



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:

- Economic sentiment
- General market sentiment towards equity investments generally or 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 or conversely the “follow-the-pack” mentality often driven by mainstream, widely read analysis research

We aim to invest in companies that in our view fall below their underlying value (often as we have a contrary view to the market 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 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 6.

JUNE 2015 QUARTERLY REPORT

	Inception	12 Months to March
Wentworth Williamson Fund	20.6%	16.5%
Cash rate + 2.5% (Benchmark)	9.0%	5.0%

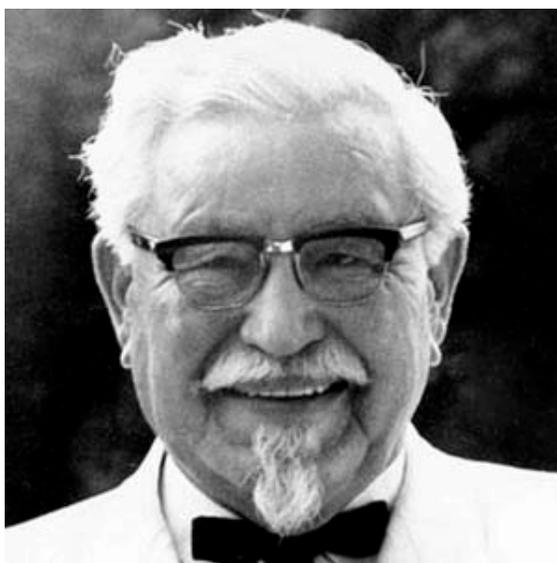
Returns are net of all fees, include income, assume reinvestment of distributions and exclude any spreads that might be payable on some transactions. Inception date is 30 September 2013.

The Fund increased 16.5% for 12 months to June 2015, compared to 5.6% for the S&P/ASX 300 Accumulation Index and 0.44% for the S&P/ASX Small Ordinaries Accumulation Index. Furthermore, in a quarter where the market dropped by 6.5%, the worst quarter since Q3 2011, it was pleasing to see the fund increase by 5.5%. While this won't always be the case, our primary focus on capital preservation typically sees the fund meaningfully outperform the general share market during down or flat markets, as was the experience with our previous fund during the GFC.

In each quarterly newsletter it is our tradition to report on our thesis of at least one of our investments, and this quarter we highlight Collins Foods Limited. Collins Foods is Australia's largest franchisee of KFC restaurants, operating 171 outlets across the country. KFC, along with its mascot Colonel Sanders, is recognised all over the world. As with all great brands, the history of KFC is rich with depth and meaning, and is an integral part of the Collins Foods investment case.

COLLINS FOODS LIMITED (CKF)

"The easy way is efficacious and speedy, the hard way arduous and long. But, as the clock ticks, the easy way becomes harder and the hard way becomes easier. And as the calendar records the years, it becomes increasingly evident that the easy way rests hazardously upon shifting sands, whereas the hard way builds solidly a foundation of confidence that cannot be swept away" - Colonel Sanders



Harland Sanders was born in 1890 and raised on a farm near Louisville, Kentucky. After losing his father at a young age, Sanders' mother taught him how to cook for himself and his two younger siblings. Sanders left the family home at age 13 and for the next three decades toiled in a series of failed professions, including tire salesman, railroad fireman, farm hand, insurance salesman, and country lawyer.

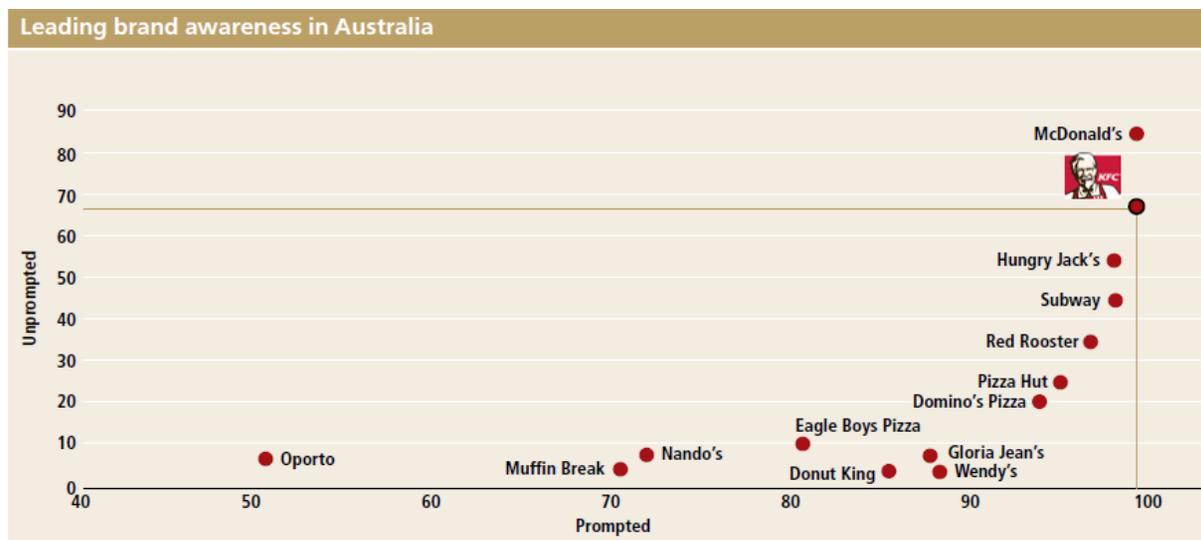
At the age of 40, Sanders took over a Shell filling station on US Route 25 just outside North Corbin, Kentucky; it was here that the KFC story was born! Over the next decade during the Great Depression, Sanders expanded his restaurant, revolutionising the fast food industry in the process. Unhappy with the 35 minutes it took to prepare his chicken in an iron frying pan, Sanders saw potential in newly introduced commercial pressure cookers and modified the product into a pressure fryer. This

