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

From: **Peter Phan**

Date: **31 March 2021**

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 31/3/21	196%	172%	75%	97%	29%	167%	224 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 29/1/21	20%	16.5%	-0.7%	17.2%	-3.8%	23.8%	253 cents
1/2/21 to 31/3/21	-0.4%	-0.4%	3.3%	-3.7%	2.1%	-2.5%	224 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 2021 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.

(e) 2.53 to 2.25 in Feb 2021.

The XAO started at 5420 on 1 November 2013 and ended at 7017 on 31 March 2021. In percentage terms, the XAO gained 29% for the 89 months period since the start of the CE fund.

The XAOA started at 44054.2 on 1 November 2013 and ended at 77108 on 31 March 2021. In percentage terms, the XAOA gained 75% for the 89 months period since the start of the CE fund.

CE's performance over the same 89 months period is 196%.

For the month of March 2021, the XAO gained 1.1% and the XAOA gained 1.8%. CE gained 0.5% for the month.

The cash component of the CE fund is 51%. Our net selling continues, however, new ideas actionable with large capital allocations remain elusive. We have established a few placer positions in early stage businesses. These positions will not make any material difference to the portfolio.

A Compendium of All My Screw-Ups

Over the last 7 years, I have closed roughly 41 positions. I lost you money on 20 of them. CE currently has 14 positions, of which 6 are losing money and are likely to be closed out with a loss. My strike rate (defined as number of wins as a percentage of total number of trades) appears to be approaching 50% and declining. This is not optimal. Ideally, I want to see the strike rate lower.

A lower strike rate means the number of wins will be less compared with total trades. Okay, before you start sending me emails asking for redemptions, please let me explain. As I have said in a recent podcast, it is not the strike rate that matters. Our aim is to win big when we win, and to lose small when we lose. So far, the numbers are bearing it out. The average win is roughly 4 times the size of the average loss, and the largest win is about 6x the size of the largest loss. Note that these data is skewed because of a long running bull market.

A lower strike rate means that we are testing a lot and failing a lot. Testing a lot provides valuable lessons on what worked and what has not worked. The cumulative knowledge base acquired also allows me to combine elements of each of them to generate innovative ideas. Combining these ideas then, hopefully, generates big winners for us. This is the polar opposite to the idea of "picking up pennies in front of steam rollers". This is why I have established placer positions.

What are the lessons I have learned from my trade history? One important lesson is that mistakes are actually higher than the strike rate. That is because there were several mistakes made which ended in profit. My forays into UGL, REF, ZNT, XTE, and SDI are testament to this. Further, there are also occasions when I chose correctly but sized wrongly or sold too early. This is an error in portfolio management, which is also a mistake. My poor handling of PME, AMA, COF, DTL and SSM meant that I failed to obtain profits which are magnitudes higher than the losses we actually made in our losing mistakes. As I have stated many times before, these errors are costly.

Focussing on the cohort of losing trades revealed some common themes- bad judgment on management or bad judgment on the business, and sometimes both, which is frankly an inexcusable error. The names are NWH, BYL, SCD, CGO, AWN, QIP, BOL, VRS, IAB, ICU, ADA, DNA, B2Y, PXS, UBI and CGI. But I made space for a special mention for ZNO. This was a disastrous foray that should never have happened. I went against a filter to stay away if management is questionable and I broke that rule against all reason and it came back to bite forcefully. The judgment on the business was half-baked in hindsight. Nevertheless, the process of sound, in that it was a product/service that has low penetration in an expanding market, and we can monitor progress quarterly.

As it turned out, the numbers did not support the thesis and we exited. The error was compounded with poor portfolio management. It was a position that did not deserve more than 2% of initial portfolio allocation, with plenty of opportunities to add if the thesis is confirmed by quarterly numbers. But CE ended up with nearly 7% of capital allocated to this position. The second error was not pulling the plug when numbers are not stacking up, but by then the position was already down over 60% and a 7% position is now 3%. Entering with a 2% position would have limited our losses to 1% of portfolio. The sole consolation, if any, is that if I had held on to the position, it would have destroyed another 1.5% on top of the 4% already lost. This was a big unforced error, and by dollars, was the biggest loss in the entire history of CE. As stated before, pride usually comes before a fall. I should have learned and known better.

Lastly, there are also positions where we lost money or did not quite make as much when a risk factor eventuated. This happened with FLT, NWH, ICS, and KPT. I do not classify these as mistakes, but it is still helpful in the long run to know what happened when we lose money.

Thank you for your trust and confidence in us (despite the above).

Regards
Peter Phan
Director, Castlereagh Equity Pty Ltd