CROMWELL FUNDS MANAGEMENT Phoenix Portfolios

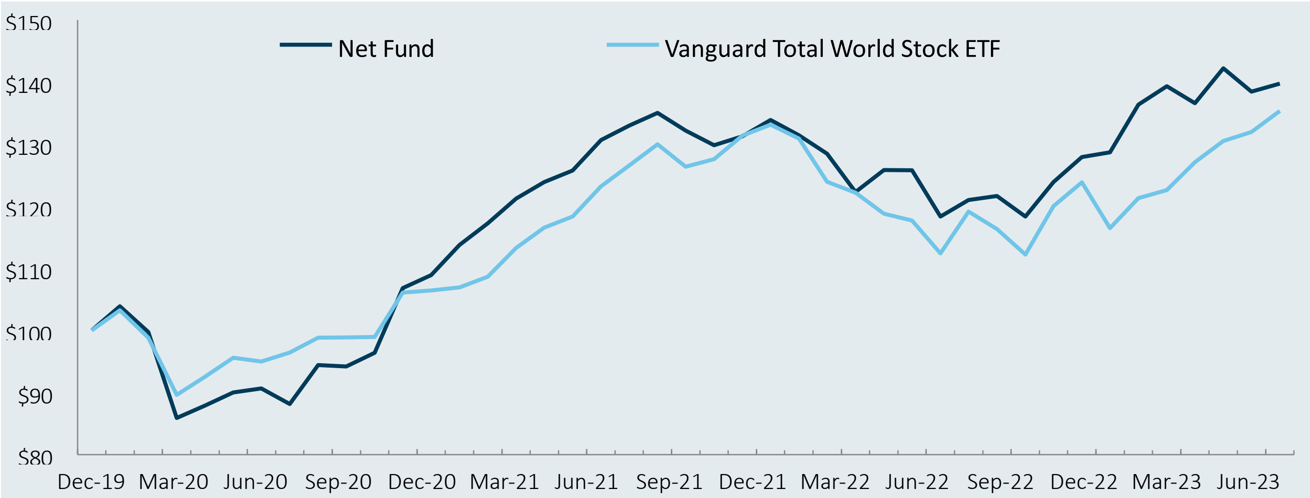
CROMWELL PHOENIX GLOBAL OPPORTUNITIES FUND

SEPTEMBER 2023 QUARTERLY REPORT

Cromwell Phoenix Global Opportunities Fund Performance (Periods ending: 30 September 2023, Net of fees)

	3 Months	1 Year	2 Years	3 Years	Since inception (16 Apr 08)
Fund	-0.7%	17.30%	2.48%	13.79%	9.4%
Vanguard Total World Stock ETF	-0.1%	20.4%	4.8%	12.5%	8.6%

Value of $100 invested at inception



Fund Review

Global share markets finished the September quarter marginally lower, with the Vanguard Total World Stock ETF (in AUD) down 0.1%. Smaller stocks were underperformers, with global microcaps down approximately 1.2% in AUD.

The Cromwell Phoenix Global Opportunities Fund underperformed large capitalisation global indices, however outperformed microcap securities. Both contributors and detractors to performance were mixed in terms of geography and underlying exposure. Overall, interest rate sensitive assets such as property- backed securities were weak during the quarter as global interest rates marched ever higher. The Yield on 10 Year US Government bonds rose from 3.8% to finish the quarter at 4.7%. More positively, some discounts to NAV are beginning to close through wind-ups, sales or other corporate actions as boards are beginning to acknowledge that these discounts are unlikely to close without action.

Geographic dispersion amongst returns was reasonably muted relative to recent outcomes. US large capitalisation stocks moved 0.6% higher (in AUD), while their small cap counterparts lost 1.8%, continuing recent trends. European stocks were weak during the quarter, giving up 4.5%, not keeping pace with UK-listed stocks, which rose 1.5%. Japan was the strongest Asian market, adding 2.4%, with Asia ex-Japan gaining only 0.2% and Hong Kong stocks losing 0.7%.

