



As you are aware the objective of the Wentworth Williamson Fund (the Fund) is to generate superior returns to our competitors over the long term by acquiring a select portfolio of value-driven investments. We aim to protect our clients principal while growing capital well above the prevailing cash rate over the medium to long term.

INVESTMENT APPROACH

The prices of shares tend to vary far more than the value of the underlying businesses. Some of the factors that contribute to this are:

- General market sentiment towards equity investments as a category
- Management changes
- Country-specific issues
- Market's view that the business model is broken (at least in the short term) or conversely over optimistic expectations and
- Lack of sell-side research due to size or free float in the shares of the company

We aim to invest in companies that in our view fall below their underlying value (often for the reasons mentioned) and sell when the price rises above our assessment of fair value.

The key aspect of our investment process is determining the underlying or intrinsic value of the businesses. We therefore spend a great deal of time developing differentiated information that helps us determine the intrinsic value of a target company. This involves rigorous research and analysis of the industry and competitors, in order to construct a detailed picture of the dynamics of the market and investment being reviewed.

By not limiting ourselves to any market capitalisation size or sector, and by allocating more time to research and investing (rather than trading), we believe this strategy gives us a structural competitive advantage to generate returns in excess of our benchmark.

The current composition of the portfolio is set out in the Appendix on page 3.

TO BE IS TO DO

We will be unwavering in the pursuit of generating above market returns in the medium to long term for clients.

For those who have invested with us previously, our behaviour will be similar to that which you have observed from us in the past.

1. We **resist crowd psychologies**. When we acquire investments it is likely the companies are unpopular with investors (and possibly actively shorted by hedge funds) or simply currently under the radar and overlooked by most investors and market commentators. With our value investing approach, we resist paying up for future earnings.
2. We are **benchmark unaware** and therefore able to pursue most ideas regardless of sector or market capitalisation. Furthermore, protecting your capital is very important to us, we have the flexibility to significantly vary our cash levels. Generally, you should anticipate us holding low levels of cash during periods of share market weakness and start to exercise more caution when investors are coerced up the risk curve. We may be seeing signs of investors becoming complacent in certain markets and sectors already! We are unlikely to get market timing exactly right in the short-term, but over the long-term, we hope to profit from market fears and excesses.

3. Over time we are likely to own between 10 and 25 well understood investments. When running such a **concentrated portfolio and value strategy** it is important that we stick to our rules and philosophies. We seek businesses with long histories of profitability that are trading on low normalised earnings multiples, along with sensible capital structures.
4. We are conscious that **after tax returns are important** to you which is one of the reasons why our stock turnover should average ~25% per annum over time. We will not fall in love with our investments, when they become expensive we will divest them from our portfolio. If we see originally unforeseen circumstances or our investment thesis changes, we will also trade out.

We started the Fund with 100% cash on 27 September 2013 and, by the end of 2013 we were ~60% invested in equities with 11 investments that we think will generate very good returns over the next ~3 years. As referred to previously, our detailed portfolio is included in the Appendix. We will elaborate on our investment thesis on many of our holdings from time to time in future communications. It's early days for our Fund and we have much to do.

LOOKING FORWARD

We think the current temperature of the broader equity market is a little more heated than we would like. Most fund managers generated very good absolute returns over the past year. Going forward our Fund is unlikely to be closely correlated with the broader stock market and we are optimistic we will generate very good returns over time. To date, we have selected a number of deep value mid-sized companies in the process of earnings recoveries and a handful of promising small companies whose share prices have been left behind in the rush.

We will remain patient and slowly increase the number of investments and our equity exposure as opportunities arise. We remain patient, focused and committed.

Thank you for investing and joining us on this journey

Yours faithfully,



James Williamson

Fund Manager

APPENDIX

The Fund's Portfolio (unaudited)

As at 31 December 2013

COMPANY NAME	% OF FUND
Industrial	7.0%
Consumer Staples	6.5%
Consumer Staples	6.3%
Consumer Discretionary	6.1%
Real Estate Services	6.0%
Industrial	5.9%
Consumer Discretionary	5.4%
Consumer Discretionary	5.4%
Real Estate Investment Trust	5.0%
Commodity Chemicals	3.1%
Other equity holdings	0.7%
Total Equity Exposure	57.4%
Net Cash	42.6%
Total	100%

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