

TEN-YEAR REPORT

June 30th, 2015

The **HughesLittle Value Fund** started 10 years ago. The **HughesLittle Balanced Fund** is 10 years in on August 31st. To mark the occasion we will use this Report and the Investment Review to reflect back on our first decade.

The Value Fund's ten-year compounded return is 10.3 percent per year. Overall, that is a pretty good number. If we keep-up that rate we will multiply your capital 10-fold every 25 years. That's the 10-10-25 rule. Never forget it.

We think our approach to managing money is a big part of how we achieved these results. We discuss some of the more important elements of our investment approach in this report. We've also made some mistakes. We discuss these as well. By looking at where we went right and where we went wrong, we hope to draw a few lessons from our first ten years and strive to do better over the next ten.

Following the section on returns, we also discuss two other aspects of running an investment management firm: **Client Service**, and the **Back Office** which includes compliance, transactions, and portfolio accounting. These other elements of investment management may not be as visible as returns, but they are critical to the long-term success of HughesLittle and in turn your money invested with us.

In the Investment Review we describe our experience owning certain companies over the past ten years.

Whether you have been a client for 10 months or 10 years this discussion should give you some insight into how we think and manage HughesLittle.

Investment Returns

Over the past ten years we have invested in 48 companies. We have lost money on 10 companies and made money on the rest.

Here are a few observations:

1. In terms of 'dollars made' or 'market value' about 95 percent of our gains have come from large consumer oriented or financial services companies.
2. With one minor exception, we have consistently made money investing in what we think is one of our core areas of competence: global consumer products and services.
3. Our biggest gains have come from companies we've held the longest.

4. Approximately 80 percent of the Funds' total 10-year gains came from 12 positions, 10 of which we still own. The exceptions are a company that was taken private and one we sold.
5. The Funds have owned their largest two positions for almost seven years. Their compound return has been about 30 percent per year. These two companies have generated about one-quarter of the Funds' total gains. They are both large consumer services companies in the same industry. We still own both companies.
6. In terms of 'percentage' returns, commodity-type companies have generated our highest and lowest.
7. Seven of our ten 'realized' losses came from commodity oriented companies.
8. Approximately 25 percent of the Value Fund is currently made up of five consumer products companies that, as a group, have 'to-date' generated a return in the mid-single digits. We have owned these companies over a range of one to eight years. These five companies have not yet met our return objective. We are however continuing to invest more money in each of them because they represent some of the most promising return prospects in our portfolios.

At the top of our list of 'contributors to investment results' is **Research and Analysis**. The ultimate objective of our research is to find assets or securities that will generate a satisfactory return. We invest in operating companies. Choosing the right companies in which to invest is our most important job.

Businesses and industries can be complicated. In some years a business can appear unstoppable and in others shaky. Success over the long-term requires a deep understanding of the long-term drivers of business value, probable risks, and a perspective on the changing operating conditions of several industries.

Most of the information we use comes from the companies and industries in which we have an interest. We use public documents such as annual reports and those filed with Securities Regulators such as Annual Information Forms, Proxy Statements, and 10K statements. We attend presentations by management, visit companies and their operating regions, attend industry conventions, read trade publications, and study competitors.

We also regularly consult with an extensive network of people who work in the industries in which we have an interest. To be clear, these contacts are not giving us 'inside information.' They do however provide us with 'informed views and opinions.' Tapping into the right people gives us a tremendous advantage.

We compile and analyze this research over many years to gain a long-term perspective. From this we assess the companies' future prospects, risks, and estimate the business's current value and what it may be worth in five to ten years.

There is no substitute to doing our own research and doing it well. There are no short cuts. We have - by far - made our best decisions when we have done our own research and valuation work. For this reason we have gradually become more isolated from the general investment community. We do not consult other investment managers or brokerage analysts when making

decisions. We want to own companies that we understand and not own something just because 'Warren Buffett owns it.'

Safety First: Our appreciation for safety has grown over the years. Though not entirely for reasons that you might think. Experience has shown us that one of the best ways to enhance our 'returns' is not to look for 'higher return' investments, but rather find ways to limit our 'losses.'

The mathematics are persuasive: a 100 percent gain is required to recover from a 50 percent loss. This means that every loss must be offset by a much bigger gain. Or, the more losers we have the smarter we have to be with our winners.

In practice, our "safety first" approach means that by narrowing our range of possible outcomes we think we will improve our overall outcome. The next few paragraphs illustrates this point.

