

Value Fund

Monthly Update



INTELLIGENT
INVESTOR
FUNDS MANAGEMENT

AUGUST 2012

The Value Fund's unit price increased by 0.4% in August but was outperformed by the All Ordinaries Accumulation Index, which rose 2.1%. Despite the modest performance this month, most of the news from reporting season was positive.

- **UXC** reported full year net income from continuing operations of \$18.2m, which represented a substantial improvement from the half year's \$4.8m result. The result was well ahead of expectations and UXC's share price rose 16.5% for the month. The shares have now returned 100% for the year including dividends.

With a significant restructure now completed, CEO Cris Nicolli is looking to improve margins further. If he can get the business to achieve anything like the margins of its main competitors, there remains plenty of upside.

- US office property owner **RNY** reported a profit of \$42m, mostly as a result of debt forgiveness on a major tranche of property. Property values declined by \$8m, however this largely related to a portfolio of properties where the limited recourse debt already exceeds the carrying value of the assets ("UBS Pool B assets"). Statutory net tangible assets per unit increased from 28 cents to 41 cents. By year end we expect progress to be made on occupancy, and further news on the refinancing of the UBS Pool B assets which, even if given away, would add another two cents to the NTA. RNY's unit price closed unchanged for the month but meaningful progress is being made.

- Insurance group **QBE** reported a half year net profit of US\$760m, which was an improvement on last year but still only a modest result given the benign claims environment over the past six months. Earnings look to have been 'managed down', with adjustments being made for prior year expenses and to strengthen provisions. Most likely new CEO John Neal is trying to dampen expectations for the first year of his tenure. Neal was otherwise quite impressive in his first results presentation; he displayed a detailed understanding of the insurance industry and the operations of QBE. QBE's share price closed down 7% for the month.

- The reported net asset value of **Ingenia Communities** increased 32% to 34.3 cents per unit, mostly thanks to the sale of its New York retirement assets at a meaningful premium to the prior book value. When this sale is complete, net assets will increase by another two cents per unit. Pleasingly, Ingenia also seems to be making progress with the sale of its last remaining overseas assets, a portfolio of New Zealand student accommodation properties, and expects to sell these at a premium too. Ingenia declared a half cent distribution, the first in four years, and the unit price closed up 4% for the month.

- Offsetting the bout of good news this month, the Value Fund's unit price has been impacted by the write-off of a position in Gunns' hybrid notes, known as FORESTS. Having formed a view that a proposed capital raising, underwritten by Richard Chandler, was going to add substantial safety to the preferred hybrids, we took a small position in February this year. Unfortunately, whilst our view that the FORESTS were much better value than the ordinary shares may have been correct, both look like they are going to be worthless. The company is still alive as we write but the lack of progress on an alternative capital raising and the magnitude of the losses in its recently released accounts suggest the only prudent course of action is to value these securities at zero.

With our three year anniversary on the horizon, the next quarterly report is going to be a special one. We'll add some detail to some of the events above, reflect on what has been a very successful 12 months for the Fund and update you regarding some of the current investment opportunities.

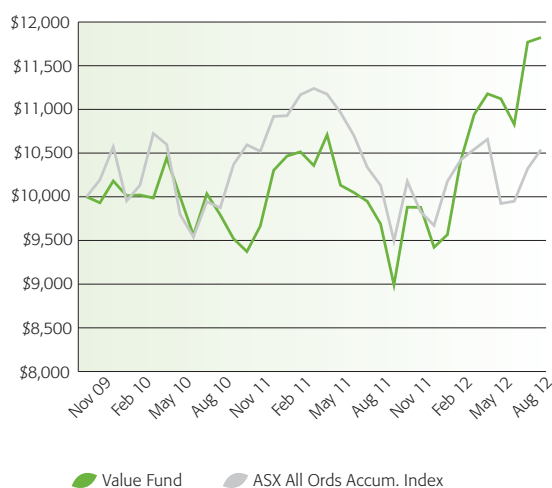
SUMMARY OF RETURNS AS AT 31 AUGUST 2012

	IIVF	S&P ALL ORDS. ACCUM. INDEX
1 month return	0.44%	2.12%
3 month return	6.30%	6.21%
6 month return	13.48%	1.12%
1 year return	22.02%	4.04%
2 year return	9.87% p.a.	3.32% p.a.
Since inception*	6.08% p.a.	1.87% p.a.

*31 Oct 2009

FACTS	UNIT PRICE SUMMARY
FUND COMMENCED 31 Oct 2009	DATE 31 August 2012
MINIMUM INVESTMENT \$10,000	BUY PRICE \$1.0677
MONTHLY INVESTMENT Min. \$100/mth	REDEMPTION PRICE \$1.0592
INCOME DISTRIBUTION Annual, 30 June	MID PRICE \$1.0634
APPLICATIONS/REDEMPTION Monthly	PORTFOLIO VALUE \$20.0m

VALUE FUND VS ASX ALL ORDS ACCUM. INDEX



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