



UNAUDITED MONTHLY PORTFOLIO UPDATE #22: FEBRUARY 2019¹

The East 72 Holdings Limited (**E72**) portfolio decreased by 1.7% before costs and 2.1% before tax but after expenses during the month of February 2019. Unaudited pre-tax NTA per share at 28 February 2019 is 24.7c (27.3c after tax). E72 also has significant franking credits equating to 2.0c per share at 28 February 2019.

After the strong upward moves in January, from oversold levels in late December 2018, the latest month exhibited the sniff of Bacchanalian party time. Fuelled by daily reports from unnamed sources “familiar with the discussions”, US-Sino trade talks have become the *topic du jour*. Little surprise given the ongoing weakness in co-incident and forward economic indicators across the globe. Our fear is that even with some type of China-US trade agreement – which could take many different forms – a 180 degree turnaround in economic performance, and hence future earnings expectations may not be forthcoming, at least in a timely manner. The China 300 rose 15% in the month, and most global markets rose 3-4%; Australia, despite a lacklustre results season, economic and political uncertainty rose over 5%, partly in response to the technical factors playing out in the iron ore markets.

We did benefit from a rebound in fund management companies (notably Perpetual, Janus Henderson), gold shares and a number of the European bank shares (ING, Lloyds, Bank Of Georgia) which reported excellent results. However, our short positions and reduced equity exposure had a dilutive impact on short term performance.

Given ongoing declines in earnings expectations, most equity markets have been repriced to above “average” levels. Of greater concern is the rampant desire of participants to buy “growth” in a non-growth world, at virtually any price. This was exhibited spectacularly in the Australian results season, where non-financial industrial securities trade at over 20x forward earnings – with nil EPS growth in FY19. As a consequence, there has been no restraint on paying forward multiples of 35-90x for perceived mid-cap growth companies, which vary dramatically in quality. We have short positions in a number of these securities.

According to UBS, the strong moves in these type of growth stocks have seen pricing dispersion – measured by P/E of the top rated two deciles dividend by that of the lowest two deciles in Australia reach a level of 1.8x – exceeded over recent years only in 2009 – and way above the long term average of 1.45x. This illustrates why our gross exposure (long + short) has moved up, whilst our net exposure (long – short) is now below 100%. Our concern levels are higher than for a few months.

Equity exposure as at 28 February 2019 (as % month end pre tax shareholders funds):

	AUSTRALIA		OVERSEAS		TOTAL	
	percent	exposures	percent	exposures	percent	exposures
LONG	83.4%	24	118.2%	39	201.6%	63
SHORT	(21.5%)	14	(25.0%)	9	(46.5%)	23
INDEX	(22.1%)		(42.8%)		(64.9%)	
TOTAL	39.8%	38	50.4%	48	90.2%	86

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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 0.40% 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 2.

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
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%	-0.3%	-6.7%	-23.7%	26.2	285%	49%
30 Sept 18	0.9%	-0.2%	0.7%	-25.0%	26.4	287%	42%
31 Oct 18	-0.8%	-0.2%	-1.0%	-19.8%	26.2	217%	144%
30 Nov 18	-0.2%	-0.2%	-0.4%	-12.1%	26.0	233%	151%
31 Dec 18	-10.3%	-0.2%	-10.5%	-14.5%	23.2	243%	185%
31 Jan 19	9.1%	-0.3%	8.8%	2.6%	25.2	256%	138%
28 Feb 19	-1.7%	-0.4%	-2.1%	-15.4%	24.7	313%	90%

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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 0 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 0 of 1