SECOND QUARTER REPORT
June 30th, 2012

Performance

To June 30th, 2012 the performance of the **HughesLittle Value Fund** and the **HughesLittle Balanced Fund** was as follows:

	Value Fund *(non-RSP)*	**Balanced Fund** (*RSP*)
Unit Price – June 30th, 2012	$ 13.91	$ 11.12
Unit Price – December 31st, 2011	$ 12.58	$ 10.13
Distributions Paid Per Unit Since Inception	$ 1.29	$ 3.63
Six Months	**10.6 %**	**9.8 %**
Annualized Return Since Inception	6.6 %	7.0 %
Inception – 50/50 Benchmark	3.3 %	2.8 %

- HughesLittle performance results are in Canadian dollars and are after all fees and expenses
- HughesLittle Value Fund commenced operations June 30, 2005
- HughesLittle Balanced Fund commenced operations August 31, 2005
- Benchmark is 50% S&P/TSX total return and 50% S&P 500 total return (in Canadian dollars)
- Past performance does not guarantee future performance

At HughesLittle, we try to present and discuss our results rationally; going easy on the excuses and fluff. Hopefully we provide you enough meaningful information and analysis that you can then decide if we are doing a good job.

We are now seven years in. There are three performance measures we'd like to comment on: short-term and long-term performance relative to the 50/50 benchmark and our absolute performance since inception. Recall, the 50/50 benchmark we use for performance comparisons and refer to throughout this report is weighted 50 percent S&P/TSX total return and

50 percent S&P 500 total return (jn Canadian dollars). When we refer to 'absolute' return we mean your actual return.

Short-term Relative Performance

Generally speaking, the investment industries' reporting of short-term performance is fraught with crazy-talk. In the short-term, particularly any period less than three years, do not under-estimate the role emotions and randomness play in stock prices. Entire sectors of the markets can fall out of favour or surge for inexplicable reasons. Most of the 'marketing' we've seen from the investment industry fails to acknowledge this. We are wary of any manager attributing a good short-term record to their own acumen or unique insights into the stock market. The ability to *consistently* predict the next *hot sector* – and then jump in – does not exist.

Having said that…on the attached "Performance Summary" you can see that *on a relative basis* the Funds' have recently been out-performing: for one year to June 30th the Funds are up between 10 and 12 percent versus about flat for the benchmark. Over the past two years and three years as well, our Funds are up 20 percent and 15 percent per year respectively, which is about double the yearly return for the benchmark and over both periods.[1]

This out-performance is partially due to chance (favourable at this time) and partially due to the types of companies we have NOT owned. For instance, about two-thirds of the 50/50 benchmark is weighted in companies of which we own very little: banking, energy, and base and precious metals companies. Share prices in these sectors, over the past 18 months in particular, have experienced market value declines. We do own drilling services companies (in energy and metals), two small positions in oil and gas producers, and one agricultural commodity company: all of which have held back our recent price performance. We have however been largely spared from any big price declines in any of our large positions.

Longer-Term Relative Performance

The Funds' seven year inception numbers are, relative to the 50/50 benchmark, about where we expect them to be over the long-term. We expect the benchmark index to deliver average

[1] For those interested: In the June 30th "Asset Performance Inc." Performance Survey of 81 Canadian Institutional Balanced funds the HughesLittle Balanced Fund is the number one performing fund year-to-date, one year, two years, and number two for four years (the maximum period API measures).

annual returns of about seven to eight percent. We expect our Funds to generate annual returns three to four percent per year above that – in the 10 to 12 percent per year range.

The benchmark index returns matches the average underlying operating performances we expect of the companies that make up the benchmark. And as we have said many times: stock prices should not under or over perform the operating performance of the companies themselves over time.

So in order for us to beat the benchmark our portfolio must accomplish two things. Firstly - and obviously - our portfolio companies must be different from the companies that make-up the benchmark. The Funds won't outperform the index if they look just like it. And secondly, our portfolio companies must also possess fundamentals and produce results superior to the companies in the benchmark. We have to be different and right.

As noted above the benchmark is largely made up of hundreds of banks, oil and gas producers and miners. Our Funds own only 18 companies, most of which are consumer oriented businesses. The differences between the Funds' portfolios and the benchmark are dramatic.

In terms of operating performance, our select group of companies has so far shown to have fundamentals superior to the 'average fundamentals' of the hundreds of companies that make up the benchmark. Over the past several years for instance – through a recession and bumpy recovery – our companies have on average delivered annual revenue growth of about 10 percent, average profit growth in the mid-teens, and capital returns above 20 percent. These results are well above the averages across all the companies that make up the benchmark and primary reason our inception returns are twice the benchmark's returns.

Long-term Absolute Performance

Now we will deal with the performance measure that matters most: a double-digit, average annual long-term return. After all, you cannot eat relative performance.

Since about the start of 2009 the Funds have delivered double digit annual returns. Once we go back more than four years and include the full impact of the 2008 market decline, the Funds' annual returns drop into the single digits.

Our long-term absolute returns, although improving, are still not where we want – or expect - them to be. We are not wavering in our objective to generate double digit annual returns over the long-term. Our conviction is based on 20 years of experience and what we believe to be a fundamental truth in investing: if a company's long-term operating performance is superior, its share price performance will be as well. As we have detailed in many of our reports: our portfolio companies as a group are generating the results necessary to drive satisfactory performance in our Funds. In fact, most of our companies have exceeded our expectations. What has happened though, are the share prices of our portfolio companies – as a group – have not kept pace with the operating performance of the companies themselves.

This gap between share price and operating performance has created price-to-intrinsic value discounts in many of our holdings. Although these price-to-value discounts are narrower than they were in early 2009, they are still excessive in some cases and have persisted for an unusually long time. We don't know when, but these price-to-value gaps will narrow – as they always have - and Funds' returns will improve.

Portfolio Review

During the second quarter the Funds added money to four existing holdings in financial services, consumer products, agriculture, and energy services. Both Funds also added two new positions and made modest partial sales of two others.

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

As of June 30th, the Value Fund is 98 percent invested in 18 companies. The Fund owns eight Canadian companies, five U.S. companies, and five holdings based outside of North America. The Value Fund's top five positions make-up 50 percent of the Fund's assets.

The Balanced Fund is 85 percent invested in the common shares of seven Canadian companies, five U.S. companies, and five companies based outside of North America. The Balanced Fund's top five positions make-up 39 percent of the Fund's assets.

Both Funds have experienced asset growth throughout 2011 and 2012. This growth reflects gains in market values of our holdings and net new investments from existing as well as new investors. We have been fortunate that the flow of money in and out of the Funds has not worked to our detriment. Meaning, we have never experienced material net outflows at the wrong time – forcing us to sell positions to raise cash to meet redemptions when prices are low and opportunities high. Our experience has been the opposite. Many of the Funds' investors *wisely* invest additional money during the inevitable price dips. This speaks well of the Funds' clients and positively impacts the Funds' long-term performance.

Miscellaneous

Enclosed with this report for clients are:

1. The 2012 Mid-Year Investment Review
2. Your Client Statement.

Kind Regards,

Joe Little Mark Hughes

July 13th, 2012