QUARTERLY REPORT TO 31 DECEMBER 2016[1]

Performance, net asset value and financial outcomes

Quarterly portfolio return: 16.95%

The East 72 Holdings Limited (**E72, Company**) portfolio returned 20.0% during the three months to 31 December 2016, prior to costs. Our expenses are obviously high given the publicly listed status and small asset base of the Company and deducted 3.0% from return. As a consequence, our net return within the Company over the period was 16.95%

E72's pre tax net asset value grew by 22.2% over the period from 27.0c per share to 32.96c per share as at 31 December 2016. This was aided both by investment returns but also two placements in December 2016 which increased our capital base by 633,000 shares and yielded over $220,000 in gross proceeds at a premium to NTA/share.

The month by month tabulation of investment return and exposures is given on page 7, along with exposure metrics and unaudited attribution for the quarter.

Six month portfolio return: 37.4%

In the first full six-month period of E72's operation, the gross portfolio return before expenses has been 44.4%; after deduction of operating expenses, the net return equates to 37.4%. NTA has increased by 49.5% from 22.0c to 32.96c pre tax, and by 45.5% to 32.06c per share after accounting for tax on realised and unrealised gains. The correspondingly larger increase in NTA was aided by three anti-dilutive placements: one in August and two in December 2016.

We hope to report our audit reviewed results for the six months to 31 December 2016 in the second week of February 2017. Our unaudited management accounts for the period show a pre-tax profit of over $140,000 for the period, which includes unrealised gains on the derivative and physical portfolios. This figure is subject to audit review, which itself may be influenced by market behaviour in the period subsequent to reporting date.

At this level of profit, and given that we are taxed as a trader, we will have worked off the small quantum of tax losses carried forward from expenses incurred in re-establishing the company in the final quarter of fiscal 2016. As a consequence, we are now accounting for tax liabilities, illustrated in the differences between pre and post-tax NTA per share above.

Also contained within the audit reviewed interim financial statements will be a full portfolio listing of long and short positions as at 31 December 2016; we are loath to publish such a list immediately at the end of the interim reporting period given the sensitivity of certain holdings, but feel a roughly six-week period thereafter is reasonable.

[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 7-11 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 0.55% 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 8.

EAST 72 HOLDINGS LIMITED
Suite 7.06, 2-14 Kings Cross Road, POTTS POINT NSW 2011
ABN 85 099 912 044
telephone: (02) 9380 9001

Our aspirations for the remainder of fiscal 2017

We clearly still have much more work to do to place E72 on a more solid footing. Our capital base is still too small, even given the frugal manner in which we manage expenses. Moreover, the Company has a long tail of shareholders with unmarketable parcels of shareholdings which are administratively expensive. However, we were all well aware of this when reconstructing the predecessor company but are now reaching a point where we can do something about it.

We will therefore be looking to convene a general meeting of shareholders in February to solve both issues. E72's Constitution is outdated and needs to be updated. Existing minority shareholders will have a chance to bring their holdings up to marketable parcels, or to dispose of their shares. Once this is achieved, the Company can look towards more flexibility in its capital base, which is difficult to obtain with numerous small shareholders.

Of course, the ongoing development of E72 rests fundamentally on our ability to generate investment performance. We have done well so far, but six months is too small a timeframe on which to be making big assertions. As a consequence, we will continue to rely on the support of friends and business relations who are prepared to back E72 at this early stage of its development. Our aim is to take E72 to a wider audience, but that needs to be done gradually.

Commentary[2]

We found the December quarter performance of equity markets to be remarkable by any construct. The bearish sentiment prevailing in October 2016, which it should be recalled, was driven by the simple phenomenon of expected interest rate rate rises and downward revisions of S&P500 earnings estimates has been swept away. For sure, at the time, there were elements of daily volatility based on political uncertainty, culminating in the crescendo of intra-day events of November 9th. Of course, a Trump Presidency was never anticipated by markets, nor, far more pointedly, a Republican majority across Congress.

The euphoria accompanying a belief that business can move forward in an era of tax reductions, legal roll-backs and massive infrastructure investment in the US has, in our view been all pervasive and can readily be seen to have caught many market participants off guard. In particular, the generally bearish view towards US (and global) financial stocks has been materially reversed; Bank of America stock has risen 33.5% from the 4th November and the largest weight in the Dow Jones Industrial Average – Goldman Sachs – is up 36% in the same period. The performance of these securities has spilled across to global financials where our holdings of Barclays PLC (+23%) and Credit Suisse (+18.6%) have assisted our attribution.

