



MARGIN OF SAFETY FUND

Société d'Investissement à Capital Variable
R.C.S. B 88649

Audited annual report

as at 31/12/12

MARGIN OF SAFETY FUND

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Subscriptions can only be received on the basis of the latest prospectus accompanied by the latest annual report as well as by the latest semi-annual report, if published after the latest annual report.

MARGIN OF SAFETY FUND

Management and Administration

REGISTERED OFFICE

5, Allée Scheffer
L-2520 Luxembourg

INVESTMENT MANAGER

Pastel & Associés S.A.
9-11, Avenue Franklin D. Roosevelt
F-75008 Paris

PROMOTOR

Pastel & Associés S.A.
9-11, Avenue Franklin D. Roosevelt
F-75008 Paris

AUDITOR

KPMG Luxembourg S.à r.l.
9, Allée Scheffer
L-2520 Luxembourg

CUSTODIAN AND CENTRAL ADMINISTRATION AGENT

CACEIS Bank Luxembourg
5, Allée Scheffer
L-2520 Luxembourg

MANAGEMENT COMPANY

Luxcellence Management Company S.A.
5, Allée Scheffer
L-2520 Luxembourg

Board of Directors

Chairman of the Board

M. John MILLS, Managing Director, Maitland Luxembourg S.A.

Members of the Board

M. David PASTEL, CEO of Pastel & Associés S.A.

M. Yves-Pascal PELCENER, Member of the Board of Pastel & Associés S.A.

MARGIN OF SAFETY FUND

Information to the Shareholders

Supplementary information to Shareholders on Savings Directive 2003/48/EC

The Board of Directors resolves that the following Sub-Fund is out of the scope of the Law for the realised and distribution income:

MARGIN OF SAFETY FUND - Fund 1 with 5.28% of its assets invested in debt-claims.

This update has been effective from May 2, 2012 and will remain in force until April 30, 2013 date at which the status will be updated again.

MARGIN OF SAFETY FUND

Manager's Report

Investment performance MARGIN OF SAFETY FUND - FUND 1

(cumulative figures after all fees and expenses)

Class I shares

In 2012, the Fund's NAV increased by 21.8%*, resulting in a cumulative performance since inception on February 2, 1998, of +274.9%*. As a result, while \$1,000 invested at inception in MARGIN OF SAFETY FUND - I Class (USD) would now be worth \$3,749* the same \$1,000 invested in the MSCI World index in USD (with dividends reinvested) would now equal \$1,919*.

Class P shares

In 2012, the Fund's NAV increased by 20.8%*, resulting in a cumulative performance since inception on February 2, 1998, of +283.0%*. As a result, while \$1,000 invested at inception in MARGIN OF SAFETY FUND - P Class (USD) would now be worth \$3,830*, the same \$1,000 invested in the MSCI World index in USD (with dividends reinvested) would now equal \$1,919*.

Management report

Your Fund continued to capitalise on cheap equity market valuations among the so-called developed economies as the bearish trend underway since the end of 2007 continued.

Since the Fund's inception, fifteen years ago, the prices of most of the stocks held in the portfolio have rarely been so deeply discounted compared to their long term economic valuations. Several stocks are even trading below net tangible asset value.

The combination of heavily discounted valuations and the underlying quality of our investments should bode well for the portfolio. After ten turbulent but ultimately profitable years for your funds (2002-2012), the stars seem to be aligned to make the next decade a great one for our investors. However, only time will tell.

In 2013 we will remain true to our approach which focuses on independence, intrinsic value and margin of safety while staying within our own "circle of competence".

Since 1998, this approach has enabled your funds to weather a series of deep crises and significantly outperform major indices, delivering, in the process, mid-to-high single-digit annualized rates of absolute return.

Your Fund remains undervalued and, given the quality of the companies held in its portfolio, harbour substantial potential long-term upside**.

* All figures are based on the December 28, 2012 NAV (last official NAV of the year)

** This report does not contain any forecast of future rates of return. It only conveys the opinions of its author at the time of writing this report. These opinions may change at any time without any notice to be given. Moreover, they maybe proved wrong as circumstances change and as additional facts become publicly known. In addition, they are not meant to be used as elements in making a decision to buy or sell shares of the Fund or any other securities.

MARGIN OF SAFETY FUND
Manager's Report (Continued)

Evolution of the portfolio structure in 2012

In 2012, the structure of the portfolio underwent a certain number of changes.

During the year, new positions were built or reinforced such as American International Group (AIG), Charles Schwab, D/S Norden and Vicat.

At the same time, a number of positions were entirely or partially disposed of, such as Debenhams, Lowe's, Mohawk Industries and Persimmon.

As a result of these transactions, the Fund's equity portion represented 93.8% of the net asset value. As was already mentioned in previous reports, Euro and Sterling-denominated portfolio assets are partially hedged back into the US Dollar through forward currency sales.

