

International Fund

MONTHLY UPDATE • FEBRUARY 2014

FUND FACTS

FUND COMMENCED	8 Feb 2013
MIN. INVESTMENT	\$20,000
MONTHLY INVESTMENT	Min. \$200/mth
INCOME DISTRIB.	Annual, 30 Jun
APPLICATIONS/REDEMPTION	Weekly

UNIT PRICE SUMMARY

DATE	28 Feb 2014
BUY PRICE	\$1.4042
REDEMPTION PRICE	\$1.3930
MID PRICE	\$1.3986
PORTFOLIO VALUE	\$52.1m

RESPONSIBLE ENTITY

Fundhost limited
+61 2 8223 5400
admin@fundhost.com.au
www.fundhost.com.au

INVESTMENT MANAGER

Intelligent Investor Funds Pty Ltd
+61 2 8305 6050
admin@iifunds.com.au
www.iifunds.com.au

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The MSCI World Index recommenced partying in February, rising 2.3%. It was again fortunate that the International Fund was able to keep pace—up 1.9%—despite a high cash balance (46% at month's end).

The Fund's largest investment, **B&C Speakers** (BIT:BEC), was the most important contributor. The stock rose 19% as a price-insensitive buyer or buyers snapped up the illiquid stock. In the name of risk management, a small part of the Fund's position was sold during the month at attractive prices.

SUMMARY OF RETURNS AS AT 28 FEB 2014

	INTERNATIONAL FUND (%)	MSCI ACWI IMI (%)
1 MONTH RETURN	1.92	2.26
3 MONTH RETURN	6.26	4.94
6 MONTH RETURN	16.96	13.59
1 YEAR RETURN	40.90	36.16
SINCE INCEPTION*	38.07	34.76

*8 Feb 2013

AIG (NYSE:AIG) recently reported fourth quarter results. Its property & casualty (P&C) business improved meaningfully over the previous corresponding quarter. Pre-tax operating income grew from a loss to a \$1 billion profit. But progress rarely walks straight. AIG struggled with underwriting as the segment's combined ratio deteriorated slightly (when it should have been improving). Higher than expected 'severe losses' hurt profitability for a second quarter running. Management explained that AIG has made progress in its underwriting process. For now, our support is as much based on trust as evidence.

SUMMARY OF HOLDINGS

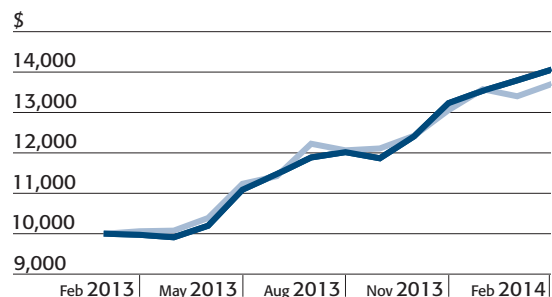
STOCK	COUNTRY	PORTFOLIO WGTNG (%)
B&C SPEAKERS	Italy	6.7
JAPANESE PORTFOLIO OF NET-NETS	Japan	6.3
GOOGLE INC CLASS A SHARES	US	5.6
AMERICAN INT'L GROUP	US	5.5
AMERICAN EXPRESS CO	US	4.7

The good news is that things are unlikely to get substantially worse, and AIG has a tremendous opportunity to grow shareholder value if it can improve underwriting. Its life & retirement segment continued to perform, sating growing demand for annuity and other retail products. AIG's total after-tax income grew 490%. The stock continues to trade at a significant discount to book value, and the Fund remains a holder and occasional buyer. Shares in AIG were up 3.8% over the month.

The Japanese Nikkei 225 Index retreated sharply at the start of February, then rebounded by month's end. The cheap and cheerful end of the market, in contrast, didn't

fully bounce back. The Fund's basket of 29 Japanese stocks trading below net working capital (see [March 2013](#), [September 2013](#) and [December 2013](#) reports) fell more than 4%. Never mind, the collective represents excellent value and should do well over time. One of the criticisms of such statistically cheap bargains is that they offer 'no catalyst' for unlocking value and may be value traps.

COMPARISON OF \$10,000 INVESTED IN INTERNATIONAL FUND AND MSCI ACWI IMI (SINCE FUND INCEPTION 8 FEB 2013)



■ International Fund ■ MSCI ACWI IMI

Source: Capital IQ, Feb14

Across the basket, we think the value trap argument will very likely prove false, although there are sure to be a few flea-bitten dogs revealed in the fullness of time. As for the 'no catalyst' argument, recent events remind us that value can be its own catalyst. A major shareholder of **Tomen Electronics** (TSE:7558)—one of the basket stocks—made an offer for the whole company in January. The stock currently trades up more than 40% over the Fund's purchase price. Although the Japanese don't much go for aggressive corporate activity, there are likely to be more takeovers to come.

CURRENCY EXPOSURE

CURRENCY	EXPOSURE (% OF PORTFOLIO)
USD	54.4
EUR	15.4
NOK	9.8
GBP	8.0
CHF	6.0

Over the past month or so German office property owner **Prime Office AG** (XTRA:PMOX), formerly Prime Office REIT (see September 2013 report) completed its large merger and a capital raising at €2.80 per share. The Fund participated and the Prime stake now represents 2.4% of the portfolio. At the current price of €2.95 per share, the stock is trading at a 35% discount to estimated pro forma net asset value, which uses property valuations provided by an independent valuer. Our own property valuations are a little lower, but the stock is cheap and should soon start paying attractive dividends. Yield-hungry German investors will then take note of the stock.