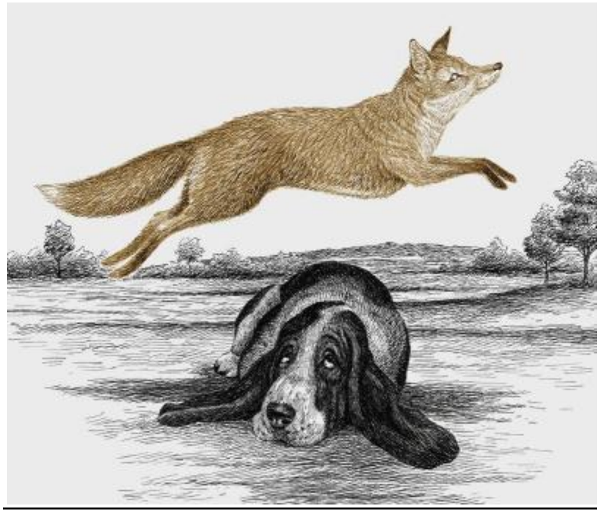
Quick Brown Fox Asset Management

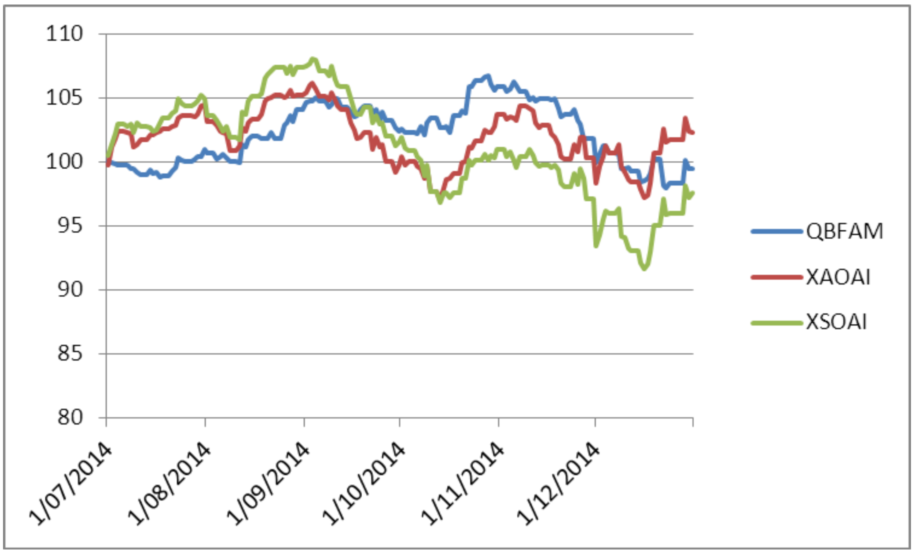


Monthly Report – December 2014

The fund experienced a poor month in December falling 2.36%. This was well below both the broader market and the small cap index which both finished in positive territory. The main reason for the poor performance was a downgrade from RXP Services which we discuss below.

	1 month	3 months	6 months	Since Inception
				1-Jul-14
QBFAM	-2.36%	-2.87%	-0.55%	-0.55%
XAOAI	1.93%	2.58%	2.28%	2.28%
XSOAI	0.47%	-3.89%	-2.45%	-2.45%

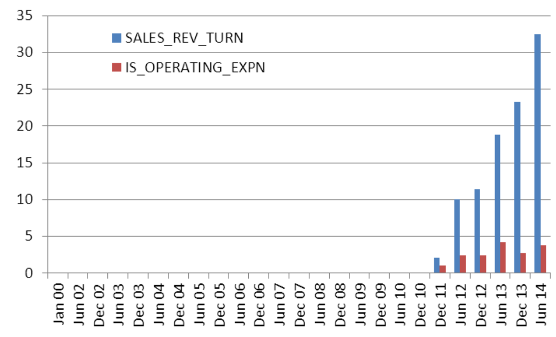
The return for December put the fund into negative territory for its first 6 months. The market over the period since inception can best be described as sideways. In December we saw an early selloff reversed on the back of the FOMC meeting.

