EAST 72

QUARTERLY REPORT TO 30 SEPTEMBER 2016[1]

The East 72 Holdings Limited (**E72**) portfolio returned 20.3% during its first full quarter of operation, prior to costs; after fully accrued costs, the return was 17.5%.

	Investment return[2]	Cost imposition[3]	Net Return[4]	FY17 Return	NAV/share (cents)	Gross Exposure[5]	Net Exposure[6]
26 May 16†					23.8		
30 Jun 16††	-4.3%	-3.3%	-7.4%		22.0	301%	145%
31 July 16	17.1%	-1.2%	15.8%	15.8%	25.5	316%	90%
31 Aug 16	**4.3%**	**-0.7%**	**3.6%**	**20.0%**	**27.6**	**327%**	**88%**
30 Sep 16	**-1.5%**	**-0.6%**	**-2.1%**	**17.5%**	**27.0**	**359%**	**142%**

† commencement date of portfolio †† audited- period from 26 May to 30 June 2016

We increased exposures over the past month as markets fell, largely through removal of Australian equity index hedges, adding to our overseas stock exposures – notably in financials – but also adding new short positions in "certainty" stocks overseas. Since month end, we have reinstated certain index hedges and reduced net exposure.

Equity exposure as at 30 September 2016 (as percentage of month end shareholders funds):

Australian long exposures	70.7%	Overseas long exposures	179.6%	TOTAL	250.3%
Australian short exposures	(7.6%)	Overseas short exposures	(51.8%)	TOTAL	(59.4%)
Australian index	-	Overseas index	(48.8%)	TOTAL	(48.8%)
NET AUSTRALIAN	**63.1%**	**NET OVERSEAS**	**79.0%**	**TOTAL**	**142.1%**

Overview

The quarter was marked by three key "macro" themes which provided an undue influence on equity prices across the globe:

- Realisation that many of the prognostications made surrounding the "Brexit" vote were quite farcical; any recent visitor to London (at least) has seen the impact a lower pound has had on tourism and (less desirably) property interest. As a result, the US$ based MSCI World index rebounded just under 10% from its late June low of 1571 to 1726 by quarter end;

[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 0.7% per month over the course of the full year and is fully accrued monthly according to the best estimates of management. Readers are explicitly referred to the disclaimer on page 6.

[2] Calculated as 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] Calculated as 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 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 net asset value – assumes index ∂ of 1

- Paranoia on two occasions - mildly in late July but more concerted in the third week of September – surrounding the twin impacts of Bank of Japan policy changes and US Federal Reserve board thinking in relation to short term interest rates; and
- More recent fear over the future of Deutsche Bank – and consequent contagion effects - given excessive leverage, bloated costs and regulatory and legal impositions

In theory, a 25bp move in short rates has no impact whatever on long term equity valuations, provided such calculations are effected using a sensible long run risk free rate and appropriate risk premium. Where they are not, and where fears over the pricing of long bonds then eventuates, then a negative perception about certain classes of equity securities is reasonable.

Whilst acknowledging that the same comment could have been levelled at many points in the past two years, the quantum of negative/very low yielding bonds from areas whose credit risk characteristics do not warrant such rates, appears to be reaching extremes.

E72 has taken a selected number of short positions in securities which in our view exhibit excessive pricing for perceived earnings certainty; even if such earnings eventuate, the likely future returns from such securities may well be negative as discount rates gradually move higher. Most of these positions were taken recently and have not yet contributed meaningfully to performance.

Discounts to book value: banking and financial services

As an alternative to the bond-driven pricing of "certainty" companies, there are a few areas trading at significant discounts to tangible book value; we have exposures to three broad groupings – banks, shipping and investment companies.

We have a significant exposure to large-scale global financial enterprises: the equivalent of 26% of equity invested in European banks, 42% across global banks and 98% in financial services, including funds management and leasing. Three specific areas appeal to us as undervalued and unloved:

- Investment banking where franchises are extremely lowly valued;
- Private equity investment and management; and
- Selected global consumer banks.

We have no exposure to Australian banks. They are clearly at a different point of their profit cycle to many of their global counterparts, partly driven by domestic property markets, higher nominal interest rates, and a lack of detritus arising from the GFC.

Their global counterparts can very broadly be categorized into three piles:

- A strong core business now largely "right-sized", with modest levels of poor assets, but struggling with more aggressive regulators and infinitesimal nominal interest rates;
- A strong core business buried away under swathes of non performing assets, unwanted businesses and low returning other businesses – mainly investment banking; and
- The walking dead.

The first pile holds obvious interest but tends to be very highly priced relative to the middle group. There are odd exceptions – Lloyds Banking Group in the UK, Wells Fargo – especially after recent revelations, and ING Groep come to mind.

