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 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 or conversely the 'follow the pack' mentality often driven by mainstream, widely read analysis and 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 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 7.

JUNE 2016 QUARTERLY REPORT

30 June 2016	Wentworth Williamson Fund	S&P/ASX 300 Accumulation Index	Relative Performance
Cumulative return since inception	37.4%	11.4%	26.0%
Average annual return over 2 years	15.2%	3.2%	12.0%
12 months to 30 June	14.0%	0.9%	13.1%
6 months	3.6%	1.2%	2.3%

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.

In the 12 months to 30 June 2016, the Fund increased by 14% compared to a 0.9% return for the S&P/ASX 300 Accumulation Index. In June our Fund was impacted by a profit warning from UGL relating to two legacy contracts, which we previously believed was well contained, and share price declines with two of our investments with UK exposure. As a result, our Fund only increased by 1.5% for the June quarter.

For this quarter's stock specific commentary, the spotlight is on one of our largest holdings, Royal Wolf Holdings Limited (RWH). RWH is the market leader in the sale and leasing of portable storage containers, portable building containers and freight containers to customers across 19 industries in Australia and New Zealand, including councils and government departments, the farming and agricultural community, the building and construction industry, clubs and sporting associations, and the general public. Next time you walk past a container at a sporting ground, pop-up market, or the construction site at Barangaroo, keep an eye out, because you might just see a blue Royal Wolf container.

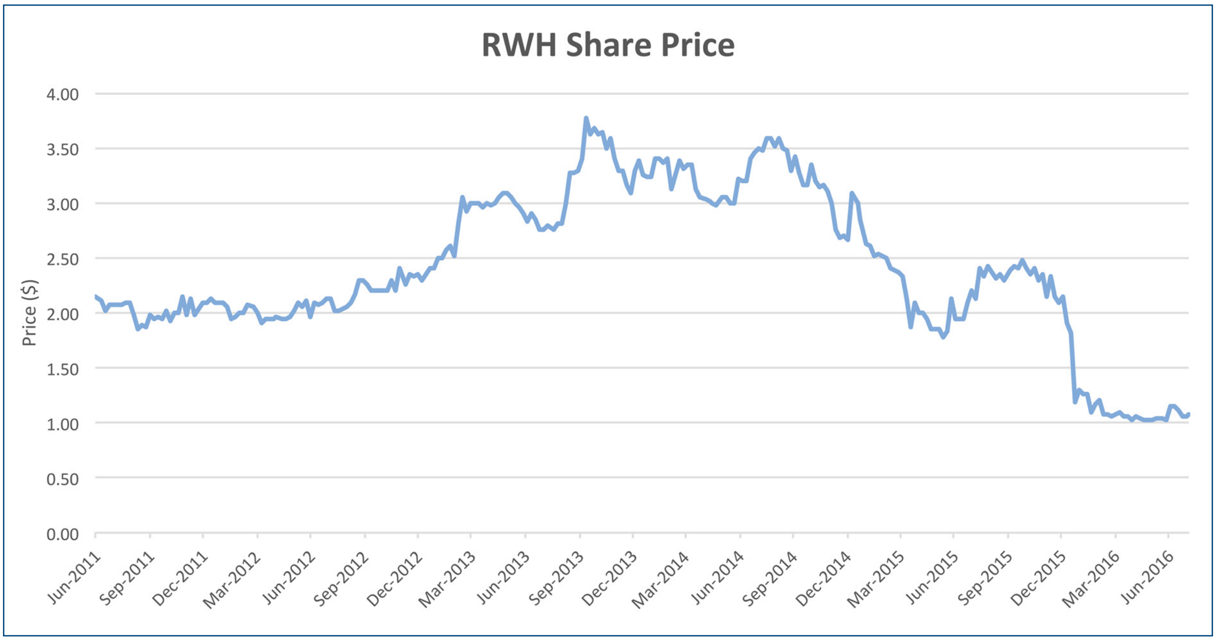
ROYAL WOLF HOLDINGS (RWH)

HISTORY

The history of RWH is intertwined with industry veteran Ron Valenta, the brains behind the Group's 50.0001% shareholder, US listed General Finance Corporation (NASDAQ: GFN). Ron has served as President and Chief Executive Officer of GFN since its inception in 2005. Prior to this he was President and Chief Executive Officer of the Mobile Storage Group for 15 years, a US based portable storage company he founded. He grew the business from four containers to become the second largest domestic storage container business in the U.S. Ron also capitalised a UK business which, in 18 months, became the largest domestic storage container business in the UK. In the early 2000s, Mobile Storage Group was sold to Mobile Mini (NASDAQ:MINI), now the world's leading provider of portable storage solutions.

