QUARTERLY REPORT #13: PERIOD TO 30 SEPTEMBER 2019[1]

Performance and net asset value[2]

Quarterly portfolio return: (10.6%)

Twelve months ago, in the first week of October 2018, the consensus estimate for CY2019 earnings for S&P500 companies was $180.62; with the index at ~2884, the forward P/E was around 16x. However, that looked "chancy" on the basis that analysts were expecting 10% EPS growth for FY19, from a FY18base which had been inflated by the corporate tax reductions. It looked arguably less risky in that financial markets were worried that growth was sufficiently strong to price 10year Treasury bonds at a yield of 3.25%. Fears over these bond yields morphed into a nasty downdraft with the S&P500 falling 7% over that month.

A year on, the S&P500 index having traversed a low of 2350 in December 2018, set a record high of 3020 in mid-September 2019 – 28% above the nadir - and is still around 2-3% above the early October 2018 figure, despite the fact S&P500 earnings forecasts for CY2019 are now around the $164 mark – 9% below the estimates a year ago.

What's changed? Simple. The ten year bond yield has halved from over 3.2% to ~1.5%.

What's not changed? Despite clear evidence to the contrary, analysts expect S&P500 earnings in CY2020 to grow 10.3% to ~$181; it raises the question whether analyst spreadsheets are hardwired with 1.1?

This arguable lack of realism gives rise to the assumed "goldilocks" world of ultra-low interest/discount rates accompanied by perceptions of respectable earnings growth, and using past dividend discount models to produce whatever forecast share prices you desire. In turn, this has tended to fuel exposures to stocks on the basis of "there is no alternative", such exposures increasingly being taken in a "passive/index" fashion, and not via active management of individual stock picking. Of course, this leads to further price-insensitive buying and price/value distortions.

So what if earnings don't grow in the fashion expected? Will reductions in bond yields be sufficient to offset these issues in investor's minds? Increasingly, we appear to be approaching a tipping point in the US with:

- record high margins;
- record levels of listed corporate debt; and
- an increasing level of questioning of business models in the wake of the WeWork IPO fiasco.

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1 East 72 Holdings Limited (**E72**) provides monthly **unaudited** updates on its company performance and exposure supplemented by a more substantial quarterly note. Readers are referred to footnotes 2 and 22-27 explaining the derivation of the numbers. All returns are pre-tax unless stated otherwise. At the current level of net assets, cost imposition is estimated at 0.55% per month over the course of a full year (excluding capital raising related expenses) and is fully accrued monthly according to the best estimates of management. Readers are explicitly referred to the disclaimer on page 13.

2 Month by month tabulation of investment return and exposures is given on page 12, along with exposure metrics.

If US bond yields were to fall further, such moves would hardly be presaging a strong corporate earnings environment; conversely, S&P500 earnings growth of 10%, even allowing for outlier sectors like energy, is not consistent with a ten year bond yield of 1.5%.

Something will give. Increasingly, we believe it will be earnings.

Whilst volatile, indices finished broadly flat over the quarter excluding those in China and Hong Kong. Our quarterly performance was impacted by declines in selected long positions, especially in the month of August as previously disclosed. Most notable were Virtu Financial (-25%), Prime Media (-21%), PICO Holdings (-13% - see later) and Webster (-11% - see later); there were partial offsets from Beazer Homes (+55%), Monash Absolute (+18%). In total our short positions were minor negative contributors, impacted by Afterpay (+43%), Wisetech (+25%) and Tesla (+8%).

When your three year return of 21% pa (pretty much) comes in one day

Much of our short term underperformance comes down to a simple premise: we have long positions in securities which we regard as significantly underpriced on a 2-3 year time horizon, but sometimes where management action or capital management may be required to close the gap between price and value.

Conversely, we hold a number of short positions where we view the reverse as being true: price substantially outstrips value of the security and there are catalysts over a 2-3 year period to see this imbalance corrected.

If we are broadly accurate with our stock picking – and we won't get all of them correct – these features should add up to a double benefit. In addition, we use gearing which will accentuate results.