In our view, markets have now set themselves up for potential disappointment. We feel it is clear that many investors have been caught on the hop by the perceived implications of a Trump mandate allied to a more hawkish Federal Reserve Board and continuing shoots of growth in Europe. As such, they have been forced into "short covering", and have evacuated bond and bond proxy type exposures over a constrained period of time. However, the short covering has taken place at what we believe are elevated levels of pricing of US equities. Based on consensus operating EPS for the S&P500 in calendar 2016 of $118, stocks are now at roughly 19.2x trailing earnings, and 17x forecast 2017 earnings, assuming growth of 12.3%. Growth expectations in

[2] All comparative performances are for relevant period to 31 December 2016

operating earnings – which it should be remembered are around 30% above GAAP earnings – will be partly delivered by a recovery in energy sector earnings as a direct result of assumed stability in the oil price.

However, in our opinion, investors have lost sight of the other component of the nationalistic "God Bless America" rally – the strength in the US$ which has advanced around 5.3% on a trade weighted basis (over 13% against the Japanese Yen) since the Friday prior to the US election. In turn, based on past research from Deutsche Bank, with 25% of earnings for the S&P500 in the form of foreign currency earnings, that move takes around 1.5% off S&P500 estimates if sustained over a full year.

Hence, early in 2017, US investors will be battling higher currency and the reality of the Trump administration's attempts to legislate its policy agenda. At over 19x trailing operating earnings amidst rising bond rates, we view the equation for US equities in general as far less attractive.

Of course, this bullish sentiment has spilled over into other global markets and, in our view, has subjugated most domestic influences since early November 2016. This can be seen in the strong performance of Continental European markets, with the DAX appreciating 11.9% since 4/11/2016 and the EuroStoxx 50 also up a handy 10.7%. Even Australia, with some assistance from commodity prices and rising interest rates (and expanding bank interest margins) has had a propitious time with the AS&P/ASX 200 up 9.4% in the same period – 2% ahead of the wider US market's S&P500 index.

Our thinking is that investors have not totally shed their concerns over trade wars. Most Asian markets have been rather dull during the period, with Hong Kong (US$ pegged currency) falling close to 3% since 4/11/2016. In turn, this should provide some new, though far harder to analyse opportunities.

We expect the coming quarters to be far more difficult. Richly priced index benchmarks often mask some underpriced individual securities, as well as exposing exuberantly valued enterprises, an ideal environment for a disciplined long/short portfolio. However, we caution, especially in light of recent events, that the timing, nature and length of periods of market irrationality is yet more irrational.

Portfolio activity

Over the past few weeks we have started to take some profits on our financial positions but still retain the vast bulk of the exposure. We have become more active at short selling individual names in Australia where we believe that structural business or industry issues are not recognised in prevailing share prices. In each case, we expect this will take some months to become more apparent.

We have acquired two positions in the pharmaceutical sector where the concerns prior to the US election over downward pricing of drug supply have not abated and valuations are at levels not seen for some time. One of the positions – Akorn Inc – is a US generic manufacturer which was hit with a double whammy of restated accounts and FDA inspections requiring plant rectification, which forced the shares down to a EV/EBITDA multiple of 5x. We have also taken a position in Shire PLC, the acquisitive UK pharma company which has a fabulous pipeline of rare disease drugs and trades on a forward P/E ratio of 11x.

We have also recently acquired exposure to Grand City Properties, a German residential property investor where the book value of assets provides a net rental yield after expenses of over 4.8%, with significant reversionary opportunities.

A classic example of not going with the flow

If we said we had acquired exposure to a tollway business at the current stage of the interest rate cycle, you would reasonably think we had taken leave of our senses. Pricing in the area is not uniform given the differences in tolling technology, enabling flexible pricing, residual length of concessions and scope for "windfall" traffic improvements from new adjacent developments. Numerous global tollways trade at EV/EBITDA multiples of >17x reflecting these factors. By casting the net into a family controlled structure, we have been able to gain exposure to a number of Italian tollroads at an implied entry EV/EBITDA of 3.5x.

ASTM is an Italian listed holding company controlled by the Gavio family which operates over 1400km of motorway in Italy with just over 10years average concession life remaining. In addition, it controls the listed Brazilian company Ecorodovias which also has nearly 1900km of tollroads. The company has a slightly byzantine corporate structure 63% controlling the listed Italian tollroad holder SIAS whilst using SIAS to also operate JV's. ASTM also operates a construction company (Itinera) and relevant engineering companies.

By deconsolidating SIAS, reinstalling at market value, backing out the value of the Ecorodovias stake and attributing conservative valuations to the construction related businesses, we believe our entry price of €9.23 is at ~45% discount to appraised NAV of €17/share. The company obviously thinks its equity is cheap since it has been moderately buying back its own stock.