In our view, it is the second group which is the most fascinating and offers the highest long term upside.

There is little new in major banks veering off the straight and narrow, making excess profits from non-core businesses and then paying a far heftier penalty as they seek to wind down such ventures. Older readers will remember the travails of Westpac in the early 1990's were largely the making of adventurous subsidiaries such as Partnership Pacific, Bill Acceptance Corp and AGC. There are some rather awkward differences twenty-odd years on:

- Global capital requirements have increased in quantum and sophistication;
- Information requirements are greater, more immediate and therefore more transparent;
- Regulatory fines are hefty;
- The cost of running off errant businesses and loan books is gargantuan;
- Litigation is "wide", "deep" and long standing across many areas of afflicted banks, ranging from alleged lack of disclosure to shareholders to mis-selling of product; and
- Core margins are under pressure in many markets – especially Europe - from negative interest rates,

The good news is that the antedote is largely still the same: clear the rubbish off to one side, adequately capitalize it and focus on getting the "core" business earning. "Good bank, bad bank". For some banks, even this is very difficult – the UK's RBoS is so weighed down with litigation that it is difficult to get to this point. On the other hand, without being flippant, both Barclays PLC and Credit Suisse appear to be making progress. There is some market recognition in the former, virtually none in the latter.

At some stage eight years on from the GFC, and despite ridiculous nominal interest rates, these problems will become manageable and will attract vulture capital to remove them from the banks' books, in much the same way life insurance companies have shed legacy business to third party capital providers.

We have adopted a "basket" type approach to European banks, with some smaller exposures to ING Groep, Banco Sabadell and Lloyds. The Spanish banks are specifically very interesting at present; a recovering property market and economy together with bond trading profits is enabling both a work off of non performing loans and increasing provisions against the residue. To be sure, profit quality is not great – buoyed by bond trading - but at less than 55% of book value, Sabadell (including its newish TSB acquisition in the UK) looks underpriced at this stage of the cycle.

We also find investment banks broadly appealing, with many trading at discounts to tangible book – implying the under-earning franchises are worth zero – along with selected private equity houses which also trade at large scale discounts to valuation. The latter companies are rather difficult to analyse given that they are effective joint ventures with management, have significant on-balance sheet assets in the form of their own funds/investments, and generate complex mixtures of base, transaction and performance fees. In this area we hold exposures to Fortress

Investment Group and KKR, along with the reinsurance company where the investment portfolio is managed by Greenlight Capital.

Discounts to book value: investment companies

Aside from "miscellaneous financial services", E72's largest area of exposure is in "investment companies". The six exposures are somewhat eclectic (as you would imagine) and include:

Exor spa: the Italian-listed Agnelli family holding company owning Partner Re and the controlling shareholders of Fiat-Chrysler, Ferrari and CNH Industrial; our initial position in Exor was acquired at a near 30% discount to our estimate of market value NAV of ~€44/share. Management are exceptional and with the cash flow capability of a very high quality reinsurer, we view Exor as being able to grow book value significantly ahead of other such entities.

HRG Group: HRG is a left over from the latter days of Messrs Cumming and Steinberg at the legendary Leucadia National. HRG was the operating company of infamous hedge fund manager Phillip Falcone and is now effectively controlled by Leucadia, with Joseph Steinberg as Chair. It has two major residual holdings – Spectrum Brands (NYSE: SPB) and Fidelity and Guaranty Life (FGL) – having largely divested its energy holdings. We estimate NAV at market value of the key investments is just below US$20/share versus our entry price of US$14.50.

Vealls Limited: The patriarch and major shareholder of this controlled company has recently passed away leaving two of his sons to deal with over $100million in cash, a valuable land bank at Mt. Martha in Victoria and an oak forest in France. Recent indications suggest that external advisors have been drafted in to assist with dealing these assets. Stated book value is $14.60 of which ~$11.80 is in cash – 17% above the recent stock price. Given the lack of tax payable on divestments of pre-1985 assets, the potential requirement of the estate beneficiaries to access cash and lack of public company growth strategy for the entity, we see ample scope for a return to shareholders in the near term.

We also hold exposures to Pershing Square Holdings, Vina Capital Vietnam Opportunities Fund and Ellerston Asia.

Outlook

E72's portfolio is dominated by stock exposures which trade at significant discounts to net asset or assessed value, but where we believe catalysts exist to (at least) partly remedy this situation. Conversely, we have short positions in companies which in our view are highly priced as a result of low general global earnings growth combining with extreme interest rates.