What we have faced over the past eighteen months is a situation where the impact of easy monetary policy, low interest rates, momentum/growth investing mania and further concerted shift to price insensitive passive investing has seen the "short" book increase in price; more distressingly, the "long" positions we hold have tended to fall in price, sometimes as a result of forced selling by passive funds, or managers with a "value investing" bias losing mandates.

In many of our undervalued long positions, despite an ongoing building of value into the company over an extended duration, the return profile tends to be lumpy. Very lumpy. Like one day. On 3rd October 2019 to be precise, just after the end of the September 2019 quarter.

One of our mid-sized long positions – Webster Limited – being the equivalent of 5% of equity, has agreed to be acquired by PSP Investments, the C$170bn+ public service Canadian pension fund. The takeout price of A$2.00 per share represented a 57% premium on the prior day's sale price. It was the second takeover offer in the September quarter for shares we held at end June, adding to Dreamscape Networks, the domain name hoster and reseller. The agreed price for Dreamscape of $0.27/share contrasts with share purchases we made in December 2018 at $0.09.

Webster is perhaps the more instructive of the two. We first acquired Webster shares at $1.17 or so in June 2016; the shares had fallen sharply from >$1.80 in the wake of the significant expansion of assets through the 2015 acquisitions of Tandou and the Kooba aggregation. The shares have generally been stagnant in the mid $1.50's area, excluding a bout of enthusiasm in June 2018 and investors had clearly lost interest in the company.

This might be explained by two factors: a level of asset shuffling which had involved the purchase and sale of land/water assets in a bid to move the emphasis of Webster to the less drought impacted "south" and, of course, the drought itself.

However, underpinning Webster was its occasionally controversial investment in water rights. The company continued to generally add to the rights, other than through the sale of ~22,000ML (megalitres = 1,000,000litres) to the Commonwealth in mid 2017, and the disposal of ~61,000ML as part of the sale of Berangang in 2018. These sales effectively verified the non-balance sheet Directors valuations of the rights.

Throughout the period of our ownership, the market value of Webster's water rights entitlements continued to increase on a per megalitre basis, from ~$1,324/ML in late 2015, through $1,600/ML in mid 2016 and $2,278/ML in September 2018[3].

The Webster story was not just about water, but the ongoing development of their cotton growing, farming and walnut interests; but growth of these businesses is a "slow burn", and highly likely to be interrupted by natural forces such as climate. The result: a company with massive insider ownership and smart development being placed in the "too-hard" basket, but producing a 24%pa total return over the past two and a half years. Pretty much all of which came on the last day.

Investment companies and medium term asset situations

Given the successful unfolding of Webster after the quarter-end, we felt it instructive to document a number of other investment/asset holding securities within the portfolio where the expected future return is unlikely to come in a continuous fashion, rather far more lumpy.

Our investment company-type holdings break down into four categories:

- Externally managed conventional listed investment structures at hefty discounts to regularly stated NTA (e.g. PM Capital Global Opportunities Fund (PGF); Monash Absolute (MA1), both listed in Australia);
- Family controlled wealth creation vehicles with conservative long term goals, which include a significant operating asset (Exor, Gowing Brothers, E-L Corporation);
- Esoteric structures with a controller/manager (DTLA, Renn Fund, Fairfax India, Vulcan International); and
- Open register securities investing in illiquid assets (PICO Holdings)

In the environment prevailing until mid September, blowouts in the discounts to stated or estimated net asset values of certain of our holdings were a source of frustration and underperformance.

[3] The sale of 21,901ML to the Commonwealth in June 2017 from Lake Tandou was especially controversial given it occurred at a price of $3,561/ML, well above the Directors valuation and significantly in excess of the valuations postulated in the Independent Experts Report for Tandou published in April 2015.