As of December 31, 2012, the geographic breakdown of the Fund's portfolio, before currency hedging, was as follows (2011 figures are provided for comparison purposes):

	2012	2011
- United States:	37.4%	38.3%
- United Kingdom:	34.0%	37.8%
- Euro Zone:	23.6%	23.9%
- Others:	5.0%	0.0%

As of December 31, 2012, the breakdown by industry sector of the equity portion of the Fund's portfolio was as follows (2011 figures are provided for comparison purposes)**:

	2012	2011
- Business to business services:	41.3%	43.2%
- Consumer staples:	4.3%	5.2%
- Financial services:	14.6%	4.6%
- Food Retailing:	3.8%	2.5%
- Home building & renovation	8.3%	15.9%
- Industrials:	2.1%	1.9%
- Holdings:	16.0%	11.5%
- Non-food retailing:	4.6%	15.2%
- Transportation	5.0%	0.0%

Regards,

David Pastel,
Pastel & Associés S.A.

***Following classification changes, 2011 figures provided herein may differ from last year's report.

MARGIN OF SAFETY FUND

Report of the Réviseur d'Entreprises agréé

To the shareholders of
MARGIN OF SAFETY FUND
5, Allée Scheffer
L-2520 Luxembourg

We have audited the accompanying financial statements of **MARGIN OF SAFETY FUND**, which comprise the Statement of net assets and the Securities portfolio as at December 31, 2012 and the Statement of operations and changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors of the SICAV responsibility for the financial statements

The Board of Directors of the SICAV is responsible for the preparation and fair presentation of these financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation of financial statements, and for such internal control as the Board of Directors of the SICAV determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors of the SICAV, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

MARGIN OF SAFETY FUND

Report of the Réviseur d'Entreprises agréé (Continued)

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of **MARGIN OF SAFETY FUND** as of December 31, 2012, and of the results of its operations and changes in its net assets for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the financial statements.

Other matter

Supplementary information included in the annual report has been reviewed in the context of our mandate but has not been subject to specific audit procedures carried out in accordance with the standards described above. Consequently, we express no opinion on such information. However, we have no observation to make concerning such information in the context of the financial statements taken as a whole.

Luxembourg, April 23, 2013

KPMG Luxembourg S.à r.l.
Cabinet de révision agréé

Patrice Perichon
Director

MARGIN OF SAFETY FUND

- Fund 1

MARGIN OF SAFETY FUND - Fund 1

Financial Statements as at 31/12/12

Statement of net assets as at 31/12/12

Expressed in USD

Assets			10,499,867.36
Securities portfolio at market value	Note 2	9,723,662.61	
<i>Cost price</i>		9,512,660.42	
<i>Unrealised profit on the securities portfolio</i>		211,002.19	
Cash at banks and liquidities		689,757.98	
Brokers receivable		75,259.26	
Other assets		11,187.51	
Liabilities			137,353.75
Subscribers payable		3,819.62	
Unrealised loss on forward foreign exchange contracts	Note 6	70,857.50	
Accrued management fees and management company fees	Note 4	29,424.19	
Other liabilities		33,252.44	
Net asset value			10,362,513.61

Changes in number of shares outstanding from 01/01/12 to 31/12/12

	Shares outstanding as at 01/01/12	Shares issued	Shares redeemed	Shares outstanding as at 31/12/12
Class I				
Capitalisation shares	3,491.02	1,950.00	3,029.25	2,411.77
Class P				
Capitalisation shares	413.54	12.42	95.25	330.71

Key figures relating to the last 3 years

	<i>Year ending as at:</i>	31/12/12	31/12/11	31/12/10
Total Net Assets	USD	10,362,513.61	12,051,866.72	17,700,023.83
Class I		USD	USD	USD
Capitalisation shares				
Number of shares		2,411.77	3,491.02	4,296.77
Net asset value per share		3,768.66	3,076.54	3,798.49
Class P		USD	USD	USD
Capitalisation shares				
Number of shares		330.71	413.54	348.94
Net asset value per share		3,850.41	3,171.60	3,951.42