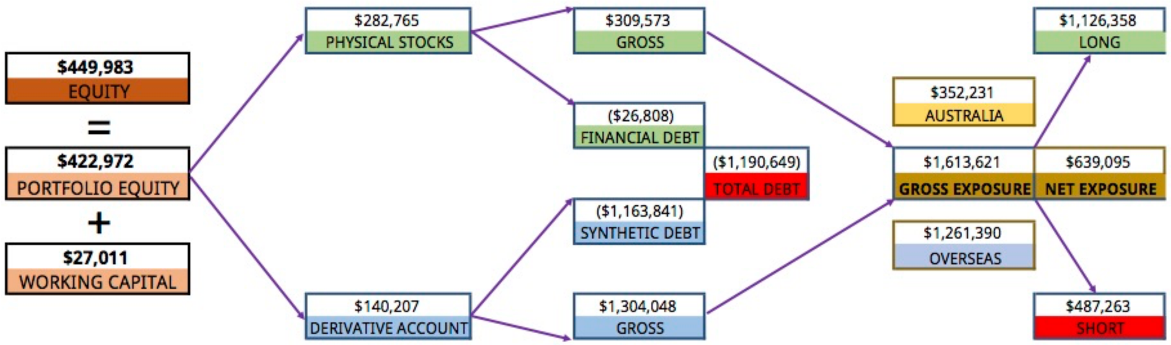
When added to the gearing within the company – see the appended exposure flow chart - it is inevitable that over short periods our performance will be highly volatile. However, based on the experience of the private company upon which E72 is modelled, we expect this to generate meaningful performance over longer term periods.

For further information:

Andrew Brown
Executive Director
(02) 9380 9001 / 0418 215 255

EAST 72

EAST 72 HOLDINGS LIMITED: EXPOSURE FLOW CHART AS AT 30 SEPTEMBER 2016



LEVERAGE RATIO	3.59 x	1.42 x

EXPOSURE	SECTOR/THEME	EXAMPLE EXPOSURES
$116,925	EUROPEAN BANKS	Credit Suisse, Barclays, ING Groep, Lloyds Bank, Banco Sabadell
$74,773	OTHER BANK-TYPE	American Express, Bank of America
$248,129	OTHER FINANCIALS	Henderson Group, Associated Capital, AerCap, GreenlightRe
$221,236	INVESTMENT COMPS	Ellerston Asia, Vealls, EXOR spa, Vina Vietnam, HRG
$46,651	SHIPPING	AP Moller Maersk, Tanker Investments
$418,644	TOTAL OTHER	FiatChrysler, Twitter, News Corp, WPP
$1,126,358	LONG	
$487,263	SHORT	
$219,676	INDEX HEDGES	NASDAQ 100, SPX
$34,362	OTHER FINANCIALS	
$233,225	TOTAL OTHER	

UNAUDITED STATEMENT OF FINANCIAL POSITION AS AT 30 SEPTEMBER 2016

Cash & equivalents	$	23,776	Creditors & accruals	$	6,578
Debtors & prepayments	$	9,811			
			Short sale derivatives	$	487,263
Listed securities	$	309,575	Debt - derivatives a/c	$	189,314
Derivative securities	$	816,784	Financial debt	$	26,808
Financial Assets	$	1,126,359	Financial Liabilities	$	703,385
TOTAL ASSETS	$	1,159,946	TOTAL LIABILITIES	$	709,963
EQUITY				$	449,983

Disclaimer

While East 72 Holdings Limited (**E72**) believes the information contained in this communication is based on reliable information, no warranty is given as to its accuracy and persons relying on this information do so at their own risk. E72 and its related companies, their officers, employees, representatives and agents expressly advise that they shall not be liable in any way whatsoever for loss or damage, whether direct, indirect, consequential or otherwise arising out of or in connection with the contents of an/or any omissions from this report except where a liability is made non-excludable by legislation.

Any projections contained in this communication are estimates only. Such projections are subject to market influences and contingent upon matters outside the control of E72 and therefore may not be realised in the future.

This update is for general information purposes, it does not purport to provide recommendations or advice or opinions in relation to specific investments or securities. It has been prepared without taking account of any person's objectives, financial situation or needs and because of that, any person should take relevant advice before acting on the commentary. The update is being supplied for information purposes only and not for any other purpose. The update and information contained in it do not constitute a prospectus and do not form part of any offer of, or invitation to apply for securities in any jurisdiction.

The information contained in this update is current as at 30 September 2016 or such other dates which are stipulated herein. All statements are based on E72's best information as at 30 September 2016. This presentation may include forward-looking statements regarding future events. All forward-looking statements are based on the beliefs of E72 management, and reflect their current views with respect to future events. These views are subject to various risks, uncertainties and assumptions which may or may not eventuate. E72 makes no representation nor gives any assurance that these statements will prove to be accurate as future circumstances or events may differ from those which have been anticipated by the Company.