It has been noteworthy that the mania surrounding Australian LIC's, rather than subsiding, has turned to near derision in some cases. This is leading to a number of corporate actions and activist behaviour designed to close up value gaps or force liquidation against hefty fee imposts for "me-too" investment strategies. PGF (disappointingly) have not used the blow-out in discount to 20% versus pre-tax NTA to repurchase equity; conversely, MA1 have announced an effective unitisation proposal which will see the company convert to a listed ETF. This has served to close the discount marginally, in a year of very strong performance, but cynicism over the speed of execution and existence of highly dilutive options is preventing a more aggressive re-rating.

We have always held the belief that having permanent capital available means that a far more esoteric/illiquid investment strategy can be pursued (in essence, that's the basis of East 72 itself). However, in these situations, care needs to be taken to retain liquidity to ensure discounts to NAV do not blow out.

The pieces below detail five quite different asset situations, attempting to show potential upside and the required catalysts. All have an element of growth and the assets are not stagnating. Two trade at HALF appraised value.

Long term stewardship now seems to be a negative!

In our Quarterly Report #8 for the period to 30 June 2018, we discussed the Jackman family controlled Canadian company, E-L Financial Corp (ELF.TO). At the time, the shares were trading around C$820 apiece, and we postulated that the real value of the company was closer to C$1395 a share, pre tax.

Fast forward fifteen months, and ELF shares are around 8.5% lower at ~C$751, but our assessment of pre-tax value has increased to between $1510-$1550. As a consequence, ELF now trades at half a realistic pre-tax value. Adjusting for estimated taxes yields a range of $1464 - $1478/share after tax - around 48% discounts to NAV.

ELF needs to be deconsolidated to break off the life insurance company Empire Life, and the listed United Corporations (UNC.TO); the broken down value is made up of six assets:

- Its own corporate cash and investments equating to about C$3.3billion;
- A 52% holding of the listed United Corporations Limited, an investment company;
- A 36.8% holding (partly via UNC) of Algoma Central, a shipper;
- A 24% holding of another investment company, Economic Investment Trust (EVT.TO) which itself owns 9.7% of ELF;
- 99.4% of Empire Life; and
- Other miscellaneous assets less debt.

Empire Life's larger peers – SunLife, Great-West Life Co and Manulife – trade at between 1.1x book value (Manulife) up to 1.57x (SunLife). Assuming a 1.3x book valuation – justifiable based on an improved profit trend at Empire over the past two years – would value the subsidiary at ~C$2.4billion, or C$605 per ELF share (versus carrying value of ~C$1.8billion or C$466/share to ELF).

The table below uses the 30 June 2019 filings with present prices for associates, EVT.TO and ALC.TO; it should be noted that UCL.TO trades at a 36% discount to stated NTA whilst EVT is arguably cheaper at a 30% discount to NTA but with 34% of net assets comprised of the 9.7% holding of ELF.

C$ 000's	At book value	per ELF share	At market value	per ELF share
investments/cash	3,298,451	$ 821	3,298,451	$ 821
UNC.TO (6.365m shares)	935,159	$ 233	596,435	$ 148
ALC.TO (10.4m shares, ex UNC)	144,450	$ 36	144,450	$ 36
EVT.TO (1.348m shares)	201,189	$ 50	139,490	$ 35
Empire Life	1,872,137	$ 466	2,433,778	$ 605
Other assets	17,402	$ 4	17,402	$ 4
TOTAL	6,468,788	$ 1,609	6,630,006	$ 1,649
liabilities	(104,358)	$ 26	(104,358)	$ 26
EQUITY	6,364,430	$ 1,583	6,525,648	$ 1,623
Preference shares	(300,000)	$ 75	(300,000)	$ 75
PRE TAX EQUITY	**6,064,430**	**$ 1,509**	**6,225,648**	**$ 1,549**
tax liability	(179,964)	$ 45	(286,676)	$ 71
NET EQUITY	**5,884,466**	**$ 1,464**	**5,938,972**	**$ 1,477**

The majority of investments within ELF, UCL and EVT are global equities, with a number of outside managers, so these are hardly stagnant assets. So what might close the gap between share price and assessed value?