Positive Contributors	Negative Contributors
US Consumer Stock XYZ (NYSE:XYZ) First Pacific Corporation (SEHK:142) Osaka Steel (TSE:5449)	Compagnie de l'Odet (ENXTPA:ODET) Industrial Logistics Property Trust (NASDAQ:ILPT) Weiss Korea Opportunity Fund (AIM:WKOF)

Performance Commentary

Liberty SiriusXM (NASDAQ:LSXM.A) – The Cable Cowboy Does Another Deal

By some measures, John Malone, known by some as "The Cable Cowboy", is one of the 250 richest people in the world, with a net worth close to US$10 billion. Malone achieved this through deal making over a long period of time, with returns enhanced by one eye focussed on maximising results for himself and another eye focussed on minimising tax paid. LSXM is an investment in the Fund, controlled by Malone. It is extremely complex in its structure and history, however, this masks the simplicity of the financial investment itself. The recent deal proposed by Malone-controlled LSXM represents progress towards the culmination of 14 years of investment and fits Malone's more than 50-year history of deal making.

A Brief History

A young John Malone had a choice: either accept a high paying job heading up the cable TV division of Warner Communications (then run under the umbrella of General Instruments Corporation), under the legendary businessman Steve Ross, or accept a much lower paying, much higher risk job running Tele- Communication Inc. (TCI) for the eccentric Bob Magness. Malone chose the high-risk option and became the CEO of TCI.

Magness began his career as a cattle rancher after graduating for Southwestern State College in rural Oklahoma. During a visit to a cotton gin in 1956, Magness helped two men who were having car trouble and drove them to where they needed to go. On the ride the men told Magness they were building a community antenna system in nearby Paducah, in Texas. They explained that with the invention of the television, demand for the new form of entertainment was growing rapidly. Small antennas on the roofs of housing did not pick up the signal well. This meant that enterprising folks could go to the highest points in the area, build a larger antenna to pick up the signal, intended for use in bigger towns, and then run cable from the antenna to local households. They described it as a "license to steal." Excited by the idea, Magness sold his cattle, mortgaged his house and took on additional debt to build a community antenna system in Memphis, Texas. This was the beginning of the TCI business. He sold this cable system two years later for a handsome profit and began building, buying and selling more and more antenna systems.

When Malone joined TCI, it was a sizable business, with $19.2 million in revenue. Offsetting this was a debt load of $132 million, an extreme level for a company of its size. Despite this, Malone bough 7,500 TCI shares with a personal loan from a local bank. As interest rates shot up, TCI's interest burden increased materially. Malone needed to garner support from the banks who made the loans, so they wouldn't foreclose on the business. He famously described the cable business model. All the costs are paid for upfront, with large sums of money outlaid to build antenna systems, run cables to houses and connect them. In return TCI received a connection fee plus ongoing monthly subscription fees. This subscription model has become increasingly popular in modern business, particularly for technology companies (think of Microsoft Office, Netflix or Amazon Prime). He told bankers that accounting profit is the wrong way to look at the business, because it includes the depreciation of antennas and cable systems built long ago. Instead, bankers should look at earnings before interest depreciation, amortisation and tax (known as EBITDA), as this is the amount of cash that can go to servicing debt. The use of EBITDA as a measure of financial performance remains controversial, however Malone convinced bankers to grant friendly extensions and concessions.

Over time Malone's success as both a manager and a deal maker dragged TCI out of peril. As an example, in the late 1970's two pay-TV services, HBO and Showtime, were fighting for market share in the US. To achieve this, they needed access to the cable companies responsible for product distribution. Malone successfully played the two rivals off against each other and achieved a sweetheart deal from HBO. From here TCI grew its power and reach. From being minutes away from bankruptcy, it became so powerful that it was accused of anti-competitive, monopolistic behaviour.

Modern Media

Liberty Media, the holding company that owns LSXM, merged with TCI in 1994. Malone had used a series of complex and at times controversial transactions to secure control of the entity. He would go on to initiate a series of complex transactions that both enriched himself (and those aligned with him) and secured control of the business. Over time Liberty entities and John Malone have controlled companies such as AT&T, Expedia and had a major stake in Murdoch-controlled News Corporation. Almost all of Liberty Media's investments have had some connection to the media industry that Malone knows in intimate detail.

