

**To: Investor Partners of Castlereagh Equity Pty Ltd**

**From: Peter Phan**

**Date: 30 September 2017**

**Re: Monthly Update**

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	Castlereagh Equity	ASX All Ordinaries	Relative Performance	CE Net Asset Value
1 November 2013 to 30 Sept 2017	53.8%	6%	47.8%	135.8 cents*
1 November 2013 to 31 January 2015	6.2%	2.4%	3.8%	106.2 cents
1 February 2015 to 29 January 2016	19.4%	-9.2%	28.6%	126.8 cents
1 February 2016 to 31 January 2017	19.7%	12.5%	7.2%	151.8 cents
1 February 2017 to 30 Sept 2017	1.3%	1.2%	0.1%	135.8 cents

To aid in understanding the tables above:

1. CE commenced on 1 November 2013 with shares issued at \$1 per share, backed by \$1 of cash per share.
2. The first row of the table above provides a summary of CE's performance since its commencement on 1 November 2013 until the date of this memorandum. It also compares CE's performance with the benchmark All Ordinaries index over the same period.
3. The second row of the table provides a summary of CE's performance for its first reporting period (15 months period from 1 November 2013 to 31 January 2015).
4. The third row of the table provides a summary of CE's performance for its second reporting period (12 months period from 1 February 2015 to 29 January 2016).
5. The fourth row of the table provides a summary of CE's performance for its third reporting period (12 months period from 1 February 2016 to 31 January 2017).
6. The fifth row of the table provides a summary of CE's performance for its fourth and current reporting period (period commencing 1 February 2017 to the date of this memorandum).
7. \*CE NAV is after payment of dividend and director fees in Feb 2017. These payments "resets" the NAV from 1.52 to 1.34.

The XAO started at 5420 on 1 November 2013 and ended at 5745 on 30 September 2017. In percentage terms, the XAO gained 6% for the 47 months period since the start of the CE fund. CE's performance over the same 47 months period is 53.8%.

For the month of September 2017, the XAO was slightly down. The CE portfolio was up 2.5% for the month.

The cash component of the CE fund is approximately 13%.

## Shares as the best investment asset class

There are people who deal in other asset classes eg bonds, gold, futures, fixed income, or a mixture. Financial advisers usually preach the value of diversification, recommending that investments be split into various asset classes such as property, cash, gold, bonds, etc. There are also investors who rotate between different asset classes in the quest for superior returns.

I only invest in shares. The reason for this is because historically, shares have proven to be the best asset class by a country mile (over 500x country miles compared to the next best asset- to be precise). Please refer to Li Lu's speech of 2015 at Peking University for links to the evidence. Note: I am in the process of putting up the translated version of Li Lu's speech on the CE website. If any investor partner wishes to have a copy of this speech, please email me.

That is hindsight and history. What about the future? How do we know that shares will continue to be the best investment asset class? To answer this, we need to understand the reason why shares have performed as it did. My simple answer is because of humans' unlimited wants and needs, and the collective desire to satisfy these wants and needs.

Business is in essence trade, where goods and services are produced and exchanged. Money became the intermediary because pure barter of physical goods has limitations. However, the basic idea of exchange of goods and services remain. These goods and services are continuously produced because there is demand to satisfy wants and needs, which at present, appears to be almost limitless.

As time goes by, with technology and human ingenuity, we become more efficient in the production of goods and services. Output per unit of resource input goes up, and high value goods/services available to only a select few became commoditised low value goods/services available to the masses. Witness horse-drawn carriages versus the motor vehicle, physical mail and email, steam engines and electric engines, black and white TV and current HD projectors, and endless other examples. As Bill Gates remarked, in the end, everything becomes a toaster. Whilst this may be disastrous for investors, humankind reaps enormous benefits from cheaper and greater availability of commoditised goods.

As one particular need is satisfied, the world moves on the next, an expensive high tech good/service emerges, gets cheaper via mass production and distribution, and the cycle gets repeated ad nauseam. This explains why share market indices, as a proxy for the value of businesses and also a proxy for total production of goods and services, marches up relentlessly decade after decade. This is aided by increasing population growth.

This is basically my argument as to why shares is the best investment asset class, and plausible reasons why this will continue into the future, in comparison with other asset classes such as property, gold, bonds, or cash.

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.

Thank you for your trust and confidence in us.

Regards

Peter Phan

Director, Castlereagh Equity Pty Ltd