

Value Fund

Monthly Report



INTELLIGENT
INVESTOR
FUNDS MANAGEMENT

AUGUST 2011

The Intelligent Investor Value Fund's unit price fell 2.6% in August, compared to the All Ordinaries Accumulation Index's 2.0% decline. Most of the portfolio reported full or half year results during the month but there wasn't as much noteworthy news as we expected.

- **Centrebet's** ongoing discussions with the tax office took another turn for the better. Following a lost court case against IASbet and Sportsbet, the Commissioner of Taxation has told Centrebet it won't dispute the same issues in their similar case. Further, the case has been adjourned while the parties try to reach an out of court settlement. An announcement is expected any day now, but it's looking increasingly likely the tax office will owe Centrebet shareholders some \$90m in GST.

Before its suspension and subsequent delisting as a result of the takeover from Sportingbet Plc, the share price rose 6.7% for the month August. The fund has received its \$2 per share from Sportingbet on 1 September and we expect to see roughly \$0.90 per share more in cash as the GST is credited to Centrebet over the next eight years.

- Property trust **RNY's** otherwise nondescript half year result contained an intriguing snippet that negotiations with its lenders have 'significantly progressed towards a negotiated restructuring transaction that is subject to final approval and documentation'. The investment case for RNY stacks up without refinancing of the two loans referred to above. The debt is non-recourse and the loss of the pledged assets would still leave RNY with \$0.26 per unit in net tangible assets, versus a current unit price of \$0.10. But a favourable outcome would provide substantially more upside.

On the conference call, management said they expected to know if approvals had been obtained within 30 days, so the outcome should be known by the end of September. The stock price fell 13.6% for the month on very light volume.

- The Fund made its first investment in **QBE Insurance** during the panic of early August. Record low bond yields, particularly in the US but also in Europe, have resulted in investors marking down their estimates of QBE's future profitability. That makes sense.

A large chunk of QBE's profit comes from investing insurance premiums and shareholders' capital in highly rated debt securities. But the stock is now being priced as if it will never earn a return on its investments again.

If that happens, the Value Fund should do ok from these prices. If it doesn't, we should do very well. It's the type of one-sided payoff we like.

We'll provide some detailed rationale into QBE and retirement village operator **ING Real Estate Community Living Group** in the September quarterly report. Keep up to date with the latest performance figures, unit prices and blog posts at www.iifunds.com.au.

SUMMARY OF RETURNS AS AT 31 AUGUST 2011

	IIVF	S&P ALL ORDS. ACCUM. INDEX
1 month return	-2.61%	-2.00%
3 month return	-4.38%	-7.60%
6 month return	-7.86%	-9.28%
1 year return	-1.08%	2.61%
Since inception*	-1.71%	0.71%

* 31 October 2009

FACTS

FUND COMMENCED

31 Oct 2009

MINIMUM INVESTMENT

\$10,000

MONTHLY INVESTMENT

Min. \$100/mth

INCOME DISTRIBUTION

Annual, 30 June

APPLICATIONS/REDEMPTION

Monthly

UNIT PRICE SUMMARY

DATE

31 Aug 2011

BUY PRICE

\$0.8913

REDEMPTION PRICE

\$0.8842

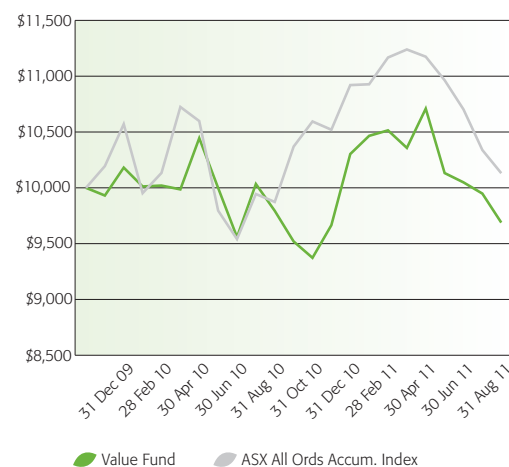
MID PRICE

\$0.8878

PORTFOLIO VALUE

\$14.4m

VALUE FUND VS ASX ALL ORDS ACCUM. INDEX



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