

To: Investor Partners of Castlereagh Equity Pty Ltd

From: Peter Phan

Date: 31 December 2014

Re: Monthly Update

	Castlereagh Equity	ASX All Ordinaries	Relative Performance	CE Net Asset Value
1 November 2013 to 31 November 2014*	3.5%	-0.5%	4%	103.5 cents
1 November 2014 to 31 December 2014*	-2.4%	-2%	-0.4%	103.5 cents

The XAO started at 5420 on 1 November 2013 and ended at 5388 on 1 December 2014. In percentage terms, this was a decline of 0.5% for the period of 13 months. On this basis, CE's performance of 3.5% is about 4% 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 5388 on 31 December 2014. In percentage terms, the XAO decreased by 2% for this two month period, whilst CE dropped by 2.4%, resulting in an underperformance of 0.4%.

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 31 December 2014, CE's cash component is 20%. We have managed to deploy some funds to purchase stakes in an excellent global business with long term tailwinds at attractive prices. We have been watching and monitoring this company for quite some time, all the while remaining patient until we get the prices we are hoping for.

We finally got our desired prices because the company released some short term negative news, news which were largely expected. An opportunity was created because firstly, the drop in the share price of the company was way in excess of any possible impairment to the value of the business (if any), and secondly, the price at which the company shares were being sold at did not incorporate any improvements in the business over the long term, despite a track record of nearly 20 years.

We expect to keep this holding for a very long term, unless we get offered a price significantly in excess of intrinsic value, or we are presented with an alternative reinvestment opportunity with twice the potential returns, or circumstances emerge which significantly impairs the intrinsic value of the business.

As investor partners may be well aware, we are still in the process of building up a good quality portfolio of businesses on your behalf. This is an ongoing process which will be getting 100% of our attention and efforts. Good opportunities are scarce, and it is our job to remain alert and well prepared.

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