

# Value Fund

## Monthly Report



INTELLIGENT  
INVESTOR  
FUNDS MANAGEMENT

FEBRUARY 2012

The Value Fund's unit price increased by 8.9% in February, compared with the All Ordinaries Accumulation Index's increase of 2.4%.

- Dental group **1300 Smiles** (ONT) was the highlight of the results reported during the month, with revenue increasing 18% and earnings for the half ended 31 December rising 27% to \$3.4m on the prior half year result. On the back of the good news ONT closed the month up 17% at \$4.50 per share.

This is a well-run, high return-on-capital business with growth potential to boot. But the current share price is starting to factor much of that in. At prices much higher than this a margin of safety will cease to exist and we'll be looking to reduce our holding.

- **UXC** has much less expectation built into the share price but that's not surprising given its results. Revenue from continuing operations was up a healthy 6% to \$256m for the half, but net profit margins remain anemic at 2%, and continuing net profit of \$4.8m was a poor result. With the field services business divested, however, management will now focus more of its attention on operating matters. Margin improvement targets were flagged and cost reductions of \$10m per annum have apparently already been implemented. UXC closed up 4.7% to \$0.445.

- New York office property owner **RNY** continues to struggle operationally; occupancy across the portfolio was flat at 80% and penalty interest continues to accrue on the two expired loans. As a result distributable earnings fell to A\$1.5m, well down on last year's A\$7.4m and a long way from the A\$16m achieved in 2009 and 2008 at occupancy levels closer to 90%. The presentation indicated that management were beginning to see signs of organic growth in the portfolio, but last year's results said the same (to no avail) so we're not holding our breath.

Crucially, though, RNY has reached agreement with its lenders on a pay-off arrangement for the US\$196m loan that expired in September 2010. The deal is not yet executed and full details are not available, however we understand the agreement may result in existing lenders accepting a five-year refinance deal that involves less than 100% principle repayment on the current loan. Whilst there is no equity remaining in this pool of properties at current valuations, a successful refinance would leave the Trust with the potential to benefit from any recovery in US commercial property prices over the next five years. Given its current market capitalisation of \$36m, an option over US\$196m worth of property is potentially very valuable.

RNY closed the month up 37% at 13c and continues to represent excellent value.

- In line with its previous update to the market, **QBE** announced full year profit down 45% to US\$704m due to abnormal catastrophe losses. QBE's combined operating ratio, a measure of claims and costs as a portion of earned premiums, was 96.8%. Noticeably this was still better than the majority of its peers, and indeed the deterioration of this ratio from the prior year was less pronounced than the majority of its competitors. This gives credibility to QBE's claim that 2011 was a difficult year for the insurance industry globally.

QBE also announced that Frank O'Halloran will be retiring after 14 years as chief executive, to be replaced by John Neal, currently in charge of QBE's global underwriting. QBE closed up 2% at \$11.65.

### SUMMARY OF RETURNS AS AT 29 FEBRUARY 2012

	IIVF	S&P ALL ORDS. ACCUM. INDEX
<b>1 month return</b>	8.90%	2.41%
<b>3 month return</b>	5.46%	6.07%
<b>6 month return</b>	7.53%	2.88%
<b>1 year return</b>	-0.92%	-6.67%
<b>2 year return</b>	1.97% p.a.	1.42 p.a.
<b>Since inception*</b>	1.77% p.a.	1.79% p.a.

\*31 Oct 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

29 Feb 2012

##### BUY PRICE

\$0.9585

##### REDEMPTION PRICE

\$0.9508

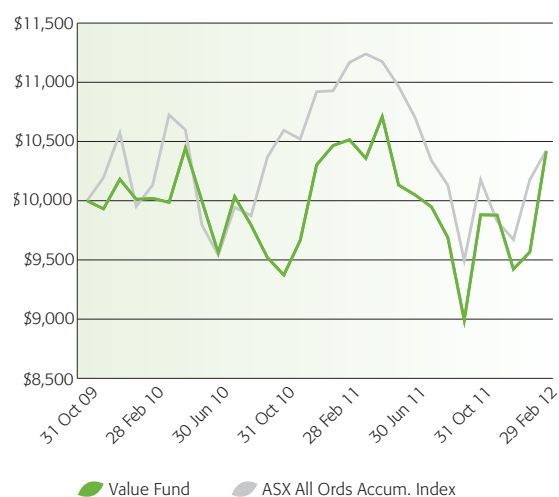
##### MID PRICE

\$0.9547

##### PORTFOLIO VALUE

\$16.7m

### VALUE FUND VS ASX ALL ORDS ACCUM. INDEX



### CONTACT DETAILS

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