

International Fund

MONTHLY UPDATE • JANUARY 2014

FUND FACTS

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

UNIT PRICE SUMMARY

DATE	31 Jan 2014
BUY PRICE	\$1.3778
REDEMPTION PRICE	\$1.3668
MID PRICE	\$1.3723
PORTFOLIO VALUE	\$46.5m

RESPONSIBLE ENTITY

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The S&P500 fell 3.5% in January, the month after we asked you to wish for a stockmarket downturn. Keep doing whatever it is you're doing. Sheltered by a falling Australian dollar, the MSCI All Country World Index fell 1.3%, and the International Fund was up 1.4%. The Fund's large cash weighting is a partial explanation for the outperformance. The rest is attributable to an absence of holdings in developing markets currencies and stocks, which weighed down the index.

SUMMARY OF RETURNS AS AT 31 JANUARY 2014

	INTERNATIONAL FUND	MSCI ACWI IMI
1 MONTH RETURN	1.40%	-1.28%
3 MONTH RETURN	11.13%	7.85%
6 MONTH RETURN	16.03%	9.60%
SINCE INCEPTION*	37.89%	33.96%

* 8 Feb 2013

The sell-off didn't phase the Fund's second largest position. Technology leader **Google Inc.** (NASDAQ: GOOG) reported another impressive quarter. Google's core ad business grew revenue 22% over the same quarter last year. The continued migration of advertising from traditional channels to digital proved very powerful as the company saw a 31% increase in paid clicks, a key indicator of demand. If one were to annualise the performance of the core business in the most recent quarter, Google's return on capital would exceed 30%.

Recently the company also announced a US\$3.2bn purchase of technology company Nest Labs and the US\$2.9bn sale of its Motorola Mobility business. While Nest's products are fascinating, we're even more excited to see Google rid itself from the Motorola albatross. The sale strengthens the company's strategic position within the mobile landscape and frees up valuable resources. The stock rose 5.4% during January.

SUMMARY OF HOLDINGS

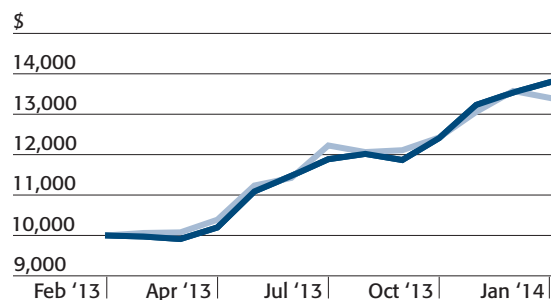
STOCK	COUNTRY	PORTFOLIO WHTG
JAPANESE PORTFOLIO OF NET-NETS	Japan	7.5%
B&C SPEAKERS	Italy	6.9%
GOOGLE INC CLASS A SHARES	US	6.3%
AMERICAN INT'L GROUP	US	5.3%
AMERICAN EXPRESS CO	US	3.8%

American Express (NYSE: AXP) reported a good fourth quarter and full year 2013 earnings. Billed business, a measure of card usage over Amex's payment network, increased 8% versus the same quarter last year. While its Asia Pacific and Latin American businesses performed well, Europe continued to lag. Overall quarterly revenue increased 5% while tight expense control meant earnings

increased 15%. The stock fell 6.3% over the month and, trading at less than 16 times earnings, still appears cheap.

DIY retailer **Hornbach Holding AG** (DB:HBH3) reported its 3rd quarter result. The operating business, Hornbach Baumarkt, achieved same-store sales growth (an important metric for retailers) of a whopping 7.0% from German stores and 1.5% from 'other Europe'. Earnings before interest and tax almost tripled to €20.1m. It was good, though not as great as it looks. The comparable quarter last year was recession-tainted and this year's German result was boosted (in a one-off way) by the insolvency of a competitor.

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, Jan 14, Intelligent Investor Funds

More important is progress on consolidation. The investment thesis (outlined in the [March 2013 quarterly](#)) is that hard assets provide downside protection, while the upside is large if the ongoing German DIY market consolidation leads to increased pricing power for Hornbach. The insolvency of the company that owned competitors Praktiker and Max Bahr mid last year took a whole portfolio of German DIY stores out of the market by Christmas. Only about half those stores are being snapped up by other DIY operators (Hornbach has secured 3 sites and is bidding for a few more). The remaining sites have been picked up by other industries—furniture retailers, for example. It's a rough guess, but perhaps 5% of German DIY floorspace will disappear permanently through this insolvency.

As alluded to previously, the Fund sold its **Veripos** (OB:VPOS) position in January, more than doubling its investment of six months earlier.

CURRENCY EXPOSURE

CURRENCY	EXPOSURE (% OF PORTFOLIO)
USD	50.4%
EUR	16.1%
GBP	6.8%
CHF	6.4%
NOK	5.9%