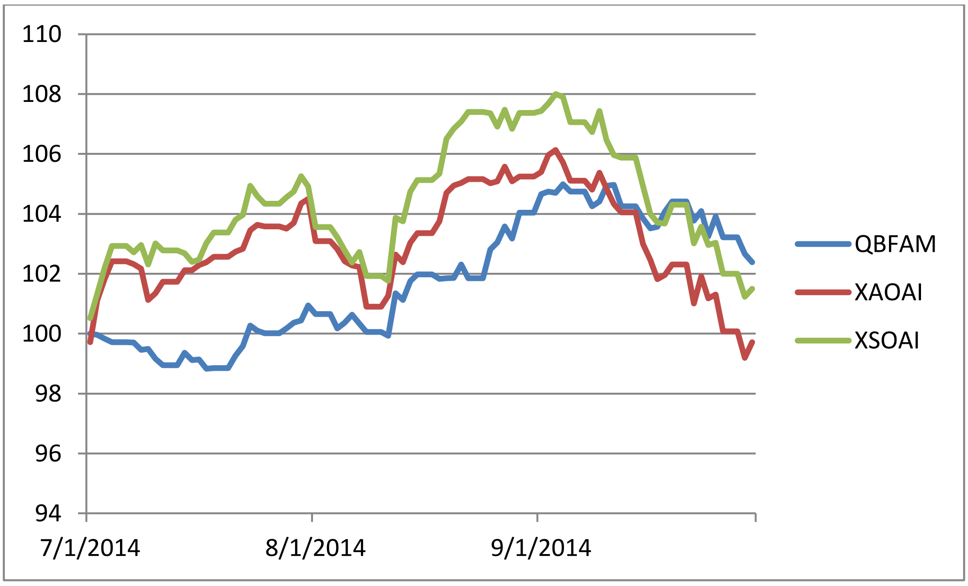
Quick Brown Fox Asset Management

Monthly Report – September 2014

We were disappointed that the fund experienced its first negative month in September finishing down 1.59%. It was a difficult time for the Australian market with the All Ords down 5.26%.

	1 month	1 quarter	Since Inception
			1-Jul-14
QBFAM	-1.59%	2.38%	2.38%
XAOAI	-5.26%	-0.29%	-0.29%
XSOAI	-5.47%	1.49%	1.49%

Pleasingly whilst the broader market is negative since July 1, the fund has managed a positive return.



Global equity markets struggled through September as investors contemplated earlier than expected Fed rate rises and a slowdown in China. The Australia market was hit particularly hard on 2 key issues:

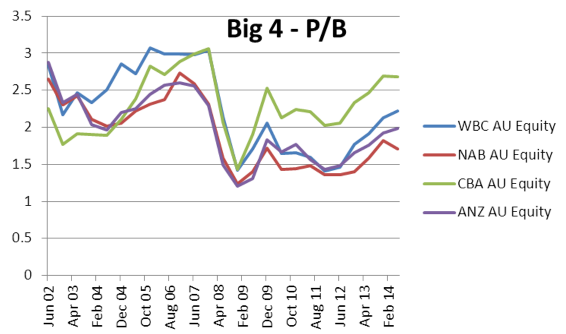
1) Iron Ore fell 11.8% over the month as the slowdown in the Chinese property market accelerated;
2) Banks came under pressure with an unwinding yield trade, concern around the Murray Financial stability report calling for higher capital levels and the RBA talking about introducing Macroprudential rules for the property market.

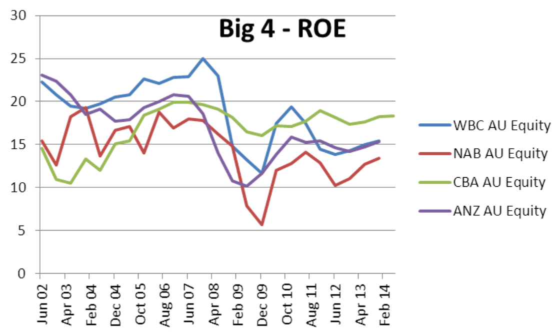
In looking for opportunities in the share market we get interested when prices fall. If we examine the 2 issues above, we still remain hesitant on investing in either space.

The Iron Ore market is looking very sick with increased supply from the Pilbara meeting weaker than expected demand growth from China. The current price of Iron Ore ($77.50) means only BHP and RIO are profitable and the junior sector is under immense pressure. Arrium bit the bullet and raised equity during the month and we wonder how long it is before Fortescue is forced into the same fate. The whole sector is facing declining earnings and an inability to recycle capital profitably and grow value. As a result we choose to have nil exposure to the sector.

