WENTWORTH WILLIAMSON

Quarter ending 31 December 2014

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.

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
- The market taking the 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 above) 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 evaluate. 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.

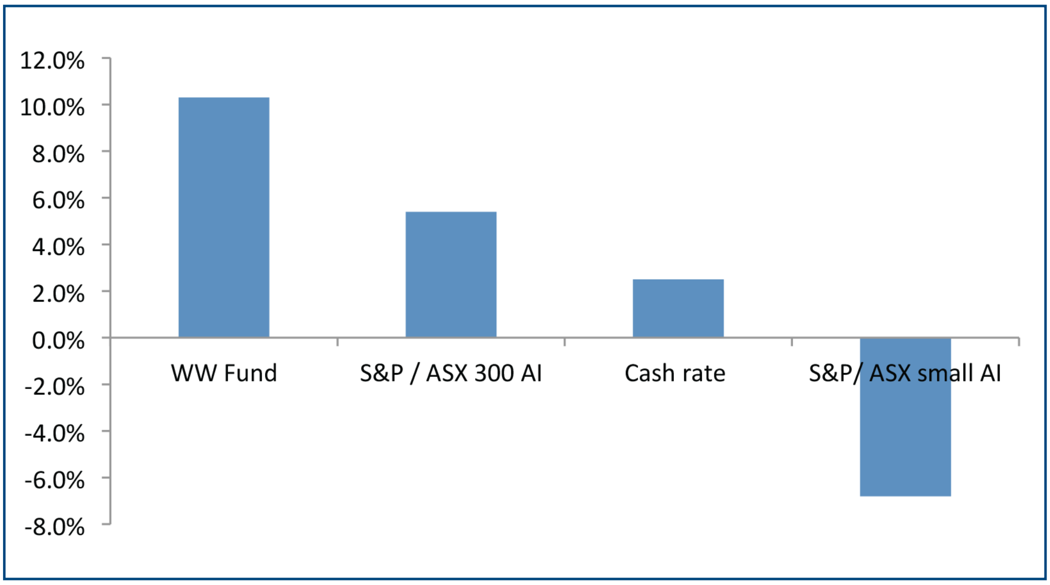
By not limiting ourselves to any market capitalisation size or sector and by allocating more time to research and investing (rather than trading) we believe this strategy gives us a structural competitive advantage to generate returns in excess of our benchmark.

The current composition of the portfolio is set out in the Appendix on page 5.

DECEMBER 2014 QUARTER

For the 2014 Calendar year our Fund increased 10.3% net of all fees, this compares favourably to our benchmark (cash rate plus 2.5%). The S&P/ASX 300 Accumulation Index increased 5.4% and the S&P/ASX Small Ords Accumulation Index declined by -6.8%.

Returns Comparison for 2014 Calendar Year



The final quarter of the year was relatively disappointing with the fund only increasing by 0.6%. Whilst we realised an approximate 100% gain on our cost base of Transfield Services (detailed discussed in our June 2014 Quarterly Report) shares we recognised that the timing of our investment in Metcash was a mistake and we exited from Metcash completely. In contrast, we substantially increased our interest in UGL on share price weakness. So why UGL?

UGL LIMITED

In our March 2014 quarterly report we stated that "we anticipate considerable upside going forward" from our investment in UGL. Although six months is not normally a long enough time to pass judgement it is disappointing the share price has deteriorated further as the company was already trading on a significant discount to our intrinsic value. The company remains firmly entrenched as one of the top 5 most shorted (see table below) and one of the most unloved and in our opinion misunderstood companies on the Australian Stock Exchange. As we have deployed more of the Fund's capital into the company, further communication on UGL is warranted.

Top 5 Shorts on the ASX

Company	Short Position
Myer Holdings	16%
Acrux	13%
JB Hi-Fi	13%
UGL	12%
Regis Resources	11%

Source: ASIC, 7 January 2015

Firstly it is important to keep in mind that Geoff and I have done well over time by selectively investing in companies that are widely disliked and where there is a perceived level of uncertainty or visibility over future earnings. Our investment in Transfield Services is a classic example where we deployed this strategy successfully, although in most cases we do not realise substantial gains as in Transfield so quickly.

There are normally good reasons why a company is disliked by the investment community and this is certainly the case for UGL. In recent years disappointments became a regular occurrence as earnings from the mining industry collapsed in the engineering division. When we entered the register we could not be totally sure that we had reached the end of downgrade cycle in the engineering division (although admittedly we were optimistic this was the case) but were comforted by the fact that our overall position was hedged by the DTZ global property services business which was subsequently sold to a private equity consortium.

Unfortunately the Ichthys LNG fixed price Power Plant construction project cost blow-out in the engineering division was announced on the 6th of November last year, just days after the company confirmed earnings guidance at its Annual General Meeting. This appears to have been the final straw shattering any remaining investor confidence amongst Institutional and other investors in the company leading to a share price reaction, which in our view is totally out of proportion to the potential loss on this contract. Despite all the negativity, we see three compelling reasons to buy UGL shares, now a dedicated engineering and maintenance services company, at current price levels:

1. Strong recurring revenue base

When we scoured through the wreckage of companies that serviced the mining industry two companies stood out from the rest in terms of having a strong core base of annuity income; Transfield Services and UGL Limited. In addition, by the time we reviewed Transfield and UGL the mining industry only represented a minority proportion of income for both companies anyway. Despite UGL's mediocre earnings disclosure it is possible to piece together a reasonably accurate picture of recurring annuity revenue (refer to table below).

