EGP Fund No. 1 Pty Ltd
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Erik A. (Tony) Hansen – Investment Manager 1 July 2012

Financial Year 2012:

The general market:-

The ***Standard and Poors ASX200 Total Return Index*** (hereafter referred to as '**the benchmark**') commenced FY2012 at 34,200.68 points. Including reinvestment of dividends, the benchmark finished FY2012 at 31,904.52 points.
This means that the investment experience of the Australian investing public in the stock market generally in FY2012 was a loss of 6.71%. That figure of course excludes management fees which on average would have trimmed between 1.5 to 2 percentage points off the result. I believe this benchmark over a period of years will approximate the results of leading investment companies (before fees). Such investment companies are the most probable alternative investments for the majority of fellow EGP investors.
I have always been an avid believer in establishing a meaningful yardstick prior to commencing an exercise and I believe the benchmark nominated above represents the logical choice. It covers nearly $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 $1.08396. The fund finished FY2012 at $1.02993, for a loss of 4.98%. This means that despite the negative performance, we have at least performed less poorly than the broader market by 1.73% over the last 12 months.
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. If we cannot provide at least some level of out-performance, there is no reason for the funds existence.
I have made this comparison before, 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.

We will make a habit of including the following tables, which are instructive for comparison:

Year by Year Performance			
Financial Year	S&PASX200(TR)	EGP Fund No 1 Pty Ltd (A-Shares after performance fees)	EGP Fund No. 1 Pty Ltd (gross results)
2011 (Q4)	-4.02%	8.40%	8.40%
2012	-6.71%	-4.98%	-4.98%

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			
Financial Year	S&PASX200(TR)	EGP Fund No 1 Pty Ltd (A-Shares after performance fees)	EGP Fund No. 1 Pty Ltd (gross results)
2011 (Q4)	-4.02%	8.40%	8.40%
2012	-6.71%	-4.98%	-4.98%
Cumulative	-10.46%	2.99%	2.99%

I have (above) 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 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 an 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 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.

I have consistently stated my intention to share your investment experience. To this end, at 1 July 2012, my wife and I carried 71% of our net-worth in the fund. We have wrapped a substantial proportion of our Superannuation assets into the fund, and will continue to add to our position as regularly as possible; I expect over the next few years, this proportion will likely 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.

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. 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 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.