

31 December 2020

Quarterly Report

Intelligent Investor Australian Equity Growth Fund

(Managed Fund) (ASX:IIGF)

Quarter Highlights

- Fund up 11.9%
- Added Omni Bridgeway; Infratil; South32; Alumina; Whitehaven
- Company announcements very positive

About Us

With a 20-year track record of beating the market, clear and straightforward language, and an 'open book' approach to stock research and analysis, *Intelligent Investor* offers actionable, reliable recommendations on ASX-listed stocks.

In 2014, *Intelligent Investor* became a part of the InvestSMART family, extending our expertise to even more Australian investors seeking quality analysis and advice.

Portfolio overview

The Intelligent Investor Equity Growth Portfolio is a concentrated portfolio of 10 - 35 Australian-listed stocks. The Portfolio invests in a mix of large, mid and small cap stocks, focusing on highly profitable industry leaders that have long-term opportunities to reinvest profits at high rates of return.

As contrarian value investors, producing safe and attractive returns in the stock market means sticking to a disciplined and repeatable process. We do this by patiently waiting for overreactions in share prices, so we can buy at a large discount to our estimate of intrinsic value.

Investment objective

The portfolio aims to achieve a return of 2% above the S&P/ASX 200 Accumulation Index p.a. over five year rolling periods with minimal turnover to allow returns to compound in a favourable tax environment.

Who manages the investment?

Nathan Bell, has over 20 years of experience in portfolio management and research and is supported by our Investment Committee, chaired by Paul Clitheroe. Nathan returned to *Intelligent Investor* in 2018 as Portfolio Manager, having previously been with *Intelligent Investor* for nine years, spending five of those as Research Director. Nathan has a Bachelor of Economics and subsequently completed a Graduate Diploma of Applied Investment and Management. Nathan is a CFA Charterholder.

Key Fund Details

INVESTMENT CATEGORY

A portfolio of individually-selected Australian Equities

INVESTMENT STYLE

Active Stock Selection, Value Investing Approach

BENCHMARK

S&P/ASX 200 Accumulation Index

INCEPTION DATE

6 October 2020

SUGGESTED INVESTMENT TIMEFRAME

5+ years

NUMBER OF STOCKS

10 - 35

INVESTMENT FEE

0.97% p.a.

PERFORMANCE FEE

N/A

MINIMUM INITIAL INVESTMENT

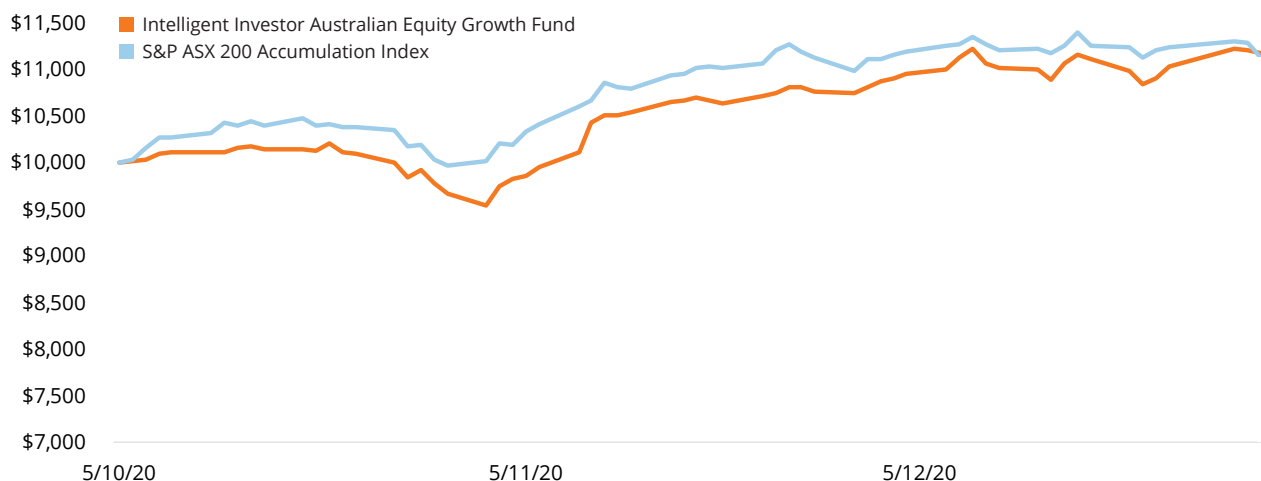
N/A

SUITABILITY

Suitable for investors who are seeking domestic equity exposure with a growing stream of dividends to offset inflation

As at 31 December 2020

Performance of \$10,000 since inception



Performance (after fees)

	1 mth	3 mths	6 mths	1 yr	S.I. (p.a)
II Australian Equity Growth Fund	4.0%	N/A	N/A	N/A	11.9%
S&P ASX 200 Accumulation Index	1.2%	N/A	N/A	N/A	11.3%
Excess to Benchmark	2.8%	N/A	N/A	N/A	0.6%

Asset allocation

Information Technology	32.3%
Consumer Discretionary	20.8%
Financials	14.1%
Industrials	9.8%
Cash	7.8%
Materials	5.5%
Energy	5.0%
Utilities	2.6%
Real Estate	2.1%

Top 5 holdings

Frontier Digital Ventures (FDV)	9.4%
Pinnacle Investment Mgmt Group (PNI)	7.5%
RPMGlobal Holdings (RUL)	6.8%
Star Entertainment Group (SGR)	6.6%
Audinate (AD8)	6.5%

Intelligent Investor Australian Equity Growth Fund

Quarterly Update

'To me, it's obvious that the winner has to bet very selectively. It's been obvious to me since very early in life. I don't know why it's not obvious to very many other people.'

