

To: Investor Partners of Castlereagh Equity Pty Ltd

From: Peter Phan

Date: 31 January 2020

Re: Monthly Update

	CE	CE ex-fees	XAOA	CE ex fees vs XAOA	XAO	CE vs XAO	CE Net Asset Value
1/11/13 to 31/01/20	154%	133.6%	71%	62.6%	31.7%	122.3%	229 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 31/01/20	65%	51.7%	25%	26.7%	20.3%	44.7%	229 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 7140 on 31 January 2020. In percentage terms, the XAO gained 31.7% for the 75 months period since the start of the CE fund.

The XAOA started at 44054.2 on 1 November 2013 and ended at 75179 on 31 January 2020. In percentage terms, the XAOA gained 71% for the 75 months period since the start of the CE fund.

CE's performance over the same 75 months period is 154%.

For the month of January 2020, the XAO gained 4.7% and the XAOA gained 4.9%. CE dropped 5% for the month.

The cash component of the CE fund is 25%.

The Year In Review, Recap and Looking Forward

We got extremely lucky in the last 12 months. The CE portfolio was nudging at 80% during the early part of January 2020 before it was pegged back to a more modest 65% by the end of this month, with most of the losses occurring over the last 3 trading days. It was a period where nearly every position worked in our favour. This is in stark contrast to the preceding 12 months where virtually nothing worked out.

Nevertheless, pride often comes before the fall. In the context of a long term investment strategy, it is more sobering to look at figures over an extended period. For the last 3 years, the CE portfolio averaged 21.6% per annum on a compounding basis. This is only about 7% per annum of outperformance over the XAOA. Good but nothing to write home about.

Stretching things out over the last 6 years, the CE portfolio averaged 16.8% per annum compounding. Oddly enough, this works out to be the same 7% per annum of outperformance over the XAOA. This is before director fees, which further reduces the outperformance to just over 5% per annum. And then we come to taxes....

In summary, despite a stellar year, the CE portfolio over the last 6 years is roughly performing as intended, nothing more.

As to company specific issues, there were nothing of much significance over the last month in terms of business developments. We continue to be net sellers of stocks which have exceeded my estimation of fair value.

None of our quasi cash positions were concluded and we continue to wait. On the whole, valuations remain quite elevated and opportunities within my circle of competence remain scarce.

Portfolio characteristics for CE

For the last 12 months, CE's portfolio turnover (calculated as Total Value of Sells divided by Average of Portfolio Market Value) is a very high 35%. This implies a holding period of just under 3 years, hardly the stuff of long term investing. As some of you might have deduced, we were very heavy net sellers during this period as we continue to liquidate positions which has appreciated in price far in excess of fair value.

Once again, taking figures over a longer period of 6 years yield a turnover value of roughly just under 15% per annum. This implies average holding period of 6.6 years.

Housekeeping

As per our IM principles, we will be declaring a fully franked dividend to an extent sufficient to “stream” all current franking and tax credits back to investor partners. The dividend will be automatically reinvested at the prevailing NAV on 1 February 2020.

We will also be calculating directors fees payable and intend to pay these fees on or effective 31 January 2020.

Thank you for your trust and confidence in us.

Regards

Peter Phan

Director, Castlereagh Equity Pty Ltd