UNAUDITED MONTHLY PORTFOLIO UPDATE[1]: AUGUST 2018

The short-term performance of our portfolio is extremely volatile at present, showing why investing in equities is a longer term proposition. This volatility reflects the interplay between long/short positions, deep value philosophy, East 72's leverage, overall market conditions and our largest position – a short-sale in Tesla. In August 2018, "value" type investments were absurdly out of fashion across the globe, in a disparate environment. The NASDAQ 100 rose 5.7% in the month – reflecting rises of 20% in Apple and over 13% in Amazon, the world's two largest equity securities. Conversely, the EuroStoxx 50 fell by 3.8% reflecting trade fears and intra-European factors, notably Turkey. Australian indices rose ~ 1% masking dramatic gains in some stratospherically priced mid-cap securities.

The gains in Apple and Amazon are difficult to understand in that they are well analysed and should be efficiently priced. Their quarterly earnings produced little of note which was not known, aside from a minor uplift of guidance for Apple; if anything AAPL's Q3 outturn was aided by higher non-operating income and a low tax rate. Apple's projected EBITDA of ~ $82billion for the year to September 2018 is roughly similar to that recorded in the 2015 financial year, and rolling 12month sales of i-phones are the lowest since the year to June 2015 (albeit at an average price some 13% higher). Whatever one's views on Apple's valuation (its EV/EBITDA metric has moved from 5.2x to 12.5x in 30months as the share count has decreased 12%) there was nothing in its Q3 report to warrant a 20% or $175billion gain in market value.

This suggests some other factors are at work, perhaps akin to the nifty-fifty phenomenon seen in the 1960s: a belief that a certain small group of stocks are impregnable. Especially so in a tricky world of shifting trade and geo-political sands. The type of share price moves for an exceptional, though seemingly predictable business such as Apple were also seen in numerous smaller, emerging companies, including in Australia, as an antidote to uncertainty. Strangely, such moves in August came on top of strong gains in the immediately preceding months (eg Afterpay up 28% having risen 137% in the prior 3 months).

Moreover, companies recording acceptable results, but where valuations are low, saw further share price pressure. These typically included European banks - ING now trades on a forward P/E of 8.5x - and conglomerate structures. These type of performance divergences are typically seen before potential corrections and were readily observable even in Australian in early 2000, prior to the dot.com bust.

However, investing is a continuum, not specific discrete periods. A number of these trends have started to reverse, at some speed, in a few days over the first week of September.

The bizarre events surrounding Tesla provide a perfect illustration. The company's early August Q2 earnings report propelled the shares from ~$290 to $350 despite the fact a higher than expected cash balance was a simple function of stringing out creditors by a further $500m+ over the quarter. 7th August saw the much discussed "$420 privatization, funding secured" tweet by the CEO, sending the shares to a high close to $380. The obvious difficulty in raising ~US$57billion to fund such an escapade for a loss making company, let alone the structural and legal impediments conspired to drive the stock lower from this zenith. Ongoing exceptional research by short sellers, accompanied by train-wreck interviews which suggest a high degree of strain being endured by CEO Musk, saw the shares end up flat over the month after a wilder ride than that of the vehicles themselves. Of course, since the end of August, the shares have slumped 13% to ~$260 in light of further revelations regarding CEO behavior and executive departures.

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[1] East 72 Holdings Limited (**E72**) provides monthly **unaudited** updates on its company performance and exposure supplemented by a more substantial quarterly note. Readers are referred to footnotes 2-6 explaining the derivation of the numbers. All returns are pre-tax unless stated otherwise. At the current level of net assets, cost imposition is estimated at 0.23% per month over the course of the full year (excluding charges for capital raisings and corporate events) and is fully accrued monthly according to the best estimates of management. Readers are explicitly referred to the disclaimer on page 3.

Over the course of August, 44 of 75 long or short exposures we held at some stage during the month, moved more than 5% from 1st August to 31st August, in addition to the intra-period volatility. (We did buy some securities after their fall or short-sold after the rise).

