

Returns Net of Director Fees

As at 28 Feb 2022	1m %	3m %	1y %	3y %pa	5y %pa	Inception %pa (Nov13)
Castlereagh Equity	0	-7.7	-8.9	21.7	15.1	13
All Ordinaries	0.7	-3.5	5.5	5.4	4.9	NA
XBI	-3.8	-22	-49	2.2	4.9	NA

NAV per share	% Cash	% non-AUD	% AUD
1.77	47	10	43

Commentary

Apart from general market risks, CE has no direct exposure to the current geopolitical events roiling the market. Prices in the biotech sector continues to drift and the XBI index has dropped 50% from its peak 12 months ago. As of writing, prices in this sector have started to stabilise. Our patience has paid off, and CE is now in a good position to take advantage of the many opportunities in the life sciences sector.

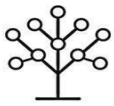
Industrialised Drug Discovery

The traditional drug discovery route is expensive and slow. It is product focused rather than process focused. It is hampered by the complexity of biology, which manifests itself in 95% failure rates of all drugs tested on humans. Essentially, the rate limiting step for drug discovery is the precise understanding of disease mechanisms. The secondary rate limiting step is accurate prediction of the effects of a drug in the body.

We have small positions in 4 companies, namely \$RXRX, \$SDGR, \$EXAI and \$ABCL. My decision is based on my assessment of how each business is capable of evolving a process to solve the rate limiting steps in drug discovery. My focus will be keenly directed to developments which prove out the value of their respective platforms. The monetisation of this value will be indicated by the rate and magnitude of success (or otherwise) of the pipeline of candidates being developed from the platform.

My thesis in this area has continued to be confirmed with positive developments. All 4 companies reported improvements in the economics of their contracts with pharmaceutical companies utilising their respective platforms. A summary of these developments:

- \$RXRX- agreement with Roche/Genentech announced in Dec 2021. \$150m upfront payment, 40 targets in neurology and oncology. Deal potential several billions.
- \$EXAI- collaboration agreement with Sanofi announced January 2022. \$100m upfront payment, 15 targets in immune/oncology. Deal potential \$5.2 billion.
- \$ABCL- royalties from COVID therapies of over \$300m for 2021, with ongoing sales continuing into 2022. Deal economics improving and workflow is now at full capacity.
- \$SDGR- software sales increasing, and milestone payments for drug development of at least \$100m in 2022.



All 4 companies have extensive cash resources, and their cashburn rate is being reduced by increasing revenues, which continues to increase year on year as their platforms continue to be validated. In the meantime their pipeline of drug candidates continues to progress even as they build out and improve their respective platforms to generate more candidates.

Other Sectors

Apart from industrialised drug discovery, I have found opportunities in the following sectors:

1. Genomics Sequencing
2. Synthetic Biology
3. Toolmakers- Imaging and Analyses
4. Cell Engineering

I have not made any investments in these sectors yet. I am very close to deploying capital into a company operating in the synthetic biology sector, but I have continued to hesitate in committing significant capital. This has been my stance for over 12 months. My view is currently influenced by a weak market outlook for businesses in general. We are just coming off a period of skyhigh valuations. The global economy is still reeling from the impact of an ongoing pandemic going into its third year. Signs of inflation are clear, just by a cursory glance at the trajectory of commodity prices. On top of all of these, there are ongoing geopolitical tensions associated with Russia and China.

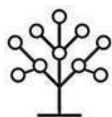
I have solid ideas. But ideas are worthless without proper execution. Commitment of significant capital will require attractive prices and high conviction. Prices that will give us good investment returns are out of my control, so I have to exercise patience. High conviction can only come from extraordinary evidence and deep insights, generated through a rigorous process of due diligence. Conviction is not “sure money”. It describes a situation where I have fluency of an investment to an extent that I can spot the major drivers of risks and returns, and be able to act accordingly by adding more capital when favourable events occur, and to quickly reduce capital committed when adverse risks events are spotted. This is a path to ensure that when we win, we win big, but when we lose, we only lose a little.

Appendix 2 provides details of the top 5 holdings of the CE portfolio. The holdings that are not in the life sciences sector are legacy holdings prior to our shift into the life sciences sector. I expect that the portfolio will gradually be transitioned into this sector and the predominant currency will move away from AUD towards USD and UK Pound.

Thank you for your trust and confidence in us.

Regards
Peter Phan

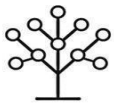
Portfolio Manager



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Appendix 1: Performance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	XAO	XBI
2022	-5.5	0											-5.5	-5.9	-19.8

XAO= All Ordinaries Index

XBI= S&P Biotech ETF

Appendix 2: Top 5 Holdings= 33% of total portfolio

Company
Beamtree
Smartpay
Industrialised Drug Discovery Basket
Fiducian
Virgin Money