Today Liberty Media owns four major assets. The Atlanta Braves baseball team, Formula 1 (yes, the car racing company, who's product is featured in Netflix's Drive to Survive), a large stake in LiveNation and a controlling stake SiriusXM. Concerned that the combination of assets would not be fully valued as a group, Malone and current CEO Greg Maffei created "tracking stocks" for each of the assets listed above. A tracking stock is a special equity instrument that tracks the financial performance of a specific segment of a parent company. Importantly, it minimises tax outlay for existing owners.

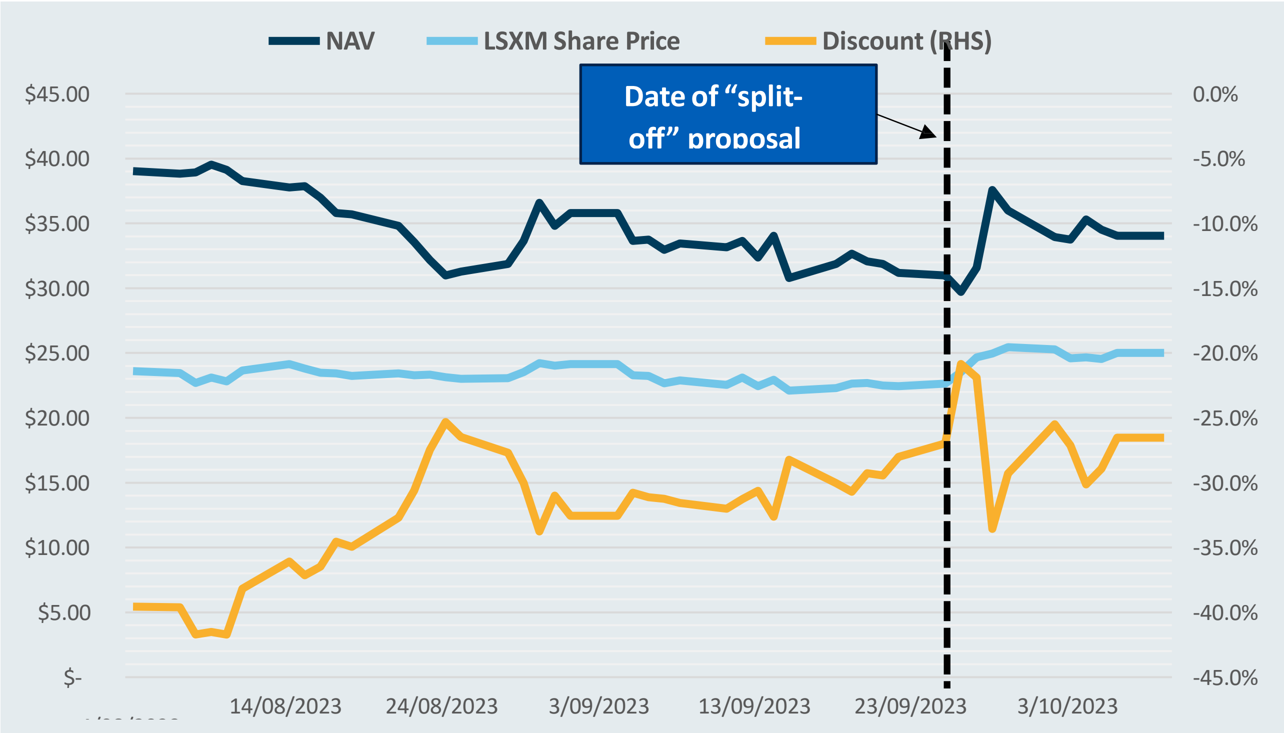
SiriusXM may not be familiar to Australians, but is ubiquitous in the US. It is a subscription satellite radio business, particularly popular in cars as an alternative to terrestrial radio. It reaches a monthly audience of 150 million listeners, with programming across music, talk, news and sport. Liberty Media first invested in SiriusXM by providing it with an emergency line of credit to pay off existing debt in 2009, in the depths of the Global Financial Crisis. By 2013, Liberty had taken a majority controlling stake in SiriusXM, through conversion of its economic holding and a block trade in SiriusXM shares. SiriusXM trades independently of LSXM on the NASDAQ exchange, under code SIRI. Today, LSXM's only asset its stake in SIRI. It also has some attributable debt.

Deal Time.