Most obviously a share buy-back; however, the company and its associates stress the fact they do not retire equity and that discounts to net asset value are to be expected; however, acquiring EVT outright would make some degree of sense. It is, however, reasonable to note that the ELF discount is now at near extreme levels, whilst also being alert to the fact the patriarch of the family, Henry Jackman, is now 87 years old...

Distressed equity/mezzanine Los Angeles property exposure

We hold a suitably sized preferred stock exposure to the Brookfield DTLA Fund Office Trust Investor Inc (henceforth DTLA). This is a very different vehicle with total <u>and geared</u> exposure to the Downtown Los Angeles CBD office property market.

DTLA owns six office buildings and a retail centre; the office buildings comprise 7.2million sq.feet (670,000 sq.m) of space and represent around 30% of the LA CBD office market. They are owned in a structure partly bequeathed by the bankruptcy in 2013 of MPG Office Trust; MPG had a series of outstanding preferred shares (Series A 7.625% prefs) upon which dividends are cumulative but were not being paid. Brookfield's acquisition of the structure retained these rare listed preferred shares – there are just over 9.7million of them – and established a parallel set of preferreds wholly owned by themselves, and refinanced the debt structure.

The Series A 7.625% preferred shares (DTLA-P) trade at around $20; they have a par value of $25 but also have a further $18.08 of unpaid dividends accrued.

The $20 share price of the DTLA preferred shares prices the property holdings at a 5.6% yield, net of all expenses and property taxes on the current rental and occupancy structure; this can be discerned as follows, excluding minor working capital and cash:

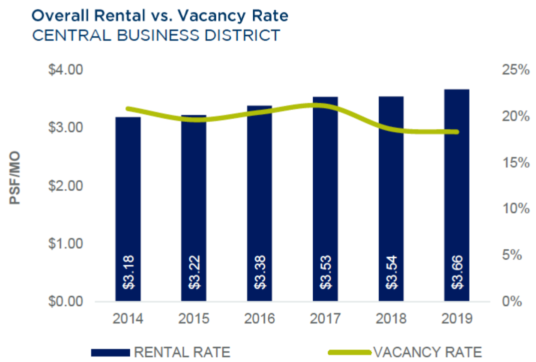
Credit rank	As at 30 June 2019	US$mn Market	US$mn "redemption"
1	Mortgage debt (recourse to individual properties)	2,143	2143
2	Senior B interest held by Brookfield	215	215
=3	Publicly traded DTLA-P (9.73m @ $20)	195	419
=3	Assumed parallel Series A1 prefs	195	409
	TOTAL	**2,748**	**3186**
	Annual revenue net of expenses	~154	

The attraction of the preferred shares is the possibility of the accrued dividend being paid out in the event of a significant additional restructure or corporate transaction. Transactions in the downtown LA market have taken place at levels supportive of a 4.8% net yield[4]

Brookfield in a May 2018 presentation[5] ascribed an estimated gross real estate value before costs and fees of $3.6billion to the portfolio, which would leave a residual value for the common equity of ~$440million. This may appear fanciful, but the environment for downtown Los Angeles office property is improving sharply.
Vacancy rates have dropped from ~21% to just above 18% over two years and rental rates appear to have stabilized. DTLA's vacancy rate at 30 June 2019 is marginally below market at 16.2%; a further 14% of leases expire between now and end 2021.

This modest rate of lease expiry is important insofar as DTLA has two significant debt liabilities upcoming:

- $220m in November 2019; and
- $765m in October/November 2020 with options to extend $500m of this for 1-3 years



In some ways, the debt repayments – whilst not mandatory – do act as a potential catalyst towards an all embracing refinancing. Brookfield have been supportive of DTLA through the Senior "B" interest which ranks ahead of the publicly traded preferred shares. This does raise the potential risk of Brookfield continually putting funds into the structure with prior ranking. However, in turn, this depletes the potential value of their parallel series A1 preferred interest, as well as their wholly owned common equity.

