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Erik A. (Tony) Hansen – Investment Manager 3 April 2015

**Q3 Financial Year 2015:**

The General Market:-

The ***Standard and Poors ASX200 Total Return Index*** (hereafter referred to as '**the benchmark**') commenced financial year 2015 (FY2015) at 45991.23 points. Including reinvestment of dividends, the benchmark finished the third quarter of FY2015 (July 1st 2014 – April 3rd 2015) at 52071.17 points. Our 'third quarter' has a couple of extra days in it as we decided to run our intake on 2 April 2015 closing prices to line up with the end of the week, which is when we customarily report.

The Australian investing experience in the stock market generally in the first 3 quarters of FY2015 was a gain of 13.22%. In the quarter being reviewed the general market advanced by 10.46% including dividends.

The 13.22% and 10.46% figures quoted above of course exclude management fees and costs which on average would trim between 1.5 to 2 percentage points off results annually for persons having their money professionally managed. In years when the returns are high, people will happily pay such fees, but in a year of substantial decline, it is particularly galling to pay for poor returns. This is why the EGP structure requires both a positive return and a market beating performance in order to earn a fee.

The chosen 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.

Our benchmark was selected in advance and represents the most logical choice in my view. It covers about $1.6 trillion in market capitalisation and over 80% of Australian listed stocks by value. The chosen benchmark presents no pushover and I estimate that after fees, about 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 FY2015 at $1.56145. The fund finished the third quarter of FY2015 at $1.66624, for a gain of 6.71% after allowing for all fees and expenses. To be clear, no fees were incurred due to the below market return and expenses, as always were contained to around 0.1% of assets annually.

Results should really be considered over the longer term, preferably 3 – 5 years. The fund has now operated for 4 full years and returned 16.12% annually after all fees/expenses. This exceeds the 9.95% annualised performance of our benchmark by 6.17%.

I've commented in the last couple of quarterly letters that the market was in the 'fairly valued range'. After the extraordinary quarter just completed, with the index booking gains of over 10%, it is almost certainly above its fair value now. Given the present state of the Australian economy, I can assure you that the value of the underlying businesses that comprise the index did not improve their intrinsic value by over 10 % in 3 months. This by itself need not be a cause for concern and remember - those that think they can correctly time their way into and out of the market almost always get crushed at some point.

There remain, as there almost always are, some companies whose share prices have not been swept along in the excitement of the last quarter. We continue to seek (and find) reasonably priced businesses whose business performance and prospects appear not to be fully represented in their price at the market.

As always, my fellow investors in EGP should remember this:

Any year when the benchmark declined by 35% and the fund declined by 20% would be viewed as a substantially superior year to one in which both advanced by 15%. Ordinarily, I would expect our best chance of outperformance to come in periods of substantial decline. In the event of a sharp rise, we will generally be happy just to keep pace.

If the concept of holding an investment capable of substantial decline in the short-term makes you uncomfortable, you would be well-advised to have the majority of your wealth and investments outside of the stock-market, for it is precisely the type of out-performance described above that we will be chasing. The expectation that over a reasonable period, outperformance of the benchmark will lead to very satisfactory results has borne out so far. You should also expect approximately one in six periods to result in a negative return for the market and that the fund is unlikely to be completely immune should this happen.

Performance Tables, instructive for comparison:

| Year by Year Performance | | | |
|---|---|---|---|
| Australian Financial Year | The benchmark | 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 | 22.75% | 32.58%#1 | 35.07%#1 |
| 2014 | 17.43% | 24.71%#1 | 26.83%#1 |
| Q3FY2015 | 13.22% | 6.71% | 6.71% |

* 2012 is the 15 month period from 1 April 2011 (fund inception) to 30 June 2012 (first full financial year)
#1 Assumes reinvestment of dividends

We include below a cumulative table, which we hope will demonstrate over time what 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 | The benchmark | 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 | 22.75% | 32.58%#1 | 35.07%#1 |
| 2014 | 17.43% | 24.71%#1 | 26.83%#1 |
| Q3FY2015 | 13.22% | 6.71% | 6.71% |
| Cumulative | 46.14% | 81.80%#1 | 88.26%#1 |
| **Annualised** | **9.95%** | **16.12% #1** | **17.14% #1** |

* 2012 is the 15 month period from 1 April 2011 (fund inception) to 30 June 2012 (first full financial year)
#1 Assumes reinvestment of dividends

We ended the period with our holdings numbering 28, after the addition of Flight Centre to the portfolio as set out in the blog a couple of weeks back and one other stock which we are not yet finished buying. Our 4 largest (and best) holdings currently comprise 57.5% of our stock portfolio (i.e. excluding cash holdings). Our smallest comprises 0.6%. After this investor intake, we hold about 10% cash. We remain filled with intent to reduce the number of our holdings to something nearer to 20, but a great many of the smaller holdings which are intended for disposal sit below prices at which we are satisfied the removal adds value to the portfolio overall, so we wait.