Royal Wolf was established in 1995 to re-sell retired marine service shipping containers as an Australian subsidiary of Triton Holdings, which at the time was one of the world's largest lessors of marine cargo containers. In the mid-2000s, after numerous acquisitions and a management buyout, the company was reaching the limits of expansion with available funding; the interest of Ron Valenta's GFN came at an opportune time. After 12 months of getting SEC approval, GFN acquired Royal Wolf in 2007. Ron was so eager to establish a platform in Australia from which he could consolidate the fragmented industry, similar to what he had achieved in the US and UK, that he paid 13x forward EBITDA for his stake.

The company then went on an acquisition-fuelled growth spree funded from bank borrowing at a time of relaxed lending standards. As a side note, GFN had also acquired a US company called Pac Van a few months before the Global Financial Crisis (GFC), which is in the modular building industry in the Southern states of the US. The GFC hit, and this exposure caused the mother company share price to fall from over $9 to $1. Royal Wolf was still growing at this point, but the now micro-cap GFN had limited ability to raise capital. With an ugly balance sheet that included mezzanine debt and subordinated notes in US currency, Royal Wolf came to GFN with 2 alternatives: they could either pay down debt with cash flow and stop growing, or raise capital. GFN, with an 86% stake in Royal Wolf (14% owned by PE firm Bison Capital, which sold out at the IPO), decided to dilute its shareholding to 50.0001% in order to strengthen RWH's balance sheet and accelerate growth initiatives. This brings us to the Group listing on the ASX in 2011.



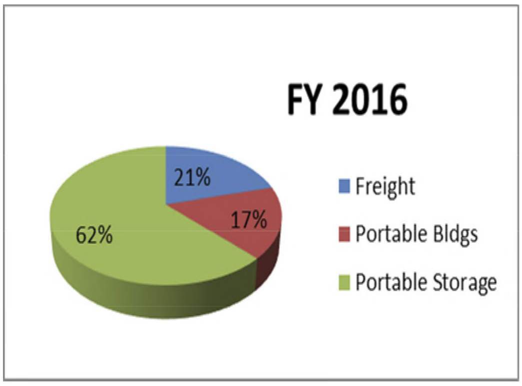
RWH was floated in 2011 with a listing price of $1.83 and a lease fleet of 28,973, along with a growth story (as is normally the case with initial public offerings). For a time, the company travelled along nicely, investing significant amounts of capital to grow its lease fleet. Earnings and the share price continued to post impressive gains until the share price peaked over $3.75 in September 2013. Although RWH has a fragmented client base and diversified exposure in a number of industry sectors (more on this later), the business expansion included inroads in the resource sector with sophisticated accommodation camps made from containers. In late 2014, RWH's earnings started to be impacted by declining demand in the resource sector and soft trading conditions in Western Australia and Queensland. The situation was accentuated in late 2015, when it was announced that Titan Energy Services, one of RWH's larger customers representing around 3% of sales, appointed administrators.

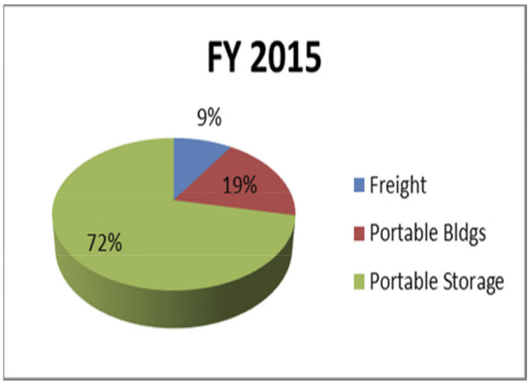
This year RWH will generate EBITDA of ~$36m with a lease fleet over 41,000 units. In 2012 the company reported a similar level of profitability with a share price 100% higher than current levels (shares in issue have remained unchanged over this period). Furthermore, the company is carrying approximately $26m worth of idle assets (accommodation units) on the balance sheet which we expect to be sold or leased out over the short to medium term.

