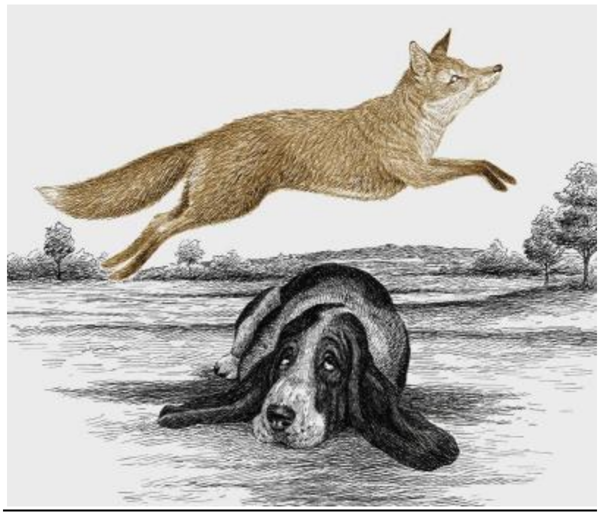
Quick Brown Fox Asset Management



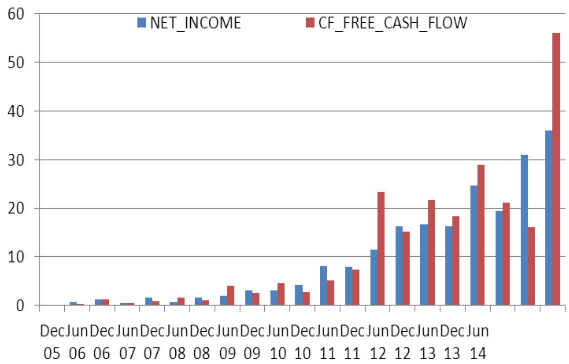
Monthly Report – August 2014

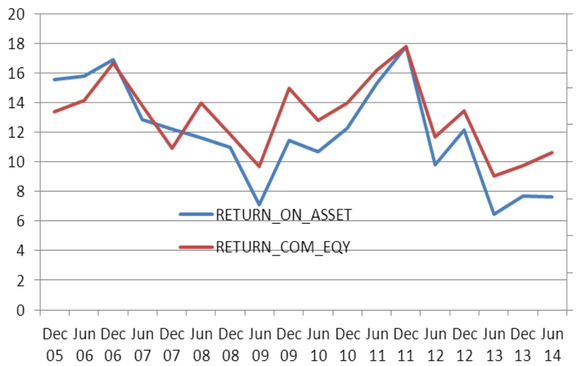
The fund experienced a strong month in August returning +3.06%. This was ahead of both the broader market and the small ordinaries.

	1 month	Since Inception
		01-July-2014
QBFAM	3.06%	4.03%
XAOAI	0.72%	5.25%
XSOAI	2.34%	7.37%

One of the key contributors for the month was M2 Communications which returned +21.2% over the month after announcing a result in line with expectations and gave solid guidance of 8-9% revenue growth and 15-20% NPAT growth for the year ahead.

We purchased M2 shortly after the fund was launched; we were attracted by the company's history of earnings growth and management's success in integrating acquisitions. Whilst ROE has declined in recent years, it still remains over 20% which we are very comfortable with.





When we purchased the stock at $6.00, it was trading on a multiple of 12x with 15-20% organic eps growth. In analysing the company we found 2 things that may have held back other investors:

1) The balance sheet does appear stretched particularly when the tangible assets of the company are comparatively low. However, we took comfort in the interest cover which currently sits over 6 times and shows an impressive ability to service their debt;
2) There is some confusion in which profit number to look at. A number of analysts look at the headline number of $67.1m; we prefer to use the underlying profit of $93.3m (which strips out non-cash amortisation costs associated with acquisitions).

New Positions

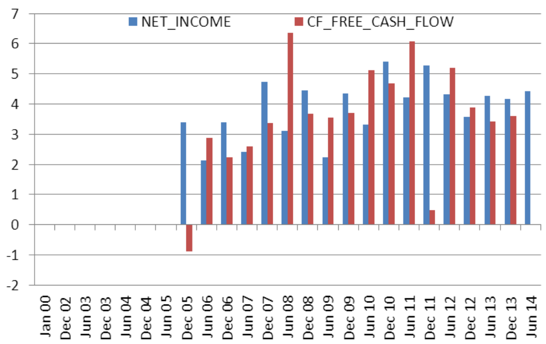
The fund initiated positions in 4 new companies during the month. Each position is unique and together they epitomise the QBF approach. We do not discount any opportunity and will search all companies to uncover profitable companies to invest in.

