

# Wholesale Value Fund

MONTHLY UPDATE • APRIL 2014

## FUND FACTS

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

## UNIT PRICE SUMMARY

<b>DATE</b>	30 Apr 2014
<b>BUY PRICE</b>	\$1.4024
<b>REDEMPTION PRICE</b>	\$1.3954
<b>MID PRICE</b>	\$1.3989
<b>PORTFOLIO VALUE</b>	29.7m

## RESPONSIBLE ENTITY

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Given the extraordinary returns of the past few years, a period of underperformance was inevitable. April duly delivered. The Wholesale Value Fund unit price fell 4.1% for the month and was soundly beaten by the All Ordinaries Accumulation Index, which gained 1.3%. The Fund's ownership of small companies didn't help - the Small Ordinaries Accumulation Index was down 1.2% - nor did the exposure to technology. Echoing recent falls in the US Nasdaq Index (down 2% in April), nearly half the month's losses relate to technology companies.

## SUMMARY OF RETURNS AS AT 30 APR 2014

	WHOLESALE FUND (%)	S&P ALL ORDS. ACCUM. INDEX (%)
<b>1 MONTH RETURN</b>	-4.13	1.29
<b>3 MONTH RETURN</b>	-5.61	6.46
<b>6 MONTH RETURN</b>	-5.38	3.03
<b>1 YEAR RETURN</b>	15.16	10.43
<b>2 YEAR RETURN (PA)</b>	20.38	15.58
<b>3 YEAR RETURN (PA)</b>	14.48	8.41
<b>SINCE INCEPTION* (PA)</b>	7.07	8.96

\*= 2 Sep 2004

Despite the overall fall, there wasn't much action in the portfolio. We own 18 companies in the Fund and 11 saw stock price falls during April, but none individually did significant damage and there was scarce news for investors.

Telecommunications contractor **Service Stream** completed its capital raise in April to pay down debt. The share price fell from \$0.23 to \$0.21 through the month, but was comfortably above the rights issue price of \$0.18 so the Fund took up its full allocation. In an effort to take full advantage the Fund also made a large bid ahead of the underwriters to purchase rights not used by other investors, but unfortunately others did the same and management didn't offer Intelligent Investor Funds much additional stock.

The Fund owns a small 2% position in online lottery reseller **Jumbo International**, which announced in early April the termination of its business development activities in Mexico. This was not material itself, but the announcement also touched on activities in Germany, where a good jackpot run was discussed but no update on customer database growth was provided.

There was also a throwaway line that, 'as previously advised', group profits would be impacted while Germany grows. It's like trying to read between the lines of a central banker's statement on monetary policy, but it seems new customer acquisition mightn't be as strong as management had hoped. The market took a very dim view of the announcement and knocked the stock down 30% to \$1.25.

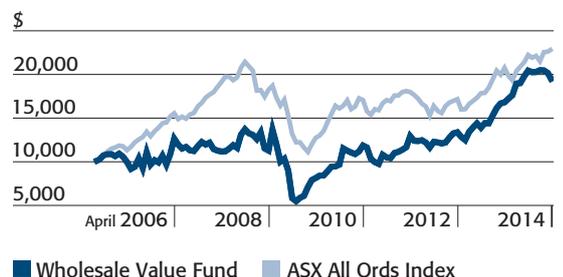
Wind farm owner **Infigen Energy** reported steady quarterly revenue in the US but a fall of 10% in Australia due to less windy conditions. Production is now a side-issue, however. The pressing issue for Infigen is the political fate of the renewable energy target (RET) that currently subsidises its Australian operations.

## TOP 5 HOLDINGS

STOCK	PORTFOLIO WEIGHTING (%)
<b>RNY PROPERTY TRUST</b>	14.1
<b>VISION EYE INSTITUTE</b>	9.3
<b>SERVICE STREAM</b>	6.6
<b>GBST</b>	6.5
<b>MIRVAC INDUSTRIAL TRUST</b>	6.1

Although constantly tinkered with, the RET has had bipartisan support since its introduction in 2001. The coalition government, however, is sounding increasingly likely to make very significant changes. A 'review' is currently under way, headed by Dick Warburton whose reputation as a climate change sceptic precedes him. Prime Minister Tony Abbott has criticised the scheme in public and Treasurer Joe Hockey recently labelled wind farms 'utterly offensive' and 'a blight on the landscape'. The Coalition is still saying that renewable energy will play a role in its emissions reduction target but, given the rhetoric, the almost inevitable changes are almost certainly going to be bad for the Fund's investment.

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



Source: Capital IQ, Feb 2014; Intelligent Investor Funds

Infigen's share price has already fallen 30% over the past year and it now has a market capitalisation of just \$140m. Our original investment thesis was that, even if it defaults on its debts, Infigen owns assets that sit outside the clutches of the lenders and that these assets are worth more than \$140m alone. Unfortunately, the chances of this thesis being tested have increased.