THE BUSINESS MODEL EXPLAINED

Royal Wolf makes most of its money by buying shipping containers from China and then leasing them for a few dollars a day as portable storage, freight and portable building units (often after some in-house design modifications).

REVENUE BY SEGMENT





Source: RWH H1 2016 Presentation

The useful life of a standard shipping container used in portable storage can be in excess of 20 years and in many cases an old container can still be sold for up to ~70% of its original cost after this time. Furthermore, the average payback period for a leased container is typically 2.5 years. The Royal Wolf container leasing model is a challenge for accountants as they usually make best efforts, with their policies, to smooth earnings even if in some cases it leads to a gross mismatch to the company's underlying real cash flows from one year to the next. What really takes place is that the business model is very cash hungry for a growing lease fleet and then extremely cash generative once the growth trajectory of the lease fleet flattens; the actual maintenance capex on a standard portable storage container is negligible, and involves applying some paint and scrapping off rust every 3-5 years.

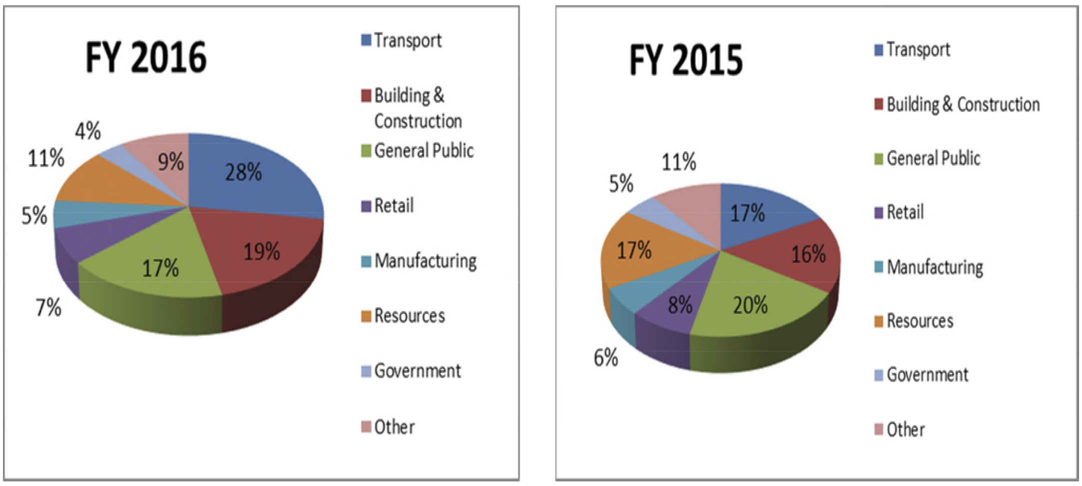
To add to the confusion for some investors, every year Royal Wolf sells containers sourced from various places including second hand containers from shipping companies and from their own lease fleet, via their distribution network in Australia and New Zealand. Although selling containers generates much less profit for the Group than the leasing division, it has the added benefit of giving the company the ability to flex the size of the lease fleet each year depending on underlying demand, keeping lease utilisation rates close to optimum levels. Although it may seem counterintuitive at first, in a weak operating environment net capex for the business can be negligible, or even a positive number, as management may decide to cease buying new containers for the fleet but still sell older containers from their fleet into the market. RWH have sold at least 13,000 – 15,000 containers per year since 2002. It is also worthwhile adding that RWH is currently operating with a young lease fleet and therefore substantial investments to maintain the current lease fleet size will not be necessary for several years. Additionally, although RWH's debt grew during their acquisition phase after listing, it is now on a downward trajectory, being paid down by free cash flow, and any inflow from the disposal of the idle assets will go towards debt reduction. It is also worth noting that RWH is considerably less leveraged than its international peers, which are able to borrow more given the 'annuity like' earnings stream from the container leasing business and the saleable asset base.

