

The Special Situations Fund's unit price increased by 7.5% in July, compared to the S&P/ASX All Ordinaries Accumulation Index's 3.7% rise. The gains were broad based, with several stocks up more than 10% for the month.

- The saga at Real Estate Capital Partners USA Property Trust (RCU) rolled on. For the second month in three, however, it had a significant positive impact on the unit price. Greg Woolley's low-ball bid for RCU lapsed early in the month without gaining a significant percentage of the register. At 33%, his ownership is significant but not controlling.

Later in the month management announced the sale of RCU's largest office property asset, RSA Bedford Woods, for US\$93.5m. The price was at a 6% discount to the latest independent valuation but, with RCU trading at less than half book value, it was good news for unitholders. Proceeds from the sale have allowed RCU to repay a US\$87.4m loan due in August 2012, leaving it with two unencumbered assets and a portfolio of government-leased properties in a joint venture with Saban Capital Group.

Saban itself presented the board with a conditional offer for the remainder of RCU's assets. While the offer price was opportunistic and labeled (correctly in the opinion of the Manager) as too low by the board, Saban looks the logical owner of these assets and the board is currently engaging with its joint venture partner to determine whether a satisfactory agreement can be reached.

The Manager is hopeful of a deal but with no refinancing issues and cash in the bank, RCU unitholders can now afford to be patient if necessary. RCU units last traded in July at 56.5 cents, an increase of 19% for the month.

- Although there wasn't any news of note, other stocks to post meaningful gains included **Ingenia Communities** (up 21%), **UXC Limited** (up 12%) and **RNY Property Trust** (up 11%). Some of these stocks have low liquidity and prices can move significantly from one month to the next without many shares changing hands.
- The Manager has begun to sell down the Fund's position in dental group **1300 SMILES (ONT)**. Though ONT is an excellent business with secure revenue, high margins and growth potential, the current share price of \$6.50 (up 9% for the month) is now well in excess of 20 times earnings. In the Manager's view the stock is fully valued; at this multiple ONT will need to produce exceptional results to generate even modest returns for shareholders. It's done so in the past and may continue to do so in the future, however the Manager prefers opportunities where the odds are stacked more comfortably in the favour of investors and has reduced the position accordingly. Initially purchased at \$2.70, it has been one of the Fund's most successful investments to date.
- Keep an eye out for the August update as most of the Portfolio report full year results over the next month.

Performance Data as at	31/07/2012
1 month	7.46%
3 months	0.27%
6 months	10.01%
1 year	7.67%
2 years (p.a.)	16.20%
3 years (p.a.)	14.68%
5 years (p.a.)	2.46%
Since Inception (p.a.)*	3.73%
Net Asset Value (\$)	1.0288
Fund Size (\$ million)	34.13

\* Inception date of Fund 30/09/2004

Top 10 Portfolio Holdings	%
Cash	23.13%
QBE Insurance Group Ltd	10.99%
UXC Limited	9.20%
Ingenia Communities Group	7.68%
Infigen Energy	7.61%
Real Estate Capital Partners USA	7.41%
RNY Property Trust	7.19%
Spark Infrastructure Group	7.17%
Billabong International Limited	5.16%
Enero Group Ltd	4.04%
<i>Other holdings</i>	10.43%
TOTAL	100.00%

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