

The Mosaic Special Situation Fund's unit price fell by 4.0% in May, compared with a decline in the S&P/ASX 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 Accumulation 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 per share.

The price is not remotely close to the Manager's view of what RCU is worth, and the Manager doesn't expect that Woolley 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.

RCU has also announced that it is close to agreeing 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 raised recently was needed in the first place.

For now the takeover offer leads 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, the Manager will 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 fell 18.8% to close at 3.9 cents. There has been no news to drive the share price down but the Manager is not expecting anything to drive it up either. The Manager is 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, patience can be afforded.
- Despite having the bulk of its operations in the United States, property and casualty insurer QBE's share price fell 10.6% during May to \$12.38, a month in which the US dollar strengthened by 6.7%. In the short-term, QBE's share price is highly correlated with global stock markets; risk aversion drives down both long term interest rates and QBE's share price. Long-term it will be driven by the company's profitability and on that front the manager sees no cause for concern.
- 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 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. The Manager viewed the sale as an excellent outcome but the unit price was unchanged at \$0.205.

Performance Data as at	31/05/2012
1 month	-3.95%
3 months	0.64%
6 months	5.19%
1 year	3.66%
2 years (p.a.)	5.19%
3 years (p.a.)	15.31%
5 years (p.a.)	2.83%
Since Inception (p.a.)*	3.24%
Net Asset Value (\$)	0.9893
Fund Size (\$ million)	33.72

* Inception date of Fund 30/09/2004

Top 10 Portfolio Holdings	%
Cash	25.71%
QBE Insurance Group Ltd	9.81%
UXC Limited	7.92%
Infigen Energy	7.36%
RNY Property Trust	7.28%
Spark Infrastructure Group	6.84%
ING Real Estate Community Living	6.78%
Real Estate Capital Partners USA	6.43%
Photon Group Limited	5.52%
Billabong International Limited	3.98%
Other holdings	12.37%
TOTAL	100.00%

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