Hopefully I have already given you pause for reflection when reviewing RWH's Financial Statements. In addition to the unique nature of the business model and its cash flows, currently the disparity between free cash flow (excluding expansionary capex) and net profit after tax is further widened because included in the company's ~$208m container hire fleet is the aforementioned $26m of idle assets earning no revenue but still contributing roughly $3m to the Group's ~$16m annual depreciation charge. The idle assets are portable buildings and attract higher depreciation rates. With a market capitalisation of only ~$100m, a sale of these assets may add considerable upside to RWH shareholders. While our valuation is based on the strength of RWH's normalised free cash flow generation, we view a potential sale of their idle assets as a free option.

CUSTOMERS

RWH are the only firm with nationwide infrastructure in Australia and New Zealand. Currently, the company has 28 Customer Service Centre's across two countries (20 in Australia, 8 in NZ), and the nearest competitor has 6 only in Australia, meaning RWH can move containers between locations much more freely to meet demand. RWH currently has a sales and lease fleet of over 41,000 containers, and has grown this number from 17,000 in 2007 - at the time of the IPO, RWH's fleet size of 29,000 was three times that of their nearest competitor. The largest scale network in the industry allows RWH to undercut other players in terms of price, and their 21,000+ customers, with only a handful constituting ~ 3% of revenue, means their services are diversified across many industries (see breakdown below). Apart from the obvious uses in storage and freight, RWH containers are used in a variety of interesting ways, including pop-up shops/cafes, accommodation units, refrigeration and cold storage rooms, as well as blast resistant buildings and training facilities for the defence force.

REVENUE BY INDUSTRY CUSTOMER



Source: RWH H1 2016 Presentation

THE ROYAL WOLF INVESTMENT CASE

When the following stars align it is normally a good sign regarding a long term investment:

1) **Low price in relation to net tangible asset value.** RWH's price to NTA is an attractive 1.1x. Normally asset rich companies have to deal with plant and equipment which may be a little out of date and no longer competitive but which cannot be economically replaced. The bulk of RWH's assets are containers where there is a ready, active market for them, and this gives RWH the ability to adjust its capital employed depending on market conditions. Furthermore, RWH is a good business capable of generating a normalised cash (free cash flow) ROE well in excess of 10%.

2) **Low price in relation to earnings.** At the current price the stock is trading on a trough earnings EV/EBITDA multiple of ~6x (208/37 – FY16 Wentworth Williamson estimates) and equity to FCF multiple of ~9x (108/12.5-FY16 WW estimates). However, if we strip out the expansion capex (RWH growing in the building & construction sector from a low base with tiny market share) the equity to FCF drops to less than 6x (108/20 – WW estimates).

3) **Significant ownership by an insider.** RWH is 50.0001% controlled by US listed GFN and is the largest contributor to GFN profits. GFN is under the leadership of industry veteran Ron Valenta, who is also a significant shareholder in GFN.

4) **An underperforming share price.** The RWH share price has been one of the worst performers on the ASX, declining 51% and 61% over one year and three years respectively (as at 8th July 2016).

5) **Small market capitalisation.** With a market capitalisation of only ~$100m, low free float and low liquidity, RWH is not actively covered by the sell side and at present, largely ignored by most investors. Most people have never even heard of Royal Wolf, despite the company dominating market share in a number of categories in the portable storage leasing market in Australia.

LOOKING FORWARD

We are optimistic, given the potential we see in our underlying assets, that our Fund is capable of delivering another year of good uncorrelated (versus the general share market) returns over the coming year.

Yours faithfully,

James Williamson

Fund Manager

APPENDIX

The Fund's Portfolio (unaudited)

As at 30 June 2016

Company Name	% of Fund
Commercial Services	7.8%
Commercial Services	7.6%
Beverages	6.9%
Real Estate Investment Trusts	6.2%
Commercial Services	5.8%
Industrial Services	5.7%
Materials	5.3%
Industrial Services	5.1%
Medical Devices	4.7%
Other	10.2%
Total Equity Exposure	**65.3%**
Net Cash	34.7%
Total	**100%**

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