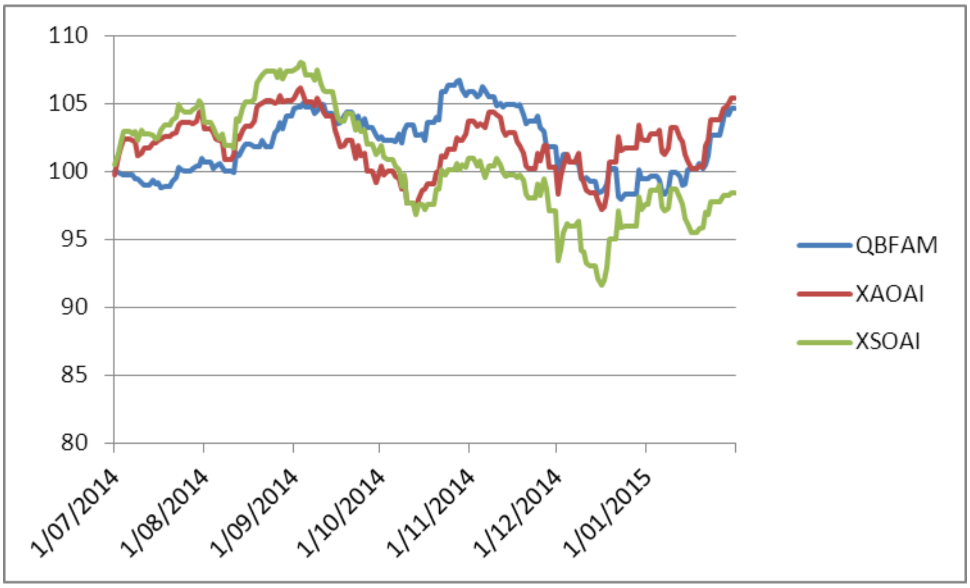
Quick Brown Fox Asset Management

Monthly Report – January 2015

The fund had a very strong month in January rising 5.19%. This was ahead of the broader market (+3.03%) and well ahead of the Small Ords (+0.18%).

	1 month	3 months	6 months	Since Inception
				1-Jul-14
QBFAM	5.19%	-1.21%	3.62%	4.60%
XAOAI	3.03%	1.66%	0.85%	5.38%
XSOAI	0.18%	-2.49%	-6.18%	-1.57%

The return for January put the fund back into positive territory after the disappointing November - December period.



<u>Portfolio Changes</u>

At Quick Brown Fox we get excited when shares in company we don't own fall. This provides us opportunities to buy companies at a cheaper price. What we don't like is when shares in the companies we do own fall. Although the nature of investing in shares is that this happens from time to time. Investing in a share gives you an entitlement to their future cashflow and as everyone knows the future is far from certain. Things change and as investors we have to adapt. In portfolio management one of the most important things is how one reacts to a position that goes against you. Over the last few months we have had two positions downgrade near term earnings. In both circumstances we reviewed the companies, examined the circumstances behind the downgrades and made an appropriate decision. This led to us increasing our position in Ainsworth Game Technology (AGI) and exiting our position in RXP Services (RXP).

We examine each situation below but in short:

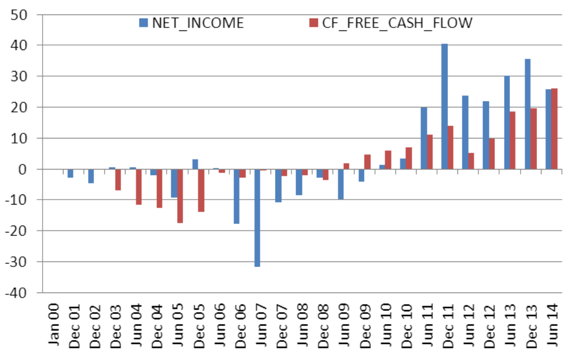
- Ainsworth remains a high quality company with strong returns on capital and a great balance sheet. The offshore growth story remains intact but short term headwinds have affected the price. We increased our position at $2.18.
- RXP Services is a service company and whilst growth historically had been strong it had been based on acquisitions. It has low returns on capital and the company's margins can disappear with lost or missed contracts. Now the growth story has come under question there is little reason for us to be there. We sold our position above $0.40.

