Wholesale Fund

Monthly Update

INTELLIGENT INVESTOR
FUNDS MANAGEMENT

AUGUST 2013

August was a busy month with most of the portfolio reporting results for the full or half year. We've provided some key updates below and will provide more detail in the September quarterly report. The unit price increased 0.2% underperforming the All Ordinaries Accumulation Index which returned 2.6%.

- Having hit $0.98 before its results announcement, the share price of **Vision Eye Institute** fell 26% to $0.72, down 17% on the 31 July closing price. Vision reported earnings before interest, tax, depreciation and amortisation of $25.3m, at the bottom of its guidance range, and indicated that dividends won't be restarted until at least June 2014.

  The result wasn't that terrible, but we were hoping that dividends would recommence sooner. With substantially lower borrowing costs this year due to the capital raising in January, Vision now trades at a price earnings multiple of approximately ten times, which is cheap for a business with such a robust revenue stream. The challenge for Vision will be to grow turnover after years of static revenue and gradual doctor attrition. The selloff puts the stock back in value territory, making the decision to hold an easy one.

- **Mirvac Industrial Trust**, which owns industrial property in the Chicago/Illinois region of the United States, reported operating earnings of 2.0 cents per unit and net assets of $0.21 per unit, 11% higher, mostly due to the stronger US currency.

  Subsequent to the financial year end, tenants have vacated two of MIX's higher yielding assets. These assets are more customised than the bulk of the portfolio, and are unlikely to be re-leased at the rates the previous tenants paid. It's a small blow, but the real value in MIX will be realised by selling the portfolio and returning money to unitholders. Management is intending to sell four of the specialist properties to buyers this year, subject to the approval of lenders, and will then look to sell the remaining assets of the trust in one transaction. It's a strategy we support.

  MIX units now trade at $0.185, a 12% discount to net asset value. From here we are going to need further US dollar appreciation or sales at a premium to book value to make meaningful returns.

- We were expecting a bad result from marketing and advertising company **Enero Group** this year. Once again, it met our expectations and better. As has been the case in prior years, revenue from continuing operations fell, this time by 15%, and the company made a small underlying loss, roughly $3m depending on how amortisation is treated. Enero actually generated positive free cash flow this year but it was driven by balance sheet improvements rather than sustainable operating cashflows.

  Enero needs to halt the revenue losses and improve margins if it is to remain a viable entity. In a sign that expectations were very low, Enero shares actually rose 25% to $0.50 after the results were released. It's a stock that has tested our patience but with a market capitalisation of $47m, spare cash on the balance sheet and net revenue of $126m, it doesn't need to do much right to make us money from here.

SUMMARY OF RETURNS AS AT 30 AUG 2013

	WHOLESALE FUND	S&P ALL ORDS. ACCUM. INDEX
1 MONTH RETURN	0.23%	2.59%
3 MONTH RETURN	10.38%	5.36%
6 MONTH RETURN	17.78%	2.25%
1 YEAR RETURN	36.64%	23.23%
2 YEAR RETURN (PA)	25.06%	13.23%
3 YEAR RETURN (PA)	25.10%	9.57%
SINCE INCEPTION* (PA)	7.40%	8.54%

*2 Sep 2004

FACTS

FUND COMMENCED
2 Sep 2004

MINIMUM INVESTMENT
$10,000

INCOME DISTRIBUTION
Quarterly

APPLICATIONS/REDEMPTION
Weekly

UNIT PRICE SUMMARY

DATE
30 Aug 2013

BUY PRICE
$1.4156

REDEMPTION PRICE
$1.4086

MID PRICE
$1.4121

PORTFOLIO VALUE
$33.3m

TOP 5 HOLDINGS

STOCK	PORTFOLIO WEIGHTING
RNY	13.42%
VEI	9.48%
GBT	7.79%
INA	7.52%
EGG	6.46%

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