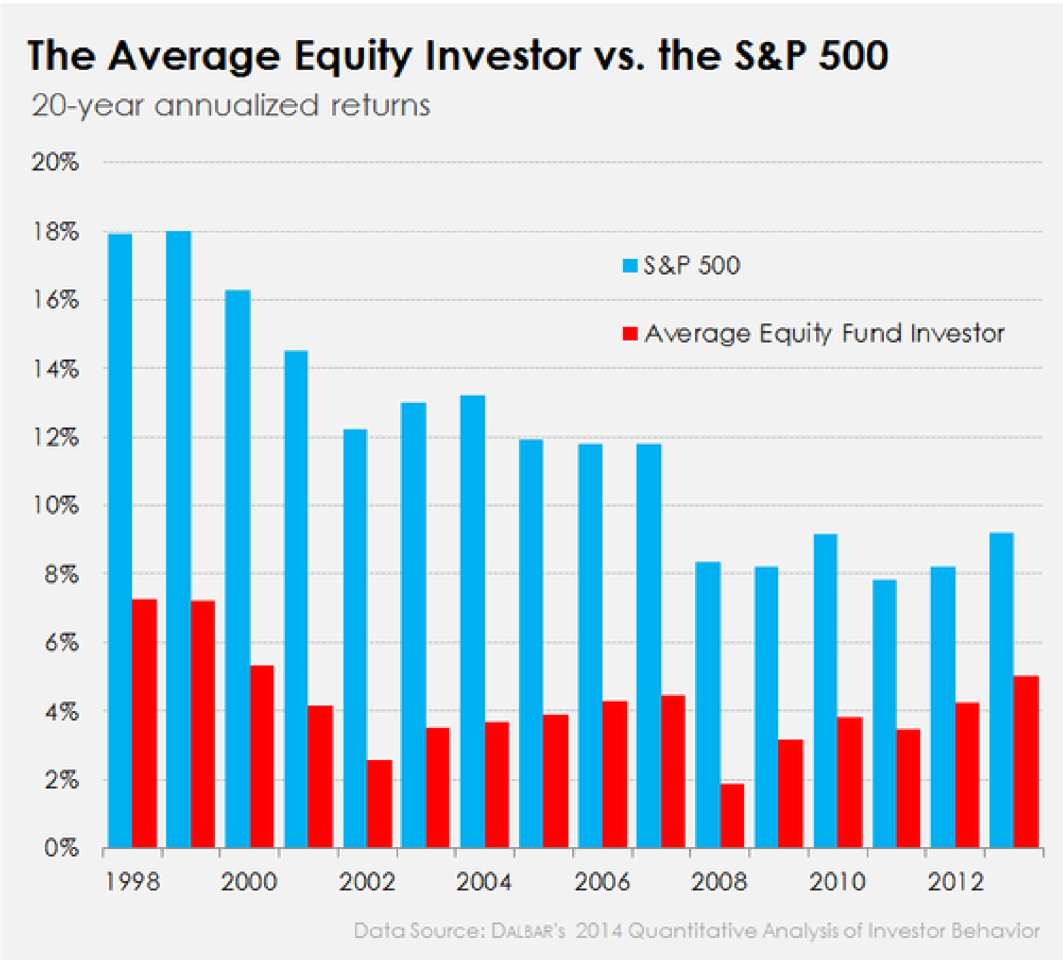
Dividends:-

We will distribute 12.381 cents per share (8.6667c dividend plus 3.7143c franking credit) by way of dividend at the end of May 2015. This will bring total fully franked dividends to 18 cents since inception. We had indicated a slightly higher distribution in the last quarterly, but we have taken on more new capital than anticipated and so the franking balance is spread over a larger number of shares on issue, reducing the franking credits per share available for distribution. We expect to continue to pay out our franking balance in full annually and anticipate this should lead to growth in dividends that approximately mirrors the capital growth in per share assets. An email will be circulated in early May reminding anyone who does not want to reinvest to let us know so they can receive the cash payment.

