THIRD QUARTER REPORT
September 30th, 2012

Performance

To September 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 – September 30th, 2012	**$ 14.23**	**$11.31**
Unit Price – December 31st, 2011	$ 12.58	$10.13
Distributions Paid Per Unit Since Inception	$ 1.29	$ 3.63
Nine Months	**13.1 %**	**11.6 %**
Annualized Return Since Inception	**6.7 %**	**7.1 %**
Annualized Return S&P/TSX	5.9 %	4.9 %
Annualized Return S&P 500 CDN$	1.7 %	1.8 %
Annualized Return 50/50 Benchmark	3.8 %	3.4 %

Notes:

- *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*
- *S&P/TSX and S&P 500 are total return in Canadian dollars.*
- *Benchmark is 50% S&P TSX total return and 50% S&P 500 total return in Canadian dollars.*
- *Past performance is not a guarantee of future performance.*
- *Additional performance information is attached on the "Performance Summary."*

Share prices of many of our holdings have been rising steadily over the past three of years. We have not, as a result however, been active sellers. Yes, we have trimmed a few large positions, but mostly, we are holding steady.

Some investors rarely sell. If you scan any list of the world's wealthiest people this is understandable. Most personal wealth has been built-up by owning just one company over many decades. Several descendents of Sam Walton (who started Walmart in 1962) are among the world's wealthiest; can you imagine where the grand kids would be if Sam had of traded the company away in 1978 when Walmart had 250 stores and $1 billion sales because he was anxious about an economic slowdown?[1] Or if Sam tried to 'lock-in' a nice profit on his Walmart shares as they were hitting an historic high price in the bull market of 1985?[2]

If the Waltons are at one end of the scale, the other end is made up of traders. Traders don't think in terms of owning businesses, they trade pieces of paper. Traders think in terms of price, not value. And when the price of a stock ticks up, small profits are quickly realized.

Building wealth through trading must be difficult. Think about it: if you are constantly flipping stocks you are constantly making decisions. When to buy and what price? When to sell and what price? What to buy next? Then repeat again and again. So many decisions. So many different stocks. Can anybody really be that smart that often?[3]

Furthermore, because of the way capital gains taxes work in Canada, traders don't have to be *merely right* when they buy and sell, they have to be *extra right*. Capital gains taxes, or taxes on investment profits, are only paid when gains are *realized* by selling investments. The capital gains tax rate works out to be about 25 percent of your realized profits. Gains on investments that are not sold – or held – are considered *unrealized gains* – these gains are tax deferred.

Consider a $1,000 investment that returns 20 percent a year. The market value of the buy-and-hold portfolio at the end of year one is $1,200. The market value of the trader's portfolio after he's sold the investment and paid his capital gains taxes is $1,150.[4] That is a $50 or a four percent haircut to the trader's portfolio versus $1,200 still invested in the buy-and-hold portfolio. If the trader's objective is to build capital he needs to be incrementally right on his next trade by

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[1] Since 1978 Walmart has endured four recessions and currently has 10,130 stores and $460 billion in revenues.
[2] From high price set in 1985, over the next 27 years, two things have happened, (1) Walmart's shares fell in price in a single year by more than 20 percent at least 12 times, and (2) Walmart's share price has overall increased by about 14 percent per year. Buy-and-hold shareholders of Walmart over these 27 years have turned an initial investment of $100,000 into $3.5 million.
[3] The evidence suggests not - traders are conspicuously absent from every 'list-of-the-rich' we've ever seen.
[4] Net of commissions, the trader's proceeds would be $1,140 through an on-line broker and likely less than $1,100 through a full service broker.

about <u>nine percent</u> to have the same amount of capital accumulated after just two years as the buy-and-hold portfolio.

At HughesLittle, we have to own more than just one company, we are managing your money, not just our own. We try however, to be Walton-like in our approach. Once we identify a company that has enduring qualities, it makes sense to own it as long as those qualities exist. Furthermore, creating a diversified portfolio of businesses that truly possess these "enduring qualities" is no easy task. Exceptional businesses that stay exceptional are rare - so we hang on to them.

To be clear we don't have a stubborn aversion to selling. Each company is assessed individually and we'll sell when it makes sense. Historically, some of the reasons we've sold positions are: (1) a forced sale into a takeover, (2) the company's exceptional qualities deteriorate or were never there to begin with and it took us a while to realize that, (3) the company's share price rises significantly above fair value (this one's very rare), and (4) a company's share price rises so that the company's percentage weighting in the portfolio becomes excessive.

Currently, we do not have plans to sell any of the Funds' companies. All of our companies continue to perform as expected or better. Balance sheets are healthy and their competitive strengths appear intact. Rising earning power continues to boost intrinsic values commensurately with share prices. We also own several companies with share prices still at steep discounts to intrinsic values.

Portfolio Review

Both Funds have grown in size this year due to market value gains and new money invested. The Value Fund now has assets of about $45 million and the Balanced Fund $25 million.

During the third quarter the Funds invested in two existing consumer products positions and one drilling services company; the Funds also made partial sales of one out-sized holding.

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

As of September 30th, the Value Fund is 96 percent invested in 18 companies. The Fund owns eight Canadian companies, five U.S. based companies, and five holdings based outside of North America. The Value Fund's top five positions make-up 48 percent of the Fund's assets.

The Balanced Fund is 84 percent invested in the common shares of six Canadian companies, five U.S. companies, and five companies based outside of North America. The Balanced Fund's top five positions make-up 38 percent of the Fund's assets.

2012 Distribution

The distribution per unit for the HughesLittle Value Fund is estimated to be $0.25 cents per unit; $0.20 cents per unit being the capital gains portion.

If you would like to receive your distribution in cash please let us know by mail, email or fax by December 15th.

The distribution for the HughesLittle Balanced Fund is non-taxable for unit holders.

Miscellaneous

The Value Fund's trustee, RBC Investor Services, recently dropped "Dexia" from its name. Cheques to be invested in the Value Fund are to be made payable to **"RBC Investor Services"**

Enclosed with this report for clients are:

1. The 2012 Third Quarter Investment Review
2. Your Client Statement.

Kind Regards,

Joe Little Mark Hughes

October 12th, 2012