Another way of looking at the structure is to reverse engineer to obtain the implied entry price to SIAS via ASTM; at the time of acquisition in late November, we estimated ASTM shares were valuing the 144m shares held in SAIS at about €286m or €1.98/SIAS share; at the time, SIAS shares were trading at €6.44 - they closed at €8.10 on 31 December 2016. Our imputed entry price would value SIAS at an enterprise value of €2.3billion for €660m of estimated EBITDA– or 3.5x.

The family control phenomenon

The ASTM example above is a small segue into an area of serious interest at present: family controlled companies. At 31 December 2016, we have long investments in TEN[3] family controlled companies, and no short positions. In aggregate, the exposures to these companies amounts to 23.8% of our long portfolio and 13.9% of our gross long and short exposure.

Australian investors tend to have a reticence towards investing in family controlled enterprises (**FCEs**) seemingly fearful of the potential to oppress minority investors or adopt strategic directions which don't fit with the intended investment thesis of the institutional shareholder. In Australia, there are a number of family controlled investment companies[4] (as opposed to controlled operating businesses such as Reece Limited) and in the main, they have all done relatively well.

[3] AP Moller Maersk, ASTM, Dell (VMWare tracker stock), EXOR, Madison Square Garden, News Corp, Wilhelmsen Holdings and Vealls plus two controlled entities Fiat-Chrysler (EXOR) and Treasure ASA (Wilhelmsen)
[4] See "Under the Radar Report" issues 110 & 111 (October 2014) authored by Andrew Brown

In many cases, the discounts to net asset value occasionally widen out to an unjustifiable degree; whilst a company may be controlled by a family, listed investment companies (or trusts) typically have embedded management contracts, which prevent easy control from passing, and yet typically trade at much lesser valuation discounts.

In Continental Europe, there is a reasonable tradition of FCEs, but trust is, at times, also in short supply. However, rather than investor fears about them being too aggressive, I would observe that investor reticence arises from:

(1) They are too conservative;
(2) They don't service the minority capital appropriately;
(3) There are too many intermediate holding companies which don't necessarily fulfil a purpose but are legacy/tax embedded structures; and
(4) They are perceived as being too slow (or cumbersome) to act.

There are numerous past examples of such behavior, but equally, a respectable number of current opportunities where the virtues of such corporate sloth are <u>not</u> extolled, but where the discounts to appraised value are large. We have previously highlighted a holding in EXOR SpA, with its controlling stakes in Fiat-Chrysler, an amazing user and liberator of capital,

During the last two quarters, we have had the opportunity to acquire exposures to two Scandinavian companies with broad based shipping interests: the Danish AP Moller Maersk (**Maersk**) and Norwegian Wilh. Wilhelmsen Holding (**WWI**) (plus its subsidiary Treasure ASA).

Maersk is a conglomerate focused around container shipping, related services, oil and oil drilling. The company has a 31 December 2016 market capitalisation of US$32.3billion, and enterprise value of roughly US$43.7billion. It is the global leader in container shipping with ~15.3% of capacity, and is 70% voting controlled by the Moller family (53% economic interest).

Shipping rates across a broad spectrum – containers, bulk, oil – have collapsed over the past twelve months, continuing a glide downwards since 2012, as a result of excess supply of capacity. Given the fixed cost/variable rates/massively variable volume economics of the industry – making airlines seem dull by comparison – returns have also sunk, even for the most efficient. As a guide, Maersk's revenue per TEU[5] has fallen from US$1440 in CY2012 to US$858 in Q2CY2016; declines on two publicized indices – SCFI and CCFI[6] are even steeper. However, Maersk's reaction to this has been to:

- Continue to invest in technology and better ships, with capex per annum averaging US$2.5billion in Maersk Line alone over the past five years to build scale of fleet, not necessarily vessel size;
- Driving down costs – costs per TEU have fallen from US$1550 to US$955 over the same four year period (2012 and the latest quarter have both been loss making); and
- Reaching agreement – subject to regulatory approval – of the #7 industry player, Hamburg Sud, to lift capacity share over 18%.

[5] twenty foot equivalent unit – a measure of a standard container
[6] Shanghai Containerised Freight Index & China Containerised Freight Index

In addition, Maersk are separating the oil related businesses from shipping and logistics, as a potential pre-cursor to either a discrete spin-off or partial sale. Maersk has precedents for such large scale capital moves having sold off a variety of unrelated businesses and shareholdings in prior years, such as Danske Bank, and distributing proceeds to shareholders.

We acquired exposures to Maersk progressively over the past six months; at our average entry price of DK9062 for the "B" shares, the implied enterprise value for the business was around US$37.5billion; in CY2016, even at these low shipping rates (and low oil prices), Maersk should generate operating cash flow of over US$5.5billion. Additionally, we were buying in at around a 14% discount to NTA, and as a guide to the operating leverage within the structure, at ~4x EV/OCF in CY2015.