– Charlie Munger

'How many of you have 56 brilliant ideas in which you have equal confidence? Raise your hands, please. How many of you have two or three insights that you have some confidence in? I rest my case.'

– Charlie Munger

'Twenty years from now you will be more disappointed by the things that you didn't do than by the ones you did do. So throw off the bowlines. Sail away from the safe harbor. Catch the trade winds in your sails. Explore. Dream. Discover.'

– Mark Twain

The fund increased 11.9% during the quarter compared to a 11.3% gain for the index, as the market prices in a stronger economic recovery following the COVID vaccine rollouts.

During the quarter we started adding some more resources exposure, as the market values of resources stocks are at or near a historical low compared to the value of industrial stocks.

We added former holding **South32**, **Alumina** and a nominal holding in **Whitehaven Coal**, which could be worth five times its current value if Asian demand for coal remains strong.

We sold **Reece**, which performed much better, much faster than we could've hoped for. The big jump in Reece's share price came from an expansion in its

price-to-earnings ratio rather than an improvement in its financials, which is what's driving the excesses in growth stock valuations and the market more generally.

During the month we added **Infratil**, which has built an excellent track record of acquiring and selling businesses in similar fashion to a private equity operator. Infratil's share price popped after the company rejected a potential takeover offer from a large Australian superannuation fund.

We also added **Omni Bridgeway**, which has a three-decade history of successfully funding litigation claims. The business has recently shifted to a funds-management business model, offering attractive returns to investors prepared to help fund litigation cases.

Portfolio news

Crown Resorts has been in the headlines for all the wrong reasons. Given the governance failings, virtually the entire board should be replaced. James Packer will also likely need to reduce his shareholding below 10% for the company to avoid changes to its licenses.

Despite the governance issues, the stock looks cheap with the new Sydney casino at Barangaroo opening its hotel and restaurants. We would be only too pleased if the company became a target for our other major casino holding **Star Entertainment**, as the media has been cheering.

Earlier in the quarter we reduced **Frontier Digital Ventures** back below 10% after receiving an allocation of shares in its rights issue that took our holding above our maximum holding limit of 15%. We've now almost banked more in profit than we initially invested and still own a ~9% position that could be worth multiples of the current share price as profits explode from a low base.

The company also achieved a major milestone by producing its maiden operating profit before its share price bounced back after digesting its capital raising that included its maiden 100% business

acquisitions rather than acquiring minority stakes like it has historically.

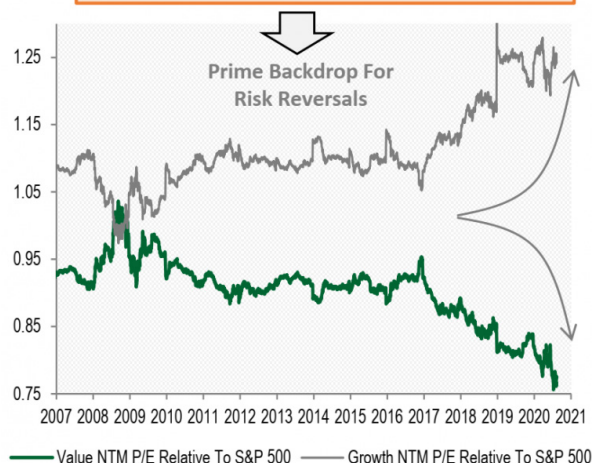
Audinate's share price also responded well as its revenue starts to recover from the COVID-induced downturn, up ~35%. The share price of fund manager **Pinnacle** also increased over 40% as markets have increased, which augurs well for base and performance fees of its diversified stable of fund managers.

AMA Group announced the sale of one of its smaller businesses that will help reduce the company's burdensome debt load and allow management to focus on its core smash repair business.

Fast fashion retailer **Lovisa** announced a cracking deal where it will take over hundreds of new store leases in Europe for a nominal amount. This is exactly the type of decision we expect from entrepreneurial businesses with intelligent insider operators that have plenty of skin in the game.

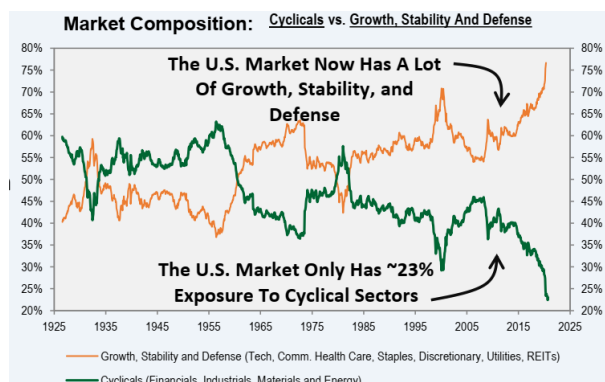
360 Capital also announced that it expects to double earnings per share to four cents this year, as its rapid launch of new funds starts to impact fee revenue. Boasting a ~5% distribution yield, \$80m of cash, excellent management, a clear growth strategy that's brought in several high calibre executives all while trading at a discount to its net tangible assets, we expect good things over the next few years.

The Valuation Spread Between Growth And Value Is At An Extreme!



Source: millervalue.com via Cornerstone Macro.

If you have any questions, as always, please call us on **1300 880 160** or email us at info@intelligentinvestor.com.au.



Source: millervalue.com via Cornerstone Macro.



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