As one would expect in these circumstances, our performance in August was poor, with the portfolio declining by 6.8% before tax; our pre-tax NTA held up slightly better (-5.6%) as a result of anti-dilutive placements. NTA per share at 31 August 2018 was 28.1c (post tax) and 26.2c pre tax.

At the risk of sounding excessively short-term, which is not the intention, the first week of September has seen roughly half of the dollar value of August's mark-to-market loss reversed. The portfolio has recorded a 3.2% pre tax gain, in a week where the NASDAQ 100 has lost 3%, S&P500 over 1% and Australia's ASX200 over 3.5%.

We did see significant August gains in Seven West Media (up 21%) which we have divested for the time being, and IDT Australia which rocketed 90% after results showing a stronger than expected cash balance to accompany the Melbourne based pharmaceutical plant. Two other media holdings – NZ Media and Prime Television – reported results and/or guidance below market expectations and both fell over 20%.

We have added two blue chip US stocks – McKesson (pharma distribution) and DowDuPont (chemicals) to our long positions; in addition, we acquired shares in the Danish conglomerate Schouw & Co after a significant share price correction subsequent to a minor earnings downgrade. Conversely, we have built up a number of small short-sale positions in what we believe are excessively priced mid-cap securities in the US and Australia.

Overall, over August, our equity exposure has further reduced to less than half of pre tax equity; overall net negative US exposure is equivalent to 47% of equity (other overseas equates to ~+39%)..

Equity exposure as at 31 August 2018 (as % month end pre tax shareholders funds):

	AUSTRALIA		OVERSEAS		TOTAL	
	percent	exposures	percent	exposures	percent	exposures
LONG	82.3%	23	84.4%	33	166.7%	56
SHORT	(12.7%)	5	(25.5%)	12	(38.2%)	17
INDEX	(12.9%)		(67.1%)		(80.0%)	
TOTAL	56.7%	28	(8.2%)	45	48.5%	73

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Monthly performance, exposure and NAV

	Investment return[2]	Cost imposition[3]	Net Return[4]	R12 Return	NAV/share pre tax (cents)	Gross Exposure[5]	Net Exposure[6]
31 Aug 17	-5.0%	-0.4%	-5.4%	23.7%	33.8	320%	-28%
30 Sep 17	2.8%	-0.3%	2.5%	29.2%	35.2	359%	-31%
31 Oct 17	-7.3%	-0.2%	-7.5%	14.1%	32.9	412%	-42%
30 Nov 17	-8.9%	-0.3%	-9.2%	-5.6%	29.6	437%	-73%
31 Dec 17	-7.7%	-0.2%	-7.9%	-18.4%	27.4	434%	-99%
31 Jan 18	-9.1%	-0.2%	-9.3%	-30.1%	24.7	497%	-135%
28 Feb 18	15.6%	-0.3%	15.3%	-19.2%	28.0	346%	48%
31 Mar 18	2.4%	-0.3%	2.1%	-18.6%	29.2	310%	95%
30 Apr 18	4.1%	-0.3%	3.8%	-15.3%	29.9	262%	91%
31 May 18	-0.7%	-0.3%	-1.0%	-16.0%	29.5	272%	87%
30 June 18	-1.9%	-0.1%	-2.0%	-18.7%	29.0	278%	81%
31 July 18	-3.8%	-0.3%	-4.1%	-22.5%	27.8	276%	63%
31 Aug 18	-6.4%	-0.4%	-6.8%	-23.7%	26.2	285%	48%

[2] Change in market value of all investments – cash and derivatives – after interest charges, dividends receivable, dividends and fees paid away divided by opening period net asset value and time weighted for equity raisings

[3] All accrued expenses for company administration (eg. listing fees, audit, registry) divided by opening period net asset value and time weighted for equity raisings

[4] Calculated as 2 (above) minus 3 (above)

[5] Calculated as total gross exposures being nominal exposure of all long and short positions (cash and derivative) divided by end month pre tax net asset value – assumes index ∂ of 1

[6] Calculated as total net exposures being nominal exposure of all long minus short positions (cash and derivative) divided by end month pre tax net asset value – assumes index ∂ of 1