dramatically reduced preparation time whilst retaining the quality of the chicken. Another component of the brand was the unique secret ingredient, which Sanders perfected in 1940 as the "Original Recipe", a combination of 11 herbs and spices. After being recommissioned as a Kentucky Colonel in 1950 by the Governor, Sanders began to dress the part, wearing a black frock coat (later switched to a white coat), a string tie, growing a goatee and referring to himself as "Colonel" - the man clearly understood the importance of creating a mascot and image for his contemporary business.

Remarkably, despite all the success of his well-known restaurant, this venture too turned out to be a failure as a new interstate highway bypassed his restaurant and forced the business to close in 1955. At the age of 65, when most are contemplating retirement, Sanders founded another business travelling around the US to franchise his chicken recipe to restaurant owners. In 1964, at the age of 74, Sanders sold the company to a group of investors for US\$2m (around US\$15-\$16m today), a deal which also included a lifetime salary for Sanders and the agreement that he would be the quality controller and trademark. Today, there are more than 18,000 KFC outlets in 115 countries and territories around the world. This backstory is important because it sets an example for future owners and stewards of the KFC business and cultivates a brand steeped in a culture of consistent and uncompromising quality, a willingness to innovate and move with the times, an element of excitement with consumers, and, most importantly, a mantra to never stop trying.

After a few decades that saw management lose focus from time to time, KFC has brought back its founder and famous brand mascot to advertise and celebrate 75 years since the 'Original Recipe' was created. In a recent press release, KFC US chief marketing officer Kevin Hochman said, *"Colonel Harland Sanders' iconic legacy and world-famous Original Recipe Chicken are what set Kentucky Fried Chicken apart from the rest. His entrepreneurial spark and unrelenting appreciation for hard work, philanthropy and showmanship (or what he called "a little Colonel-ing") are exemplary of the 'American Dream'... The Colonel has always been at the core of everything we do here at Kentucky Fried Chicken. The 75th anniversary is the perfect time to give him back to the people and remind everyone of what we're all about."*

KFC landed in Australia in 1968 when the first store was opened in Guildford, Sydney. Today, KFC serves 2 million customers every week through over 600 stores and is one of the most recognised food brands in the country.

