refurbish assets and pay off debt, SRG will likely be forced to raise equity. With Warren Buffett among its shareholders, I think that, although dilutive, equity offering would be relatively painless. Most of the gloom was priced in at \$39. Mr. Market might decide that Sears bankruptcy is a huge negative for SRG. I was careful with sizing to prepare to add on such a day.

New position – Boston Omaha

In late June, I have acquired a 1% position in Boston Omaha. The company is operating in two fields: outdoor billboards and surety insurance. On June 16th, it has up-listed to NASDAQ in a secondary offering priced at \$13. Its listing dynamics are similar to Idorsia, but vastly different than all other initial offerings. Its co-CEOs, have invested significant personal capital in the IPO.

The company has been acquiring billboard structures since 2015 when co-CEOs took over. Billboards are a concentrated market where the top three players own 50%. There is a large number of smaller companies servicing the remainder of the market and Boston Omaha plans to acquire those. With high regulatory barriers for new supply and low maintenance cost, billboards are a business with attractive economics. It helps they are internet-resistant to a large degree. The position is adequately small to monitor progress of the co-CEO duo allocating capital to attractive opportunities.

Culibrk Partnership
Largest Gains and Loses
For the Three Months ended June 30th 2017
(% contribution to the portfolio)

Largest Gains	Largest Losses
Liberty Ventures (+4.28%)	LiLAC (-0.39%)
Idorsia (+3.05%)	Zedge (-0.20%)
PICO Holdings (+2.34%)	Sports Direct (-0.13%)
Credit Acceptance (+2.03%)	Fiat Chrysler (-0.07%)
MEI Pharma (+1.15%)	Boston Omaha (-0.06%)

Liberty Ventures

Please see commentary above under "Sizing adjustments".

Net asset value of pro-forma GCI Liberty is between \$63.6 and \$69.7/share (see table 1). Current price is \$52.3/share. We are effectively paying between 75¢ and 82¢ for a growing dollar.

Table 1 – GCI Liberty net asset value composition - pro-forma
(market data as of 30th June 2017, balance sheet data pro-forma estimates)

Asset	Value (000 \$)	\$/share
Liberty Broadband	3,704,225	34.6
Charter	1,805,516	16.9
Public entities (FTD, TREE, etc.)	682,207	6.4
Net cash	-2,252,000	-21.0
General Communication	2,826,378	26.4
Other	40,000	0.4
Total	6,806,326	63.6
Liberty Broadband discount closing	655,288	6.1
Total with optional value	7,461,614	69.7
Market cap Liberty Ventures	5,596,180	52.3

Idorsia

Please see commentary above under "Sizing adjustments".

PICO Holdings

Please see commentary above under "Sizing adjustments".