The banking sector in Australia remains one of the strongest in the world. The market position that the Big 4 enjoy makes them very compelling investments. In the last month all four have seen their share price correct more than 10% as the above concerns arise. Whilst these changes will see the Return on Equity drop across the sector as leverage decreases and investor mortgages slow, the recent drop only really brings the big four back towards fair value.

When assessing the value of banks we look at the Price to Book ratio (P/B) and compare it to the Return on Equity (ROE).





If we look at the P/B across the big we can see that only CBA is threatening its pre-GFC peak. This is completely justifiable when we see that the ROE has only fallen from around 20% to 18%. We have seen a big rerating in the sector from late 2012 through to the end of 2013 which saw CBA near 3x, WBC near 2.5x and ANZ/NAB near 2x.

The problem we have is that profitability in the sector has fallen from pre-GFC targets of 20% to closer to 15%. As a result P/B ratios have had to come down. At a ROE of 15% a P/B of 2x is reasonable, a P/B of 1.5x or below represents good value. The recent pullback starts to get us interested and probably places the banks at or around fair value in our estimation and we would like to see further weakness before investing. We are looking superior returns from our investments and as a result we seek a discount to fair value before establishing a position.

	Price	Mkt Cap ($m)	Div Y FY14	PE FY14	PE FY15	eps g FY14	eps g FY15	P/B 2014	P/B 2015	ROE FY14	ROE FY15
ANZ	$ 30.92	$ 84,121.48	5.7%	12.1	11.7	6.7%	4.1%	1.8	1.7	14.6%	14.8%
CBA	$ 75.29	$ 120,674.77	5.0%	15.1	14.5	6.2%	4.0%	2.6	2.4	17.1%	17.3%
NAB	$ 32.54	$ 75,836.38	6.2%	12.4	11.8	5.4%	5.3%	1.7	1.6	13.7%	14.1%
WBC	$ 32.14	$ 98,401.37	5.7%	13.3	13.1	6.2%	1.2%	2.1	2.0	15.6%	15.5%

New Positions

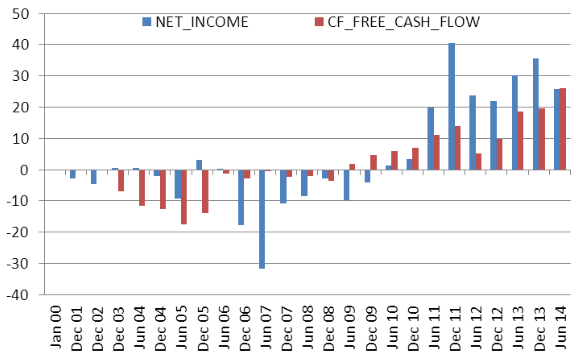
The fund initiated 2 new positions during the month:

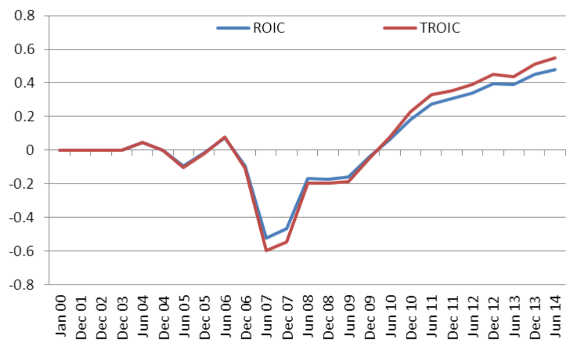
1) Ainsworth Game Technology; and
2) Onthehouse Holdings Limited.

Both companies had weaker than expected results which provided an opportunity for us to establish positions.

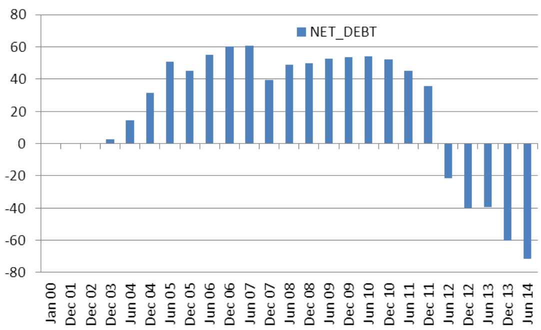
Ainsworth Game Technology

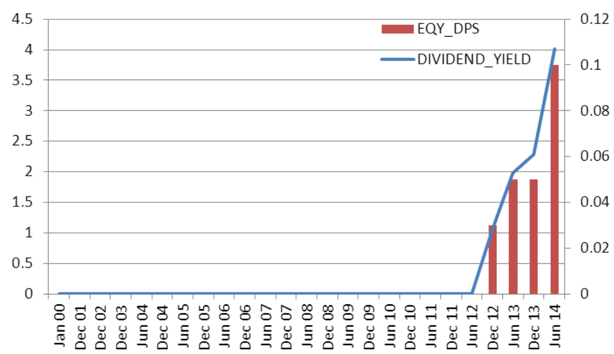
Ainsworth Game Technology is a supplier of electronic gaming machines. It was founded by Len Ainsworth, the founder of Aristocrat and after success in Australia has started to expand offshore. The company has a fantastic history of growing profits through strong returns of capital.





