ANNUAL REPORT
December 31st, 2013

2013 Performance

To December 31st, 2013 the change in unit prices of the **HughesLittle Value Fund** and **HughesLittle Balanced Fund** were as follows:

	Value Fund *(non-RSP)*	Balanced Fund *(RSP)*
Post-Distribution Unit Price	$18.91	$13.91
2013 Distribution	$ 0.20	$ 0.49
Pre-Distribution Unit Price	$19.11	$14.40
Unit Price on December 31st, 2012	$14.76	$11.45
Total Distributions Since Inception	$ 1.54	$ 4.42
One Year Return	**29.5 %**	**25.8 %**
Annualized Return Since Inception[1]	**9.4 %**	**9.4 %**

See attached Performance Summary for additional performance results.

Let's start with a number: 100 percent. This is a significant number for investors, a milestone even, as it represents a 'double.' In the autumn of 2013, the initial group of investors in the Value Fund and Balanced Fund – who invested in 2005 - crossed the 100 percent gain mark on their original capital invested.[2] It took us a little over eight years to achieve this milestone. This represents an annualized return of about nine percent.

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[1] Inception dates: Value Fund June 30th, 2005. Balanced Fund August 31st, 2005

[2] Some of our early investors have actual returns much higher than 100 percent since June 2005 as they have invested additional capital to their original investments. The 100 percent pertains to the return experienced on the initial capital invested only and therefore is not impacted by additional cash flows. In investment parlance, this return is called the time-weighted-return.

Other groups of Value Fund investors who have also doubled their original investment are clients who invested between October 2008 and July 2009 and between May 2010 and July 2010. Similarly, clients who invested their RSP or RIF money in the Balanced Fund between October 2008 and April 2009 have also doubled their original capital. All of these latter groups of investors in the HughesLittle Funds invested at lower unit prices than the original investors of 2005 and have subsequently enjoyed returns in the range of 15 to 21 percent per year.

These are decent results through a period of mixed financial market and economic conditions.[3] The Funds have generated rates of return that we expect over the long term. Most importantly, these are high enough rates of return to keep you ahead of inflation as well as generate a satisfactory result over a life time. The chart below shows a $250,000 investment growing at the Funds' rate of return since inception, 9.4 percent per year:

Time	Future Value	Multiple of Initial Investment
10 years	$614,000	2.5
20 years	$1.5 million	6
30 years	$3.7 million	15
40 years	$9.1 million	36
50 years	$22.3 million	89
100 years	$2 billion	7,975

We included the 100 year number for those interested in creating a multi-generational legacy. The last row also shows that in hindsight your great grandfather, with a little foresight, could have made you today the 30th wealthiest person in Canada – just behind Charles Bronfman.

One thing that has helped our past results and should garner praise (rather than irreverence) from your great grandchildren is our focus not just on generating good returns but also on properly assessing **risk** in our investments.

[3] Performance Survey update of 86 Canadian Institutional Balanced Funds to December 31st, 2013: the HughesLittle Balanced Fund ranked 1st for three months (11.8 %), 3rd place over one-year (26.9 %), 1st place for two years (+22 % per year), and 1st place over four years with an annualized return of 16 %. This survey is conducted by API Asset performance Inc. and all returns are pre-fees and expenses.

The investment world has many different types of risk. Academics use price volatility or something called *beta* to measure risk. There is also benchmark risk, liquidity risk, and unconventionality, to name a few. We view these measures of risk as secondary.

We think our definition of risk is more relevant to our clients: ‘risk’ is the likelihood of not achieving a satisfactory return. This could be an outright capital loss or not achieving your objective return over the long-term.

To fully understand the risks that may be inherent in our portfolios currently and in the future we first try to assess the risks we may have incurred in the past. We do this by dissecting the performance of our operating companies over a number of years through a variety of conditions. For example, if a company has performed well we want to know whether we were we smart or just lucky. Or if a company has flopped – were we inept or unlucky. And if conditions had of been different would that have produced a different outcome?

By exploring these questions it becomes clear whether we own strong companies or weak ones and whether we are paying reasonable prices. We demand real evidence that our companies are performing well over many years and through a variety of economic and competitive conditions. When a company performs well enough, long enough, that tells us something about the 'riskiness' of the business.

We then try to apply what we have learned from the past to the future. For most companies however, a good past performance is no guarantee for the future. Future and past risks are seldom the same. In industries like technology or retail for instance, competitive forces are constantly inflicting damage in unforeseen ways, regularly turning peacocks into feather dusters. This is a major reason we like owning consumer products and services businesses. Operating conditions for whiskey and chocolate may not be exactly the same from decade to decade, but they’re close. Growing world demand for certain beverages and confectionary items has and continues to be very stable, almost everywhere, all the time.

There are several types of businesses that we find nearly impossible to adequately assess risks. Included in this list are commercial airlines and most financial services companies. Our conservatism (or analytical short comings?) does cause us to miss many high-return investments. 2013 is a fine example: Air Canada for instance returned over 300 percent and the U.S. banking sector was up over 40 percent.

There is just so much that is unknowable, especially with highly levered financial companies. Past results are misleading at best. In fact the risks inherent in many financial companies during any particular period can be deceptive. A stretch of years in which those inevitable-improbable disasters do <u>not</u> occur can make a company seem safer than it really is. Just because you can't see the risks doesn't mean they are not there. We close this discussion with an excellent analogy about hidden risks written by Nassim Taleb in his book "Fooled By Randomness,"

> "Reality is far more vicious than Russian roulette. First, it delivers the fatal bullet rather infrequently, like a revolver that would have hundreds, even thousands of chambers instead of six. After a few dozen tries, one forgets about the existence of a bullet, under a numbing false sense of security. . . . Second, unlike a well-defined precise game like Russian roulette, where the risks are visible to anyone capable of multiplying and dividing by six, one does not observe the barrel of reality. . . . One is thus capable of unwittingly playing Russian roulette – and calling it by some alternative 'low risk' name"

Portfolio Review

During the fourth quarter the Value Fund added money to one existing holding (a beverage company) and added one new holding. The Value Fund also made one partial sale and sold one position entirely.

