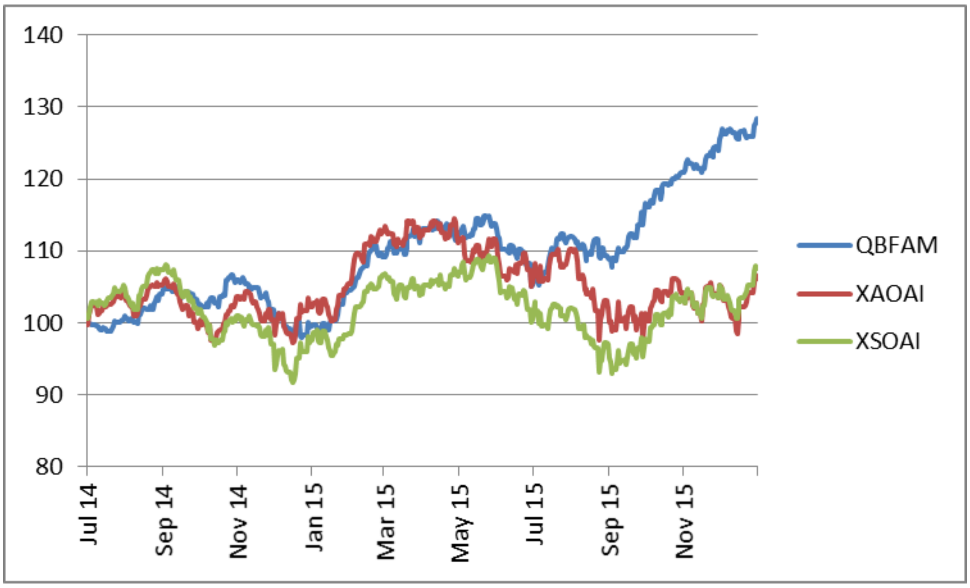
Quick Brown Fox Asset Management

Monthly Report – December 2015

A late Christmas rally brought the ASX back into positive territory for the year. The fund outperformed the broader market for the 6th consecutive month and capped off a very strong year.

	1 month	3 months	6 months	1 year	Since Inception
					1-Jul-14
QBFAM	3.58%	11.46%	21.95%	30.18%	28.66%
XAOAI	2.65%	6.62%	0.44%	3.78%	6.14%
XSOAI	3.91%	11.32%	7.09%	10.26%	7.56%

The fund's performance came this year whilst protecting capital and experiencing significantly less volatility than the index.



Year in review

The fund's outperformance came about in two ways: 1) strong stock selection and 2) avoiding challenged sectors.

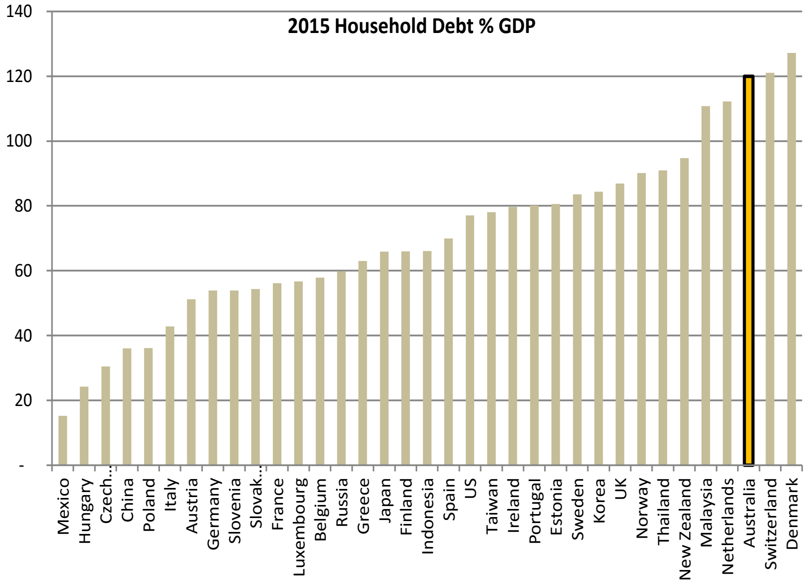
The effect of the sector allocation can be seen if we look at the performance of the ASX over 2015. The index was weighed down primarily by resources with the energy sector falling 27% and materials falling 16%. Financials were also relatively soft (+5%) with the banks underperforming. The performance of these sectors is not overly surprising when we look at the state of the Australian economy.

The economy faces two key challenges:

1) Declining national income as a result of falling commodity prices;
2) Record household debt relative to GDP which places Australia near the highest in the world.

