WENTWORTH
WILLIAMSON

As you are aware, the objective of the Williamson Wentworth 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.

A REMINDER - 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 5.

PATIENTLY PREPARING FOR TOMORROW

The Australian stock market has been generous to investors in recent years, including the early months of the year to June 2014, as highlighted in the graph below. Even the share price of Australia's largest listed company, the Commonwealth Bank of Australia, increased substantially by over 50% and 100% over 3 and 5 years respectively (excluding dividends and the added benefits of franking credits). Perhaps the sideways meandering of the stock market in recent months coupled with the enthusiasm of investment bankers and brokers to peddle a raft of new public listings adds credence to the school of thought that investors need to be even more cautious and selective at this time.

Source: Factset

For the June quarter our Fund increased 2.6%. Our methodology of being a medium to long term value investor means we are not fixated on short term unit price movements, however, for the many friends and associates that joined our Fund in May we are conscious that the value of our Fund retreated about 1% in June. Notwithstanding that this was a better performance than the S&P/ ASX 300 AI, which fell 1.4% in June, and too short a period to draw any conclusions from, our Fund has more than regained that lost value during the first weeks of July.

Going forward we see promising signs, particularly with our three leading equity investments: Transfield Services (TSE), UGL Limited (discussed in the March quarterly report) and our under-the-radar investment in beverages.

BOWLED SLOW AND SHORT: TRANSFIELD SERVICES LIMITED

The share price performance of our largest investment, Transfield Services (TSE) has fallen dramatically declining -60% and -50% over 3 years and 5 years respectively, while the likes of Commonwealth Bank doubled. This negative performance brought TSE to our attention. After a brief period of averaging down our entry price, we are now generating a satisfactory return. More importantly, we believe this turnaround story is still pregnant with substantial upside for the patient investor.

Source: Factset

TSE has a long profitable history. Founded as a private company in 1956 the company developed into one of Australia's leading providers of operations and maintenance service solutions in Australia. At the time of the initial public offering in early 2001 (at listing the share price was $1.60) the company was presented to investors as an investment opportunity with strong growth prospects with a bullet proof balance sheet (no debt attached to the services business, the $113.2m of borrowings shown on the balance sheet was non-recourse associated with its power generation infrastructure investments). Over the next couple of years TSE management led the company down the path of acquisitions (including offshore) and increased gearing seemingly giving investors what they wanted, fuelling further share price increases. In 2007 the TSE share price peaked over $10 with a price earnings multiple ~20 times. During this period, judging by the share price and favourable broker analyst recommendations at the time, few realised that the risk profile of the Group had increased substantially. The Global Financial Crisis proved to be a rude awakening for TSE, leading to management changes and impairment charges. Unfortunately the acquisition binge culture did not stop with new management. The company completed the debt and equity funded drilling rigs business acquisition on peak earnings in late 2010 (Easternwell). Today profitability from the minerals and geotechnical drilling rigs acquired as part of the Easternwell acquisition have been wiped out with only profitability from the coal seam gas well servicing rigs remaining.

After this introduction to TSE you may be questioning why this company is considered one of our key investments. Firstly the share price has been one of the worst performing on the stock exchange in recent years and expectations for the company have been lowered considerably. In fact, you will be hard pressed to find any research analysts with a positive view on the company. We may well buy a lemon occasionally but hopefully only for the price of a lemon and without unrealistic earnings expectations.

Secondly, we think the appointment of Graeme Hunt as Managing Director and CEO was a step in the right direction. He has a good track record with over 37 years of industry experience, 34 of those years with BHP Billiton. More recently the appointment of Vincent Nicoletti as Chief Financial Officer (also ex BHP Billiton) and the election of well-regarded Diane Smith Gander as the non-executive independent director provides us some comfort that management and oversight of the company is in good hands. In a very short period of time Graeme has already injected life into the business by completely overhauling the risk management and tender process along with a rigorous approach to reducing costs and still unacceptably high gearing levels. The unwinding of some of the excesses of the past will still take some time but we believe TSE has turned the corner.

Thirdly, the core traditional services business in Australia and New Zealand (~70% of FY14 earnings) remains in good health and represents the bulk of earnings diversified across a number of customers and sectors. This includes managing commercial property & facilities management, operating large scale assets (i.e. Sydney Ferries), contracts on key infrastructure projects (i.e. Australia's National Broadband Network) and responsibility for managing other government owned facilities (support services and welfare at Manus Island and Nauru more recent examples). Furthermore, earnings from the Easternwell coal seam gas well servicing rigs (~24% FY14 earnings) not only look secure but look likely to grow over time as the number of rigs in the market will have to increase to keep up with substantial demand over the next decade.

A perverse extension of human nature is to tend to see a company as higher risk immediately post a profit warning– surely the point of highest risk for an investor was prior to the share price plunge? High risk in our language is the increased chance of crystallising a loss. Along this line of thinking we don't view TSE as a 'terrible business' or 'high risk' simply because it has disappointed investors. Frankly speaking TSE is a business with some good and bad qualities. At the current price we TSE as a good vehicle to further enhance the value of your investment. However, when and if appropriate, from time to time we will take profits.

LOOKING FORWARD

We believe we are navigating through a tricky period with plenty of average businesses trading on extended valuations. This is the time to be patient; we only put our cash levels to work when we see opportunities to make good money at acceptable levels of risk.

Thank you for partnering with us on this journey and for your continued support.

Yours faithfully,

James Williamson
Fund Manager

APPENDIX

The Fund's Portfolio (unaudited)

As at 30 June 2014

Company Name	% of Fund
Industrial	7.4%
Industrial	7.4%
Beverages	7.3%
Real Estate Investment Trust	7.0%
Food and Staple Retailing	6.3%
Consumer Services	6.2%
Consumer Discretionary	6.2%
Real Estate Services	5.9%
Consumer Apparel	5.8%
Other Investments	6.6%
Total Equity Exposure	**66.3%**
Net Cash	33.7%
Total	**100**%

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