

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

**From: Peter Phan**

**Date: 31 July 2020**

**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 31/7/20	144%	124.3%	47%	77.3%	11.8%	132.2%	200 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 31/7/20	-4.8%	-4.8%	-13.6%	8.8%	-15.1%	10.3%	200 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 6058 on 31 July 2020. In percentage terms, the XAO gained 11.8% for the 81 months period since the start of the CE fund.

The XAOA started at 44054.2 on 1 November 2013 and ended at 64941 on 31 June 2020. In percentage terms, the XAOA gained 47% for the 81 months period since the start of the CE fund.

CE's performance over the same 81 months period is 144%.

For the month of July 2020, the XAO gained 1% and the XAOA gained 1%. CE gained 3% for the month.

The cash component of the CE fund is just over 20%.

### **Portfolio Activities, Characteristics and Comments**

We reached closure for SLM with a capital return of 66.5 cents approved at EGM and payable in mid August 2020. We initiated our position in SLM as a quasi-cash replacement in September 2017. Our average costs base is 55 cents per share. We received fully franked dividends totalling 28 cents (grossed up to 39 cents). Our capital gain amounted to 11.5 cents, giving us a total gain of 50.5 cents. Our returns total 92% in a period just under 3 years, giving us a compound annual rate of 24%. As a quasi-cash replacement, this holding has achieved its purpose.

SIV is another one of our quasi-cash positions nearing completion. SIV reported healthy cashflows over the last COVID affected quarter. Total cash balance is nearing \$12m as at 30 June 2020, which is sufficient to allow for another 30 cents per share of capital return. There is also significant franking credits totalling \$25m sitting on the balance sheet, which may boost returns if management can find a way to release them. On the other hand, there is an undetermined liability of ASIC fines, penalties and remediation. We expect this position to substantially conclude within the next 12 months.

Aside from our quasi cash positions, I have not had much opportunity to comment specifically on our major portfolio positions (a policy set out in our IM principles). I will attempt to provide investor partners with a general overview.

We have 5 major holdings. These holdings together constitute roughly 60% of the CE portfolio. 3 of the holdings are operating at the intersection of healthcare and information technology (including artificial intelligence), the fourth is involved in the payments industry and the fifth is a new position in the chemical technology industry.

We also hold smaller positions in 5 companies operating respectively in education technology, regulatory environmental technology, UK banking, financial services, and real estate development. These positions constitute roughly another 10% of the CE portfolio.

This is a relatively concentrated portfolio. Accordingly, I expect that it will be much more volatile compared to our benchmark indices. Volatility is the price we pay in return for (hopefully) higher returns over the long run.

After a topsy turvy July, we now enter August which is reporting season. With the exception of discrete segments such as online retailers, we do not expect to see rosy numbers. The businesses within the CE portfolio will not be exempt from this downturn, although we do not expect the impact to be overly severe or permanent.

Thank you for your trust and confidence in us.

Regards

Peter Phan

Director, Castlereagh Equity Pty Ltd