



MARGIN OF SAFETY FUND

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

Audited annual report

as at 31/12/13

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

PROMOTOR

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

CUSTODIAN AND

CENTRAL ADMINISTRATION AGENT

CACEIS Bank Luxembourg
5, Allée Scheffer
L-2520 Luxembourg

AUDITOR

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

MANAGEMENT COMPANY

Luxcellence Management Company S.A.
5, Allée Scheffer
L-2520 Luxembourg
(until March 26, 2013)

INVESTMENT MANAGER

Pastel & Associés S.A.
9-11, Avenue Franklin D. Roosevelt
F-75008 Paris
(until March 26, 2013)

Pastel & Associés S.A.
9-11, Avenue Franklin D. Roosevelt
F-75008 Paris
(since March 26, 2013)

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 3.37% of its assets invested in debt-claims.

This update has been effective from May 2, 2013 and will remain in force until April 30, 2014 date at which the status will be updated again.

MARGIN OF SAFETY FUND

Manager's Report

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.

Investment performance MARGIN OF SAFETY FUND - Fund 1

(cumulative figures after all fees and expenses)

Class I shares

In 2013, the Fund's NAV increased by +32.5%*, resulting in a cumulative performance since inception on February 2, 1998, of +396.8%*. As a result, while \$1,000 invested at inception in MARGIN OF SAFETY FUND - I Class (USD) would now be worth \$4,968* the same \$1,000 invested in the MSCI World index in USD (with dividends reinvested) would now equal \$2,285*.

Class P shares

In 2013, the Fund's NAV increased by +31.2%*, resulting in a cumulative performance since inception on February 2, 1998, of +402.7%*. As a result, while \$1,000 invested at inception in MARGIN OF SAFETY FUND - P Class (USD) would now be worth \$5,027*, the same \$1,000 invested in the MSCI World index in USD (with dividends reinvested) would now equal \$2,285*.

Disclosure: the "international equities" benchmark performance presented above pertains to the "MSCI World (USD) dividends reinvested net index", unlike in previous years' management reports which contained benchmark performance data from the "MSCI World (USD) dividends reinvested gross index". This change, which neither impacts the fund's investment methodology nor its risk profile, was implemented to align on prevailing sector practice. Investors should be aware that, going forward, the benchmark index to be featured in coming monthly reports and Key Investor Information Document (KIID) will, from now on, be MSCI World (USD) dividends reinvested net index.

Management report of the Master Fund

In 2013, the Pastel & Associés investment management team has kept researching our investment universe (a hundred or so companies selected over the years for their intrinsic qualities) while, at the same time, hunting for new ideas to add to our universe. Our efforts enabled us to seize a number of opportunities throughout the course of the year (bellow).

The market capitalisation of the S&P 500, expressed as a multiple of ten-year average inflation-adjusted earnings is now not only well above its 50-year historical average level of 20, but is closing in on its all-time high of around 30 (excluding the "dot-com bubble" of 1998-2000).

* All figures are based on the December 27, 2013 NAV (last official NAV of the year)

MARGIN OF SAFETY FUND

Manager's Report (continued)

Were this ratio applied to European indices, it would probably send similar signals. But Europe's institutional instability (nationalisations, privatisations, changes in benchmark currency, etc.) would make these less reliable.

Having effectively identified early signs of irrational exuberance leads us to be more demanding in terms of the quality of the companies held in our portfolios as well as the price we are prepared to pay for it.

To paraphrase Warren Buffett, greater caution is required when euphoria begins to set in. One will probably no longer be able to generate performance simply by "surfing" the bull market wave. Stock picking will, again, be the main differentiating factor.

Hence our belief that our selective, focused and prudent approach, combined with the current structure of our portfolios, are particularly well adapted to current circumstances**.

Evolution of the portfolio structure in 2013

As of December 31, 2013, MARGIN OF SAFETY FUND - Fund 1 is invested at 100% in the Master Fund.

In 2013, the structure of the Master Fund portfolio underwent a certain number of changes.

During the year, new positions were built or reinforced such as Fairfax Financial, Hays, Leucadia National Corp., Loews, Markel and Vicat.

At the same time, a number of positions were entirely or partially disposed of, such as Cintas Corp., Debenhams Plc, Legrand and Procter & Gamble Company.

