

Value Fund

Monthly Report



INTELLIGENT
INVESTOR
FUNDS MANAGEMENT

MAY 2012

The Value Fund's unit price fell by 0.5% in May, compared with a decline in the All Ordinaries Accumulation Index of 6.9%. The Fund's relative performance benefited from an RCU takeover bid and a dearth of resource stocks in our portfolio. The S&P/ASX 300 Resources Index fell 11.5% for the month, significantly more than broader indices.

- Regular readers will know that the Fund has a position in US office property through **Real Estate Capital Partners USA Property Trust (RCU)**. Investment banker Greg Woolley has been agitating over the past six months to increase his stake in RCU, and has now stepped up his efforts by launching a takeover bid at \$0.46.

The price is not remotely close to our view of what RCU is worth and we don't expect that he will receive support from other unitholders either. RCU has appointed Macquarie Capital to advise on the bid and unless something goes seriously awry, the recommendation should be to ignore the bid.

The presence of a bid so soon after the capital raising demonstrates in our view that the original capital raising, underwritten solely by Woolley, was not in unitholders best interests. Had Woolley gained 40% or more of the register we expect the takeover bid would have been even less generous. RCU has also announced that it has preliminary agreement for a new US\$87.0m loan to refinance three of its properties, almost paying off the entire expiring loan of US\$87.6m, and raising serious questions as to why new capital was needed in the first place.

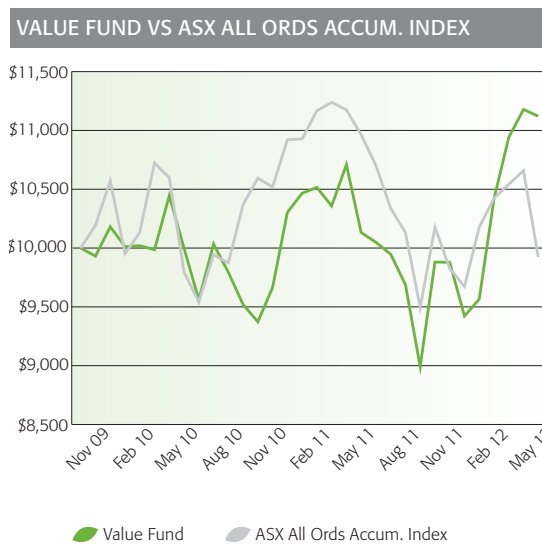
For now the takeover offers leads only to more unitholder value being wasted on advisory fees, however it may flush out another bidder or it may be only the first of many efforts from Woolley to gain control of RCU. If not, we'll explore other avenues to realise the value of RCU's assets. Units in RCU closed the month at \$0.485, up 19.8%.

- The share price of advertising group **Photon (PGA)** fell 18.8% to close at 3.9 cents. There has been no news to drive the share price down but we're not expecting anything to drive it up either. This year's results will be horrendous and we're not expecting any evidence of a turnaround until this time next year at best. With net cash on the balance sheet and a \$60m market capitalisation, we can afford to be patient.
- Mirvac Industrial Trust (MIX)**, which owns a portfolio of industrial property in the Chicago, Illinois region, has continued its strong performance; the share price rose 9.5% for the month and is now up 37.5% since January. Whilst grim economic conditions in the US will continue to hinder operating performance, MIX has done a reasonable job of cleaning up its overleveraged property book and we expect it will look to wind-up the trust over the next few years.
- Unitholders voted through the internalisation of **ING Real Estate Community Living Group (ILF)** which will now be known as Ingenia. ILF also announced the sale of its share of the New York retirement villages for US\$173.3m, which after debt is repaid will result in net proceeds of 11.3 cents per unit for investors. We viewed the sale as an excellent outcome but the unit price was unchanged at \$0.205.

SUMMARY OF RETURNS AS AT 31 MAY 2012		
	IIVF	S&P ALL ORDS. ACCUM. INDEX
1 month return	-0.51%	-6.90%
3 month return	6.75%	-4.79%
6 month return	12.58%	0.98%
1 year return	9.76%	-9.49%
2 year return	5.46% p.a.	0.65 p.a.
Since inception*	4.20% p.a.	-0.30% p.a.

*31 Oct 2009

FACTS	UNIT PRICE SUMMARY
FUND COMMENCED 31 Oct 2009	DATE 31 May 2012
MINIMUM INVESTMENT \$10,000	BUY PRICE \$1.0232
MONTHLY INVESTMENT Min. \$100/mth	REDEMPTION PRICE \$1.0150
INCOME DISTRIBUTION Annual, 30 June	MID PRICE \$1.0191
APPLICATIONS/REDEMPTION Monthly	PORTFOLIO VALUE \$18.4m



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