The net asset value (NAV) of LSXM shares is simple to calculate. As SIRI stock is separately traded, the value of LSXM is the value of the SIRI stock it owns, less the debt attributable to it. LSXM has historically traded at a large discount to its NAV and as such has been a holding in the portfolio since just after the Fund's inception. As time went on, it became clear that the existing structure would change and the discount would close one way or another. At its 2022 Investor Day, Liberty CEO Greg Maffei said in regard to a simplification transaction:

> *"I think there are reasons why we've made that easier while we've made future transactions simpler. They were more complicated before. Now they're simpler. And I think you should trust that we are going to continue to pursue things that are in the benefits of long-term shareholders."*

On 26 September 2023, after completing a transaction simplifying LSXM in August, the company announced a "split-off" proposal, by which LSXM would split from Liberty and combine with existing SiriusXM to form a new SiriusXM entity. To put it simply, it is as if LSXM is distributing its Sirius shares to LSXM shareholders. If the proposal is approved, it ensures that the discount will no longer exists as there will only be one class of SiriusXM shares. Unsurprisingly given Malone's history, this is likely to occur in a tax-free manner. Following the announcement, LSXM's discount remains wide, despite the extremely high probability of deal close (which should be early 2024). Below is a chart of the discount since the initial simplification transaction completed in August.



As can be seen above, while the discount has somewhat closed, it still remains very wide, at approximately 25%. There is some risk that the discount closes by a reduction in the SiriusXM share price (i.e. the dark blue line above comes down to meet the light blue line). The most likely outcome is that they meet somewhere in the middle, with the ongoing business benefitting from a simplified structure, a larger free float and potential for all-important index inclusion.

We made a small addition to our LSXM holding during the period, after the announcement of the split-off proposal. LSXM represents approximately 2.7% of Fund assets as at the end of the quarter. Position sizing is somewhat tempered by uncertainty regarding the post transaction value assigned to Liberty Sirius, however a current investment in LSXM appears attractive from a risk/reward and internal rate of return (IRR) perspective. After all, investing in alignment with the Cable Cowboy has worked for a long period of time.

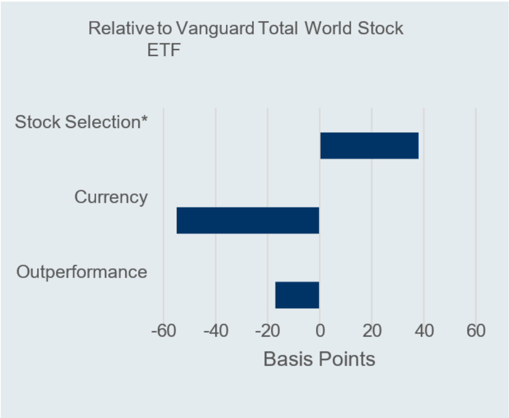
Note: Any particularly keen investors can read the book "Cable Cowboy: John Malone and the Rise of the Modern Cable Business", for a full rundown of his history and details on many of his complex and clever deals. The book was published in 2005… many more chapters could be written today about deals Malone and now Maffei have done since it was published.

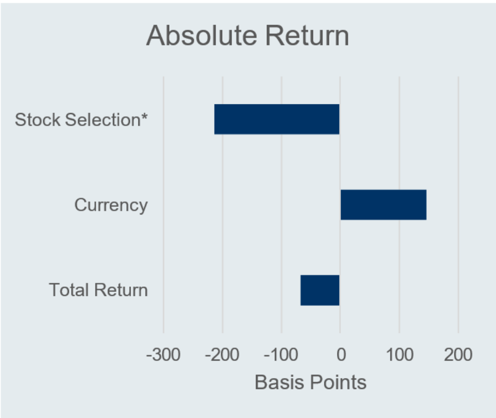
Fund Metrics

Country of Listing	Fund
Canada	9.3%
France	11.8%
Hong Kong	11.0%
Italy	0.0%
Japan	13.9%
Norway	0.0%
Netherlands	1.9%
Singapore	2.0%
United Kingdom	16.6%
United States of America	32.2%
Cash	1.2%

Portfolio by Float Capitalisation (USD)	Fund
$0 - $50m	16.7%
$50m - $200m	41.5%
$200m - $500m	11.9%
$500m - $1000m	13.1%
> $1000m	15.6%
Cash	1.2%

Return Breakdown (3 Months to 30 September 2023)





*Net of all fees and expenses

Important Notice and Disclaimer

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