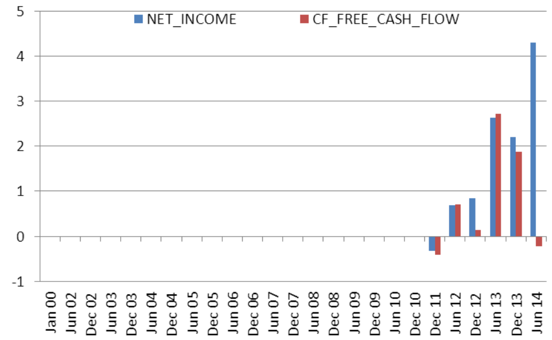


<u>RXP Services Limited</u>

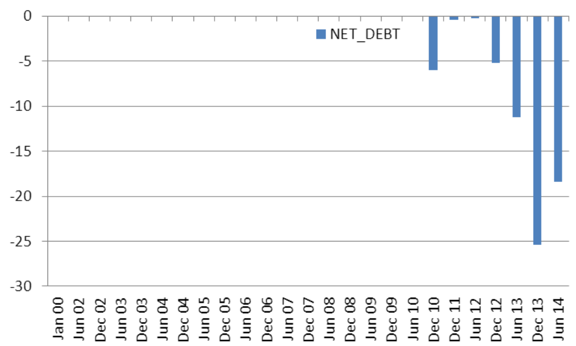
As mentioned above the main reason for the underperformance in December was RXP Services. RXP is an ICT consulting business. It essentially provides services to other businesses. The key variables for the profitability of these companies (that they can control) are the number of staff they have and the utilisation of those staff. In the December half, RXP believed they had several key projects due to start before the end of the year and accordingly allocated a number of staff to them. Unfortunately the company has advised the market in December that a number of contracted projects had postponed their start date. The result of this meant that the company's utilisation of staff went from its usual 80-85% to below 75% for the half. In other words, the company was paying staff that weren't generating revenue and this has impacted profits.

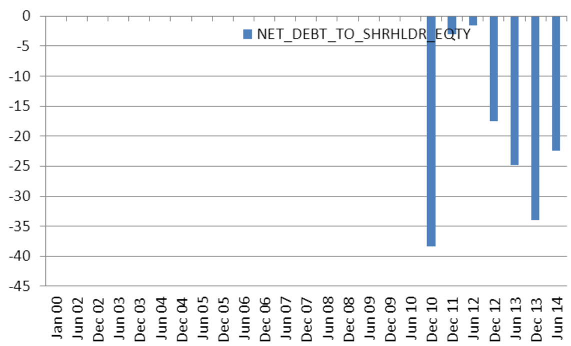
The company has guided to EBIT for the half of $2.5m down on the $3.3m from the prior corresponding period. The revenue line is solid and continues to show growth (guidance is for $35m up from $23m) but the staff expenses have grown as the company has acquired new staff and leveraged up for expected contracts.





As can be seen above this is the first real blip in the growth profile of RXP and the market has not been kind (the shares fell over 40% for the month). Management have provided solid guidance for the full year which results in the 2nd half with revenue of $40-45m and EBIT of $6.5-8.5m. Clearly the market does not believe the company will hit these numbers. The whole ICT services sector is under pressure currently and there is a distinct possibility that more contracts will be postponed or cancelled. At this stage we have retained our holding in the company noting the valuation is compelling (with a PE of under 6x) and that the balance sheet is in excellent shape ($18m in net cash). We will watch management's guidance at the first half result before acting either way.



