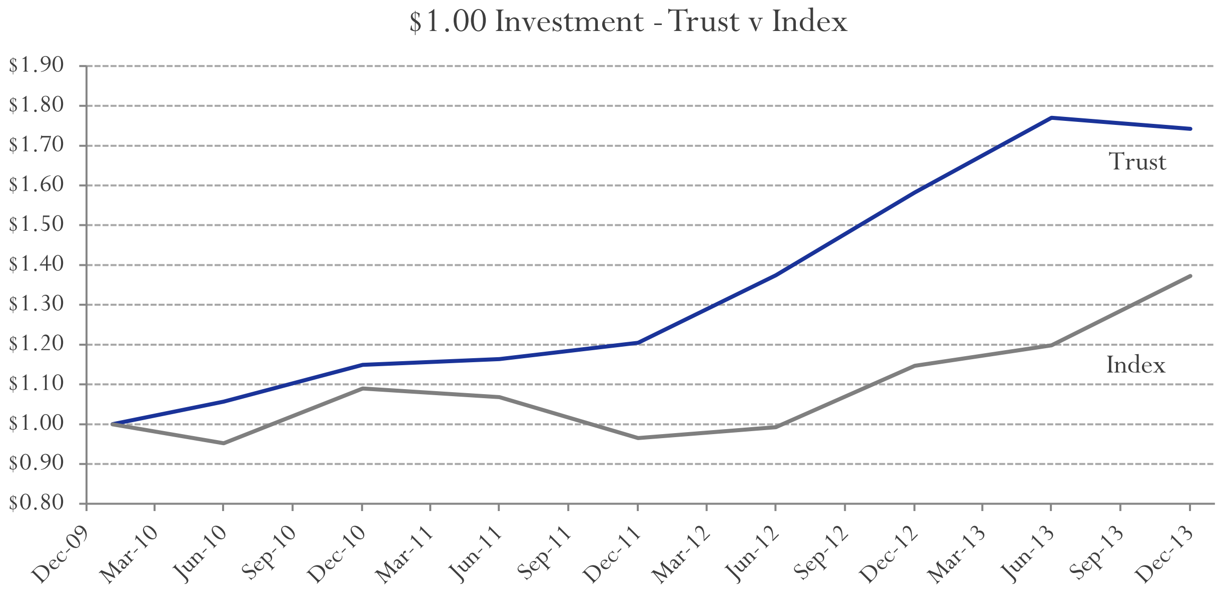
20th January, 2014

Half Year to 31 December 2013

The Trust experienced a weaker half, falling 1.65%. A summary of this performance is shown in the table below, together with a comparison to the Australian All Ordinaries Accumulation Index (the broadest measure of performance for the Australian stock market). Please note that as the performance of the Trust over this period was below the performance fee threshold, no performance fee was either earned or provisioned for.

	Trust (before Perf. Fee)	Trust (after Perf. Fee)	10 % Benchmark	Index
01-July-2013	$1.7010	$1.7010	$1.7010	38,270
31-December-2013	$1.6730	$1.6730	$1.7861	43,845
Return	**-1.65%**	**-1.65%**	**5.00%**	**14.57%**

The following graph illustrates the historical performance up to the end of this half year, of $1 invested in the Trust versus the Index. The value of the investment in the Trust is after performance fees and includes any distributions which have been paid.



The overall market continued to perform strongly during the half year period being propelled by the gradual improvement in the global economic outlook. The Trust however experienced a softening during the half with the main driver behind this performance being a reduction in the prices of our underlying businesses. This reduction in value occurred as a result of the market downgrading the prospects of our underlying businesses and accordingly, reduced the amount it was prepared to pay for each dollar of future profits.

Unfortunately I cannot control the rate at which a business will grow, nor can I control how the market values the prospects of the underlying business; to ensure a smooth ride. With this being the case, the shorter the time frame of measurement, the harder it will be to consistently outperform. More importantly, focusing on short term movements and market outperformance at each checkpoint will only lend itself to the Trust surreptitiously mirroring the market to ensure our return will never materially deviate. This is a significant reason why the Trust adopts a flat 10% annual return as its preferred performance benchmark.

If we dispense with the incessant flow of information that so often leads to an over-emphasis of the trivial, we can look through the buy/sell 'noise' that determines each wiggle of a stock's price and invest on a much longer time horizon. Adopting this approach toward our investments will allow each stock to be seen for what it is; a business providing some tangible product or service to society. In turn, these businesses grow in lockstep with the demand of the product or service that they deliver. It is this dynamic that determines the long term performance of stock market investing; the premise that the performance of the underlying business will *eventually* be reflected in the price of its shares. Rarely if ever does it happen the other way around, however this is not the conclusion one would draw from looking at daily share price movements.

Of the three core elements to the Trust's performance, being the change in value of investments, profit on arbitrage transactions and dividend income, the component driving the result of the Trust for the half year was the change in value of our investment holdings. Following the strong gains experienced during the prior year, some investments have since come back in value. However, with this in mind, I am very comfortable where the market is pricing each of our investment holdings at this point in time.

More importantly however, the progress that each of the underlying businesses has made during the half has been pleasing. While two of our smaller investments have experienced a softening in their activity the remainder have been continuing the momentum generated in 2013. Again, as mentioned above, it is the real economy that affects the financial markets, not the other way around.

There was very little event driven activity such as takeovers, mergers or asset sales that took place during the half for the Trust to capitalise on. This left our earnings from arbitrage in the slump that they were in for 2013.

During the second half of the 2013 year and this current half, the Trust sold down its position in the IT consultancy firm, DWS. This was one of the Trust's older investment holdings. DWS was an attractive business to the Trust because being in the professional services industry allowed it to carry very little capital to maintain its operations and deliver its service. This capital-light structure together with the efficient running of operations that had been groomed by management over the years meant that DWS was a very profitable enterprise. On average, over the last seven years, each dollar of sales DWS generated, after paying all creditors (including the tax office), shareholders were left with near 20 cents of income. DWS was able to spin-off profit from an incredibly small amount of shareholders' funds, allowing it to generate superior returns on equity. With nearly all of the 20 cents post tax profit being paid out to shareholders, the Trust was earning significant dividend income and a fully franked yield of over 13% on its initial investment, without taking into account any capital appreciation. However with alternative options available to the Trust to deploy capital in businesses with very strong franchises, this investment position was sold down and accordingly the dividends the Trust had been receiving from DWS also reduced, weighing on the contribution the Trust received from dividend income for the half year.

As forecasting the movement of the market over the short term is essentially speculation, all we can focus on doing is investing capital when we have identified a concern that suitably excites and when it also makes business sense to do so. This is the mantra the Trust will continue to operate by, regardless of the market's movement.

Luke Trickett