

# International Fund

MONTHLY UPDATE • MAY 2014

## FUND FACTS

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

## UNIT PRICE SUMMARY

<b>DATE</b>	30 May 2014
<b>BUY PRICE</b>	\$1.3837
<b>REDEMPTION PRICE</b>	\$1.3727
<b>MID PRICE</b>	\$1.3782
<b>PORTFOLIO VALUE</b>	\$60.7m

## 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 International Fund returned 1.5% during May, in line with the 1.6% return from the MSCI ACWI IMI. The most significant positive contributors were Russian Bank Sberbank and German property company Prime Office, while the Fund's 40% cash weighting and further strength in the Australian dollar were a drag on performance.

## SUMMARY OF RETURNS AS A 30 MAY 2014

	INTERNATIONAL FUND (%)	MSCI ACWI IMI (%)
<b>1 MONTH RETURN</b>	1.46	1.56
<b>3 MONTH RETURN</b>	-1.46	-0.95
<b>6 MONTH RETURN</b>	4.71	3.94
<b>1 YEAR RETURN</b>	24.90	20.79
<b>SINCE INCEPTION* (PA)</b>	28.24	26.36

\*8 Feb 2013

The values on offer in emerging markets are compelling at the moment, in absolute terms but especially relative to the optimism prevalent in developed markets. The Fund added a small holding in Russian bank **Sberbank** (MICEX:SBER) in mid-April, and has a number of other interesting ideas in the works in markets as diverse as Eastern Europe, Brazil and India. The Fund's combined exposure to emerging markets won't get anywhere near the mandated limit of 20%, but we hope to add a few more bargains while pessimism abounds.

That noted, the biggest new purchase of late was an American stock—a complex but attractive sum of the parts play with several ways for value to be realised. We're still in the process of establishing positions but you'll be able to read more about this and our emerging markets ideas in the June Quarterly Report.

The investment in German office property owner **Prime Office AG** (DB:PMOX) is beginning to bear fruit. The merger and recapitalisation which created this vehicle was outlined in the [September 2013 Quarterly Report](#) and the [February 2014 Monthly Update](#), and the investment case is playing out as expected. Prime reported a good first quarter result and sold some smaller properties above book value. Management refinanced most of its debt at lower rates and now confronts the task of repurposing two near-empty properties.

A natural transition of the shareholder base from complexity-tolerant, value-demanding owners (like the International Fund) to yield-hungry German investors is underway and the stock rose 16% during May. While a name change to **DO Deutsche Office AG** doesn't do much for us, the commencement of dividends next year, initially likely a modest 3–3.5% yield, should add to the appeal. The stock still trades at a 22% discount to reported net asset value and there's upside to NAV if

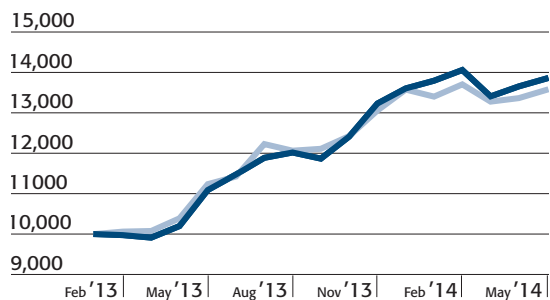
those two troublesome properties—previously written down—can be put to good use.

Speaker components manufacturer **B&C Speakers** (BIT:BEC) has been volatile lately, up 19% in February, down 14% in March and up 27% in April. May's 7% fall seems tame.

First quarter sales grew a modest 2.4% to €7.9m, in comparison with a particularly strong quarter last year. Margins fattened, with earnings before interest and tax (EBIT) increasing 11.1% to €1.8m. Asia, US and Brazil are booming, while Europe is struggling (the higher euro is hurting European customers). Management is hoping for 2014 full-year sales growth of 10%. Earnings should grow faster still.

Several new products are in the skunkworks. The most prospective is an alarm/announcement system set to be required for use in longer European roadway tunnels. The Fund has reduced its holdings over recent months to around 4%, which looks appropriate.

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



■ International Fund ■ MSCI ACWI IMI  
Source: Capital IQ, May 2014

The fund owns shares in German DIY retailer **Hornbach Baumarkt** (DB:HBM) and parent company, **Hornbach Holdings** (DB:HBH3). Both recently reported results for the year ending February. At the operating subsidiary (Baumarkt) sales rose 4.4%, underlying EBIT about 10% and underlying earnings per share even more. The dividend from both companies was increased by 20%, a pleasing result. The tailwinds from the collapse of competitor Praktiker and a balmy 2014 winter shouldn't be extrapolated indefinitely, though. The focus for the coming months is to reopen the six German sites acquired from the Praktiker insolvency and maintain some of the sales momentum across Europe over the important summer period.

The next Quarterly Report will be out in the first few weeks of July, but it won't be coming from Intelligent Investor Funds. Whilst the style and characters won't change, keep an eye out for the new name and brand and let us know what you think.