December 2014

ConBrio Sanford DeLand UK Buffettology

ConBrio OEIC

ConBrio
THE SPIRIT OF INVESTMENT

| Fund Strategy |

The Fund Manager's investment methodology is based upon the principle of Business Perspective Investing. We also run a concentrated portfolio of investments and try to keep portfolio turnover down. Companies selected for investment consideration must exhibit several important criteria:

- Comprehensible business model;
- Transparent financial statements;
- Enduring franchise with pricing power;
- Consistent operational performance with relatively predictable earnings;
- High returns on capital employed;
- Strong free cash flow;
- Strong balance sheet;
- Management focused on delivering shareholder value; and
- No undue reliance on acquisition-led growth.

| Fund Objectives |

To achieve an annual compounding rate of return over the long term which is superior to the performance of the UK stock market.

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FE CROWN FUND RATING

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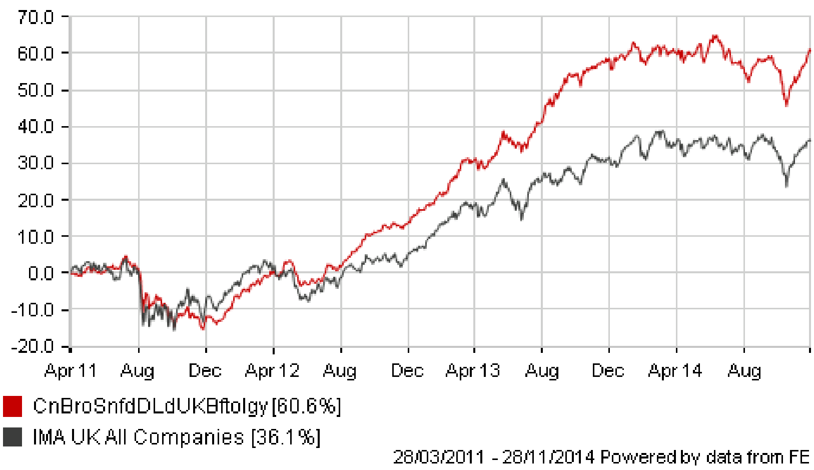
Performance Record



| Key Facts |

Fund Size:	£17.9m
Launch Date:	28 March 2011
Sector:	IMA UK All Companies

| Top 10 Holdings |	**%**
Trifast	5.91
Driver Group	5.16
Scapa Group	4.52
Dart Group	4.44
Liontrust Asset Management	4.41
Dixons Carphone	4.41
NCC	4.37
Mattoli Woods	4.34
RWS Holdings	4.10
International Personal Finance	4.06
TOTAL	**45.72**

| Asset Allocation |	**%**
Financials	19.0
Support Services	17.2
Chemicals	13.9
Travel & Leisure	10.3
Industrial Engineering	8.7
Cash/Other	7.1
Pharmaceuticals & Biotechnology	6.6
Food & Beverages	5.8
Retailers	4.3
Software & Computer Services	4.3
Construction & Materials	2.9

Discrete Annual Performance (%)

Share Type	2014(YTD)	2013	2012	2011	2010
Income	0.7	36.0	34.2	-	-

Discrete Annual Performance to Quarter End 30 September 2014 (%)

Share Type	30/09/2013 30/09/2014	30/09/2012 30/09/2013	30/09/2011 30/09/2012	30/09/2010 30/09/2011	30/09/2009 30/09/2010
Income	1.4	38.7	26.8	-	-

Cumulative Performance to 30 November 2014 (%)

Share Type	3 Months	6 Months	1 Year	3 Years	5 Years
Income	1.5	-1.7	1.1	84.6	-
Official Sector	-0.5	-0.6	3.3	49.5	65.8

Performance quoted on a total return, bid to bid, UK sterling basis. Past performance is not a guide to the future. The price of units and shares and the income from them may go down as well as up and you may get back less than you invested.