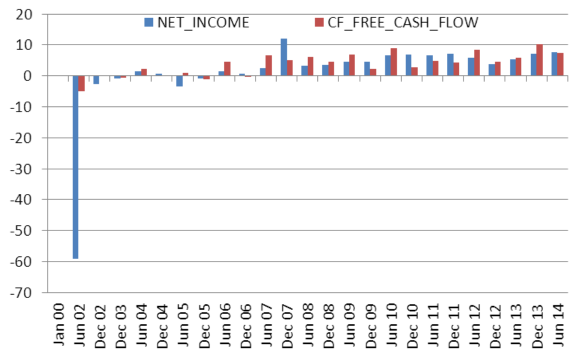


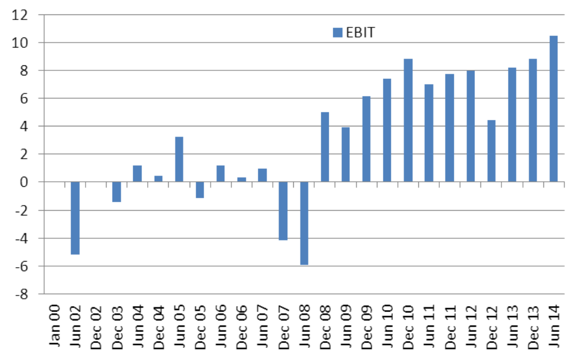
New Positions

The fund entered two new positions during the month: Hansen Technologies Limited (ASX:HSN) and Sky Network Television (ASX:SKT).

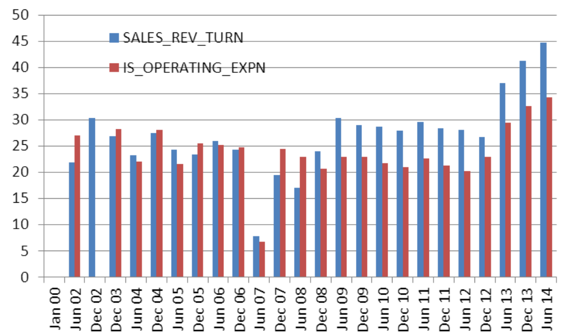
Hansen Technologies Limited

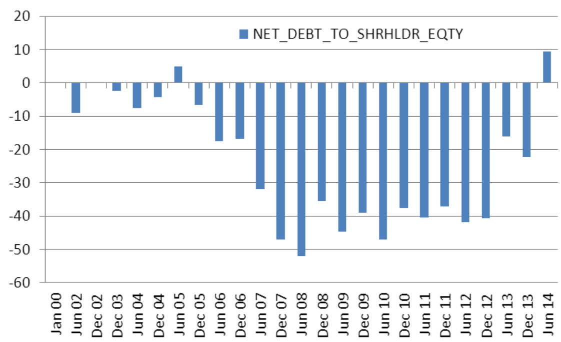
Hansen Technologies is a software company that provides billing solutions for Utilities and Telcos. The company listed back in 2000 but it wasn't until 2007 that they became consistently profitable. Profitability came about through the sale of several non-core assets.





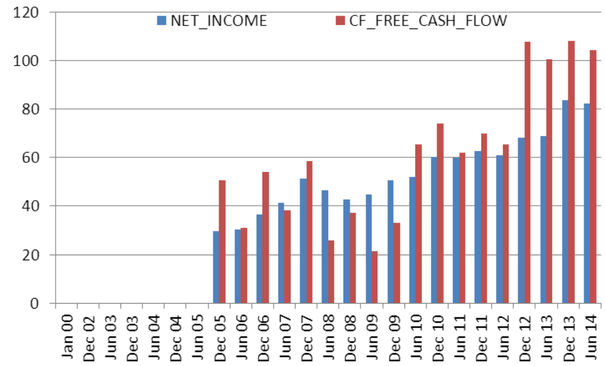
In the last 18-24 months the business has really come into its own with consistent revenue growth through new contracts and selective offshore acquisitions. The balance sheet has been utilised on the back of increasing earnings and has led to the growth profile in the near term looking very strong. The fund purchased its stake at 15.5x forward earnings which is not overly demanding for the current growth profile. The company looks to have a very strong future.