In the early years of HughesLittle we made several small investments in commodity oriented companies (mainly oil and gas). Our strategy in this area was to invest a small portion of the portfolio in companies run by familiar, experienced managers that owned what appeared to be high quality (low risk) projects. Despite limiting our oil and gas investments to companies that passed this quality test the range of outcomes was immense. We were both spectacularly right and spectacularly wrong.

We did have some exceptional gains in oil and gas companies, one increased eight-fold. There is no denying however that seven of our ten losses have also come from commodity-type companies. It is painfully clear, this is not the pond we should be fishing in. The lesson we draw from our experience is this: the very nature of many commodity companies is high return/high risk. Despite our best efforts, the range of outcomes will always be wide. And gaining an appreciation of the true risks, at least for us, will always be exceedingly difficult.

Contrast this experience with our investments in consumer products and services companies. With only one minor exception, we have made decent to exceptional returns in consumer oriented companies. The 'decent' returns are in the mid-single digits per year and the 'exceptional' ones have been all over 20 percent per year. We haven't had any consumer companies that have gone up ten-fold, but in 'dollar terms' this is where we have - by far - made our biggest and most consistent gains.

The lessons here are as obvious as they are timeless: We are far better off by limiting our investments to those companies with a narrow range of possible outcomes - moderate growth/moderate risk. The fundamentals that generate consistent long-term returns are the same ones that limit losses. At present, we think the Funds are invested in companies that possess the fundamentals to generate a narrow, yet satisfactory outcome. Our current portfolio companies are tough to compete with, financially sound, possess solid drivers of long-term growth, and have manageable risks.

Follow Long- Term Fundamentals Not Share Prices: During the 2008/09 stock market rout many share prices fell 40 to 60 percent, some worse. During that period, we kept our eyes squarely on the underlying fundamentals of our companies. The vast majority of our companies

were solid. Their competitive strengths were in-tact, balance sheets healthy, corporate managers behaved rationally, and financial results were stable or growing. The only thing faltering were share prices.

We concluded severely weak share prices were not due to weak underlying values. As share prices swooned we invested more money in several existing holdings and added a few new ones. In retrospect we made some of our highest-return investments over the past ten years during the fall of 2008 and spring of 2009.

Even after 25 years of investing in common stocks we are baffled by how often share prices do not reflect company fundamentals. We have been well served however by acting on these price-to-value disparities rather than speculating on why they exist.

Invest for Absolute Not Relative Returns: We will be satisfied if our long, long returns match our first decade. This is an entirely different mindset than specifically trying to match or outperform indices like the TSX/S&P or MSCI ACWI.

We own the companies we own for two reasons. Firstly, we think they will generate double-digit returns. And equally important, all have a low risk of collapsing through most economic scenarios. We give zero consideration to whether our portfolios resemble any stock index in any way. We are trying to behave rationally, not conventionally.

This means of course that our portfolios look and behave dramatically different from any of the stock indices money managers are commonly compared to, such as those listed above. The TSX/S&P Index for instance is 70 percent weighted with Canadian based banks, oil and gas companies, and metals/mining companies. Our portfolios on the other hand have minimal exposure to these sectors.

Our differentiation from the stock Indices has a few short and long-term implications. If for instance the banking and energy sectors experience a period of robust share price performance we - and you - must be prepared that we may lag the S&P/TSX Index. Although we may look out-of-step for a few years, we are okay with that as long as we are confident that our companies have a high probability of achieving double digit returns over the long-term.

Client Service

In addition to generating satisfactory returns, we try to make our 'dealings' with you simple, accurate, and hassle-free. This mainly involves providing you with relevant information on your account, accurate performance measurement, accurate client statements, and diligence in conducting transactions.

We structured HughesLittle from the beginning in a way that makes meeting your 'service' expectations easier. We only have two Funds and 10 private accounts, all with high minimums and invested in the same companies. Compared with other firms our size, we have relatively

few individual accounts. This allows us to deal with you directly. We have no paid middlemen or sales people.

Our structure has made for slow, manageable asset growth designed to not negatively impact investment performance or service quality. We have no plans to change this approach.

Back-Office: Compliance, Administration, & Accounting

Mark and Barb, both Chartered Accountants, are responsible for this part of our firm. They both have 20+ years in the investment management business.

We are a small staff. We like it that way. We want to spend our time managing investments, not people. Three out of the four of us own HughesLittle Investment Management Ltd. We are accountable for everything that happens here.

We believe HughesLittle, with a simple structure and a small group of competent people, can accommodate future asset growth for many years to come.

HughesLittle Investment Management Ltd.

Joe Little

Mark Hughes

Barb Rogers

Shafaz Jivani¹

¹ Shafaz joined us two years ago. He is primarily involved in research and analysis as well as learning other facets of the investment management business.