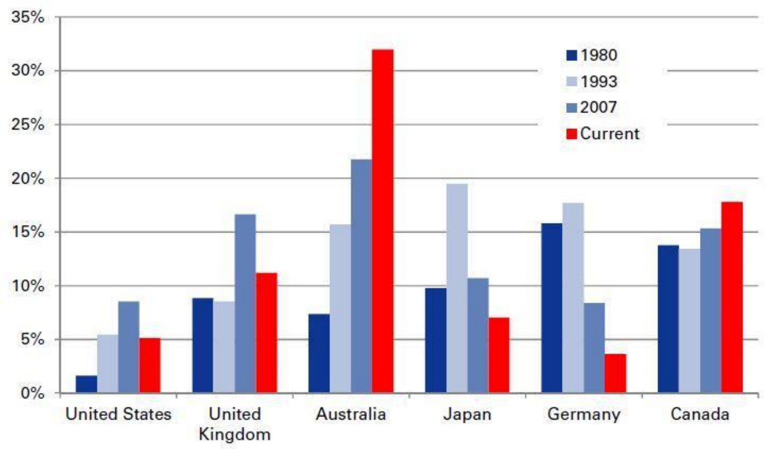
Commodity prices have been falling steadily over the last few years. After a surge in demand from China in 2009 on the back of fiscal stimulus we have seen a huge supply side response with capital investment in the space up significantly. The impact of this increased supply combined with a now slowing China has meant that commodity markets across the board remain in oversupply. This situation is likely to persist in the medium term leading to continued weakness in commodity prices and the share prices of resource companies. The sector remains one to avoid.

Mining makes up approximately two thirds of Australian exports and as result of falling commodity prices, national Income is falling. When income is falling, you don't want to see debt rising. Unfortunately Australian households have been gearing up in recent years (mainly to buy property) and household debt relative to GDP has hit a record high. It now sits at one of the highest levels in the world (see chart below). This debt level is unsustainable when coupled with falling income.



The holder of this debt is the banking sector which now has a market weighting at over 30% of the index. This level is without historical precedent.

Exhibit 11: Bank sector index weights standout globally



Source: FactSet, I/B/E/S.

The banking sector has enjoyed tailwinds from both the regulatory and credit environment since the GFC. The regulatory environment changed in the last year with APRA tightening the screws on the capital they have to hold and eventually the credit environment will turn too. As a result we continue to avoid the sector.

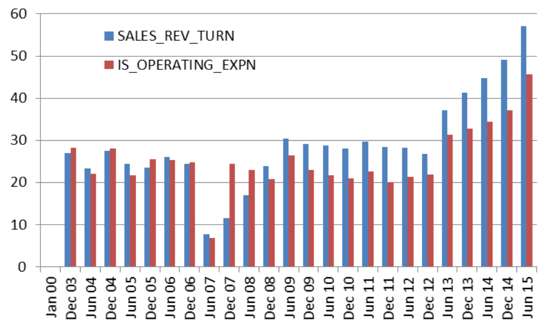
The portfolio benefitted from focusing on companies in sectors with tailwinds over the last year. The fund had large positions in Telcos (MTU, BGL) benefitting from the increase in data use as well as the M&A wave, Software (ALU, GTK, HSN, ICS) and online platforms (GEG, TME, WEB). We continue to see earnings growth in these sectors coupled with reasonable valuations.

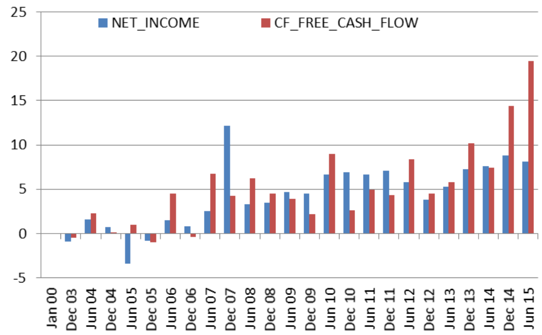
New Position

Hansen Technologies

The fund reintroduced a position in Hansen Technologies during the month. After selling our final stake above $3 back in July we saw the share price dip back towards the $2.50 mark and started to accumulate. At the same time business momentum continues to improve with the company recently upgraded FY16 guidance on the back of the performance of recent acquisitions.

Revenue growth is now leading to very strong cashflow growth.





The Portfolio

The fund is currently invested in 15 positions and retains a cash balance of 32%. The cash balance is down from 34% at the end of October after the purchase of HSN. The fund also reduced its position in TME whilst adding to ICS and ALU.