As a result of these transactions, the Master Fund's equity portion represented 80.3% 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, 2013, the geographic breakdown of the Master Fund's portfolio, before currency hedging, was as follows (2012 figures are provided for comparison purposes):

	2013	2012
- North America:	38.7%	36.6%
- United Kingdom:	28.0%	35.2%
- Euro Zone:	25.5%	23.8%
- Others European countries:	7.8%	4.4%

** 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 may be 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)

As of December 31, 2013, the breakdown by industry sector of the equity portion of the Master Fund's portfolio was as follows (2012 figures are provided for comparison purposes):

	2013	2012
- Business to business services:	36.6%	41.2%
- Consumer staples:	1.7%	3.8%
- Financial services:	14.3%	14.4%
- Food Retailing:	2.5%	3.7%
- Home building & renovation:	6.8%	8.3%
- Industrials:	7.1%	2.1%
- Holdings:	20.8%	16.1%
- Non-food retailing:	3.7%	6.0%
- Transportation:	6.5%	4.4%

Regards,

David Pastel,
Pastel & Associés S.A.

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** (the "SICAV"), which comprise the Statement of net assets and the Securities portfolio as at December 31, 2013 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, 2013, 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 29, 2014

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

Patrice Perichon

MARGIN OF SAFETY FUND

- Fund 1

MARGIN OF SAFETY FUND - Fund 1
Financial Statements as at 31/12/13

Statement of net assets as at 31/12/13

Expressed in USD

Assets			12,984,258.78
Securities portfolio at market value	Note 2,8		12,826,947.38
<i>Cost price</i>			<i>10,132,384.70</i>
<i>Unrealised profit on the securities portfolio</i>			<i>2,694,562.68</i>
Cash at banks and liquidities			133,886.25
Restructuration fees	Note 2		23,425.15
Liabilities			180,783.40
Unrealised loss on forward foreign exchange contracts	Note 6		118,033.02
Accrued management company fees	Note 4		28,446.32
Other liabilities			34,304.06
Net asset value			12,803,475.38

Changes in number of shares outstanding from 01/01/13 to 31/12/13

	Shares outstanding as at 01/01/13	Shares issued	Shares redeemed	Shares outstanding as at 31/12/13
Class I Capitalisation shares	2,411.77	0.00	101.77	2,310.00
Class P Capitalisation shares	330.71	14.05	90.00	254.76

Key figures relating to the last 3 years

	<i>Year ending as at:</i>	31/12/13	31/12/12	31/12/11
Total Net Assets	USD	12,803,475.38	10,362,513.61	12,051,866.72
Class I		USD	USD	USD
Capitalisation shares				
Number of shares		2,310.00	2,411.77	3,491.02
Net asset value per share		4,986.22	3,768.66	3,076.54
Class P		USD	USD	USD
Capitalisation shares				
Number of shares		254.76	330.71	413.54
Net asset value per share		5,045.13	3,850.41	3,171.60

MARGIN OF SAFETY FUND - Fund 1

Securities portfolio as at 31/12/13

Expressed in USD

Quantity	Denomination	Quotation currency	Market value	% of net assets
Units of UCITS			12,826,947.38	100.18%
	Units in investment funds		12,826,947.38	100.18%
	<i>France</i>		<i>12,826,947.38</i>	<i>100.18%</i>
3,649.98	VALEUR INTRINSEQUE FCP -M- CAP (Note 8)	EUR	12,826,947.38	100.18%
Total securities portfolio			12,826,947.38	100.18%

MARGIN OF SAFETY FUND - Fund 1

Statement of operations and changes in net assets from 01/01/13 to 31/12/13

Expressed in USD

Income		14,769.98
Net dividends		14,769.98
Expenses		224,067.97
Management & management company fees	Note 4	121,844.23
Custodian & sub-custodian fees		4,051.58
Taxe d'abonnement	Note 3	5,916.82
Administrative expenses		18,963.59
Restructuration fees	Note 2	3,995.80
Domiciliation fees		6,145.80
Professional fees		22,593.00
Legal fees		21,264.80
Transaction fees	Note 2	1,489.94
Other expenses		17,802.41
Net loss from investments		-209,297.99
Net realised profit / loss on:		
- sales of investment securities	Note 2	1,504,267.57
- forward foreign exchange contracts		-31,908.53
- foreign exchange		-460,404.54
Net realised profit		802,656.51
Movement in net unrealised appreciation / depreciation on:		
- investments		2,483,560.49
- forward foreign exchange contracts		-47,175.52
Increase in net assets as a result of operations		3,239,041.48
Subscription capitalisation shares		63,967.29
Class P		63,967.29
Redemption capitalisation shares		-862,047.00
Class I		-458,934.08
Class P		-403,112.92
Increase in net assets		2,440,961.77
Net assets at the beginning of the year		10,362,513.61
Net assets at the end of the year		12,803,475.38