Time in the Market:-

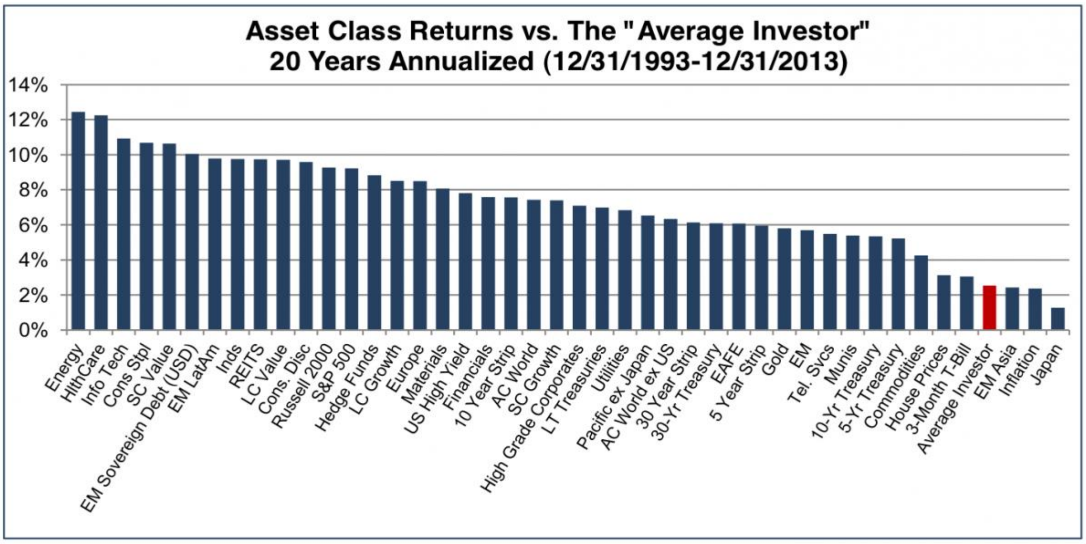
I alluded to how hard timing the market is in the prior 'Our Experience' section. Many studies are available reminding the average investor how expensive herd behaviour can be.

Given I've warned that the market is at an above average valuation point, I thought it also prudent to remind fellow investors that trying to time the market is generally fraught with a great deal more risk than riding out any up's and down's. Especially once payments of taxes are considered.




The above chart seems to indicate the average investors does themselves out of somewhere between 5 and 10% on an annual basis through their own behaviour. Fidelity investments, which has nearly $2 trillion in funds under management commissioned a study to find out who were their best investors and they found the best performance was attributable to accounts where the investor had **forgotten** they had an account at Fidelity.

The below chart sets out basically the same story and notwithstanding the fact that both charts provided map American investor behaviour, you can be sure Australian investors are harming themselves in similar ways.




Source: Richard Bernstein Advisors LLC., Bloomberg, MSCI, Standard & Poor's, Russell, HFRI, BofA Merrill Lynch, Dalbar, FHFA, FRB, FTSE. Total Returns in USD.
Average Investor is represented by Dalbar's average asset allocation investor return, which utilizes the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior.
For Index descriptors, see "Index Descriptions" at end of document.

Member Audit:-

The audit for the period ended 31 December 2014 was promptly completed on January 8 2015 by your member auditor, he kindly wrote the following words for me to use:

*"Many thanks for your invitation to undertake the Dec 2014 member audit. This audit has given me even greater faith in the fidelity and probity of the fund and on behalf of all members I would like to thank you for this opportunity and the transparency that Eternal Growth Partners provides to members. Having reviewed the broker statements, bank statements, share register, and other information provided and your responses to my queries raised I confirm that I support the NTA value that Eternal Growth Partners has adopted as an accurate assessment of the market value of the fund as at 31 December 2014."*

The quality of the audit was, once again, excellent with exactly the sort of questions I like to think I myself would ask were the situation reversed. Our member auditor's keen eye in fact spotted that the calculation of NTA at 31 December 2014 had failed to include the franking credits for two holdings which went ex-dividend in the second half of December (but which we had yet to receive). The result was 202 more shares were issued in the intake than should have been. To remedy this, next time a performance fee is earned, the first 202 shares will be foregone. The discrepancy amounted to about one one-hundredth of one percent (0.0103%), but I will be happier if it is remedied.

We remain ready to take volunteers for member auditors for the June 30 2016 audits and beyond. You needn't feel any pressure in this regard, the books are still audited externally by regular accountants, but this process gives an important opportunity to critical eyes with a financial (rather than professional) interest in ensuring everything is in proper order.

Let me hear from you regarding any questions you may have on any aspects of this letter or anything else regarding our fund that you would like to know.

Best Regards,

Erik A. (Tony) Hansen