Officium Special Situations Fund

SECTOR FUNDS

OFFICIUM CAPITAL

Quarterly Report June 2011

Performance analysis

Performance Data as at	30/06/2011
1 month	-0.26%
3 months	6.15%
6 months	12.37%
1 year	19.52%
2 years (p.a.)	21.49%
3 years (p.a.)	0.53%
5 years (p.a.)	1.44%
Since 30/09/2004	3.05%
Net Asset Value ($)	0.9569
Fund Size ($ million)	38.49

Top 10 Portfolio Holdings	%
Oceania Capital Partners Ltd.	26.00%
Spark Infrastructure Group	10.25%
UXC Limited	7.16%
QBE Insurance Group Ltd	6.95%
Transfield Services Infrastructure	6.22%
Cash	5.58%
MAP Group	5.33%
Real Estate Capital Partners USA P	4.95%
Infigen Energy	4.90%
Reckson New York Property Trust	4.79%
Other holdings	17.87%
TOTAL	100.00%

The June quarter was another solid one for the Officium Special Situations Fund (OSSF). The Fund's performance was 6.2%for the quarter, versus a 4.8% decline for the All Ordinaries Accumulation Index.

The performance is a result of significant moves in some of the individual stocks. **Oceania Capital Partners**' share price rose 42%, the Fund made a 27% return on an investment in **RHG Group,** and **MAp** and **Spark Infrastructure** did what they are supposed to do as 'defensives'. Both performed well when the market performed poorly over the past few months, with MAp returning 13% including distributions while Spark returned 15%.

Offsetting the good performance of these stocks was **Photon Group**, which saw its share price fall 42% for the quarter (see page 3 for a discussion of this position).

CSC delivers a gift to OCP

Oceania Capital Partners was in a trading halt at the end of last quarter pending an announcement from its largest investment, troubled healthcare IT company iSoft. When the details finally arrived, it was good news for OCP. European IT firm CSC has offered to buy iSoft for $0.17 per share, almost triple the trading price before the deal was announced. OCP will also get paid out in full on its iSoft convertible notes.

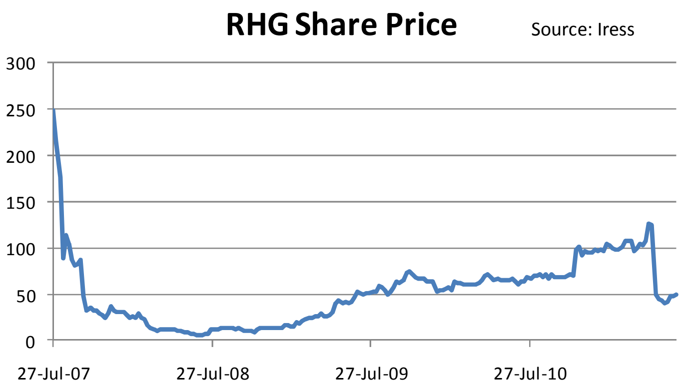
If the deal goes through it will add approximately $0.50 to OCP's net tangible assets and leave it with one remaining business, credit collections company Baycorp (OCP also received the proceeds from the sale of Signature Security during the quarter).

Officium Capital Limited • ACN 108 747 637 • Australian Financial Services Licence: 275101

Address **Terrace House 3, 249 Coronation Drive, Milton QLD 4064**

Phone **1300 781 247** • Email **admin@officiumcapital.com.au**

Stock focus - RHG finally coughs up



Mortgage company RHG was an idea that came from the Manager's days writing for *The Intelligent Investor*. RHG was RAMS Homeloans before the brand was sold to Westpac in 2007, leaving RHG with a $15bn mortgage book. The Manager's valuation of the expected income was in excess of $1 per share when the share price was less than $0.30 in 2008. Despite almost doubling, it still looked great value in late 2009.

The problem was always how that value was going to be realised. Chairman and major shareholder John Kinghorn seemed to have no intention of returning its growing pile of cash to shareholders.

By September 2010, despite the company's net tangible assets per share growing to $1.02, co-founder and director Greg Jones sold all of his 4.5 million shares at less than $0.70 each. One could be forgiven for assuming there was little prospect of shareholders seeing the cash anytime soon.

