

To: Investor Partners of Castlereagh Equity Pty Ltd

From: Peter Phan

Date: 31 May 2014

Re: Monthly Update

	Castlereagh Equity	ASX All Ordinaries	Relative Performance
1 November 2013 to 31 May 2014	-4%	0.5%	-4.5%

CE started on 1 November 2013. On the opening of trading that day, the ASX All Ordinaries was at 5420. On the date of this memorandum, the ASX All Ordinaries is at 5473, a 1% movement from its level of 5420 on 1 November 2013.

The CE portfolio has retreated slightly in the face of a slight market rise. Our portfolio of small unloved small caps were not invited to the party taking place with the banks and larger cap companies paying dividends such as Telstra. On the contrary, our shares that were purchased on the way down continued their way down. In that regard, yours truly here has a unique gift of timing purchases just before a 5%-10% drop in price, so I guess short term traders would benefit greatly in making opposite trades. The price performance is also expected, given that we are usually purchasing shares which have dropped quite substantially over the last 12 months, and these are shares susceptible to tax loss selling during this period of time.

We are not perturbed at all. The businesses being run by these companies have not changed a whit, and in actual fact, for most of them, we expect that underlying value is actually increasing.

It is times like these that fortitude and patience, on the part of both managers and investor partners alike, are essential in ensuring long term success of the fund. The opposite of these behavioural traits of fortitude and patience will guarantee underperformance by virtue of buying high and selling low. Over the coming years, it is a certainty that the fund will experience these periods of underperformance, over and over again. Therefore, I urge all investor partners to bear this message in mind- value investing works because it does not work all the time.

Cash levels remain at about 55%. During the month of May, we added three small positions to the portfolio. Each of these positions has characteristics similar to all other holdings, as detailed in our April 2014 memorandum. We made these purchases as we believe that these holdings will generate risk adjusted returns superior to cash over the short and medium term.

In the meantime, we are working diligently and we can confidently say that we have identified some wonderful businesses which are approaching fair price. As usual, we now wait for the price to come to us, and there is really no better time to wait for a good price than during tax loss selling season.

If any investor partner wishes to contact me to discuss this memorandum or any other matters related to CE, please do not hesitate to do so. Contact details can be found on CE's website.

Thank you for your trust and confidence in us.

Regards

Peter Phan

Director, Castlereagh Equity Pty Ltd