

Wholesale Value Fund

MONTHLY UPDATE • JANUARY 2014

FUND FACTS

FUND COMMENCED	2 Sep 2004
MIN. INVESTMENT	\$10,000
INCOME DISTRIBUTION	Quarterly
APPLICATIONS/REDEMPTION	Weekly

UNIT PRICE SUMMARY

DATE	31 Jan 2014
BUY PRICE	\$1.5062
REDEMPTION PRICE	\$1.4986
MID PRICE	\$1.5024
PORTFOLIO VALUE	\$ 33.1m

RESPONSIBLE ENTITY

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The Intelligent Investor Wholesale Value Fund had an excellent month in relative terms, with the unit price gaining 1.0% compared to the 2.8% fall in the benchmark ASX All Ordinaries Accumulation Index. While the Fund felt the impact of broad market weakness, it benefitted from favourable stock price movements in two of the newer companies in the portfolio.

Telecommunications contractor **Service Stream** announced plans to raise \$21m from a placement and rights issue to repay debt and provide for working capital. Entities related to major shareholder **Thorney Group** will take the majority of the placement and also underwrite a portion of the entitlements offer. Service Stream also released a relatively upbeat financial update. Net debt was \$39m at 31 December, down from \$52m at 30 June 2013, and the previously announced full year guidance of \$20m earnings before interest, tax, depreciation and amortisation was confirmed. Service Stream's share price rallied 35% to \$0.25 by the end of January.

SUMMARY OF RETURNS AS AT 31 JANUARY 2014

	WHOLESALE FUND	S&P ALL ORDS. ACCUM. INDEX
1 MONTH RETURN	1.01%	-2.76%
3 MONTH RETURN	0.24%	-3.22%
6 MONTH RETURN	8.08%	5.63%
1 YEAR RETURN	34.12%	10.73%
2 YEAR RETURN (PA)	29.78%	14.63%
3 YEAR RETURN (PA)	22.69%	6.97%
SINCE INCEPTION* (PA)	7.91%	8.48%

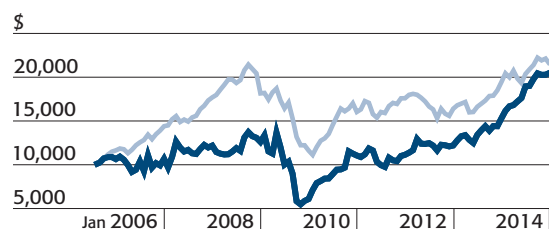
* 2 Sep 2004

In December the Fund purchased shares in consumer financing company **ThinkSmart**. ThinkSmart provides point-of-sale finance for electronics goods, allowing a customer to walk in to a **JB Hi-Fi** store, for example, and be credit approved on the spot for the purchase of a television. While the business has been a bonanza for industry giant **FlexiGroup**, ThinkSmart has struggled to get sufficient scale and its Australian operations have been losing money (although this had been obscured by an important accounting change).

ThinkSmart's share price fell more than 90% from listing in 2007 to a low of \$0.18 last year but, while the profitable UK business looked enticing, worries about its Australian business kept us on the sidelines. The situation changed in December when ThinkSmart sold its Australian operation to FlexiGroup. The sale proceeds

have now been received and the company has nearly \$0.30 per share in cash, as well as a growing operation in the United Kingdom that we estimate is worth a further \$0.20-\$0.30. The Fund acquired shares in December and January at an average of \$0.39, a good discount, especially because the company will soon return \$0.11 to shareholders via a special fully franked dividend and capital return. ThinkSmart shares fell a little in December but rallied 17% in January to \$0.42.

COMPARISON OF \$10,000 INVESTED IN THE WHOLESALE VALUE FUND VS ASX ALL ORDS INDEX SINCE INCEPTION (2 SEP 2004)



■ Wholesale Value Fund ■ ASX All Ords Index

Source: Capital IQ, Jan 2014, Intelligent Investor Funds

As disclosed in the [December Quarterly Report](#), the Fund profited from a small position taken in engineering construction business **Forge Group**, which was sold for a healthy profit prior to year end. In January Forge announced a further blowout in one of its problem power contracts and also disclosed a huge \$70m downgrade in this year's 'pro-forma' operating profit, which excludes the horror power project losses. Forge is now running at an ongoing \$20m loss, and is perilously close to being insolvent. It's becoming clearer by the day that luck, not skill, was the source of the Fund's profit on Forge.

TOP 5 HOLDINGS

STOCK	PORTFOLIO WEIGHTING
RNY PROPERTY TRUST	13.93%
VISION EYE INSTITUTE	8.25%
GBST HOLDINGS	7.61%
SERVICE STREAM	6.14%
ASTRO JAPAN PROPERTY GROUP	5.62%