Source: Financial Express. 17/12/2014

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Fund developments and comments

Keith Ashworth-Lord, Investment Director & Fund Manager, Sanford DeLand

Earlier this year I devoted two Manager's Commentaries to the importance of Return on Equity (ROE). This month, I want to develop that theme by showing how ROE has consequences for the economic value of a business. Let's start with two companies A and B. Company A has sales of £100m with an 8% earnings margin, i.e. it generates £8m of post-tax profit. Company B also has sales of £100m but it earns 10% on this, thus generating £10m of net profit. Assume that each has a similar capital structure and both operate in industries with comparable growth prospects. Furthermore, the market capitalisations are presently the same, say £100m. In this case, A will be trading on a PER of 12.5x whilst B will be on 10x. If you were focused only on earnings growth prospects and the current PER, you might think that B offered better value.

Let's turn now to return on equity. The book value of equity in each case is £40m for A and £80m for B. So immediately we see that the respective returns on equity are 20% and 12.5%. When it comes to allocation of capital, this means that A is doing a better job than B. In effect, A's inferior earnings margin is more than compensated for by its superior ability to generate more sales off its equity base. For every £1 of equity invested, A produces £2.50 of sales versus £1.25 for B.

Next, let's assume that each pays out one-third of its earnings as dividends and reinvests the remainder at the same rate of return as is being achieved on the historic stock of equity capital. Over the next five years, A's earnings will grow from £8m through £9.1m, £10.3m, £11.6m and £13.2m to £15.0m. By contrast, B's earnings will grow from £10m through £10.8m, £11.7m, £12.7m and £13.8m ending up at £14.9m. In the space of five years, A's earnings have caught up and overtaken B's. And the longer your holding period, the greater the impact that compounding will have on a superior ROE. After 10 years, the terminal figures will actually be £28.0m for A and £22.3m for B. Based on the initial purchase price, that equates to a PER of 3.6x for A and 4.5x for B, a differential that will most likely have been closed by the relatively stronger share price performance of A.

It immediately becomes apparent why at the 1995 Berkshire Hathaway AGM Warren Buffett said, "We like stocks that generate high returns on invested capital where there is a strong likelihood that it will continue to do so … it's really the interaction of capital employed, the return on that capital and future capital generated versus the purchase price today". At Sanford DeLand, our minimum hurdle for ROE is mid-teens but we gravitate toward those businesses able to consistently generate 20-30% on their equity capital. The main problem for many businesses – as I have pointed out before – is their ability to reinvest retained earnings at marginal rates of return as high as that on the historic capital.

Of course, there is another aspect to consider in all this. All earnings are not created equal. Some business shapes consistently convert more of their earnings into free cash than others. For valuation purposes, it is free cash that counts, not accounting earnings. So the Holy Grail is really cash return on invested capital. But a discussion of that is for another day.

In November, the UK stock market continued its recovery from the October 16th nadir with a monthly climb of 2.6%. Against this backdrop, the UK Buffettology Fund rose by 4.4% with the share price increasing from 153.55p to 160.29p. With Sodexo completing its acquisition of Motivcom towards the end of the month, cash balances have been inflated. Among the 27 company portfolio, there were 20 gainers of which three were double digit: Liontrust +21.7%; RWS +17.2% and Domino's Pizza +10.0%. Of the five fallers, only the Rotork share price fared particularly badly. It lost 14.4% on the month, mostly in the last two days trading thanks to the indiscriminate carpet bombing of any company with exposure to the oil industry (Elementis also got caught up in this). Historically, there has been little correlation between Rotork's operational performance and the oil price so I have used the weakness to increase our weighting.

Fund Information

Initial Charge	General & Institutional 0%
Investment Adviser Fee	General 1.5%pa & Institutional 1%
Annual Management Charge	Combined ACD & Admin fee 0.2%pa (min £45,000pa)
Accounting Dates	28 February, 31 August
Payment Dates	27 May, 27 November
Valuation Point	12 noon, daily
Sedol Code	General Inc: B3QQFJ6 Institutional Inc: BKJ9C67
Share Class	General Income & Institutional Income Shares
Published Price	www.theconbriofunds.co.uk
Min. Investment	General £500, £50pm & Institutional £250,000
ISA eligible	Yes, stocks & shares

Investment Team

I Sanford DeLand Asset Management Ltd I

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