Mosaic Special Situations Fund

February 2012

The Mosaic Special Situations Fund's unit price increased by 4.7% in February, compared with the S&P/ASX All Ordinaries Accumulation Index's increase of 2.4%.

Of the Fund's investments that reported results during the month, dental group **1300 Smiles (ONT)** was the highlight, with revenue increasing 18% and earnings for the half-year ended 31 December of $3.4m, up 27% on the prior year result. On the back of the good news ONT closed the month up 17% at $4.50 per share.

UXC has less expectation built into its share price but that's not surprising given its half-year results. Revenue from continuing operations was up a healthy 6% to $256m for the half, but net profit margins remain anaemic at 2%, and continuing net profit of $4.8m was a poor result. With the field services business divested, however, management will now focus more of its attention on IT operations. Margin improvement targets were flagged and cost reductions of $10m per annum have apparently already been implemented. UXC closed up 4.7% for the month at $0.445.

New York office property owner **RNY** continues to struggle operationally; occupancy across the portfolio was flat at 80% and penalty interest continues to accrue on two loans that were due to be repaid in 2010. As a result, distributable earnings fell to $1.5m, well down on last year's $7.4m and a long way from the $16m achieved in 2009 and 2008 at occupancy levels closer to 90%. The presentation indicated that management were beginning to see signs of organic growth in the portfolio, but last year's results said the same (to no avail) so don't hold your breath.

Critically, though, RNY has reached agreement with its lenders on a pay-off arrangement for the US$196m loan that expired in September 2010. The arrangement is not executed yet and full details are not available, however the Manager understands that the agreement may result in existing lenders accepting a five-year refinance deal that involves less than 100% principle repayment on the current loan. Whilst there is no equity remaining in this pool of properties at current valuations, a successful refinance would leave the Trust with the potential to benefit from any recovery in US commercial property prices over the next five years. Given its current market capitalisation of $36m, an option over US$196m worth of property is potentially very valuable. RNY closed the month up 37% at 13c and the Manager believes it continues to represent excellent value.

Performance Data as at	29/02/2012
1 month	4.71%
3 months	4.52%
6 months	4.83%
1 year	12.42%
2 years (p.a.)	8.43%
3 years (p.a.)	21.83%
5 years (p.a.)	2.23%
Since Inception (p.a.)*	3.26%
Net Asset Value ($)	0.9879
Fund Size ($ million)	35.85

* Inception date of Fund 30/09/2004

Top 10 Portfolio Holdings	%
Cash	28.93%
QBE Insurance Group Ltd	10.91%
Infigen Energy	8.38%
ING Real Estate Community Living	6.53%
Photon Group Limited	6.52%
UXC Limited	6.14%
RNY Property Trust	5.96%
Spark Infrastructure Group	5.72%
1300 Smiles Limited	5.48%
Watpac Limited	3.49%
Other holdings	11.93%
TOTAL	100.00%

In line with its previous update to the market, **QBE** announced full year profit down 45% to US$704m due to abnormal catastrophe losses. QBE's combined operating ratio, a measure of claims and costs as a portion of earned premiums, was 96.8%. Noticeably this was still better than the majority of its peers, and indeed the deterioration of this ratio from the prior year was less pronounced than most. This gives credibility to the QBE's claim that 2011 was a difficult year for the insurance industry globally.

QBE also announced that Frank O'Halloran will be retiring after 14 years as chief executive, to be replaced by John Neal, currently in charge of QBE's global underwriting. QBE closed up 2% for the month at $11.65.