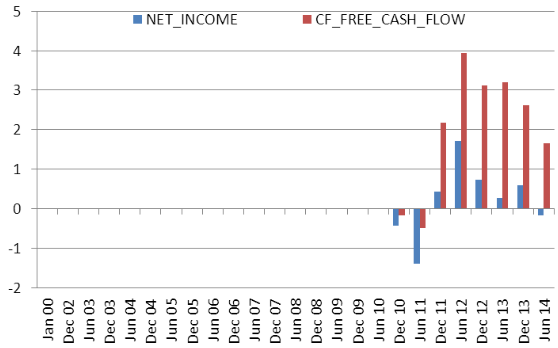
Whilst the 2nd half of FY14 saw a fall in revenue and profit domestically, the overseas operations surged. International revenue grew by just under 50% and gross profit grew by 58%. Latin America was a big driver with revenue over the year up from $19.6m to $31.9m. North America also grew revenue strongly but the result missed expectations as the company leveraged its cost base up for future growth. With a new production facility to be opened in the US in FY16 we are confident in the future of the company. The balance sheet is in great shape to expand and we expect dividends to grow.

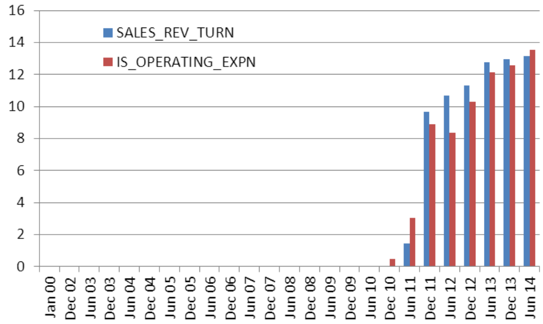




Onthehouse Holdings

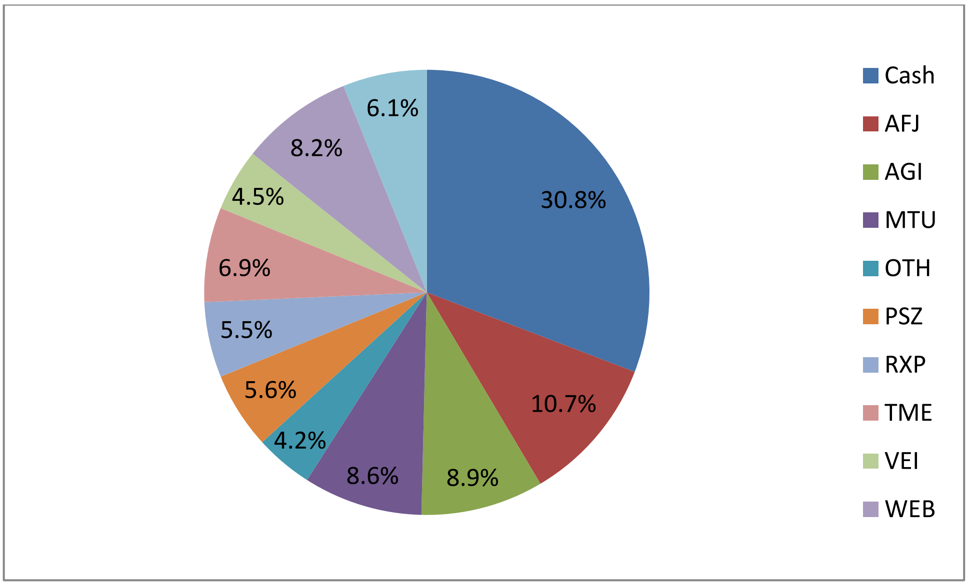
Onthehouse is an online provider of real estate content services primarily focused on the agency market. Whilst the profit picture is unimpressive, the cash flow story is much better. This is due to amortisation charges associated with previous acquisitions. The free cash flow has fallen over the last year but sales have increased. This is primarily due to the ramp up of their consumer division which is starting to become a meaningful of their business (revenue wise) and the major growth driver. The value of the business rests in the information it holds and over time the business will implement strategies to monetise this. With a balance sheet that is net cash and a market cap of slightly over $40m we are happy to become a shareholder.





The Portfolio

The fund is currently invested in 10 positions and retains a cash balance of 30.8%. Whilst the fund does not target a level of cash (it is a function of our bottom up process), the current 30% feels about right in a fully valued market that is experiencing some volatility. This provides us with an opportunity to deploy the capital into quality companies if attractive valuations appear.



Note: Performance is taken from the Guy Carson Superfund