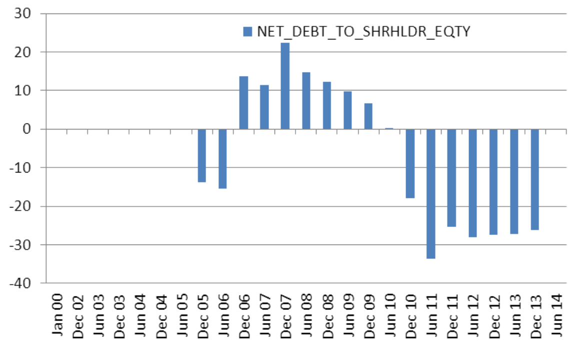
The four new investments can be described as follows:

1. The consistent performer (Wellcom)
2. The standout result (Webjet)
3. The turnaround (Vision Eye Institute)
4. The IPO at a discount (PS&C Limited)

The Consistent Performer – Wellcom

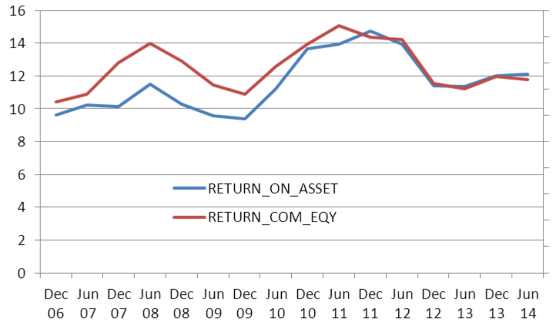
Wellcom is a content creator for the advertising market. It was listed in 2005 and has a number of characteristics that we look for in a business. Profits have grown over time, debt has been repaid, capital has been deployed into expansion and acquisitions and it has done all this without having raised another cent of equity.

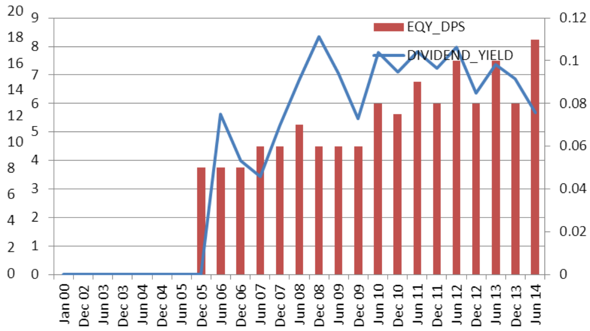




Their results for 2014 were impressive and showed a bounce back from the previous year's slowdown. The company has recently made an acquisition in the US which sets it up for another solid year.

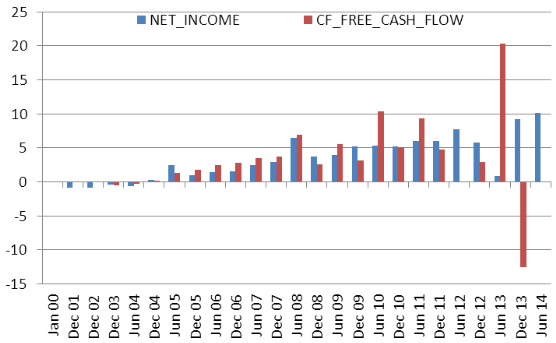
Return on equity has been consistent in the mid-teens since listing and the dividend provides a strong (and increasing) return for shareholders. All in all, Wellcom is a well-managed business trading at a fair price.

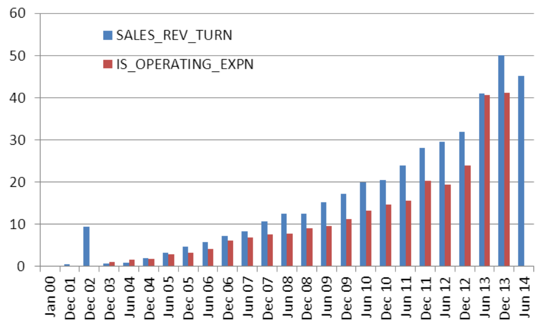




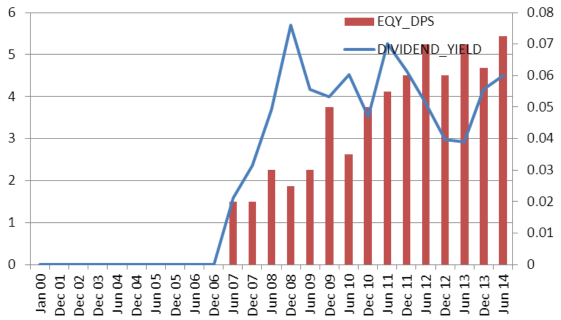
The Standout Result – Webjet

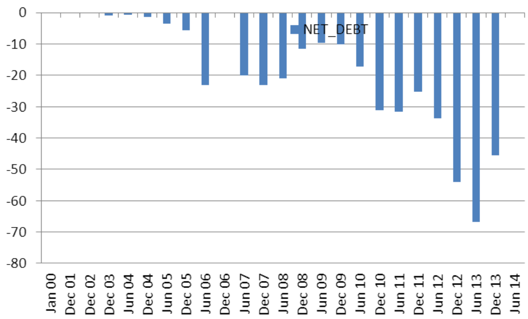
Webjet is an online travel agency. After a year of transition in FY13 as it bedded down some acquisitions, profits have bounced back strongly in 2014. Recent acquisition Zuji has been integrated successfully and has gone from a $6m loss to a $2m profit in that time period.





