

Value Fund

MONTHLY UPDATE • APRIL 2014

FUND FACTS

FUND COMMENCED 31 Oct 2009
MIN. INVESTMENT \$10,000
MTHLY INVESTMENT Min. \$100/mth
INCOME DISTRIB. Annual, 30 June
APPLICATIONS/REDEMPTION Weekly

UNIT PRICE SUMMARY

DATE 30 Apr 2014
BUY PRICE \$1.4297
REDEMPTION PRICE \$1.4183
MID PRICE \$1.4240
PORTFOLIO VALUE \$51.3m

RESPONSIBLE ENTITY

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Given the extraordinary returns of the past few years, a period of underperformance was inevitable. April duly delivered. The Value Fund unit price fell 3.4% for the month and was soundly beaten by the All Ordinaries Accumulation Index, which gained 1.3%. The Fund's ownership of small companies didn't help – the Small Ordinaries Accumulation Index was down 1.2% – nor did the exposure to technology. Echoing recent falls in the US Nasdaq Index (down 2% in April), nearly half the month's losses relate to technology companies.

SUMMARY OF RETURNS AS AT 30 APR 2014

	IIVF (%)	S&P ALL ORDS. ACCUM. INDEX (%)
1 MONTH RETURN	-3.44	1.29
3 MONTH RETURN	-4.22	6.46
6 MONTH RETURN	-2.96	3.03
1 YEAR RETURN	18.67	10.43
2 YEAR RETURN (PA)	24.24	15.58
3 YEAR RETURN (PA)	17.23	8.41
SINCE INCEPTION*(PA)	12.89	8.17

* 31 Oct 2009

Despite the overall fall, there wasn't much action in the portfolio. We own 19 companies in the Fund and 12 saw stock price falls during April, but none individually did significant damage and there was scarce news for investors.

Telecommunications contractor **Service Stream** completed its capital raise in April to pay down debt. The share price fell from \$0.23 to \$0.21 through the month, but was comfortably above the rights issue price of \$0.18 so the Fund took up its full allocation. In an effort to take full advantage the Fund also made a large bid ahead of the underwriters to purchase rights not used by other investors, but unfortunately others did the same and management didn't offer Intelligent Investor Funds much additional stock.

The Fund owns a small 2% position in online lottery reseller **Jumbo International**, which announced in early April the termination of its business development activities in Mexico. This was not material itself, but the announcement also touched on activities in Germany, where a good jackpot run was discussed but no update on customer database growth was provided.

There was also a throwaway line that, 'as previously advised', group profits would be impacted while Germany grows. It's like trying to read between the lines of a central banker's statement on monetary policy, but it

seems new customer acquisition mightn't be as strong as management had hoped. The market took a very dim view of the announcement and knocked the stock down 30% to \$1.25.

Wind farm owner **Infigen Energy** reported steady quarterly revenue in the US but a fall of 10% in Australia due to less windy conditions. Production is now a side-issue, however. The pressing issue for Infigen is the political fate of the renewable energy target (RET) that currently subsidises its Australian operations.

Although constantly tinkered with, the RET has had bipartisan support since its introduction in 2001. The coalition government, however, is sounding increasingly likely to make very significant changes. A 'review' is currently under way, headed by Dick Warburton whose reputation as a climate change sceptic precedes him. Prime Minister Tony Abbott has criticised the scheme in public and Treasurer Joe Hockey recently labelled wind farms 'utterly offensive' and 'a blight on the landscape'.

Although 40% of Infigen's operating income is generated in the US and more than half its Australian production is under long term contracts, its ability to service \$1.4bn of financial obligations outstanding is dependent on achieving an appropriate price for its uncontracted revenue in Australia. The situation isn't yet disastrous. The Coalition is still saying that renewable energy will play a role in its emissions reduction target but, given the rhetoric, the almost inevitable changes are almost certainly going to be bad for the Fund's investment.

COMPARISON OF \$10,000 INVESTED IN THE VALUE FUND VS THE ASX ALL ORDS INDEX (SINCE FUND INCEPTION 31 OCT 2009)



Source: Capital IQ, Apr 2014

Infigen's share price has already fallen 30% over the past year and it now has a market capitalisation of just \$140m. Our original investment thesis was that, even if it defaults on its debts, Infigen owns assets that sit outside the clutches of the lenders and that these assets are worth more than \$140m alone. Unfortunately, the chances of this thesis being tested have increased.