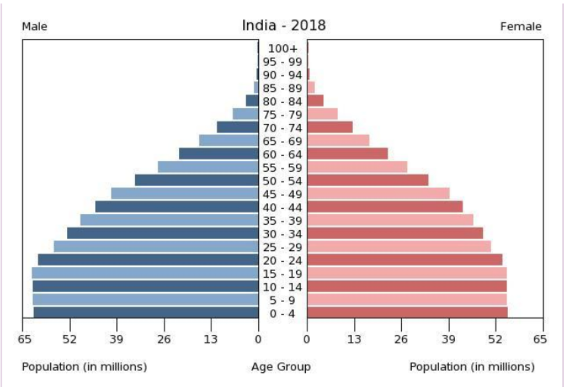
[4] Wedbush Building 1000 Wilshire sold by Lincoln Property to Cerebus Capital (86% leased) at cap rate of 4.8%
[5] DTLA Preferred Shareholder Market Update Presentation May 2018

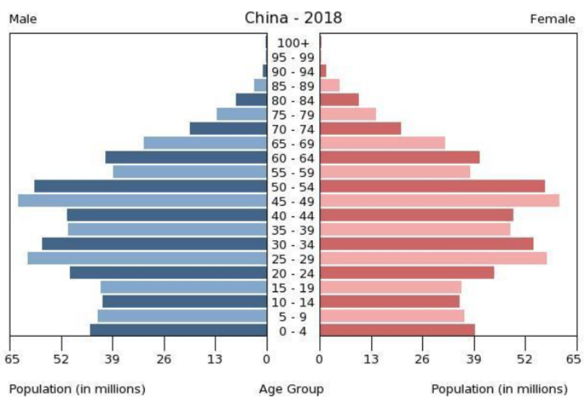
We view DTLA as a rare piece of distressed paper with significant upside through the repayment of all or part of the cumulative dividends and principal in the event of a portfolio sale. There is no guarantee that the preferred shares may not "transfer" with the structure; however, the fact the Brookfield preferreds would also be locked-in under that scenario suggests otherwise.

Investing in India via Toronto

Fairfax India was founded in 2014 by Prem Watsa, an Indian-Canadian billionaire who previously founded Fairfax Financial, as an investment company focused on India, with Fairfax Financial remaining as a controlling shareholder[6]. Unlike most of our other investment company holdings, it trades roughly at book value rather than at a substantial discount. Our investment thesis here rests more on the likely returns from these assets and the conservative valuation of some of the unlisted assets in the company, rather than a simple discount to book value.

Whilst it has well-publicised problems around corruption and excessive bureaucracy, the Indian economy, in contrast to much of the rest of the world, has one particular advantage: demographics. The best way to see this is visually; the below "population pyramid" shows India's population categorised by age;[7] it can be contrasted with the demographic position of the other large, rapidly-growing developing country in the world, China[8]:





Assuming the continued – and hopefully improving – functioning of the rule of law, a large and increasingly liberalising country with a young, relatively poor population should do well over the years from a macroeconomic perspective. Moving to the specifics of Fairfax India's investments, the company has a mix of listed and unlisted investments. The largest – and one of the most exciting – is a 54% equity holding in Bangalore airport, which has been built through a public-private partnership and is not listed.

[6] https://www.fairfaxindia.ca/corporate/Company-Profile/default.aspx
[7] https://www.cia.gov/library/publications/the-world-factbook/geos/ch.html
[8] https://www.cia.gov/library/publications/the-world-factbook/geos/in.html

It is growing impressively – for example, Bangalore saw 23.8% growth in passenger numbers in 2018-19[9], and is conservatively valued on the books at an EV/EBITDA (2017/18) of approximately 10[10], which compares very favourably with listed airports like Sydney Airport. In its latest valuation[11], Fairfax use after tax discount rates of 11.2% - 12.3% and a long-term growth rate of 3.5%, as well as discounting monetisable land values by 20% due to the leasehold nature of the asset; these appear conservative valuation practices.

Other investments include substantial holdings in companies in the financial, chemical and transportation sectors, some with potentially quite short-term "catalysts" to value realization. A large public shareholding has been IIFL Holdings, an integrated financial services firm which recently spun off IIFL Wealth – its wealth management business – and IIFL Securities – its investment brokerage and investment banking business – to its existing shareholdings in a non-cash transaction. At the time of Fairfax's last report these two were private companies but have just both been listed towards the end of September.

