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Erik A. (Tony) Hansen – Investment Manager

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<u>Year ended March 31 2012:</u>

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

The ***Standard and Poors ASX200 Total Return Index*** (hereafter referred to as '**the benchmark**') at the funds commencement on 1 April 2011 stood at 35,632.05 points. Including reinvestment of dividends, the benchmark stood closed at 31 March 2012 at 33,472.33 points.
This means that the investment experience of the Australian investing public in the stock market generally over this 1 year period was a **loss of 6.06%**. That figure of course excludes management fees which on average would have trimmed between 1.5 to 2 percentage points off any externally managed 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 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 over $1 trillion of market capitalisation and over 80% of Australian listed stocks. 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 our chosen benchmark presents no pushover and I estimate that after fees, at least 80% (probably a great many more) of investment funds will fail to exceed the benchmark over the medium term.

<u>Our experience:-</u>

EGP Fund No. 1 Pty Ltd (hereafter referred to as '**the fund**') at commencement on 1 April cost $1.00000 per unit. The fund finished FY2012 at $1.05679, for a **gain of 5.68%**. This is approximately the rate one could have returned with term deposits at our major institution over the same period and seems on the surface quite unexceptional, but looks much better when the benchmark is used as, well, a benchmark…
My continual objective in managing the fund will be to achieve a long-term record superior to the benchmark. I would hope fellow investors view an appropriate period to be about 5 years, or at the very least 3 years. 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 our 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. I pretend no ability to time the market and will be unashamedly happier with the 20% decline set out above than with the 15% gain, under the circumstances outlined.

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 ex-performance fees)	EGP Fund No. 1 Pty Ltd (gross results)
2011 (Q4)	(-4.02%)	8.40%	5.68%
2012 (Q1/2/3)	(-2.13%)	(-2.72%)	(-2.72%)

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 ex-performance fees)	EGP Fund No. 1 Pty Ltd (gross results)
2011 (Q4)	(-4.02%)	8.40%	8.40%
2012 (Q1/2/3)	(-2.13%)	(-2.72%)	(-2.72%)
Compounded	(-6.06%)	5.68%	5.68%

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. 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) compared to the wider market, are generally less exposed to economic downside risk and because of reasonable (cheap…) valuations, they therefore will generally 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. Our goal is and shall ever remain – maximum long-term return on capital, obtained with the minimum risk of permanent loss of capital.

I have consistently stated my intention to share your investment experience. To this end, at 5 March 2012 (when I last calculated family net-worth), my wife and I carried over half of our net-worth in the fund. We will continue to add to this position as regularly as possible; I expect within the next few years, this proportion will likely exceed 90%, depending on the performance of the fund.

I should add a caveat here that the out-performance attained above should be considered above average (11.74% in a 12 month period), and is unlikely to be the normal experience of future years. I have stated my target of 3 – 5% and anything beyond this should be considered unusual. 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 with EGP Fund No. 1 Pty Ltd will exactly mirror mine, only I am sure no-one else has quite as substantial a proportion of their net worth as my wife and I 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.