

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

**From: Peter Phan**

**Date: 31 October 2018**

**Re: Monthly Update**

---

	Castlereagh Equity	ASX All Ordinaries	Relative Performance	CE Net Asset Value
1 November 2013 to 31 Oct 2018	60.7%	9.1%	51.6%	135.7 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 February 2018 to 31 Oct 2018	-2.4%	-3.8%	1.4%	135.7 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 5913 on 31 October 2018. In percentage terms, the XAO gained 9.1% for the 59 months period since the start of the CE fund. CE's performance over the same 59 months period is 60.7%.

For the month of October 2018, the XAO dropped by 6.5%. The CE portfolio was down 4% for the month. The CE portfolio is now ahead of the XAO, however, disappointingly, still remains in negative

territory. Whilst it is scant comfort, the CE portfolio is behaving exactly how we intended it to, namely to try and keep pace in a rising market and to decline less during market downturns, leading to overall superior returns over an extended period of time.

The cash component of the CE fund is just over 22%. Some interesting opportunities are starting to emerge, however, by and large, we still feel that prices are too high. As I have often quipped, a lettuce discounted from \$10 to \$5 is not really a bargain.

October month was just business as usual with our portfolio of businesses. Some holdings are still in turnaround phase. However, the majority of our businesses are reporting steady improvements in their businesses. Given the prices at which we acquired our holdings, business as usual is very good news for CE. The improvements are just icing on top.

Nevertheless, if we were to observe share price fluctuations of our holdings during wild October, we would be getting the impression that our group of businesses were experiencing wild swings in their operations and value. For the month of October, the CE portfolio experienced a swing of nearly 10% from top to bottom. Some of our holdings experienced price swings exceeding 20%, and in one notable case this month, the share price of one of our shares exhibited a 100% upswing followed a downswing of equal magnitude, all in the space of two trading days.

Bearing in mind Li Lu's principles of investing, it is plain that taking guidance from share price fluctuations to operate an investment operation is a futile effort (or perhaps, an endeavour way beyond my skillsets at present). The simple truth is that if our businesses, acquired at sensible prices, are doing well, then we will be rewarded over time. The converse will also hold true. In that sense, we earn what we deserve.

Thank you for your trust and confidence in us.

Regards

Peter Phan

Director, Castlereagh Equity Pty Ltd