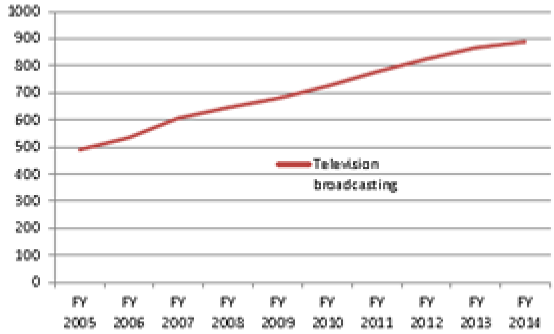




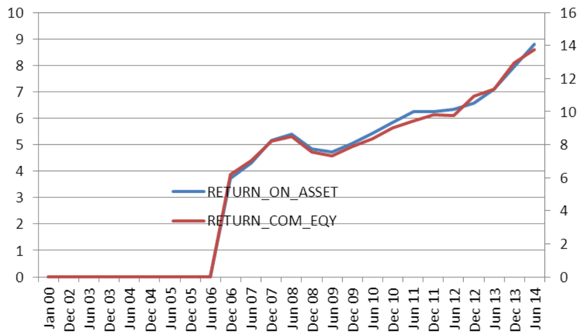
Sky Network Television

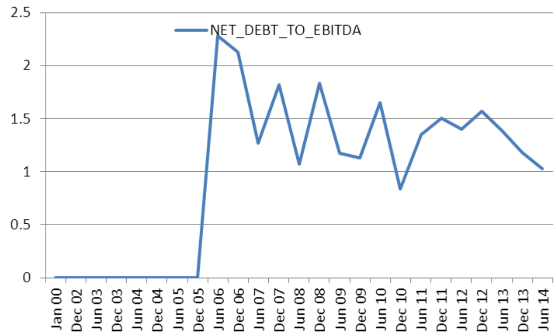
Sky is the leading Pay TV operator in New Zealand. It enjoys a very strong market position having rights to a number of leading sports including all SANZAR rugby (recently renewed for 5 years). Through this it has seen its penetration rate grow strongly to a point where only the US has a higher Pay TV penetration rate than New Zealand. As a result of this profits and cashflow have grown strongly.





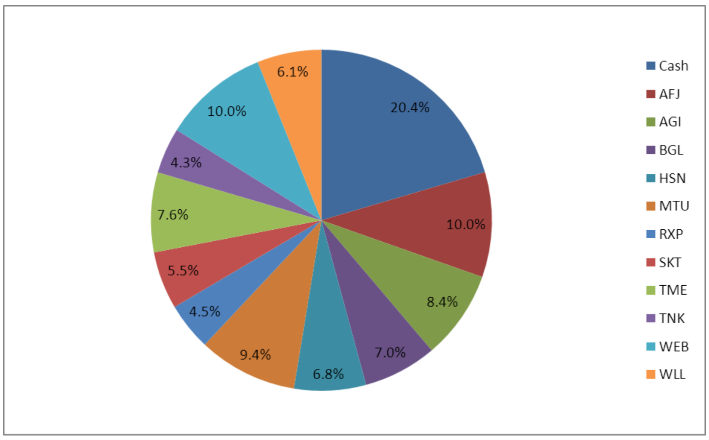
The increased earnings have led to increasing returns on capital and in turn have led to increased shareholder returns. With gearing continuing to fall the company now has further balance sheet capacity for further cash to be paid to shareholders. The financial metrics for the company are all pointing in the right direction with profits, cashflow, returns up and debt down. At 13.0x FY15 earnings and a gross yield of 6.5% we are confident there is limited downside to our entry price.





The Portfolio

The fund is currently invested in 11 positions and retains a cash balance of 20.4%. The fund exited positions in Onthehouse (for a profit) and PS&C Limited (for a loss). Onthehouse had appreciated 22% in the short time from our purchase and we chose to take profits. It is a company we like but it is currently experiencing a management transition which could take time to play out. PS&C Limited is a small ICT consulting firm (similar to RXP) that requires a strong 4th quarter for its profit to hold up as such we chose to take some earnings risk out of the portfolio in the light of the tough operating environment for the sector.



Note: Performance is taken from the Guy Carson Superfund