Overall, we view Fairfax India as a reasonably-priced way to get exposure to a high-growth emerging market managed by a quality manager with significant background and experience in that market. As mentioned above, it is trading roughly at book value rather than at a substantial discount, but we think this still renders it a good investment at these levels given the unique nature of some of the assets and the difficulties of investing in a market like India without specific experience.

Last train (from) Clarksville[12]

At recent prices of $135/share, Vulcan has an equity capitalisation of around US$123million. Its name comes from the small loss making $4million revenue "core business" of rubber, plastics and foam manufacturing company based in Clarksville, Tennessee. Until March 2004, it also used to make bowling pins.

That's obviously not the attraction. As these old-style activities suggest, this is an old-style company: It's effectively an asset hoarder, controlled by the Gettler family descendants of the former CEO, Benjamin Gettler, an ex-Chair of the Board of Trustees of the University of Cincinnati who died in 2013. It's also "old-style" insofar as the company is "dark" and traded on the OTC Market having ceased SEC filings in 2005. To acquire financials requires a letter, proof of shareholding and non-disclosure agreement to be lodged with Thomas Gettler, a lawyer based in New York.

9 https://economictimes.indiatimes.com/industry/transportation/airlines-/-aviation/bengaluru-airport-serves-33-30-million-passengers-in-2018-19/articleshow/68989814.cms?from=mdr

10 As it is unlisted, not all financial information is readily available. This calculation has been made using the 2017-18 financial year as this seems to be the most recent annual report publicly available (http://www.bengaluruairport.com/bial/pdf/Annual_Report_2017_18_1128247.pdf)..

11 https://s1.q4cdn.com/293822657/files/doc_financials/quarterly_reports/2019/FIH-2019-Q2-Interim-Report-(Final).pdf (See Fairfax India quarterly report)

12 The famous Last Train to Clarksville written for the Monkees in 1966 actually does NOT refer to this TN town, but was a made-up name.

Vulcan has the following series of assets:

- An approximate US$165million stock portfolio, of which ~$135m is in two stocks: PNC Financial ($93m) and US Bancorp ($43m);
- 14,300 acres of timberland on the Keweenaw Peninsula in Michigan, around 25miles south of Houghton;
- A "majority" interest in the top seven floors of the Cincinnati Club building in downtown Cincinnati, including 5,000 square metres of office space;
- A 6,400 square metre office building in Cincinnati acquired just under 15 years ago for $3.4million; and
- The 120,000 square metres of land upon which the eponymous factory stands in Clarksville, now up for sale[13].

Around a year ago, the controlling Gettler family announced that the Directors had resolved to liquidate the company. This may (or may not) have been influenced by the publication of the company's financial statements, previously constrained as described above, and increasing pressure regarding VULC's potential to be covered by legislation under the Investment Company Act which would have required significant disclosure. We were shareholders prior to this announcement and whilst pleased, were cognisant that the company works at its own pace.

The stock portfolio is highly liquid, but two of the illiquid assets – forestry and the Clarksville factory land - are now up for sale[14] [15]. Bids for the timberland are about to close, and we can gain some insight as to potential values by reference to another well-known "Pink Sheets" asset play, Keweenaw Land Association (KEWL). KEWL has an annual land appraisal, the most recent of which valued their 184,000 acres at $809/acre[16]; imputing this onto VULC would suggest a value of around $11.6million.

Cincinnati office vacancy rates are at their lowest (18%!!) in many years despite negative net absorption for over a year; asking CBD rents are ~$20/sq foot ($215/sq. m) but sale transactions have high yields in the 8% area. The buildings are quite specialist which may keep their values down say around a very conservative $5-$7million for the two. The Clarksville factory is assessed by the relevant county assessor at $3.9million

Piecing together these assets suggests a gross asset value (pre tax) of ~US$205/share and ~$166/share net of reduced tax liabilities, versus our entry price of ~US$115/share over the past twelve months. Like any "asset play", the time value of money is a relevant consideration as to the expense and time involved in a realisation. For the first time, there is a hint in the 18 September 2019 release that "the Company intends to commence stockholder distributions as promptly as practicable following the termination of environmental due diligence with respect to its Clarksville site. While such termination is anticipated to occur during the first half of 2020, the timing remains subject to any further developments".

