ANNUAL REPORT
December 31st, 2012

2012 Performance

To December 31st, 2012 the change in unit prices of the **HughesLittle Value Fund** and **HughesLittle Balanced Fund** were as follows:

	Value Fund *(non-RSP)*	**Balanced Fund** *(RSP)*
Post-Distribution Unit Price	$14.76	$11.45
2012 Distribution	$ 0.05	$ 0.30
Pre-Distribution Unit Price	$14.81	$11.75
Unit Price on December 31st, 2011	$12.58	$10.13
Total Distributions Since Inception	$ 1.34	$ 3.93
One Year Performance	**17.7 %**	**16.0 %**

See attached Performance Summary for Additional performance results.

Company Results

Our portfolio companies continue to possess solid fundamentals and enduring competitive strengths. More and more of our research is focused on the competitive environment in which our companies operate. Competitive threats are one of the most potent company killers. Look at the smart phone market as an example, intense competition is reaping havoc. Retail has its own cemetery full of money-losing, uncompetitive businesses – department stores, restaurants, shoes, books, electronics, movie rental, music…there are more.

As well, the overall balance sheet risk in our portfolio companies – or the risks potentially caused by our companies taking on too much debt – is low…very low.

Most, but not all of our companies, delivered satisfactory gains in revenues and profits in 2012. And our overall returns on capital employed are well above the average business. Our companies continue to deliver these good results despite sluggish economic conditions in the United States and throughout much of Europe.

Increased earning power allowed many of our companies to repurchase meaningful amounts of their own shares and eight of our companies increased their dividends last year. One of our largest holdings repurchased 12 percent of their shares outstanding and a few others repurchased three to five percent of their shares. When a company's share price falls sufficiently below its intrinsic value, we generally favour companies repurchasing their own shares. Share repurchases – at the right price - are a rational, low risk investment that companies can make to increase intrinsic value.

Absolute Performance

Our long-term investment performance objective continues to be 10 to 12 percent per year. For certain, we will not achieve double digit results every year, so we are pleased with any year we hit that mark. To be clear though, it is the long-term 'compound average return' that matters to us most. Our inception numbers are still shy of our objective. Based on our experience, our assessment of our companies' prospects, and the inherent value in their current share prices, we are confident that we will achieve it.

Relative Performance

Both Funds' performance exceeded all the major stock indices last year, but not all indices. The MSCI Turkey Index for instance trounced us with a 60 percent return. In addition to the Indices reported on the attached Performance Summary, the MSCI All World Share Index was up about 13 percent in 2012. We expect to outperform these indices in most, but not all years. As well, we don't expect our 'long-term margin of outperformance' over the 50/50 benchmark to be as wide as it was in 2012 and 2011.

The performance of The HughesLittle Balanced Fund is independently measured against 92 other Canadian Balanced Funds. The HughesLittle Balanced Fund ranked second in this category in 2012 with a 16 percent return, first over the past two years with a return of 14 percent per year, and second over the past four years with a return of 16 percent per year.[1]

Manager Performance

Every year we set a few general goals for ourselves: "be rational, be patient and make no mistakes." Twenty years of investing has shaped the core of our investment approach: a company's operating and stock price performance will eventually converge. So being rational to us means constantly assessing whether the businesses we own are likely to perform well over a long period of time. If our companies perform well, so will the Funds.

Be patient. The Value Fund's assets grew by almost 50 percent and the Balanced Fund's by 33 percent in 2012. The excess asset growth over market value gains was attributable to new client money invested in the Funds. The temptation to immediately invest cash reserves must be resisted. We try our best to wait for share prices that present an attractive risk – reward opportunities. A few such opportunities came our way in 2012 and we were fully invested at year end.

Make no mistakes. There is no other way to say it - we fail at this one every year. We regularly buy at prices that go lower days later. We hold onto companies we shouldn't and pass on investing in companies we should – a few examples from a long list.

Ultimately what we do try to do is avoid making really big mistakes. Investing in companies that fall down and rarely get back up again is one obvious example. We also try to stay away from fragile companies with weak fundamentals, minimal competitive strengths, or companies we don't understand and therefore pose high risks for us. Examples include highly levered financial companies, most retailers, or companies subject to rapid change.

One way we test a business for quality is look at its ability to withstand economic and financial shocks, or negative events. Rarely, if ever, have we predicted the how, what, when or why of any particular event. But we do know that negative events are inevitable and clearly some businesses are more 'fragile' than others. A few examples: It doesn't take much of a disruption to 'normal' economic conditions to push passenger airlines, many commodity miners, retailers,

[1] The HughesLittle Balanced Fund is measured in The API Institutional Balanced Fund Survey. API measures periods of one year, two years and four years only.

or auto-makers deep into 'red ink.' In the smart phone market, new products quickly render existing products obsolete. Scarier yet is the fatal impact shocks to the financial system often have on highly levered banks. We will never forget how the financial shocks in 2008 obliterated several long-standing, prominent financial institutions.