MARGIN OF SAFETY FUND

Notes to the financial statements

MARGIN OF SAFETY FUND

Notes to the financial statements as at December 31, 2013

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, 1915 on Commercial Companies. It is also submitted to the Part I of the modified Luxembourg law of December 17, 2010 on Collective Investment Undertakings. 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 March 26, 2013, the Fund has designated Pastel & Associés S.A. in replacement of Luxcellence Management Company S.A. as management company in the meaning of article 15 of the modified Luxembourg law dated December 17, 2010.

As at December 31, 2013 only the feeder sub-fund MARGIN OF SAFETY FUND - Fund 1 is open. This feeder 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 feeder sub-fund is expressed in USD, consequently, the financial statements of the SICAV consist in the financial statements of the Fund 1 feeder 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. The valuation policy of the master fund

The valuation of the feeder sub-fund is based on the last published Net Asset Value of the Master Fund.

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, 2013 (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 the feeder 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. Profits and losses arising on foreign exchange transactions are included in the Statement of operations and changes in net assets.

As at December 31, 2013, the following significant exchange rates were used:

1 EUR	=	1.37795 USD
1 GBP	=	1.65619 USD

4. Transaction fees

The transactions fees for the period from January 1, 2013 to December 31, 2013, 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". As from March 26, 2013, no Transaction fees are booked.

5. Restructuration fees

Fees in relation with restructuration of the Fund are written off over a period of five years.

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

Until March 26, 2013, 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 were as follows:

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

In addition to the management fees, the Fund pays until March 26, 2013, 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 calculated on the Fund's average Net Asset Value.

Since March 26, 2013, the Management Company receives a management company fees, payable quarterly, at an annual rate calculated on each Class of Shares quarterly average Net Asset Value. The annual management company fees are as follows:

Class I:	maximum and effective 0.80%
Class P:	maximum and effective 1.80%

MARGIN OF SAFETY FUND

Notes to the financial statements as at December 31, 2013 (continued)

5. Performance fees

The Fund shall pay to the Management Company 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. Until March 26, 2013, the fee was payable to the Investment Manager.

For the year ended December 31, 2013, no performance fee was paid by the Fund.

6. Open positions on forward foreign exchange contracts

As at December 31, 2013, MARGIN OF SAFETY FUND - Fund 1 had the following open positions:

Sale		Purchase		Maturity date	Unrealised net loss in USD
1,800,000.00	EUR	2,414,340.00	USD	07/02/14	-65,934.00
1,150,000.00	GBP	1,848,280.00	USD	07/02/14	-55,911.87
244,560.00	USD	150,000.00	GBP	07/02/14	3,812.85
				TOTAL	-118,033.02

The counterparty of the contracts is CACEIS Bank Luxembourg.

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 (ISIN : FR0011255231) (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 feeder 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 holds 100% of the Master Fund class M.

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.

The investment objective of the Master Fund VALEUR INTRINSEQUE is to provide capital appreciation over an investment horizon of five years through the discretionary management of a portfolio primarily invested in international equities.

At the level of the Master Fund, the fees, charges and expenses associated with the investments are an operating and management fee covering all the expenses invoiced directly to the Master Fund, with the exception of transaction fees.

MARGIN OF SAFETY FUND

Notes to the financial statements as at December 31, 2013 (continued)

8. Master-feeder structure (continued)

As at December 31, 2013, the maximum operating and management fee charged by the Master Fund is 0.15%.

The operating and management fee, as described by the MARGIN OF SAFETY FUND prospectuses, may be increased by performance fees, transaction fees and by a part of the income from sale and repurchase agreements.

As at December 31, 2013, the total fees of the feeder sub-fund and Master Fund are as follows:

Feeder sub-fund	Total fees in USD
MARGIN OF SAFETY FUND - Fund 1	224,067.97

Master Fund	Total fees in EUR
VALEUR INTRINSEQUE FCP -M- CAP	14,523.32

Complete information about the Master Fund, including prospectus, KIID, regulations, articles of incorporation and financial reports can be obtained free of charge at the Fund's registered office.

MARGIN OF SAFETY FUND

Global exposure calculation method (unaudited information)

The commitment approach

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