

To: Investor Partners of Castlereagh Equity Pty Ltd

From: Peter Phan

Date: 30 April 2019

Re: Monthly Update

	CE	CE ex-fees	XAOA	CE ex fees vs XAOA	XAO	CE vs XAO	CE Net Asset Value
1 November 2013 to 30 April 2019	91%	81.9%	49.6%	32.3%	18.4%	72.6%	166 cents*
1 November 2013 to 31 Jan 2015	6.2%	6.2%	7.7%	-1.5%	2.4%	3.8%	106.2 cents
1 February 2015 to 29 Jan 2016	19.4%	16.4%	-4.7%	21.1%	-9.2%	28.6%	126.8 cents
1 February 2016 to 31 Jan 2017	19.7%	16.3%	17%	-0.7%	12.5%	7.2%	151.8 cents
1 February 2017 to 31 Jan 2018	9%	8.3%	13%	-4.7%	8.3%	0.7%	146 cents
1 February 2018 to 31 Jan 2019	0%	0%	0.6%	-0.6%	-3.4%	3.4%	139 cents
1 February 2019 to 30 April 2019	20%	18%	9.5%	8.5%	8.1%	11.9%	166 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 (XAO) and the All Ordinaries Total Return Index (XAOA) 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 (and subsequent rows) provides a summary of CE's performance for its reporting period (12 months period from 1 February to 31 January).
5. The last row of the table provides a summary of CE's performance for its current reporting period (period commencing 1 February 2019 to the date of this memorandum).

6. *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, from 1.46 to 1.39 in Feb 2018, and from 1.39 to 1.39 in Feb 2019.

The XAO started at 5420 on 1 November 2013 and ended at 6418 on 30 April 2019. In percentage terms, the XAO gained 18.4% for the 66 months period since the start of the CE fund.

The XAOA started at 44054.2 on 1 November 2013 and ended at 65925 on 30 April 2019. In percentage terms, the XAOA gained 49.6% for the 66 months period since the start of the CE fund.

CE’s performance over the same 66 months period is 71%.

For the month of March 2019, the XAO gained 2.5% and the XAOA gained 2.5%. The CE portfolio gained 13.7% for the month. A rising tide lifts all boats. Our CE boat is no exception. However, it is my job to ensure that we are properly dressed when the tide runs out.

The cash component of the CE fund is 14%.

As if to underscore my reluctance to discuss CE’s portfolio positions publicly, we ran into a profit downgrade from FLT this month. The subsequent price decrease impacted the CE portfolio by about 0.4% and counting.

You may remember that I have mentioned FLT in my previous memorandum and that I have added a bit to the CE portfolio at prices below \$40. As expected, FLT is currently experiencing challenges in the leisure segment. At the same time, FLT’s overseas businesses continue to grow at a rapid clip. Given these two conflicting data points, Mr Market is now in two minds as to the future of FLT. There is a constant worry that FLT’s problems is systemic rather than temporary in nature. This is in essence the ultimate issue as to the relevance of FLT’s network of physical shops.

My take on the situation is that the market is very short term in nature, and at this point, the most vivid evidence being focussed upon is the ANZ leisure business. If one is to give heavy weighing to this most recent evidence, and extrapolate that into the future, the conclusion is that FLT’s leisure travel business will eventually be destroyed by competitive forces in the market. Given that ANZ leisure business is responsible for more than half of FLT’s earnings, this may appear disconcerting. However, the picture changes drastically if one were to consider a 5 to 10 year view and the probable scenarios that may possibly arise in respect of FLT’s business, especially the corporate business in the USA and UK. I will leave it at that for the moment. Given that we are now into the tax loss selling period, I am in no hurry and will just patiently wait for better prices.

Thank you for your trust and confidence in us.

Regards

Peter Phan

Director, Castlereagh Equity Pty Ltd