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13 https://www.wkrn.com/news/nashville-2019/well-known-factory-in-clarksville-to-be-torn-down-in-hopes-of-creating-new-opportunities-for-city/
14 https://americanforestmanagement.com/real-estate/properties/vulcan-timberlands/2079
15 https://www.otcmarkets.com/stock/VULC/news/CORRECTION-FOR-IMMEDIATE-RELEASE?id=240805
16 "Summary Appraisal of KLAL" by James W Sewell Company (as at 31 December 2018) 14 March 2019

For accepting the risks inherent in an asset rich "dark" company, where others shining a light appears to have gained a result, the probable return is upwards of 25%pa over a roughly two year period.

PICO: A pure investment in water

PICO is an esoteric but highly under-priced US asset play, representing many of the crazy facets at play in investment markets at present, which leave selected securities vastly underpriced, viz:

- a slightly complex structure over one of the main assets,
- potential for forced selling by index-benchmarked funds as the company (rightly) repurchases shares at (in our view) around half asset value; and
- the necessity to have a little patience given the nature of the asset - water.

PICO Holdings (PICO) is a focused investor in water assets predominantly in the states of Nevada and Arizona in the US, with a (debt free) market capitalisation of US$210million, headquartered in Carson City, NV.

The company has a storied history, with significant Australasian involvement which began in 1993 with a $5m capital injection into Physicians Insurance Company of Ohio (Physicians) by GPG, the then investment vehicle of Sir Ron Brierley. Physicians was predominantly a medical malpractice insurer, with the value of the equity heavily levered to claims reserves. Some redundancy in the reserving, subsequent sale of the malpractice business and astute acquisitions enabled Physicians to grow, and complete a reverse merger with Citation Insurance in late 1996 which created the current listed vehicle. Over the following years, PICO evolved into an investment company, running off its insurance assets, taking full control of the water and land businesses in 1998, and growing book value at close to 9% per annum through the 2000's to peak in 2007 at ~$28/share.

From there, the story deteriorates badly with the sale of some long standing investments, establishment of a land and building company in California (UCP) in 2007 and a disastrous diversification into canola processing in 2010/2011. By end 2015, book value per share had nearly halved to just above $15, PICO had significant consolidated debt, and the shares stood below $10 from a $48 high in 2008.

Shareholder activism in 2015 and 2016 eventually saw the board regenerated and management terminated in late 2016; the sale of the stake in publicly listed UCP, via merger in April 2017 was achieved and a $5/share special dividend paid.

From the shareholder revolt in 2016, PICO is now laser-focused on the monetisation of its significant water holdings, through Vidler Water, which are mainly (not exclusively)comprised of a 51% interest in Fish Springs Ranch, servicing Nevada (mainly Reno and Dayton) plus a 100% interest in storage credits which act to service the Arizona market.

Water in this area is measured in acre-feet (AF) being one foot of water over one acre; this is equivalent to 325,851 gallons or 1,233,480 litres (1.233ML). Municipal rights (as opposed to agricultural water) have a prevailing market value around US$35,000/AF, prices at which Vidler has been able to monetise assets.

PICO/Vidler has essentially three sets of water assets servicing the Northern Nevada (Reno) market:

- Carson Lyon, south of Reno, with the equivalent of 1767 acre-feet;
- Truckee Surface water rights (299AF); and
- 51% equity of Fish Springs Ranch (8,000 municipal AF), with a preferred interest of ~US$185million resulting from contributions to build a pipeline and accrued interest.

At prevailing prices, the lesser assets appear to have a value around $70million; the interest in Fish Springs Ranch is worth some $233million ($185 preferred + $48m of equity).