Whilst part of the impressive result was due to a lower tax bill (thanks to the previous year's loss from Zuji), the business is now well positioned for growth. The dividend was increased and the balance sheet is net cash. At 12.5x earnings and with a 4.5% yield the valuation is not demanding.

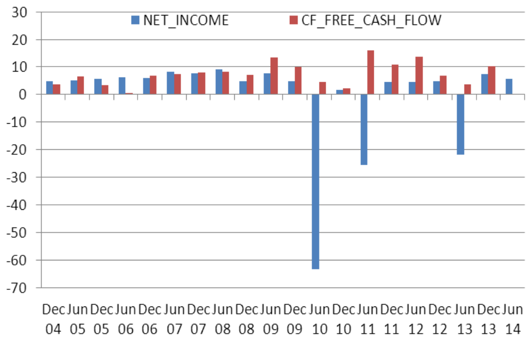


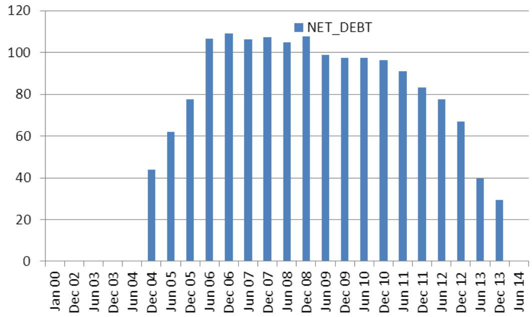


The Turnaround – Vision Eye Institute

Vision Eye Institute is an ophthalmic services provider consisting of 18 consulting clinics, 8 day surgeries and 7 laser eye surgeries. Their assets are spread across Victoria, New South Wales and Queensland.

After listing in 2004 at $2.30, the company saw its share price rise to over $4 in 2006. The company took on a lot of debt to acquire additional assets. When profits started to fall in 2008 it became unclear whether Vision had the ability to repay their debt. In 2009 they took a large writedown on their previously acquired assets and the share price tumbled to below 10 cents.





So why are we interested now? Just over a year ago Vision undertook a large capital raising to reduce its debt to a manageable level. In addition it took further a further writedown to its asset base. What emerged from that is a cleaner business that is trading on a very cheap valuation (less than 10x). At the recent result the company returned to paying dividends, announcing a 1.5c final.

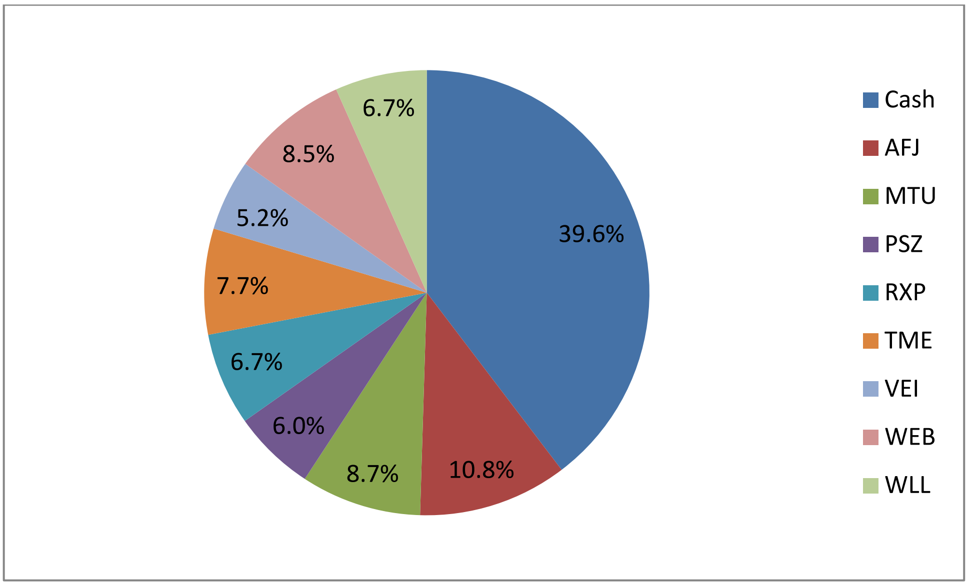
<u>The IPO at a discount – PS&C Limted</u>

PS&C Limited listed in December last year at $1 per share. After hitting a high of $1.08 early on, the shares traded down to a low of $0.65. They currently sit around the $0.80 mark.

The company did downgrade earnings in June but the growth trajectory remains upwards. The shares are trading on a PE of 6.8x (based on consensus estimates) and have declared a 3c final dividend to be paid in October.

The Portfolio

The fund is currently invested in 8 positions and retains a cash balance of 39.6%.



Note: Performance is taken from the Guy Carson Superfund