

# Value Fund

## Monthly Update



INTELLIGENT  
INVESTOR  
FUNDS MANAGEMENT

MAY 2013

The Value Fund had an excellent month in May returning 2.7%, significantly better than the All Ordinaries Accumulation Index which fell 4.4%.

Financial companies and mining services businesses bore the brunt of the market losses this month and, as we discussed in the April monthly report, we don't own many of them. The 6.9% fall in Australian dollar's value relative to the US dollar also boosted returns thanks to the portfolio's strong bias to US assets (through property trusts **RNY Property Trust**, **Mirvac Industrial Trust** and **QBE Insurance**).

- The relationship between currency and **QBE's** stock price is complicated by the interest rate environment in the countries in which it operates. **QBE's** exposure to interest rates arises from an investment portfolio held to cover its liabilities from insurance claims. The magnitude of insurance claims doesn't change with interest rates, but the income that can be earned on its investment portfolio does. The impact can be significant; **QBE** has a market capitalisation of only \$19.2 billion but an investment portfolio exceeding \$30 billion.

Because lower interest rates can lead to weaker currencies, central banks can use interest rates to manage their currency as well as to provide economic stimulus. The Reserve Bank of Australia made express mention of its desire for a lower Australian dollar in its decision to cut rates in May. Here-in lies the issue. To the extent that the lower Australian dollar is driven by lower domestic rates, the value of **QBE's** Australian business gets punished at the same time that its foreign operations become more valuable.

Fortunately the Australian operations represent only a quarter of **QBE's** global business, and lower interest rates in Australia aren't the sole explanation for the lower currency. Based on concerns that the US Federal Reserve's quantitative easing program could be unwound faster than previously expected, yields on 10 year US Treasuries rose from 1.70% to 2.16% during the month. Higher interest rates in the United States would be a double blessing for **QBE**. As well as increasing profits they strengthen the US dollar, and around 50% of **QBE's** operations are US dollar denominated. On the back of these developments **QBE** shares rose 20% for the month to \$16.01.

- Information technology contractor **UXC** announced in late April that it had been awarded a contract with Queensland Rail to integrate its enterprise management systems. The size and duration of the contract wasn't revealed, but Managing Director Cris Nicolli described the win as substantial. Despite this **UXC** shares have been sold off heavily, falling 14% in May to \$1.01, presumably due to concerns about the strength of the local economy. We had taken advantage of higher prices to sell a significant portion of our holdings, though, so the impact on the portfolio was quite modest.
- The largest contributor to performance this month was **Vision Eye Institute**. The share price increased 36% to \$0.775 without anything of note being reported. It still looks mildly cheap but the margin of safety is rapidly disappearing.

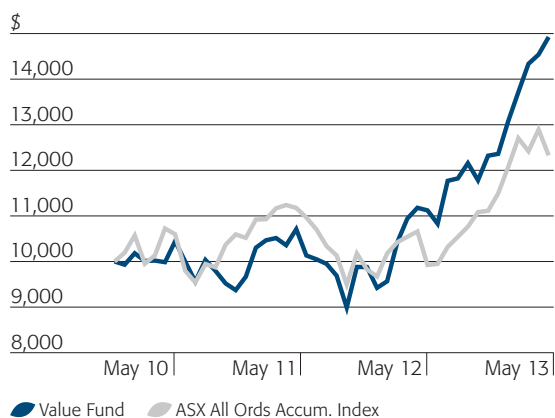
### SUMMARY OF RETURNS AS AT 31 MAY 2013

	VALUE FUND	S&P ALL ORDS. ACCUM. INDEX
1 MONTH RETURN	2.65%	-4.39%
3 MONTH RETURN	8.80%	-2.96%
6 MONTH RETURN	21.13%	10.93%
1 YEAR RETURN	34.19%	24.23%
2 YEAR RETURN	21.36% p.a.	6.04% p.a.
SINCE INCEPTION*	11.82% p.a.	6.01% p.a.

\*31 Oct 2009

FACTS	UNIT PRICE SUMMARY
FUND COMMENCED 31 Oct 2009	DATE 31 May 2013
MINIMUM INVESTMENT \$10,000	BUY PRICE \$1.3478
MONTHLY INVESTMENT Min. \$100/mth	REDEMPTION PRICE \$1.3371
INCOME DISTRIBUTION Annual, 30 June	MID PRICE \$1.3424
APPLICATIONS/REDEMPTION Monthly	PORTFOLIO VALUE \$31.9m

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



### CONTACT DETAILS

**Responsible entity** Fundhost Limited Phone +61 2 8223 5400 Email [admin@fundhost.com.au](mailto:admin@fundhost.com.au) Web [www.fundhost.com.au](http://www.fundhost.com.au)

**Investment manager** Intelligent Investor Funds Pty Ltd Phone +61 2 8305 6050 Email [admin@iifunds.com.au](mailto:admin@iifunds.com.au) Web [www.iifunds.com.au](http://www.iifunds.com.au)

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