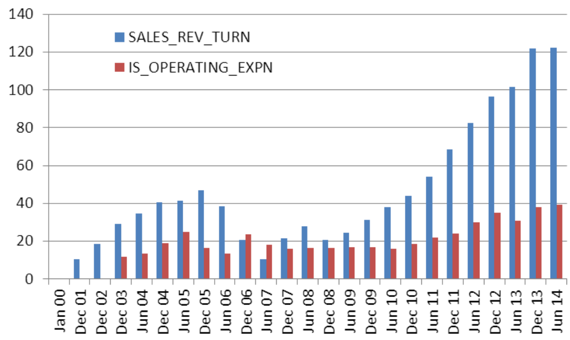
<u>Ainsworth Game Technology</u>

Ainsworth is a company that makes gaming machines. Since turning a profit in 2010 it has seen rapid growth both in the domestic market and offshore. The domestic growth stalled somewhat in the 2nd half of FY14 and at the recent AGM management stated *"domestic revenue for the first half of FY15 is expected to be similar to the second half of FY14 and down approximately 30% compared to the previous corresponding period in 2014."* Clearly they have lost some market share to other competitors such as EBet and Aristrocrat. The share price fell 26.1% in November.

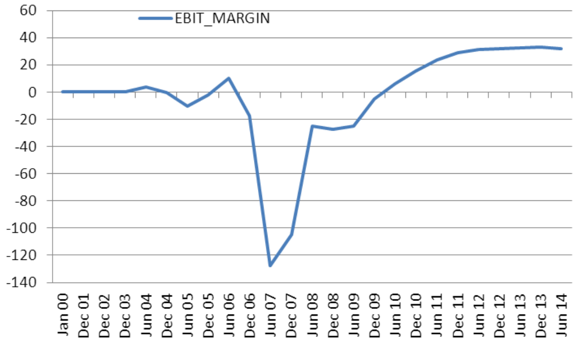
Offsetting the decline for the domestic business is the offshore growth. Offshore revenues grew 37% in FY14 and that growth is expected to continue: *"International revenue is expected to provide increased contributions in half one of FY15 with increases across both the North and Latin American segments compared to the previous corresponding period."* This offshore growth is one of the reasons we were attracted to the company in the first place and that story remains intact.

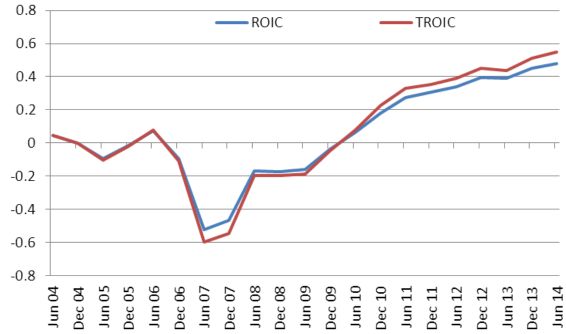
The history of the firm is impressive. Profits and sales have both increased consistently over the last 5 years:





Margins are very stable and return on capital has increased:

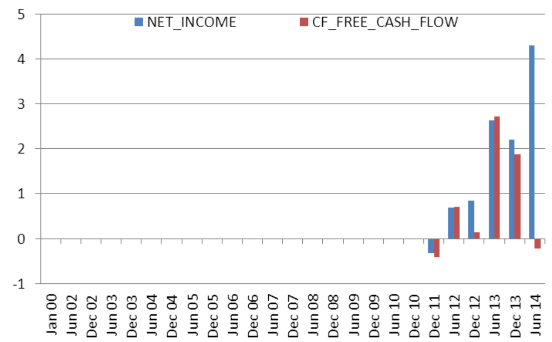


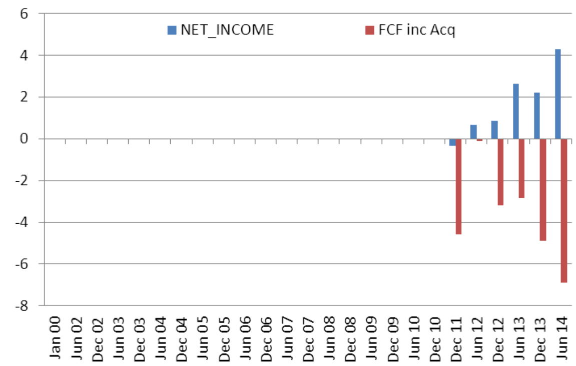


Overall, Ainsworth looks to have a bright future and we took advantage of the discounted prices to increase our stake.