WWI is much smaller, with an equivalent market capitalisation of US$1.1billion at end December 2016. The company is controlled by the Wilhelmsen family with 60% of the voting capital (49.6% economic interest).

WWI is more focused on logistics, vehicle transportation, ro-ro, related marine services and investments. WWI owns a 73% stake in the listed Wilh. Wilhelmsen ASA (lets call it **OpCo**) and 73% of the spin off, Treasure ASA, whose sole asset is a 12.7% stake in the Korean listed Hyundai Glovis, a leader in car related logistics. OpCo largely operates through a series of JV's with Wallenius Lines, which are now to be consolidated via a full merger into OpCo. WWI's share of OpCo will decline to 37.8% on completion, leading to greater share liquidity in OpCo.

A simple deconsolidation of WWI (the disclosure is exceptional) provides an estimated market value NAV of ~NOK284/share at the time of our late December 2016 purchases, against a share price of NOK195. WWI is net debt free, although OpCo does have significant gearing, and has over NOK40 per share of net liquidity and fungible investments, including 70m shares in the Australian listed Qube Limited.

In the calculation above, it should be noted that the market price of Treasure ASA trades at a 30% discount to its NAV, whilst OpCo's share price trades at a 25% discount to NTA. Realigning both with NTA would provide an appraised value for WWI of ~NOK350/share.

WWI provides another example of a double discount in a family controlled entity which has a record of attempting to enhance all shareholder's value, uses capital wisely and is adjusting quickly and radically to changing conditions in its industry.

Outlook

With volatility indicators such as VIX having declined over recent weeks, an uncommon consensus about which sectors will perform in the year ahead, great expectations of the incoming Republican US administration and hefty pricing for many asset classes, pulling in one's horns (without curling up a ball....) appears to us an appropriate strategy.

For further information:

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

STATISTICAL APPENDIX: QUARTER & FYTD TO 31 DECEMBER 2016

1. Monthly performance, exposure and NAV

	Investment return[7]	Cost imposition[8]	Net Return[9]	FY17 Return	NAV/share (cents)	Gross Exposure[10]	Net Exposure[11]
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%
31 Oct 16	4.9%	-0.7%	4.2%	22.4%	28.1	427%	137%
30 Nov 16	4.9%	-1.1%	3.8%	27.0%	29.2	541%	76%
31 Dec 16	9.0%	-0.8%	8.2%	37.4%	33.0	439%	74%

2. Equity exposure as at 31 December 2016 (as % month end pre tax shareholders funds):

	AUSTRALIA		OVERSEAS		TOTAL	
	percent	exposures	percent	exposures	percent	exposures
LONG	84.3%	19	172.2%	35	256.4%	54
SHORT	(16.9%)	5	(46.1%)	11	(63.0%)	16
INDEX	(44.0%)		(75.9%)		(119.9%)	
TOTAL	23.4%	24	50.2%	46	73.5%	70

3. Quarterly estimated unaudited contribution to gross performance (equity positions only)

Exposure	Contrib	LOC price ∆	Exposure	Contrib	LOC price ∆
Fiat Chrysler	+3.23%	+53.4%	Scottish Pacific	+1.41%	+22.6%[12]
Barclays PLC	+2.48%	+33.2%	Wells Fargo	+1.24%	+17.9%[12]
AP Moller Maersk	+2.04%	+15.9%	Marubeni Corp[13]	-1.00%	+28.6%
Bank of America	+1.84%	+42.0%	Tanker Invests	-1.18%	-23.1%
American Express	+1.79%	+15.7%	Twitter	-2.61%	-29.4%

4. FYTD estimated unaudited contribution to gross performance (equity positions only)

Exposure	Contrib	LOC price ∆	Exposure	Contrib	LOC price ∆
Barclays PLC	+4.42%	+62.0%	Vealls Ltd	+2.36%	+13.2%
Fiat Chrysler	+4.12%	+44.9%[12]	Aercap	+2.10%	+25.3%
AP Moller Maersk	+3,42%	+24.4%[12]	Pioneer Res[13]	-1.56%	+18.8%
American Express	+3.41%	+24.2%	Tanker Invests	-1.76%	-18.8%[12]
Bank of America	+3.17%	+67.3%[12]	Marubeni Corp[13]	-1.89%	+44.2%
ING Groep	+2.59%	+48.4%	Apple[13]	-3.11%	+22.7%

[7] 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
[8] All accrued expenses for company administration (eg. listing fees, audit, registry) divided by opening period net asset value and time weighted for equity raisings
[9] Calculated as 2 (above) minus 3 (above)
[10] 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
[11] 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
[12] price change from average entry price
[13] short sale position

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 31 December 2016 or such other dates which are stipulated herein. All statements are based on E72's best information as at 31 December 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.