MARGIN OF SAFETY FUND - Fund 1

Securities portfolio as at 31/12/12

Expressed in USD

Quantity	Denomination	Quotation currency	Market value	% of net assets
Transferable securities admitted to an official stock exchange listing and/or dealt in on another regulated market			9,723,662.61	93.83%
Shares			9,723,662.61	93.83%
<i>Austria</i>				
1,868.00	MAYR-MELNHOF KARTON AG	EUR	199,188.93	1.92%
<i>Denmark</i>				
16,835.00	D/S NORDEN	DKK	485,199.28	4.68%
<i>France</i>				
7,910.00	CIMENT VICAT SA	EUR	492,018.71	4.75%
3,859.00	FONCIERE FINANCIERE PART. ACT NOM.	EUR	147,543.46	1.42%
7,272.00	GROUPE CRIT	EUR	145,153.31	1.40%
7,400.00	LEGRAND SA	EUR	310,977.60	3.00%
<i>The Netherlands</i>				
27,364.00	RANDSTAD HOLDING	EUR	1,003,112.58	9.68%
<i>United Kingdom</i>				
40,371.00	CARPETRIGHT PLC	GBP	446,222.24	4.31%
128,669.00	ELECTROCOMPONENTS PLC	GBP	497,764.22	4.80%
725,655.00	HAYS	GBP	970,739.77	9.37%
322,014.00	PREMIER FARNELL PLC	GBP	1,018,045.41	9.82%
68,349.00	TESCO PLC	GBP	373,288.18	3.60%
<i>United States of America</i>				
14,130.00	AMERICAN INTERNATIONAL GROUP INC	USD	498,789.00	4.81%
34,950.00	CHARLES SCHWAB CORP/THE	USD	501,882.00	4.85%
4,875.00	CINTAS CORP	USD	199,387.50	1.92%
1,785.00	COLGATE-PALMOLIVE CO	USD	186,603.90	1.80%
42,649.00	LEUCADIA NATIONAL CORP	USD	1,014,619.71	9.80%
9,740.00	LOEWS CORP	USD	396,905.00	3.83%
973.00	MARKEL CORP	USD	421,717.66	4.07%
5,485.00	PATTERSON COS INC	USD	187,751.55	1.81%
3,340.00	PROCTER AND GAMBLE CO	USD	226,752.60	2.19%
Total securities portfolio			9,723,662.61	93.83%

MARGIN OF SAFETY FUND - Fund 1

Statement of operations and changes in net assets from 01/01/12 to 31/12/12

Expressed in USD

Income		294,941.30
Net dividends		294,941.30
Expenses		297,214.35
Management & management company fees	Note 4	166,873.96
Custodian & sub-custodian fees		9,353.57
Taxe d'abonnement	Note 3	5,645.67
Administrative expenses		18,240.00
Domiciliation fees		8,600.00
Professional fees		21,875.01
Bank interest on overdrafts		24.43
Legal fees		19,226.35
Transaction fees	Note 2	34,024.47
Other expenses		13,350.89
Net loss from investments		-2,273.05
Net realised profit / loss on:		
- sales of investment securities	Note 2	454,446.95
- forward foreign exchange contracts		176,210.66
- foreign exchange		-329,722.77
Net realised profit		298,661.79
Movement in net unrealised appreciation / depreciation on:		
- investments		2,171,627.64
- forward foreign exchange contracts		-266,460.29
Increase in net assets as a result of operations		2,203,829.14
Subscription capitalisation shares		6,448,158.34
Class I		6,400,708.25
Class P		47,450.09
Redemption capitalisation shares		-10,341,340.59
Class I		-10,024,539.52
Class P		-316,801.07
Decrease in net assets		-1,689,353.11
Net assets at the beginning of the year		12,051,866.72
Net assets at the end of the year		10,362,513.61

MARGIN OF SAFETY FUND

Notes to the financial statements

MARGIN OF SAFETY FUND

Notes to the financial statements as at December 31, 2012

1. General

MARGIN OF SAFETY FUND is a “société anonyme” with the status of a “Société d’Investissement à Capital Variable” under the law of August 10, 2015 on Commercial Companies. It is also submitted to the Part I of the Luxembourg law of December 17, 2010 on Collective Investment Undertaking. The Fund is incorporated with limited liability for an unlimited duration.

The Fund was incorporated under the name “Margin of Safety Fund Limited” with limited liability on January 19, 1998 in the British Virgin Islands as an open-ended investment company. The decision to transfer the Fund’s head office to the Grand Duchy of Luxembourg was taken by way of a resolution of the Board of Directors dated May 15, 2002, and the Fund was transformed into a Luxembourg SICAV by way of an extraordinary General Meeting held on August 14, 2002.

The Fund is registered under the number B 88649. Its registered office is in Luxembourg, 5, Allée Scheffer, L-2520 Luxembourg.

As from April 28, 2006, the Fund has designated Luxcellence Management Company S.A. as management company in the meaning of article 15 of the Luxembourg law dated December 17, 2010.

As at December 31, 2012 only the sub-fund MARGIN OF SAFETY FUND - Fund 1 is open. This sub-fund has issued two Classes of Shares: Class I (in USD) and Class P (in USD). All Classes may be issued as accumulation shares or distribution shares at the investor’s discretion. Class I and Class P shares are also expressed in EUR for the purpose of subscriptions and redemptions.

The sub-fund is expressed in USD, consequently, the financial statements of the SICAV consist in the financial statements of the Fund 1 sub-fund.