Two months later, to the surprise of most shareholders and, presumably, Greg Jones himself, the board announced an equal access buyback at $0.88 per share.

As it turned out, this wasn't much of an improvement on no capital return at all. When the 31 December accounts came out, they showed $1.18 per share of net tangible assets relating to past profits, and that the business would continue to be very profitable. Worse, the board was threatening to delist the company after the buyback, effectively forcing anyone who didn't want to own an unlisted share to sell into the lowly-priced buyback.

In hindsight, though, the buyback-offer set in train a sequence of events that resulted in an excellent outcome for shareholders.

OSSF established a position in the company once a shareholder revolt was well and truly under way. Not long after the investment, a meeting to approve the buyback was held. More than 120 million shares were voted against the proposal versus 18 million for. Not only did this reject the buyback, but it showed the chairman he was no longer in control of the company.

The board immediately declared a $0.79 cent fully-franked dividend, committed to keeping the company listed and appointed a number of directors not associated with John Kinghorn. The shares are now trading at near $0.50, ex-dividend, making a mockery of the original $0.88 all inclusive offer.

OSSF has now sold all of its RHG shares. The Manager has concerns about the residential property market in Australia and was able to exit at a price resembling something like fair value. There is potentially more to come for RHG shareholders – the rump could be worth $0.70 or so in a benign economic environment – but the 27% return in a month is more than adequate.

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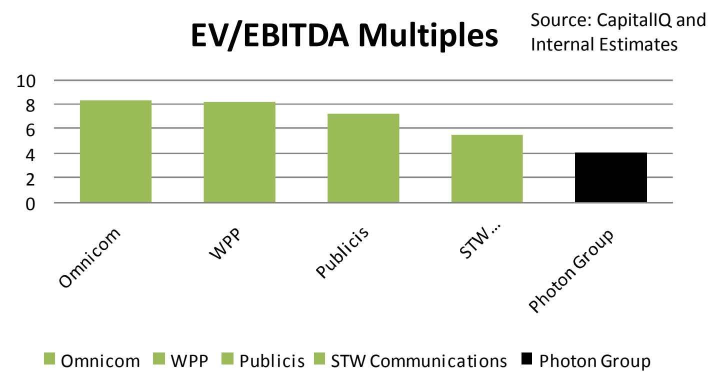
Stock focus - Photon Group resumes its decline



Troubled marketing company Photon Group's share price resumed its precipitous decline in the quarter, falling 42%. Were it not for a recapitalisation in August last year, it would likely be worthless.

The decision to participate in the capital raising and commit further funds to the stock since is clearly worth a revisit.

The investment case was based on an estimate that Photon could earn between $60m and $70m of earnings before interest, tax, depreciation and amortisation (EBITDA) on a sustainable basis. Adjusted for the sale of its digital businesses to **Salmat**, this year's earnings will likely be at the bottom end of that range (it is this that has sent the share price tumbling).

Offsetting the disappointing earnings, Photon received $75m from Salmat for the sale of its digital businesses which has been used to repay debt. The price, nine times EBITDA, was excellent and the risk of insolvency has been meaningfully reduced.

All in all, the situation is no worse now, with earnings coming in at the low end of the range but a solidified balance sheet, than that at the end of September 2010. There is less potential upside, but there is also less risk of insolvency.

From here, if this year's earnings are sustainable, Photon shareholders have the potential to receive a meaningful return from the current share price. The rest of the business now trades on an enterprise value to EBITDA multiple of four. At the current price, the shares are trading at three times Intelligent Investor Funds' estimate of next year's earnings (excluding goodwill amortisation).

Whereas previous management's acquisition binge consumed all of the company's earnings and then some, the underlying businesses are not capital intensive. The earnings can be used to further repay debt over the next few years and, eventually, return to paying fully franked dividends.

Photon still has its fair share of problems. And until the debt is halved from its current still uncomfortable levels, this will remain a risky situation. For these reasons we are being relatively conservative regarding the percentage of the Portfolio allocated to this stock.

But for now the investment thesis remains intact and, given the dramatic share price fall, the opportunity looks substantially more attractive than it was.

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2011 Distribution

We are also pleased to announce a distribution of 2.96 cents per unit will be paid for the June 2011 quarter.

Kind regards,

Steve Johnson
Chief Investment Officer
Intelligent Investor Funds