

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

**From: Peter Phan**

**Date: 29 March 2018**

**Re: Monthly Update**

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	Castlereagh Equity	ASX All Ordinaries	Relative Performance	CE Net Asset Value
1 November 2013 to 29 Mar 2018	62.5%	8.3%	54.2%	137.5 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 31 Jan 2018	9%	8.3%	0.7%	146 cents
1 Feb 2018 To 29 Mar 2018	-1%	-4%	3%	137.5 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 and Feb 2018. These payments "reset" the NAV from 1.52 to 1.34 in Feb 2017 and from 1.46 to 1.39 in Feb 2018.

The XAO started at 5420 on 1 November 2013 and ended at 5869 on 29 March 2018. In percentage terms, the XAO gained 8.3% for the 52 months period since the start of the CE fund. CE's performance over the same 52 months period is 62.5%.

For the month of March 2018, the XAO was down 4%. The CE portfolio was down 1% for the month.

The cash component of the CE fund is just under 36%.

I did some trimming and topping up around the edges, but made no major moves this month. In anticipation of the upcoming tax loss selling season, I am looking at several opportunities where we can purchase average decent businesses for low single digit multiples of cashflow. These opportunities are presenting themselves because the majority of market participants are clambering over each other in their quest to hop onto the next hot tech or cannabis stock, and ignoring staid fuddy-duddy businesses.

I am also currently conducting due diligence on a stock that is listed overseas. It is a behemoth company that Buffett will classify as an Inevitable. It is still priced richly at nearly 50x historical earnings, so it is quite unlikely that we will purchase stock at the moment. However, if the right price presents itself, I intend to purchase a large position for CE as a long term core portfolio holding.

### **My Job**

For the benefit of our new investor partners, I reiterate the following:

My job is to find and buy, at sensible prices, part interest of businesses whose earnings are virtually certain to go up in the future.

Our main objective is to obtain stakes in wonderful businesses capable of growing earnings at a high rate without requiring more capital from shareholders. Such businesses usually (but not always) manifest themselves via high returns of capital or equity. Buffett mentioned these superstars in 1986. I have a roster of the ASX counterpart of these superstars, and I study and research them intensely whilst we wait for opportunities to purchase them at sensible prices. Refer Li Lu's principles 2 and 3.

Whilst waiting, we also invest in a diversified portfolio of average businesses trading at low prices (aka Walter Schloss method), as long as our expected risk adjusted returns are better than cash.

### **Portfolio**

The following are brief summaries of some of our major holdings at present:

1. A small regional bank overseas;
2. A provider of IT products and services;
3. A manufacturer and distributor of products in the dental industry;
4. An online advertiser;
5. A small financial planning and funds administration business;
6. A domestic formworks and scaffolding company;
7. A travel solutions retailer;
8. A medical billing and solutions provider;
9. A premium serviced office operator;
10. A small medical device company;
11. A mobile content distributor and mobile banking solutions provider;
12. A medical diagnostic service company;
13. A cold-chain logistics company.
14. A variety of companies in printing, manufacturing, distribution, forestry, construction, defence.

Attentive readers may wish to compare this list with the list set out in our April 2016 and April 2017 memorandums.

Thank you for your trust and confidence in us.

Regards

Peter Phan

Director, Castlereagh Equity Pty Ltd