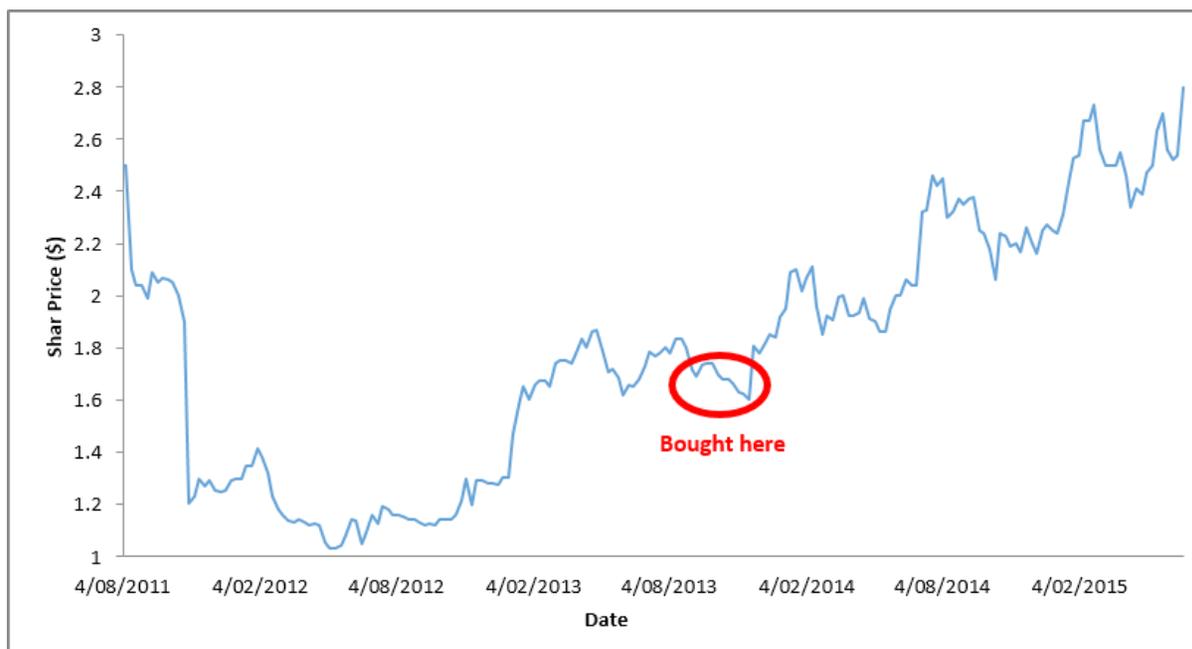


Source: BIS Shrapnel Pty Ltd – Fast Food in Australia 2011. Unprompted awareness: Respondents were asked which chains came to mind when thinking of fast food and snack food chains. Prompted awareness: Respondents were asked which chains they were aware of from a list of fast food and snack food chains.

Collins Foods Limited is the largest franchisee of KFC restaurants in Australia, operating 171 outlets in Queensland, northern New South Wales, Western Australia and the Northern Territory. Collins Foods also has investments in Sizzler (Australia), Sizzler (South East Asia) and Snag Stand, but the collective profit contribution of these businesses is not meaningful to the Group.

Collins Foods listed on the ASX in late 2011 at \$2.50 per share, proceeds were used to pay back the vendor, private equity firm Pacific Equity Partners, and reduce gearing levels. Collins Foods is a good defensive business, but it is normally not a good idea buying from a private equity firm in an initial public offering widely promoted by large investment banks! Three months after listing, the company issued a profit warning citing fragile consumer confidence. Disillusioned investors sold the stock down to an intra-day low point of \$1.00 on the 9th of May 2012, 60% below the initial listing price. Only now in 2015 has the NPAT (pre-exceptional items) come into the range of the 2012 earnings forecast in the prospectus.

Collins Foods weekly share price performance



Source: Factset

Generally the best time to invest is when uncertainty or an element of fear dominates the thinking of investors and market commentators towards a stock; the sell down of Collins Foods in late 2011 and 2012 was totally out of proportion to the earnings downgrade. We could only acquire Collins Foods in 2013 when our trust was operational. However, if our trust was in existence in early 2012 it is quite conceivable that we would have started to build a position in the company at that time, and if so, would have booked unrealised losses initially.

Our investment thesis for Collins Food cited an excellent underlying business trading on an undemanding multiple with good cash flow generation, with the added bonus of low earnings expectations from the investment community. The acquisition of 44 KFC restaurants from Jack Cowin in late 2013 on an undemanding multiple (probably partly due to his long standing disagreement with KFC brand owner, Yum! Brands) was a natural fit to the existing business, boosting the growth trajectory of the Group. As it turns out, not only have the original core KFC franchises performed better than expectations, the Group stands to benefit from bolting on other KFC operators in Australia, leading to further scale economies over time.

Company relative valuation table

Company	P/E	P/E Forecast	EV/EBIT	EV/EBIT Forecast
Retail Food Group	19.5x	16.2x	15.2x	13.1x
Domino's Pizza	41.6x	50.7x	37.7	32.1x
Yum! Brands	41.0x	26.6x	22.1x	19.2x
Collins Foods	10.7x	9.7x	10.3x	8.4x

Source: Company reports. Factset

Collins Foods is no longer trading at bargain prices of 2012 and 2013. However, the current market capitalisation to free cash flow multiple (total capital expenditure normalised to maintenance expenditure) is still only ~11x, with good prospects for further dividend and earnings growth. In addition, it was pleasing to see the Group report a lower net leverage ratio of 1.83 for the June 2015 final results. Assuming no further corporate activity, the trajectory for net debt remains on a declining trend (whilst still paying out a healthy dividend stream). Even on a relative valuation comparison to some local and international peer companies, Collins Foods represents an inexpensive entry to gain exposure to the quick service restaurant sector and the outstanding KFC brand.

LOOKING FORWARD

Thankfully, we are not hemmed in by a multitude of restrictions, do not have to be fully invested all the time, and can freely invest in either small or large capitalisation companies. Although there are a number of investors we respect, the structure of our Fund is very different to most and therefore we do not benchmark ourselves against others in the short term; we run our own race here! In addition, as Geoff often reminds me, “we are the tortoise, not the hare”.

Yours faithfully,



James Williamson

Fund Manager

APPENDIX

The Fund's Portfolio (unaudited)

As at 30 June 2015

Company Name	% of Fund
Commercial Services	8.0%
Commercial Services	7.8%
Food and Staple Retailing	7.2%
Real Estate Investment Trusts	6.9%
Materials	6.7%
Beverages	5.9%
Real Estate Services	5.2%
Consumer Discretionary	5.2%
Industrial Services	5.2%
Other investments	13.0%
Total Equity Exposure	71.1%
Net Cash	28.9%
Total	100%

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