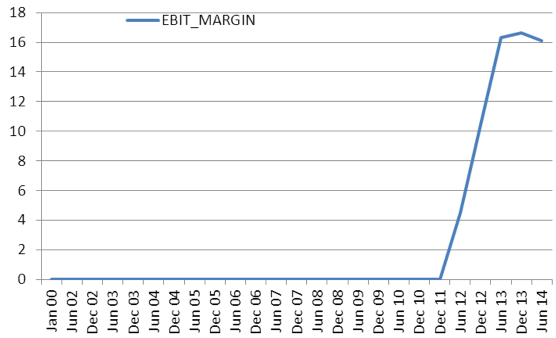
RXP Services Limited

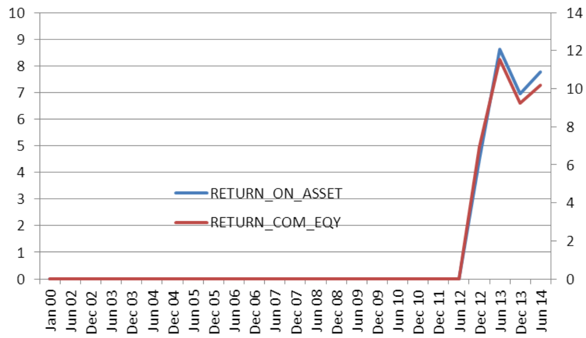
Looking at RXP Services we can see profit growth to date has been strong. Although if we look at the Free Cash Flow though we see that the company has spent well beyond its means on acquisitions. This is unsurprising given RXP is largely a rollup. The difficulty in rollups is that quite often acquisitions don't meet expectations. To date RXP hasn't experienced that with solid profit growth:





Margins so far have been impressive for the nature of the business but as discussed in our report last month this is set to change. With the delay of a number of contracts 1st half profit is set to fall. The returns on capital aren't particularly impressive either given the nature of the industry:

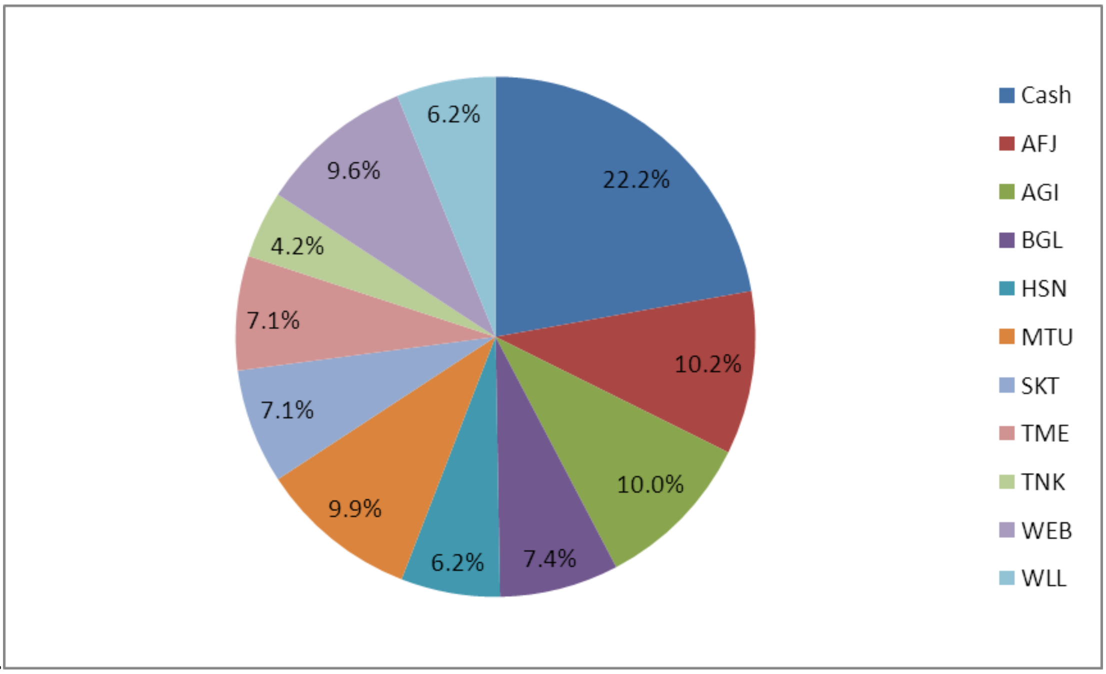




Overall without a solid growth trajectory we deemed the company not to be of high enough quality and choose to exit our position.

<u>The Portfolio</u>

The fund is currently invested in 10 positions and retains a cash balance of 22.2%. As mentioned above the fund exited its position in RXP Services. We also increased our position in Sky Network Television.



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