

International Fund

Monthly Update



INTELLIGENT
INVESTOR
FUNDS MANAGEMENT

JULY 2013

The International Fund's unit price increased 3.6% during July but was trounced by the MSCI World Index's 7.0% return. Currency was once again the main factor, with the Australian Dollar depreciating 2.0% against the US Dollar and also weak against other currencies. Global stockmarkets also rose significantly, leaving the partially invested International Fund in their wake.

Highlights for the month included a new addition to the portfolio and half-year results from a few of the Fund's largest holdings.

- Well run, monopoly airports possess excellent economic characteristics. In July **Flughafen Zürich AG** (Zurich Airport) (SWX: FHZN) was added to the portfolio. The asset is well run and has a near-monopoly over a basin of 7 million unusually rich inhabitants. It has highly profitable retail assets—most of the 25m passengers moving through the facility each year are qualified for duty free shopping. Its terminals are young with some unutilised capacity and there is a good prospect of higher landing charges in the near future. And we think the stock is quite cheap. For an infrastructure stock, the yield of 1.9% looks slim, but that's because the company has been husbanding resources for a large new property development adjacent to the airport that should add markedly to earnings in the long term. Our suspicion is that a significant dividend increase is likely over the next few years, although investment success isn't reliant on it. Zurich Airport probably won't shoot the lights out from here, but this low-risk investment should build wealth slowly for the fund for many years. A downturn or two along the way would be a welcome opportunity to add to the position.

- American Express's** (NYSE: AXP) second quarter proved an almost exact replica of the first, with revenue growing 4% and most card-spending metrics improving moderately. Double digit growth in earnings per share and a 23.6% return on equity attest to the high quality nature of this business. But all is not necessarily smooth sailing, thanks to EU regulation. Under a European Commission proposal, the credit card network industry will likely face a number of regulatory changes over the coming years, although the exact nature and timing are yet to be determined. We believe Amex's exposure is modest and manageable and, while this development is incrementally negative, it does not present a major threat to the company or our investment thesis.

- Google Inc.** (NASDAQ: GOOG) reported its second quarter results during the month. Some of the company's key metrics deteriorated from the previous quarter. Google is experiencing a fundamental shift in its business mix as its desktop search product matures and newer efforts such as YouTube and mobile grow in stature. But Google's search engine remains an incredibly valuable asset. Paid click volumes in that business grew 23% in the quarter indicating continued strong demand. After backing out some one-time expense items, operating earnings at the core business grew by more than 10%. The large number of irons in the fire represents risk for shareholders, but past successes with Search, YouTube, Chrome and Android, suggest management has earned the benefit of the doubt. We look forward to seeing how Google evolves over the coming quarters and years.

SUMMARY OF RETURNS AS AT 31 JULY 2013

	INTERNATIONAL FUND	MSCI ACWI IMI
1 MONTH RETURN	3.60%	7.01%
3 MONTH RETURN	16.56%	17.66%
SINCE INCEPTION*	18.86%	22.23%

*8 Feb 2013

FACTS	UNIT PRICE SUMMARY
FUND COMMENCED 8 Feb 2013	DATE 31 July 2013
MINIMUM INVESTMENT \$20,000	BUY PRICE \$1.1874
MONTHLY INVESTMENT Min. \$200/mth	REDEMPTION PRICE \$1.1779
INCOME DISTRIBUTION Annual, 30 June	MID PRICE \$1.1827
APPLICATIONS/REDEMPTION Weekly	PORTFOLIO VALUE \$24.6m

SUMMARY OF HOLDINGS

STOCK	COUNTRY	PORTFOLIO WEIGHTING
AMERICAN INT'L GROUP	US	7.3%
GOOGLE INC CLASS A SHARES	US	6.2%
JAPANESE PORTFOLIO OF NET-NETS	Japan	5.0%
B&C SPEAKERS	Italy	4.8%
AMERICAN EXPRESS CO	US	4.0%

CURRENCY EXPOSURE

CURRENCY	EXPOSURE (% OF PORTFOLIO)
USD	59.0%
EUR	8.0%
GBP	7.6%
JPY	5.0%
CAD	3.6%

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