2. Summary of significant accounting principles

The financial statements have been prepared using accounting principles generally accepted for funds in Luxembourg including the following significant accounting policies :

1. Valuation of investments

The value of any transferable securities which are listed on a Stock Exchange or dealt on a regulated market shall be determined according to their last available price. If such prices are not representative of the fair value, securities will be valued at a fair value at which it is expected that they may be resold, as determined in good faith by and under the direction of the Board of Directors.

In the event that any transferable securities held by the Fund at the valuation day are neither quoted on a Stock Exchange nor dealt in on another regulated market, they are valued at their probable realisation value on the relevant Valuation Date, determined prudently and in good faith.

Forward foreign exchange contracts are valued at the previous day closing price.

2. Realised profit and loss on investments

The profits and losses on sales of investments are determined on the basis of average cost.

MARGIN OF SAFETY FUND

Notes to the financial statements as at December 31, 2012 (Continued)

2. Summary of significant accounting principles (continued)

3. Foreign exchange

The market value of the investments and other assets and liabilities expressed in currencies other than the base currency of each sub-fund have been converted at the exchange rates as at the year end date.

The costs of investments in currencies other than the base currency have been converted at the exchange rates as at the purchase date. Gains and losses arising on foreign exchange transactions are included in the result of operations.

As at December 31, 2012, the following significant exchange rates were used:

1 EUR	=	1.31840 USD	1 DKK	=	0.17670 USD
1 GBP	=	1.62545 USD			

4. Income from investments

Dividends are recognised as income on the date securities are first quoted ex-dividend, to the extent that information thereon is available to the Fund. Interest is accrued on a weekly basis.

5. Transaction fees

The transactions fees for the period from January 1, 2012 to December 31, 2012, i.e. fees charged by the brokers and the Custodian for securities transactions and similar transactions are recorded separately in the Statement of operations and changes in nets assets in the account "Transaction fees"

3. Tax Considerations

Under legislation and regulations currently prevailing in Luxembourg, the Fund is subject to a capital tax on its net assets at an annual rate of 0.05% ("Taxe d'abonnement"), calculated and payable quarterly on the basis of the value of the net assets of the Fund at the end of the relevant quarter.

4. Management and Management company fees

For its services the Investment Manager receives a management fee payable quarterly, at an annual rate calculated on each Class of Shares quarterly average Net Asset Value. The annual management fees are as follows:

Class I:	maximum and effective 0.90%
Class P:	maximum 2%
	effective 1.80%

In addition to the management fees, the Fund shall pay a management company fee to the Management Company, payable monthly, at an annual rate of 0.05% per annum with a minimum of EUR 40,000.00 per annum which shall be calculated on the Fund's average Net Asset Value.

5. Performance fees

The Fund shall pay to the Investment Manager an annual performance fee of up to 20% of the annual increase in the aggregate net assets of the Class I shares and Class P shares over a 12% annual benchmark as defined in the prospectus. For the year ended December 31, 2012, no performance fee was paid by the Fund.

MARGIN OF SAFETY FUND

Notes to the financial statements as at December 31, 2012 (Continued)

6. Open positions on forward foreign exchange contracts

As at December 31, 2012, MARGIN OF SAFETY FUND - Fund 1 had the following open positions:

Sale	Purchase	Maturity date	Unrealised loss in USD
-1,150,000.00 GBP	1,836,090.00 USD	08/02/13	-32,990.78
-890,000.00 EUR	1,135,462.00 USD	08/02/13	-38,276.36
-50,000.00 EUR	66,350.00 USD	08/02/13	409.64
		TOTAL	-70,857.50

7. Statement of changes in Portfolio

The statement of changes in portfolio for the year under review is available free of charge at the Fund's head office.

8. Master-feeder structure

Since March 26, 2013 MARGIN OF SAFETY FUND - Fund 1 is a feeder sub-fund of the Fund VALEUR INTRINSEQUE (the "Master Fund"); a french undertaking for collective investment in transferable securities, qualifying as a fonds commun de placement (mutual fund) under French law and organised as a single fund, and will invest at least 85% of its assets in units of this Fund.

The Sub-Fund may hold up to 15% of its assets in one or more of the following:

- Ancillary liquid assets
- Financial derivative instruments, which may be used only for hedging purposes,
- Movable and immovable property which is essential for the direct pursuit of its business.

The Feeder Sub-Fund will invest its assets solely in the class M of the Master Fund.

The Feeder Sub-Fund and the Master Fund are both managed by the same Management Company, Pastel & Associés S.A. 9-11 avenue Franklin D. Roosevelt F-75008 Paris.

For further informations, please refer to the latest prospectus

MARGIN OF SAFETY FUND

Global exposure calculation method (unaudited information)

The commitment approach

The sub-fund MARGIN OF SAFETY FUND - FUND 1 uses the commitment approach in order to monitor and measure the global exposure.