

To: Investor Partners of Castlereagh Equity Pty Ltd

From: Peter Phan

Date: 31 August 2014

Re: Monthly Update

	Castlereagh Equity	ASX All Ordinaries	Relative Performance	CE Net Asset Value
1 November 2013 to 31 August 2014	4%	3.7%	0.3%	104 cents

Since 1 November 2013, the XAO started at 5420 and ended at 5618 on 29 August 2014*, an increase of 3.7%. CE has managed to reel in the XAO's lead. Performance of the fund has roughly matched the XAO. There are two important points to note: firstly, CE fund was mostly in cash for most of the year, and secondly, we have calculated all fund inflows as if the funds were available at the start of the period, instead of accounting for the funds on various different dates on which they were made available to CE.

August is also the month when the majority of ASX listed companies publish their full year results. Given the investment philosophy of CE of part ownership of businesses, August is obviously a very important and busy month.

CE's cash component is currently 30%, the lowest it has been since inception of the fund. During the month of August, we departed from our usual restraint and went on a small shopping spree. We added to three positions after their full year results were published confirming our thesis, and we bought three new positions. The new positions share the same basic characteristics of the rest of the portfolio, namely high insider ownership, strong balance sheet with excess cash, good quality businesses and purchased at low to fair multiples of cashflow. We are also happy to advise that one of these positions is a wonderful business which we are quite likely never to sell. The position is still small at this stage and we are looking towards opportunities to accumulate more when attractive pricing opportunities arise.

Over long periods of time, which we define as 5 years or more, you will find that these monthly gyrations in the pricing of both the CE portfolio and the XAO are very insignificant to the overall picture. In the long run, the thing that counts the most is how well our businesses have performed, and the price which we paid.

Apart from market pricing of the portfolio, we are pleased to inform you that the intrinsic value of the CE portfolio has increased further after their latest financial results were published. All of our holdings generated excess free cashflow from operations, and this free cash has added to the value of the businesses and some portion of the cashflow will be allocated to CE as dividends. We further advise that some of our holdings are in beaten down sectors such as mining services, and the pessimism in this sector is reflected in lacklustre share price movements despite positive news and results. This will change in time. For example, CE holds a share which is trading at about two times free cashflow. This situation must either resolve itself by free cashflow turning negative or reducing significantly next year, or the price must increase. This is a classic low risk high reward set-up, such as to permit a situation of "heads I win a lot, tails I don't lose much." CE portfolio is structured much the same way, although collectively, not quite as extreme as this example.

The above is not intended to provide the impression that we take blind punts akin to lottery tickets. After all, lottery tickets do provide a situation where the losses are limited to the price of the ticket compared to the potential windfall earnings. The essential consideration, integral to our approach, is risk assessment. We always consider the amount of risks we undertake relative to the returns we are aiming to achieve. In future memorandums, I will have the opportunity to show clearly with real examples how this is achieved. The old saying that one cannot expect high returns without high risks is a myth, and from a mathematical viewpoint, a surefire guarantee for investment failure.

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

*29 August 2014 is the last trading day for August 2014, as 31 August 2014 falls on a Sunday.