During the fourth quarter the Balanced Fund added money to one existing holding (same beverage company), added one new common stock holding, made partial sales of two positions, and sold one position.

We include a full list of the quarter's buy and sell activity in the attached Investment Review.

As of December 31st, the Value Fund was 95 percent invested in 18 operating companies. The Fund owns eight Canadian companies, six U.S. companies, and four holdings based outside of North America. The Value Fund's top ten positions make-up 73 percent of the Fund's assets. At year-end the Value Fund had a five percent cash position.

The Balanced Fund is 82 percent invested in the common shares of seven Canadian companies, six U.S. companies, and five companies based outside of North America. The Balanced Fund's top ten positions make up 60 percent of the Fund's assets. At year-end the Balanced Fund had 18 percent of its assets in cash and investment grade bonds.

2013 Distribution

The Funds distribute their net income and realized capital gains to unit holders annually. The Funds do this so the Funds themselves do not pay tax.

Distributions for 2013 are $0.20 per unit for the Value Fund and $0.49 per unit for the Balanced Fund. The Value Fund's distribution is $0.11 of taxable capital gains per unit and the remainder is dividend income. Distributions are automatically reinvested in additional units of the Funds for each unit holder (unless we were instructed otherwise for Value Fund unit holders only).

Enclosed for unit holders of both Funds is a confirmation of your distribution. We will send Value Fund unit holders a T3 Supplementary over the next few weeks. Both the Value Fund confirmation and the T3 Supplementary give a breakdown of the types of income that made up the distribution. The T3 Supplementary form is necessary for income tax purposes.

Unit holders in the Balanced Fund are not sent a T3 Supplementary because the distribution is non-taxable for RSPs and RIFs.

Fund Expenses

The 2008 to 2013 Management Expense Ratios (MER's) for the Funds were as follows:

	2013	2012	2011	2010	2009	2008
HughesLittle Value Fund	1.23%	1.28%	1.29%	1.29%	1.33%	1.28%
HughesLittle Balanced Fund	1.33%	1.38%	1.42%	1.40%	1.41%	1.36%

The MER reflects all expenses charged to the Fund throughout the year. These expenses include: investment management fees, audit, trustee, custodian, administration, and GST/HST. Details of these expenses are disclosed in the Funds' year-end financial statements.

The MER is expressed as a percentage of the average assets within each Fund over the entire year. The performance results we report to you are after deducting these Fund expenses.

Financial Statements

The Funds' auditors are KPMG. KPMG will send audited Financial Statements for each Fund separately to all clients no later than March 31st, 2014. The audited financial statements include a complete list of each Fund's portfolio investments as of December 31st, 2013.

RSP Contributions

You may now make your RSP contributions to the HughesLittle Balanced Fund via online personal banking. Simply add "Canadian Western Trust Contributions" as a bill payee and use your 8 digit CWT account number. Please let us know if you make an on-line transfer so we know to watch out for it.

If you need any assistance please send Barb an e-mail at barb@hugheslittle.com or call her at 1 877 696 9799.

The final date for 2013 RRSP contributions is March 1st, 2014.

Cheques payable reminder:	The Value Fund	"RBC Investor Services"
	The Balanced Fund	"Canadian Western Trust"

2014

Over the long-term, a company's share price should not outperform or underperform its underlying corporate performance. As such, we're focused on ensuring our companies' drivers of intrinsic value – namely revenues, profits and capital returns - remain healthy and capable of generating acceptable returns. Company results over the past several years and again in 2013 indicated that *intrinsic value growth* met or exceeded our objectives; we expect 2014 to be similar.

In the body of this letter we discussed how we assess *business risks* in our companies and how that impacts our choice of companies in which we invest. Another part of our analysis is properly assessing *investment risk* and how it may impact our *returns*. This involves comparing the market price of our companies versus what we think they are worth – or a company's intrinsic value. We call this the price-to-value discount. So, all else being equal, the bigger the discount of price-to-value, the lower the risk of loss and the higher the potential return.

The Funds' five-year annualized returns are in the high teens. The Funds' portfolio companies' five-year intrinsic value growth has overall been slightly lower. In other words, over the past five years our portfolio companies' share prices (overall) have been rising at a faster rate than our companies' intrinsic values. This is partly due to the fact that five years ago the discount of market prices to intrinsic values was deep and wide. Today, there is a gap, but it has narrowed. This means that we are currently paying more for every dollar's worth of intrinsic value than we were five years ago.

Five years ago, in the depth of the recession, a dollar's worth of corporate intrinsic value was really, really under-priced. 13 years ago, at the height of the boom in technology stocks, a dollar's worth of intrinsic value (for those technology companies that actually had any value), was really, really, really over-priced. Today, you can find stocks at both ends of this price-to-value scale.

As for our holdings, we own a few positions we estimate are fully priced, several holdings that are under-priced, and none that are over-priced. Importantly, we expect growth in the intrinsic values of our portfolio companies to continue to drive share prices. Overall, the combination of decent underlying growth with reasonable price-to-value discounts, a few opportunities that will inevitably come our way, and we think our risk/return proposition is favourable.

We fully realize and appreciate that you have entrusted us with your financial assets. We continue to do our best to take proper care in the work we do for you. With our money invested alongside yours, we are working hard to achieve good results.

If you have any questions or comments we welcome your calls or visits.

Regards;

Joe Little Mark Hughes

January 14th, 2014