

To: Investor Partners of Castlereagh Equity Pty Ltd

From: Peter Phan

Date: 30 November 2014

Re: Monthly Update

	Castlereagh Equity	ASX All Ordinaries	Relative Performance	CE Net Asset Value
1 November 2013 to 28 November 2014*	3.5%	-2.3%	5.8%	103.5 cents
1 November 2014 to 28 November 2014*	-2.4%	-3.8%	1.4%	103.5 cents

The XAO started at 5420 on 1 November 2013 and ended at 5298 on 28 November 2014. In percentage terms, this was a decline of 2.3% for the period of 13 months. On this basis, CE's performance of 3.5% is about 5.8% outperformance during the same period.

Taking things from the commencement of the second anniversary of CE, the XAO started at 5505 on 1 November 2014 and ended at 5298 on 28 November 2014. In percentage terms, the XAO decreased by 3.8% for the month of November 2014, whilst CE dropped to a lesser extent by 2.4%, resulting in a monthly outperformance of 1.4%.

Over an extended period of time, investor partners will realise that these short term monthly movements, whilst amusing for a statistician, are actually just random noise irrelevant to the big picture of long term wealth creation via compounding.

As at 28 November 2014, CE's cash component stands at 25%. In other words, we are underinvested in a falling market. Just as underinvestment in a bull market almost always guarantee underperformance, the reverse is now borne out, namely that surplus cash in the portfolio usually buffers market declines to give outperformance in a falling market.

More importantly, our surplus cash has now put us in a position to go shopping for shares at lower prices. Keeping our long term goals in mind, we really do prefer a Coles-style market of "lower prices every day", since this enables us to deploy capital at lower prices for better long term returns.

Once again, the small end of the market continues to underperformed the big end of the market. Over time, these differences will even themselves out. In the history of sharemarkets, whether it be the USA, UK or Australia, a temporary disparity in performance between different areas of the market will always mean revert ie converge back to a normal range. As such, we are not perturbed and we can patiently wait in the meantime. As we are not leveraged, we cannot be forced to sell at importune moments or at undesirable prices. Further, we can sleep comfortably at night with the knowledge that we own parts of good quality businesses with high insider ownership, strong balance sheets with excess cash, purchased at low to fair multiples of cashflow and trading at a significant margin to their true intrinsic values. More importantly, the intrinsic values of our businesses continue to increase with each passing day, with the majority of our businesses continuing to

increase their cash balance due to strong cashflows. Indeed, some of our businesses have so much cash that they are returning the cash to us via capital returns, buybacks or special dividends.

The quality of CE's portfolio is starting to show up in the numbers. Further, our diversification has also buffered the portfolio to a certain extent, as falls in the mining sector shares are more than compensated by good price performance from other shareholdings.

I also take this opportunity to remind all investor partners that the first performance calculation date will be 1 February 2015. The relevant performance period is the 15 months starting from 1 November 2013 and ending on 31 January 2015. The benchmark is 7.5%, being 6% per annum benchmark prorated for 15 months. Thereafter, subsequent performance calculation date will be on the 1st February every year.

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

*the trading month of November 2014 ended on Friday 28 November 2014, therefore 28 November 2014 is treated as the end of the month. Given the large market fall on 1 December 2014, CE's outperformance is actually better on Monday 1 December 2014 as CE's decline for the day is less than the XAO, and on an absolute basis, CE is still positive whereas the XAO is now in negative territory from the commencement levels of 5420 and \$1 for XAO and CE respectively.