SECOND QUARTER REPORT
June 30th, 2014

Performance

To June 30th, 2014 the performance of the **HughesLittle Value Fund** and the **HughesLittle Balanced Fund** was as follows:

	Value Fund *(non-RSP)*	**Balanced Fund** (*RSP*)
Unit Price – June 30th, 2014	**$19.38**	**$14.16**
Unit Price – December 31st, 2013	**$18.91**	**$13.91**
Distributions Paid Per Unit Since Inception	$ 1.54	$ 4.42
Six Months	**2.5 %**	**1.8 %**
Annualized Return Since Inception	9.2 %	9.1 %
Inception – 50/50 Benchmark	7.1 %	6.8 %

- HughesLittle performance results are in Canadian dollars and are after all fees and expenses
- HughesLittle Value Fund commenced operations June 30, 2005
- HughesLittle Balanced Fund commenced operations August 31, 2005
- Benchmark is 50% S&P/TSX total return and 50% S&P 500 total return (in Canadian dollars)
- Past performance does not guarantee future performance

With only a modest rise in unit prices, conventional thinking might suggest we've had a mediocre first half. In ways that matter most to us, the first half of this year has been quite productive. Most important, the vast majority of our companies continue to generate satisfactory to exceptional financial results. Nevertheless a few of our companies' share prices have declined this year. Rising financial results and falling share prices was an ideal scenario for us: it gave us the opportunity to invest more money in five existing holdings and acquire two new positions. Both Funds are fully invested.

The emphasis of our approach is on analyzing and measuring long-term intrinsic value in the companies we own. By definition, intrinsic value is the fair value of an asset. Intrinsic value in an operating company is based on the company's ability to generate sustainable earnings for its owners. All else being equal, rising profits builds intrinsic value. Intrinsic value is the bed-rock upon which our capital is invested.

In practice, we first estimate a company's intrinsic value and continuously update this number. The most critical element in analyzing intrinsic value properly is measuring the historic growth rate in intrinsic value and then estimating what it might be in the future. This sort of analysis requires us to make judgments about the future. Uncertainty looms large. It helps to think in terms of probabilities. What is the probability a company's intrinsic value will double in ten years? What is the probability it will fall in half?

The next part of our 'intrinsic value' analysis is a comparison of a company's share price to its intrinsic value per share. This is called the price-to-value discount and it is the most commonly recognized part of 'value investing.' Value investors are always trying buy a dollar's worth of intrinsic value as cheaply as possible. We are the same. Although we agree that buying common stocks with a deep price-to-value discount is an important component of investment return, in our experience it is often not the most important.

Our success has come from focusing more on companies where that dollar of intrinsic value grows at a high rate rather than focusing just on whether that dollar of intrinsic value can be purchased at a discount. We emphasize growth in intrinsic value more than the price-to-value discount itself. For instance we would rather pay 80 cents for a dollar of intrinsic value that had a high probability of being worth to two, five and ten dollars someday than pay 50 cents for a dollar of intrinsic value that had less certain growth or weaker fundamentals. This willingness to 'pay-up for growth and certainty' differentiates us from most value managers.

By no means do we ignore the price-to-value discount. Investing when market prices are below intrinsic value is smart. Investing at prices below a <u>growing</u> intrinsic value however can bring true happiness. To us, this is the simplest, purest definition of investing. Admittedly, this does sound simple…in theory. Of course, in theory there is no difference between theory and practice, but in practice there is.

In our view, there are currently decent price-to-value discounts in the Funds. We estimate about 55 percent of our common stock holdings have market prices at or below 70 percent of their intrinsic values and a further 20 percent of the Funds' holdings are below 80 percent of intrinsic value. We don't think any of our holdings are over-valued. And most important, the vast majority of our companies' intrinsic values are experiencing satisfactory growth. The intrinsic value growth rates and price-to-value discounts should bode well for future returns.

Portfolio Review

During the second quarter the Value Fund added money to two existing holdings and made no sales. The Balanced Fund added money to one existing holding and made one partial sale.

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

As of June 30th, the Value Fund was 99 percent invested in six Canadian companies, eight U.S. based companies, and four holdings based outside of North America. The Value Fund's top ten common stock positions make-up 75 percent of the Fund's assets.

The Balanced Fund is 89 percent invested in the common shares of six Canadian companies, eight U.S. based companies, and five companies based outside of North America. The Balanced Fund's top ten common stock positions make-up 61 percent of the Fund's assets.

Miscellaneous

If you are making an investment cheques are made payable as follows:

The Value Fund: *RBC Investor Services*
The Balanced Fund: *Canadian Western Trust*

Enclosed with this report for clients are:

1. The 2014 Mid-Year Investment Review
2. Your Client Statement.

Kind Regards,

Joe Little Mark Hughes

July 7th, 2014