

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

**From: Peter Phan**

**Date: 31 December 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 31/12/20	210%	184.5%	69%	115.5%	26.4%	183.6%	266 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 31/12/20	26.6%	21.5%	-1%	22.5%	-4%	30.6%	266 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 6850 on 31 December 2020. In percentage terms, the XAO gained 26.4% for the 86 months period since the start of the CE fund.

The XAOA started at 44054.2 on 1 November 2013 and ended at 74424 on 31 December 2020. In percentage terms, the XAOA gained 69% for the 86 months period since the start of the CE fund.

CE's performance over the same 86 months period is 210%.

For the month of December 2020, the XAO gained 1.6% and the XAOA gained 1.8%. CE gained 13.2% for the month.

The cash component of the CE fund is just under 18%.

During December, some of our larger holdings reported positive news and their share prices improved accordingly. Towards the later part of the month, one of our larger holdings announced the sale of their major business. At this point, without any further information, the sale price appears to leave a lot of upside for the acquirer. If the transaction goes ahead and capital is returned to shareholders, then this position will be finalised with a decent profit. I will need to figure out a place to redeploy the proceeds (less any taxes on gains). Not ideal, but it could be worse.

In a month where the madness continues with momentum and darling stocks such as Afterpay, we were net sellers. Unfortunately, the cash raised from our sales is starting to pile up as there are no opportunities to redeploy due to generally elevated prices. To a certain extent, my limited circle of competence has also restricted reinvestment opportunities. This shortcoming is being addressed by continual research to fill in and expand our knowledge base.

A couple of reflections after a tumultuous year and a couple of issues I will be reflecting on over the break.

Firstly, the pendulum of life swings back and forth between extremes. Our era is no exception, despite Bitcoins and Tesla. For example, after nearly 3 decades of dominance, we are now seeing increasing pushbacks and actions against Big Tech such as Facebook, Google and Amazon. Even Ant Financial/Alibaba received a big smackdown from the Chinese government. This is nothing new under the sun. Same thing happened in the past with Standard Oil and Bell.

Zooming further out, after nearly 3 decades of relative calm since the USSR spontaneously disintegrated, we are headed into 2021 with an increasingly aggressive China getting into conflict with the West. The consequences of increasing conflicts and tensions between two major superpowers is not foreign to someone of my generation. Escalation of tensions will necessitate a rethink of many things we have taken for granted in our recent past.

Secondly, life is full of paradoxes. We are told that the only constant is change. We have experienced what appears to be major changes within our relatively short lifetimes, such as the development and miniaturisation of personal communication and computing devices, sequencing of the human genome and various medical breakthroughs. Yet, in terms of science, humans have not had any major or fundamental advances for decades, with the last (arguably) significant advancements being the Internet and the discovery of the Higgs boson particle.

Paradoxes are a constant in life. Paradoxes are important because their existence often points to some lacuna (aka “holes”) within our body of knowledge. Bear in mind what Mark Twain once said: “it ain’t what you don’t know that gets you into trouble, it is what you know for sure that just ain’t true.” To a large extent, as per recent comments from John Hempton of Bronte Capital, my life is now increasingly ruled by fear of the Dunning-Kruger effect.

Thank you for your trust and confidence in us.

Regards

Peter Phan

Director, Castlereagh Equity Pty Ltd