

# Value Fund

## Monthly Report



INTELLIGENT  
INVESTOR  
FUNDS MANAGEMENT

JANUARY 2012

The Value Fund underperformed during the month of January, increasing 1.5% compared to the All Ordinaries Accumulation Index's dynamic 5.2% start to the New Year.

- **Photon Group** announced, as widely expected, that current Australian agencies boss Matthew Melhuish will be appointed as the new chief executive officer, and that a review of corporate overheads will see costs slashed by \$4m to reflect the smaller size of the company.

Whilst this was positive news, the 31 December half year trading was disappointing. Photon continued its practice of making dubious 'pro-forma' comparisons with the prior year, this time excluding the contribution of one of its largest clients, Telstra, from the comparison. Given that the Telstra contract was *lost*, rather than sold, we'd prefer that it was included in prior year comparisons. (Have you ever seen a company exclude the results of a new contract *win* from their pro-forma reports?)

With the Telstra results included, pro-forma EBITDA was down substantially more than the 7.5% indicated. Better results are needed to make a successful investment case from here and, with the share price virtually unchanged following the trading update, we took the opportunity to sell a portion of the holding that had been bought at lower prices. Photon closed down 5.7% for the month.

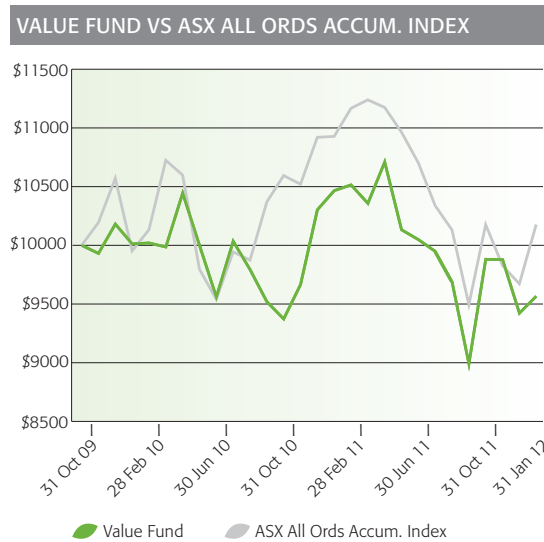
- **QBE Insurance** indicated its earnings would decline 40% to 50% in 2011 due to record levels of catastrophe claims. The stock price was promptly thumped by the market, dropping 21% immediately after the announcement. Insurance is a volatile business and QBE wasn't the only one suffering; **Suncorp Group** announced natural hazard costs \$120m higher than provisioned and **Calliden Group** reported a full year loss due to the 'continuation of unprecedented catastrophe activity'. **Insurance Australia Group** affirmed its financial year 2012 guidance on 26 October on the assumption that 'losses from natural perils are in line with budgeted allowances', but then announced in the New Year that first-half losses are anticipated to be in the range of \$400m - \$420m, compared to allowances of \$266m.
- The whole industry is currently reviewing its pricing for catastrophe business, and we are confident QBE CEO Frank O'Halloran and his senior executives have QBE headed in the right direction. We took the opportunity to top up our holdings at very attractive prices.
- After ignoring very positive news released late in December, investors looked favourably on **ING Real Estate Community Living Group (ILF)** during January, sending the unit price up 12.5% on mounting speculation that a sale of its New York assets is imminent. The gap between price and value has narrowed somewhat but the stock still looks cheap.

We received a number of new and additional investments in January. Thanks for your support. If you missed the cutoff, February applications close on Wednesday 29 February.

SUMMARY OF RETURNS AS AT 31 JANUARY 2012		
	IIVF	S&P ALL ORDS. ACCUM. INDEX
1 month return	1.53%	5.23%
3 month return	-3.18%	0.01%
6 month return	-3.84%	-1.56%
1 year return	-8.59%	-6.86%
2 year return	-2.25% p.a.	1.12% p.a.
Since inception*	-1.95% p.a.	0.78% p.a.

\*31 Oct 2009

FACTS	UNIT PRICE SUMMARY
<b>FUND COMMENCED</b> 31 Oct 2009	<b>DATE</b> 31 Jan 2012
<b>MINIMUM INVESTMENT</b> \$10,000	<b>BUY PRICE</b> \$0.8801
<b>MONTHLY INVESTMENT</b> Min. \$100/mth	<b>REDEMPTION PRICE</b> \$0.8731
<b>INCOME DISTRIBUTION</b> Annual, 30 June	<b>MID PRICE</b> \$0.8766
<b>APPLICATIONS/REDEMPTION</b> Monthly	<b>PORTFOLIO VALUE</b> \$14.9m



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