

# Value Fund

MONTHLY UPDATE • FEBRUARY 2014

## FUND FACTS

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

## UNIT PRICE SUMMARY

<b>DATE</b>	28 Feb 2014
<b>BUY PRICE</b>	\$1.4999
<b>REDEMPTION PRICE</b>	\$1.4879
<b>MID PRICE</b>	\$1.4939
<b>PORTFOLIO VALUE</b>	\$51.3m

## RESPONSIBLE ENTITY

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## INVESTMENT MANAGER

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February was a modest month for the Intelligent Investor Value Fund. The unit price rose by 0.5% but was walloped by the benchmark All Ordinaries Accumulation Index which rose 4.8%, reversing January's losses and then some.

Many of the companies the Fund owns reported results during February and the news was mostly pleasing.

**RNY Property Trust**, the Fund's biggest investment, owns office property in the New York tri-state area. Occupancy at RNY's offices fell marginally to 81% in 2013, which was a creditable result due to significant lease expirations in the period. Net asset value increased 6% over the past six months to \$0.54 per unit but this was due to debt forgiveness and currency movements. Property values fell 1.5% in US dollars.

## SUMMARY OF RETURNS AS AT 28 FEBRUARY 2014

	VALUE FUND (%)	S&P ALL ORDS. ACCUM. INDEX (%)
<b>1 MONTH RETURN</b>	0.48	4.84
<b>3 MONTH RETURN</b>	1.92	2.88
<b>6 MONTH RETURN</b>	9.33	7.95
<b>1 YEAR RETURN</b>	31.95	10.37
<b>2 YEAR RETURN (P.A.)</b>	31.81	15.98
<b>3 YEAR RETURN (P.A.)</b>	19.85	7.88
<b>SINCE INCEPTION*(P.A.)</b>	14.68	8.11

\*31 Oct 2009

The underlying drivers still look good for future asset valuation increases, and RNY's unit price rose 7.8% in February to finish at \$0.35. That's still an attractive 35% discount to today's net asset value, which may be conservative if US employment markets continue to improve. Management indicated they will work on retaining tenants and improving occupancy before investigating opportunities to return money to RNY investors.

**Vision Eye Institute**, which provides eye-health services to patients through specialist doctors known as ophthalmologists, reported net profit after tax of \$7.5m for the half year, an increase of 53%. The increase in profit however was driven by lower debt, and the one off proceeds from an insurance claim. Underlying operating earnings fell 6%.

For the bulls, the business showed its resilience in the face of government-mandated reductions in its day surgery rates and continued to throw off plenty of free cash flow. But there was also plenty of fodder to feed the bears' concerns. The percentage of revenue paid to its doctors

rose further and the commentary suggested there is no letup in sight. Ophthalmologists tightly control the supply of new entrants and those that make it through have all of the bargaining power with a business like Vision.

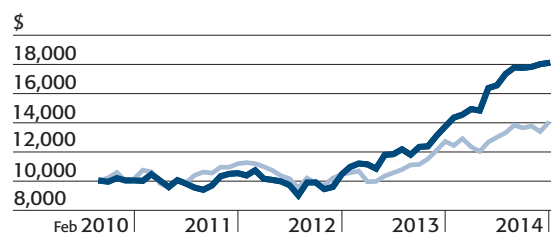
Vision's share price fell 13% to \$0.58 during the month and, whilst we think it looks cheap at those levels, this fundamental weakness justifies Vision trading at a substantially lower multiple than other healthcare stocks with stronger market positions.

The latest result from **Enero Group** suggests the troubled marketing services provider has finally stopped the rot. Turnover fell 6.5% compared to the prior period but operating margins, excluding depreciation, amortisation, impairments and restructure expenses, improved to 8.1%.

Though this is still around half the margins Enero's peers produce the share price had been factoring in worse. Enero shares rallied 30% through the month and now trade at \$0.90.

Financial software provider **GBST** reported an 18% increase in half year revenue, and an 8% increase in earnings before interest, tax, depreciation and amortisation to \$9.4m. The results were flattered by the stronger UK pound, which was 12% higher, but the revenue growth was nonetheless impressive.

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



■ Value Fund ■ ASX All Ords Index

Source: Capital IQ, Feb 2014

GBST's rapidly growing wealth management division dragged margins down thanks to higher research and development costs, including a new offshore development centre in Vietnam. Competition is increasing in the UK wealth management market – rival Bravura has apparently stepped up its efforts – but GBST remains exceptionally well placed in this growing market. The share price increased 17% during February and 183% in the past 12 months.