SECOND QUARTER REPORT
June 30th, 2013

Performance

To June 30th, 2013 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, 2013	$16.73	$12.75
Unit Price – December 31st, 2012	$14.76	$11.45
Distributions Paid Per Unit Since Inception	$ 1.34	$ 3.93
Six Months	**13.3 %**	**11.3 %**
Annualized Return Since Inception	8.3 %	8.3 %
Inception – 50/50 Benchmark	5.0 %	4.1 %

- 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

It was a good first half. Our portfolio companies continued to generate solid results while stock markets bobbled. The S&P/TSX Index for instance had, over the second quarter, two separate downward moves of minus eight percent and one upward move of plus seven percent. The S&P 500 was less erratic; it surged 25 percent from January to mid-May then fell six percent in June.[1] This price volatility was good for us. The Funds had cash positions over 10 percent, so when prices dipped, we invested more money into several existing positions and added two new ones.

[1] S&P 500 Index performance results quoted are in Canadian dollars.

We continue to hold substantial investments in consumer products and services businesses. The Funds' 11 consumer oriented businesses make-up about two-thirds of the Funds' common stock holdings.

The revenues and earnings our consumer businesses generate are approximately 25 percent in Canadian dollars, one-third in U.S. dollars, and the remainder in various foreign currencies. The foreign currency revenues are growing the fastest.

We have long preferred consumer products and services businesses over most other types of businesses, modern banks for instance. The economics, uses, and appeal of soda pop versus credit default swaps is for us an easy decision. We can see, touch, and easily compare the consumer goods in which we invest. Financial products, like derivatives, are so abstract they turn financial reports into a quagmire.

When we evaluate a company, we are usually thinking about owning it for 10 or more years. So we *reverse engineer* each company; open it up and check out all the moving parts. We want to understand how and why a company makes money. Only then can we assess what's possible in the future.

One factor we consider closely are the barriers to entry into a company's markets or industry. Barriers to entry protect a business from destructive competitive forces. Competition can be a company killer; we'd rather avoid the painful fate of the video store as an example. There are few rules of thumb when assessing barriers to entry; nor any guarantees that existing barriers will last. Many barriers to entry that once seemed impenetrable have cracked or fallen. The BlackBerry franchise is another example that comes to mind.[2]

There was a time when the BlackBerry device seemed unstoppable – everybody had one or soon would. Not too many years ago the BlackBerry held over 50 percent of the U.S. smartphone market. Today, competitors have whittled that share down to about five percent. The rapid change in this business leaves us clueless as to how BlackBerry or any of its competitors will fare in the years to come.

[2] BlackBerry refers to the smartphone and the company. The company recently changed its name from Research in Motion (RIM) to BlackBerry.

Generally speaking, we prefer barriers to entry that are easy to define, have lasted for decades, and have under-gone little change. We think we own several global consumer brands that meet these requirements.

One reason we study barriers to entry so closely is they allow businesses to more easily raise prices and grow volumes of their products and services. Pricing power can be tremendously rewarding: incremental dollars from higher product prices flow right to the bottom line and are a major driver of earnings growth. If a company is regularly raising prices chances are competitors are struggling to enter that market by offering lower prices. Furthermore, when there are limited new entrants to an industry, it is easier for incumbent companies to increase volumes in their growing markets and capture share in new markets.

We've been investors in consumer products and services businesses for over 20 years. Unequivocally, the companies that have generated the best financial records and highest shareholder returns have been companies with pricing power. Consumers of chewing gum, chocolate, tobacco, alcoholic and many non-alcoholic beverages will attest to the price hikes of these indulgences. Consumers who invest in these products have also profited along the way.

The Funds own companies in each of these consumer goods categories, plus others. We own several brands that haven't changed much in decades, have seen competitive threats come-and-go, and have long dominated their markets. As a result, most of our consumer companies enjoy combined yearly price and volume gains in the five to ten percent range. This may not be explosive growth but we think it is solid and an important factor in generating acceptable returns.[3]

Portfolio Review

During the second quarter the Funds invested in two new companies, added money to five existing holdings, and eliminated our holding in Whitecap Resources Inc.

Whitecap is the oil and gas producer that purchased our shares in Midway Energy in 2012. We have owned shares in Midway/Whitecap for about five years and made a profit of about eight

[3] Performance Update: In the API Institutional Balanced Fund Performance Survey to June 30th the HughesLittle Balanced Fund managed to stay on the podium for all periods measured: 3rd over three and six months, 2nd for one-year, and 1st over both two and four years. There are 81 Funds in the survey.

times our initial investment. Whitecap, when sold, was a two percent position in the Value Fund and a one percent position in the Balanced Fund.

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 was 93 percent invested in eight Canadian companies, six U.S. based companies, and four holdings based outside of North America. The Value Fund's top ten common stock positions make-up 70 percent of the Fund's assets.

The Balanced Fund is 85 percent invested in the common shares of seven Canadian companies, six U.S. based companies, and five companies based outside of North America. The Balanced Fund's top ten common stock positions make-up 60 percent of the Fund's assets.

Miscellaneous

Two reminders: Our new office address is:

HughesLittle Investment Management Ltd.
Suite 690, 688 West Hastings Street
Mail Box 19
Vancouver, B.C. V6B 1P1

If you are making an investment cheques are made payable as follows:

The Value Fund: *RBC Investor Services*
The Balanced Fund: *Canadian Western Trust*

Enclosed with this report for clients are:

1. The 2013 Mid-Year Investment Review
2. Your Client Statement.

Kind Regards,

Joe Little Mark Hughes

July 11th, 2013