

Value Fund

Monthly Update



INTELLIGENT
INVESTOR
FUNDS MANAGEMENT

OCTOBER 2012

The Value Fund unit price fell by 3.1% during October and was soundly outperformed by the All Ordinaries Accumulation Index which rose 3.0%. The fall in unit price was mostly driven by our positions in Enero Group and Real Estate Capital Partners USA Property Trust (RCU), which are discussed below.

- **Enero** had its first annual general meeting since the company was renamed and Chairman John Porter and Chief Executive Matthew Melhuish were keen to promote the new look company. The leaders of Enero's major agencies also presented and their advertising backgrounds made for a more entertaining meeting than usual.

The stockmarket likes profits, not fancy presentations though, and the disclosure left us and other investors disappointed. Enero typically discloses first quarter trading results in early November, but this year declined to give an update other than a few cryptic comments. Both Porter and Melhuish referred to 'tough market conditions' and the need to take a 'long term' view on financial results. Porter indicated the businesses remain cash flow positive, and Melhuish indicated the company had a 'cash surplus of approximately \$7.5 million'.

It's like trying to decipher the minutes of Ben Bernanke's Federal Reserve but when a marketing company isn't telling you much, it's because there isn't much to tell.

Things clearly aren't going great and the market took a dim view of the uncertainty. Enero's share price closed the month down 27% at \$0.40 representing a market capitalisation of just \$34m.

- Our other problematic investment, **Real Estate Capital Partners USA Property Trust (RCU)**, never fails to deliver an eventful month. October kicked off with the largest unitholder Greg Woolley resigning from the board and indicating his desire to remove the current responsible entity. Late in the month RCU announced two of its indebted properties, One Centennial and Higgins, were continuing to burn cash and that it was considering relinquishing these assets to the lenders.

Then it entered a trading halt before the month was out. The board announced in early November that it had signed a term sheet with joint-venture partner Saban for the sale of the three remaining assets of value in the portfolio. Subject to approval of the sale, RCU will return around \$US0.60 to unitholders in January and then wind up.

It's not the most generous offer, and is certainly less than we expected when we first purchased units in RCU, but we view it as a sensible transaction, beset as RCU has been by debt, inefficient management and unitholders arguing with each other.

RCU's unit price closed the month down 12% at \$0.45 (since the sale was announced the unit price has traded around 20% higher).

- **Infigen Energy** reported energy production of 946 gigawatt hours for the first quarter of FY13, up 4% from the comparable period last year but still short of expected production levels. Prices for its electricity, however, rose 10% to \$95 per megawatt hour. All up, revenue increased 9% but it will need to increase more to put a meaningful hole in its debt burden.

SUMMARY OF RETURNS AS AT 31 OCTOBER 2012		
	IIVF	S&P ALL ORDS. ACCUM. INDEX
1 month return	-3.07%	2.97%
3 month return	0.11%	7.39%
6 month return	5.41%	3.99%
1 year return	19.25%	8.91%
2 year return	12.12% p.a.	2.28% p.a.
Since inception*	5.62% p.a.	3.49% p.a.

*31 Oct 2009

FACTS	UNIT PRICE SUMMARY
FUND COMMENCED 31 Oct 2009	DATE 31 Oct 2012
MINIMUM INVESTMENT \$10,000	BUY PRICE \$1.0641
MONTHLY INVESTMENT Min. \$100/mth	REDEMPTION PRICE \$1.0556
INCOME DISTRIBUTION Annual, 30 June	MID PRICE \$1.0599
APPLICATIONS/REDEMPTION Monthly	PORTFOLIO VALUE \$20,433,741

VALUE FUND VS ASX ALL ORDS ACCUM. INDEX



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