EGP Fund No. 1 Pty Ltd
4 35/37 Booth Street
Marsfield, NSW, 2122
Telephone: 0418 278 298

Erik A. (Tony) Hansen – Investment Manager 18 January 2013

<u>First Half of Financial Year 2013:</u>

<u>The general market:-</u>

The ***Standard and Poors ASX200 Total Return Index*** (hereafter referred to as '**the benchmark**') commenced FY2013 at 31,904.52 points. Including reinvestment of dividends, the benchmark finished the first half of FY2013 (July 1st 2012 – December 31st 2012) at 37,134.53 points.
This means that the investment experience of the Australian investing public in the stock market generally in the first 6 months of FY2013 was a gain of 16.39%. That figure of course excludes management fees and costs which on average would trim between 1.5 to 2 percentage points off such a result (annually). As I have said previously, I believe this benchmark over a period of years will approximate the results of leading investment companies (before fees & charges). Such investment companies are the most probable alternative investments for the majority of fellow EGP investors.
Something I thought worth noting at this point is that because most of the stocks we hold are outside of the ASX200, the 'Small Ordinaries Total Return' index could also represent a useful yardstick. We selected the ASX200 as it is the most likely alternative for most fellow investors were they to go elsewhere. I point out the potential comparison with the 'Small Ordinaries' because interestingly, 2012 was a terrible (relative to the ASX200) one for small stocks, the Small Ordinaries Total Return index commenced January 1st at 5,108.93 points and ended at 5,445.06, for an overall gain of 6.58%. In comparison the ASX200 commenced 2012 (remember the numbers in the first paragraph relate to July 1st & ignore the first half of the calendar year) at 30,879.12 and ended the year at 37,134.53, for a gain of 20.26%. The 13.68% difference is how much more we could have outperformed the 'Small Ordinaries' as our benchmark, so in future years when the Small Ordinaries out-performs the ASX200 and you think you'd prefer to use it as the comparator, I would say remember 2012!
As I have said consistently, your yardstick should be established prior to commencement. The benchmark we compete with represents the most logical choice. It covers over $1 trillion of market capitalisation and about 80% of Australian listed stocks (by value). The only other indices representing the Australian stock investment experience nearly as well is the All Ordinaries (Total Return) index. As I have noted at great length in my weekly writings the chosen benchmark presents no pushover and I estimate that after fees, at least 80% of equities focused investment funds will fail to exceed the benchmark over the medium-term.

Our experience:-

EGP Fund No. 1 Pty Ltd (hereafter referred to as '**the fund**') commenced FY2012 at $1.02993. The fund finished the first half of FY2013 (July 1st 2012 – December 31st 2012) at $1.21730, for a gain of 18.19%. This performance is after the first ever 'performance fee' was charged. Prior to the levying of the performance fee, the fund unit price was $1.22194, which outperformed the benchmark by 2.25% over the preceding 6 months, as the 'Investment Principles' document laid out, 20% of the outperformance is charged as a fee, meaning $0.00464 per share (20% of the $0.02318 outperformance) was deducted in the form of a performance fee, the tables below will make the consequences of this clear.

So in the first 21 months of operation, throughout what has been a below average period of performance for the ASX200, we have managed to generate results that have exceeded my expectations. After performance fees we have delivered 17.51% outperformance to our holders. We are hopeful of providing continued above average results in the long into the future.

My continual objective in managing the fund will be to achieve a long-term record superior to the benchmark. As I have stated previously, over a period of several years, an outperformance of 3 – 5% per annum will result in excellent outcomes for fellow owners (and is our stated aim). If we cannot provide at least some level of out-performance over the medium period (which we have defined as 3 – 5 years), there is no reason for the funds existence.

I have made this comparison before (and will probably do so in every report so it will not go unheeded), but a year when the benchmark declined by 35% and the fund declined by 20% would be a substantially superior year than one in which both advanced by 15%. If this concept makes you uncomfortable, you would be well-advised to have the majority of your investments outside of the stock-market, for it is precisely this type of out-performance we will be chasing.

Performance Tables, instructive for comparison:

Year by Year Performance			
Australian Financial Year	S&PASX200(TR)	EGP Fund No 1 Pty Ltd (A-Shares after performance fees)	EGP Fund No. 1 Pty Ltd (gross results)
2012*	-10.46%	2.99%	2.99%
2013 (first half)	16.39%	18.19%	18.64%

* 2012 is the 15 month period from 1 April 2011 (fund inception) to 30 June 2012 (first complete financial year)

I will also include a cumulative table, which I hope will demonstrate over time the force Albert Einstein called "the most powerful force in the universe" – compound interest. My hope is that over time, small advantages over the benchmark will accumulate to a substantially superior overall performance:

Cumulative (compounded) Performance			
Australian Financial Year	S&PASX200(TR)	EGP Fund No 1 Pty Ltd (A-Shares after performance fees)	EGP Fund No. 1 Pty Ltd (gross results)
2012*	-10.46%	2.99%	2.99%
2013 (first half)	16.39%	18.19%	18.64%
Cumulative	4.22%	21.73%	22.19%
Annualised	**2.39%**	**12.04%**	**12.13%**

* 2012 is the 15 month period from 1 April 2011 (fund inception) to 30 June 2012 (first complete financial year)

I have consistently emphasised the importance of relative results. I have also stated in previous communications, my expectation that we are far more likely to outperform the benchmark in sharply declining years than in sharply advancing ones. This has been my experience as an investor prior to starting the fund and I expect it will continue to be so, as my methods remain basically the same. The reason for this is what I like to think is a conservative investment philosophy. In my view, our holdings are as a group extremely conservatively managed, carry substantially higher cash and asset holdings (and consequently lower debt ratios), are generally less exposed to economic downside risk and because of reasonable (cheap…) valuations, will therefore likely suffer smaller falls in a declining market. The downside of this fact is that our holdings, which are generally in less exciting than most businesses are less likely to be carried along in a market which develops a substantial speculative component. Given the sharp advance in the first half of financial year 2013, we are extremely pleased to have not only kept pace with the benchmark, but to have provided meaningful outperformance.

We had a good year primarily due to two holdings (Maxitrans - MXI and Mesbon China Nylon - MES) which I have discussed on the website www.eternalgrowthpartners.com throughout the year. I encourage all holders to visit regularly and keep up to date.

I have consistently stated my intention to share your investment experience. To this end, at 1 January 2013, my wife and I carried just over three quarters of our net-worth in the fund, and we have added to our holdings at every possible entry point. We subscribe to Andrew Carnegies view that one should "Concentrate your energies, your thoughts and your capital. The wise man puts all his eggs in one basket and watches the basket." I expect over the next few years, this proportion will eventually exceed 90%. Given this concentration, it behoves me to invest our assets conservatively, but I don't think this conservatism will punish our results too much, and with most of our financial future staked in EGP, believe me, the basket is being closely watched.

As always, I cannot promise any particular level of results, the investment comes with no guarantees, but I can assure you we will always have our funds allocated to a group of issues I believe to be deeply undervalued. Should the time come that there is an insufficient group of such issues, we will hold cash and wait. This method I believe offers the best protection from permanent capital loss (though we cannot affect short-term quotational losses). Finally, whatever your investment experience is will exactly mirror mine, only I am quite sure no-one else has quite as substantial a proportion of their net worth committed to the fund.

Let me hear from you regarding any questions you may have on any aspects of this letter, or anything else regarding our fund that may puzzle you.

Best Regards,

Erik A. (Tony) Hansen.
Tony@eternalgrowthpartners.com