Over the 20 past years we have witnessed negative events we could have never predicted. We have not been entirely immune to these events, made plenty of mistakes, and learned a lot. Through it all however, we managed to generate a decent record for our clients.

We expect the next 20 years will be the same as the past 20 but in different ways - a higgily piggily mix of surprises. We have learned that the best way to prosper in a volatile environment is don't waste time trying to predict what's coming…just be prepared. In fact, we will take this one step further: the more *prepared* we are the less *predictive* we need to be.

There is no magic to our preparedness. Our approach to making and keeping our clients wealthy is straightforward and rational. We do our own research; from that we try to only own competitively strong, well-managed companies. We do our valuation work; from that we try to make investments at rational prices.

Portfolio Review

During the fourth quarter The Value Fund added money to three existing holdings and added one new holding: all consumer products companies. The Value Fund also made one partial sale and sold one small position entirely.

During the fourth quarter The Balanced Fund added money to five existing holdings (consumer products, drilling services, oil and gas), added one new common stock holding (consumer products), and purchased several new bonds replacing bonds that had matured. All the new bonds are investment grade and have maturities less than three years. The Balanced Fund also eliminated two common stock positions.

We include a full list of the quarter’s buy and sell activity in the attached Investment Review.

As of December 31st, the Value Fund was 98 percent invested in 19 operating companies. The Fund owns eight Canadian companies, seven U.S. companies, and four holdings based outside of North America. The Value Fund's top five positions make-up 47 percent of the Fund's assets.

The Balanced Fund is 83 percent invested in the common shares of seven Canadian companies, six U.S. companies, and four companies based outside of North America. The Balanced Fund's top five positions make up 37 percent of the Fund's assets.

2012 Distribution

The Funds distribute their net income and realized capital gains to unit holders annually. The Funds do this so the Funds themselves do not pay tax.

Distributions for 2012 are $0.05 per unit for the Value Fund and $0.30 per unit for the Balanced Fund. The Value Fund's distribution is less than $0.01 of taxable capital gains per unit and the remainder is dividend income. Distributions are automatically reinvested in additional units of the Funds for each unit holder (unless we were instructed otherwise for Value Fund unit holders only).

Enclosed for unit holders of both Funds is a confirmation of your distribution. We will send Value Fund unit holders a T3 Supplementary over the next few weeks. Both the Value Fund confirmation and the T3 Supplementary give a breakdown of the types of income that made up the distribution. The T3 Supplementary form is necessary for income tax purposes.

Unit holders in the Balanced Fund are not sent a T3 Supplementary because the distribution is non-taxable for RRSPs, registered plans, and RRIFs.

Fund Expenses

The 2007 to 2012 Management Expense Ratios (MER's) for the funds were as follows:

	2012	**2011**	**2010**	**2009**	**2008**	**2007**
HughesLittle Value Fund	1.28%	1.29%	1.29%	1.33%	1.28%	1.30%
HughesLittle Balanced Fund	1.38%	1.42%	1.40%	1.41%	1.36%	1.36%

The MER reflects all expenses charged to the Fund throughout the year. These expenses include: investment management fees, audit, trustee, custodian, administration, and HST. Details of these expenses are disclosed in the Fund's year-end financial statements.

The MER is expressed as a percentage of the average assets within each Fund over the entire year. The performance results we report to you are after deducting these Fund expenses.

Financial Statements

The Funds' auditors are KPMG. KPMG will send audited Financial Statements for each Fund separately to all clients no later than March 31st, 2013. The audited financial statements include a complete list of each Fund's portfolio investments as of December 31st, 2012.

RSP Contributions

You may now make your RSP contributions to the HughesLittle Balanced Fund via online personal banking. Simply add "Canadian Western Trust Contributions" as a bill payee and use your 8 digit CWT account number. Please let us know if you make an on-line transfer so we know to watch out for it.

If you need any assistance please send Barb an e-mail at barb@hugheslittle.com or call her at 1 877 696 9799.

The final date for 2012 RRSP contributions is March 1st, 2013.

2013

Over the long-term, a company's share price should not outperform or underperform its underlying corporate performance. As such, we're focused on ensuring our companies' drivers of intrinsic value remain healthy and capable of generating acceptable returns. Company results in 2012 indicated that *intrinsic value growth* met or exceeded our objectives; we expect 2013 to be similar.

Another important part of our analysis is properly assessing *risk versus return*. This involves comparing the market price of every investment versus what we think it is worth – or the investment's intrinsic value. We call this the price-to-value discount. So, all else being equal, the bigger the discount of price-to-value, the lower the risk of loss and the higher the potential return.

Currently in the Funds, 40 percent of our positions have market prices at about a 40 percent discount to fair value and two-thirds are at a 25 percent discount. These price-to-value discounts are about the same as a year ago and in our view make for a favourable risk/return proposition.

We fully realize and appreciate that you have entrusted us with your financial assets. We continue to do our best to take proper care in the work we do for you. With our money invested along with yours, we are working hard to achieve good results.

If you have any questions or comments we welcome your calls or visits.

Regards;

Joe Little　　　　　Mark Hughes

January 14th, 2013