

To: Investor Partners of Castlereagh Equity Pty Ltd

From: Peter Phan

Date: 31 August 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 31 August 2019	98%	87.5%	58.4%	29%	23.5%	74.5%	173 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 31 August 2019	24.5%	21.4%	16%	5.4%	12.8%	11.7%	173 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 6694 on 31 August 2019. In percentage terms, the XAO gained 24.5% for the 70 months period since the start of the CE fund.

The XAOA started at 44054.2 on 1 November 2013 and ended at 69797 on 31 August 2019. In percentage terms, the XAOA gained 58.4% for the 70 months period since the start of the CE fund.

CE’s performance over the same 70 months period is 98%.

For the month of August 2019, the XAO lost 2.9% and the XAOA lost 2.2%. CE gained 4.2% for the month.

The cash component of the CE fund is 21.5%.

It was a satisfactory reporting season as far as the CE portfolio is concerned. There were no major unexpected disasters. By and large, our portfolio companies’ businesses continued to performed well. Flight Centre (FLT) pleasingly confirmed our thesis, with the USA and EMEA regions returning a profit before tax of nearly \$200m. This was up 33% from the previous year, and these two regions are now contributing more to profits than the ANZ region, and still growing by a rapid clip. To put this into perspective, the USA and EMEA regions have a total addressable market of over several hundred billions in USD (and still growing). FLT is currently capturing less than \$10b of that market. Further, there is also ample space to expand in terms of margins.

In August, we were also given an opportunity to have another bite of the cherry with Clydesdale Bank (CYB). To recap, we bought CYB at about \$4 shortly after it was demerged from NAB. Despite the intervening Brexit decision, we managed to sell CE’s holdings at prices above \$6 at the time when CYB announced a merger with Virgin Money UK. Since the merger, the market has sold down CYB to prices below \$3. In effect, Mr Market is saying that CYB before the merger with Virgin is worth more than the value of the merged entity. This is utter nonsense. At current prices, CYB (and most other UK banks) is trading at less than 40% of its book value. We do not really need anything spectacular to happen to do well out of this investment.

Frustratingly, all of our quasi-cash investments have not concluded in August. So we continue to wait.

Thank you for your trust and confidence in us.

Regards

Peter Phan

Director, Castlereagh Equity Pty Ltd