

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

**From: Peter Phan**

**Date: 31 December 2019**

**Re: Monthly Update**

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	CE	CE ex-fees	XAOA	CE ex fees vs XAOA	XAO	CE vs XAO	CE Net Asset Value
1/11/13 to 31/12/19	166%	144%	63%	81%	25.5%	140.5%	241 cents*
1/11/13 to 31/1/15	6.2%	6.2%	7.7%	-1.5%	2.4%	3.8%	106.2 cents
1/2/15 to 29/1/16	19.4%	16.4%	-4.7%	21.1%	-9.2%	28.6%	126.8 cents
1/2/16 to 31/1/17	19.7%	16.3%	17%	-0.7%	12.5%	7.2%	151.8 cents
1/2/17 to 31/1/18	9%	8.3%	13%	-4.7%	8.3%	0.7%	146 cents
1/2/18 to 31/1/19	0%	0%	0.6%	-0.6%	-3.4%	3.4%	139 cents
1/2/19 to 31/12/19	73%	58%	19%	39%	14.5%	58.5%	241 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 6802 on 31 December 2019. In percentage terms, the XAO gained 25.5% for the 74 months period since the start of the CE fund.

The XAOA started at 44054.2 on 1 November 2013 and ended at 71814 on 31 December 2019. In percentage terms, the XAOA gained 63% for the 74 months period since the start of the CE fund.

CE's performance over the same 74 months period is 166%.

For the month of December 2019, the XAO dropped 2.1% and the XAOA dropped 1.9%. CE gained 6.6% for the month.

The cash component of the CE fund is 22.5%.

We initiated a further 4% position in a new name in December. As usual, I stole the idea from another well respected private investor. This company operates in the medical software services space. The business has a global market, and the technology is validated via the support of reputable channel partners and long term sticky customers. The business generates surplus cash with good margins, and as with most software business, it is highly scalable. The present market valuation reflects the starting point of the business from a low base, but does not yet incorporate any premium for growth. A potential risk at present is the capability and motivations of management and the board. As such, I have decided to keep the position small and watch their actions closely.

In relation to our quasi-cash positions, Salmat (SLM) announced the sale of its remaining business for AUD\$100m. Settlement is expected to take place in late February 2020. After payment of taxes in the Philippines and transaction costs, the company should have roughly \$170m of cash together with about \$20m of franking credits available for distribution to shareholders. After less than 2 years since our initial investment, we expect to generate total returns on capital of approximately 80% for our holding in SLM.

We say goodbye to 2019 which has been extremely generous to the CE portfolio. We look forward to 2020 with further significant progress expected to be delivered by the businesses within the CE portfolio.

Happy New Year and thank you for your continued trust and confidence in us.

Regards

Peter Phan

Director, Castlereagh Equity Pty Ltd