Contract Description	Revenue estimate $m p.a.
Metro Trains Melbourne – consortium that operates and maintains Melbourne passenger rail network to 2017 with options for up to an additional seven years.	300
Maintenance services on Sydney passenger rail fleet for Railcorp (>1,000 passenger cars) until 2019	290
Loco maintenance + spare parts & maintenance	230
Facilities maintenance including operating all Chevron Western Australian assets, including the Gorgon LNG project until 2019 and other maintenance contracts	700
RECURRING ANNUITY REVENUE	**1,520**

Excluding the Ichthys Power Plant cost blow-out which has been widely reported, UGL is estimating Group EBIT for this fiscal year of approximately $100m. Importantly at current EBIT levels we estimate about 60% of this profit is generated from annuity like contracts. Furthermore, we see promising developments which suggests this income is likely to grow over time. Although, we are reluctant to hold Australian oil and gas assets directly at this time, we recognise that many completed or near to completion LNG plants will need to be maintained. The work at Gorgon will ramp up significantly when production commences in 2015 and first shut down is scheduled for 2017. Furthermore, the company is in strong contention to win maintenance contracts on other LNG plants in the region (they are already the preferred contractor on APLNG as an example). In time UGL's LNG maintenance business is likely to grow and represent a meaningful proportion of the company's income in future years (revenue in excess of $300m).

2. Public expenditure on transportation infrastructure a key theme

In addition to annuity income UGL has a strong track record generating project income as a contractor in transmission lines and substations, waste water treatment, selling freight locomotives and importantly transport infrastructure projects generating EBIT of +$30m per annum. It is also worthwhile noting that Ichthys Power Plant was the only large fixed price contract of its type on the books (more on Ichthys later). The more recent Ichthys structural, mechanical and piping (SMP) construction package announced in February 2014 is lower risk than the Power Plant contract as it is structured as unit rate reimbursable (this is somewhere between fixed price and schedule of rates in terms of contract risk). While the market appears firmly focused on potential further downside risk for UGL it seems to be completely discounting the fact that company is an excellent entry point for investors seeking to gain exposure to companies that will benefit from the anticipated wave of infrastructure expenditure by Federal and State governments over the next few years. Already UGL is included on major transport infrastructure projects including the massive North West Rail Link, M1-M2 road project and the Cranbourne Pakenham Rail Corridor development in Melbourne.

3. Extraordinary good value on offer

Before proceeding it is worthwhile giving some back ground on the Ichthys Power Plant contract. On the 30th of April 2012 UGL announced to the market that a $550m contract for the construction of a Combined Cycle Power Plant for the Ichthys LNG Project in the Northern Territory was awarded to UGL and their JV partner CH2M Hill ('CH2'). CH2 would complete all design and procurement work and UGL was to build the plant but all profits (or losses) would be shared equally. The contract was awarded by JKC Australia, a joint venture between JGC Corporation, KBR and Chiyoda Corporation ('the client'). Our understanding is that the projected losses for the project started to mount up during the design and procurement phase largely because the client significantly increased the project specifications along the way and due to constant interference by 'the clients' engineers on site. We believe the client had over 100 of its own engineers on site which is unprecedented. Normally under these circumstances contractors provide evidence proving a case explaining why delays will be out of their control. In this case the new incoming CEO at CH2M Hill who was not involved with the original contract decided to sweep the decks of legacy (potentially problem) contracts and booked a full provision before considering any clawback from claims and /or revised contract terms to accelerate the project. UGL is currently in a difficult position because they cannot provide their investors with any certainty until they have finalised claims and or re-negotiated with the client. CH2M Hill booked a provision of US$85m for their half of a total provision of US$170m, leaving UGL no choice but to report this development to the market even though the accurate picture is not yet known.

First of all I think it is important to highlight that by the end of this financial year we estimate the company's net debt to be comfortably below 1.5x EBITDA even if we assume a provision (which will ultimately lead to higher debt levels) for the cost blow out for Ichthys. If we normalise earnings for Ichthys we estimate UGL is trading on a ~5x price earnings multiple. This seems to us to be extraordinarily good value for a company so heavily weighted to annuity income streams and exposed to transportation infrastructure, especially given the expenditure commitments and rhetoric from Federal and State governments in Australia.

We don't mind that UGL is one of the top 5 most shorted companies on the ASX as we believe, despite the string of bad news announcements, there is mostly upside from here. We are of the view that at some point the short sellers will have to buy up the stock they don't own to meet their short commitments.

LOOKING FORWARD

Heading into 2015 we are starting to see more opportunities present themselves. Late last quarter we seeded a new investment and we have a few targets on the immediate horizon. We are currently sitting with approximately 30% of the fund in cash.

Yours faithfully,

James Williamson

Fund Manager

APPENDIX

The Fund's Portfolio (unaudited)

As at 31 December 2014

Company Name	% of Fund
Real Estate Investment Trusts	7.7%
Industrial Services	7.6%
Beverages	7.4%
Food & Staple Retailing	6.6%
Consumer Discretionary	6.3%
Materials	6.3%
Commercial Services	6.3%
Real Estate Services	6.2%
Consumer Apparel	4.4%
Health Care Equipment	4.2%
Commercial Services	4.1%
Other investments	4.6%
Total Equity Exposure	**71.7%**
Net Cash	28.3%
Total	**100**%

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