In Arizona, the company owns “long term storage credits” – earned when surplus water from the Colorado River is stored underground for a year and entitling the holder to recover the water in the future as a one-time usage. The credits can be traded. Recent market prices for the credits are around $375/credit (representing an AF); PICO owns just over 290,000, worth an estimated $109million.

Adding up these three assets alone gives a value around $412million before the value of any real estate; along with $10million of cash, the company has an equity value of some $422million before costs.

All of the recent shareholder activism has seen a major reduction in head office costs, with a small office in Carson City (NV) running at an annual $5.5million. Assuming the full monetization of PICO – part shielded by $185million of Federal net operating loss carryforwards – over (say) a five year period, the net value of the company would be around $395million or $19.68 a share – about double recent prices of just under $10.

PICO has made respectable repurchases of its own stock up to levels around $11.50 per share in the past two years. This presents the ultimate conundrum for millennial and index tracker investors: are you willing to wait to see through the monetization, which could yield twice the prevailing share price over time (time will dictate your IRR of course) or do you sell out because the falling capitalisation from share repurchase will see the stock fall out of the S&P Small Cap index and potentially forced selling?

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STATISTICAL APPENDIX: QUARTER & FYTD TO 30 SEPTEMBER 2019

1. Monthly performance, exposure and NAV

	Investment return[17]	Cost imposition[18]	Net Return[19]	R12 Return	NAV/share pre tax (c)	Gross Exposure[20]	Net Exposure[21]
30 Jun 17				46.6%	35.5	276%	-6%
30 Jun 18				-18.8%	29.0	278%	81%
				R12 return			
31 Oct 18	-0.8%	-0.2%	-1.0%	-19.8%	26.2	217%	145%
30 Nov 18	-0.2%	-0.2%	-0.4%	-12.1%	26.0	233%	152%
31 Dec 18	-10.3%	-0.2%	-10.4%	-14.5%	23.2	243%	185%
31 Jan 19	9.1%	-0.3%	8.8%	2.6%	25.2	256%	138%
28 Feb 19	-1.7%	-0.4%	-2.1%	-12.9%	24.7	313%	90%
31 Mar 19	-3.3%	-0.5%	-3.9%	-18.1%	23.7	359%	48%
30 Apr 19	1.7%	-0.6%	1.1%	-20.2%	24.0	386%	43%
31 May 19	0.4%	-0.5%	-0.1%	-19.4%	24.0	382%	24%
30 Jun 19	-9.4%	-0.4%	-9.8%	-25.8%	21.6	395%	0%
31 Jul 19	-1.8%	-0.7%	-2.6%	-24.7%	21.1	413%	-13%
31 Aug 10	-7.9%	-0.6%	-8.5%	-26.0%	19.3	416%	-15%
30 Sep 19	0.9%	-0.6%	0.3%	-26.4%	19.3	415%	-31%

2. Equity exposure as at 30 September 2019[22] (as % month end pre tax shareholders funds):

	AUSTRALIA		OVERSEAS		TOTAL	
	percent	exposures	percent	exposures	percent	exposures
LONG	68.8%	15	122.9%	31	191.7%	46
SHORT	(10.7%)	4	(34.3%)	14	(45.0%)	18
INDEX/FUTURES	(75.2%)	-	(102.9%)	-	(178.1%)	
TOTAL	(17.0%)	19	(14.3%)	45	(31.3)	64

[17] Change in market value of all investments – cash and derivatives – after interest charges, dividends receivable, dividends and fees paid away divided by opening period net asset value and time weighted for equity raisings

[18] All accrued expenses for company administration (eg. listing fees, audit, registry) divided by opening period net asset value and time weighted for equity raisings

[19] Calculated as 2 (above) minus 3 (above)

[20] Calculated as total gross exposures being nominal exposure of all long and short positions (cash and derivative) divided by end month pre tax net asset value – assumes index ∂ of 1

[21] Calculated as total net exposures being nominal exposure of all long minus short positions (cash and derivative) divided by end month pre tax net asset value – assumes index ∂ of 1

[22] Figures may not sum due to rounding

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