

To: Investor Partners of Castlereagh Equity Pty Ltd

From: Peter Phan

Date: 28 February 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 28/02/20	140%	119.6%	57%	62.6%	20.1%	120%	196 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
1/2/20 to 28/2/20	-6.7%	-6.7%	-8.1%	1.4%	-8.8%	2.1%	196 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 calendar month February of each year. These payments "reset" the NAV as follows:
 - (a) 1.52 to 1.34 in Feb 2017,
 - (b) 1.46 to 1.39 in Feb 2018,
 - (c) 1.39 to 1.39 in Feb 2019.
 - (d) 2.29 to 2.10 in Feb 2020.

The XAO started at 5420 on 1 November 2013 and ended at 6511 on 28 February 2020. In percentage terms, the XAO gained 20.1% for the 76 months period since the start of the CE fund.

The XAOA started at 44054.2 on 1 November 2013 and ended at 69106 on 28 February 2020. In percentage terms, the XAOA gained 57% for the 76 months period since the start of the CE fund.

CE's performance over the same 76 months period is 140%.

For the month of February 2020, the XAO dropped 8.8% and the XAOA dropped 8.1%. CE dropped 6.7% for the month.

The cash component of the CE fund is 33%. We do not have a set policy in terms of maintaining a certain percentage of the portfolio in cash. CE's cash position levels at any one time is merely a byproduct of the number of actionable ideas I have.

Market Volatility and Reporting Season

By and large, there were not a whole lot of surprises during reporting season. Some of our companies reported stellar results eg ICS and DTL. Some reported slightly disappointing results. Overall, it was a positive for the CE portfolio as our companies continue to increase in value.

However, the share prices tell a slightly different story. In the main, with few exceptions, prices were down across the board. I would like to remind all investor partners that lower prices should be celebrated rather than bemoaned. Mr Market is now giving us the opportunity to purchase income streams at a lower price.

We welcome a number of new investor partners into CE for the month. A down month at inception is not particularly pleasant. In these circumstances, it is worthwhile to remember that for an investment program spanning a number of years, the level of returns from the CE portfolio will be determined by only two factors- 1) the total sum of earnings from the portfolio companies 2) the price we paid for them. In other words, we will earn exactly what we deserve.

KPT- a question of principle and consistency

A number of investor partners have inquired as to CE's holding in KPT. Briefly, KPT's main assets comprise of timber plantations in Kangaroo Island. 90% of trees in these plantations were destroyed during recent bushfires. A few fund managers with significant holding in KPT have written down the value of their holdings in light of these developments.

I have made a decision to mark KPT at the last traded price. I have done so for the following reasons:

- 1) Materiality- our KPT position makes up less than 2% of total portfolio. Given that KPT has recourse to insurance to buffer their losses, the pending status of the wharf approval process, the value of the damaged timber, and the regrowth potential of the plantations, in my view, it is highly unlikely that the total value impairment will exceed 1% of total CE portfolio.
- 2) Consistency- since inception, we have always marked positions at the last traded price. The nature of some of our illiquid holdings is such that even the bid-ask spread could comprise a not-insignificant percentage of the CE portfolio. I am loathe to shift the goalposts unless there is a compelling reason to do so. As per our IM principles, all investors (present and

future) have the right to expect that all rule and policies will be applied consistently. This bring us to the last important reason;

- 3) Objectivity- the last traded price of a stock is an objective measure that can easily be confirmed and validated. This removes management discretion and judgment on an issue that can easily be subjected to self-interested incentives. For example, let's imagine that on 31 January 2020 (being the last day which books are closed for purposes of director fees assessment) after the close of trading, one of our portfolio companies made a very positive announcement (eg KPT wharf obtained approval, or FDA approval was granted for a drug owned by one of our companies, or a takeover offer came in at a price way above the last traded price), should management be allowed to mark up the price?

We earn what we deserve. I repeat that for an investment program spanning a number of years, the level of returns from the CE portfolio will be determined by only two factors- 1) the total sum of earnings from the portfolio companies 2) the price we paid for them. Importantly, this is applicable to BOTH investor partners and directors of CE.

Thank you for your trust and confidence in us.

Regards

Peter Phan

Director, Castlereagh Equity Pty Ltd