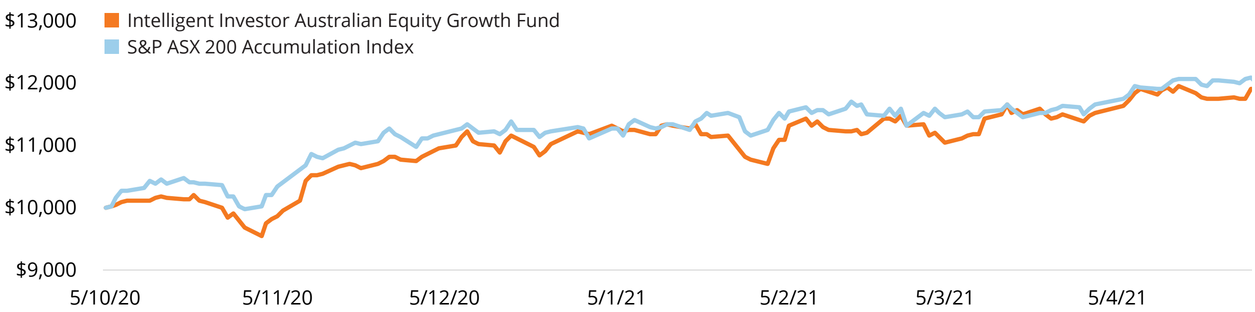
30 April 2021

Monthly Update

Intelligent Investor Australian Equity Growth Fund (Managed Fund) (ASX: IIGF)

As at 30 April 2021

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	3.7%	10.5%	23.1%	N/A	19.1%
S&P ASX 200 Accumulation Index	3.5%	7.5%	20.3%	N/A	20.1%
Excess to Benchmark	0.2%	3.0%	2.8%	N/A	–1.0%

Asset allocation

Information Technology	29.8%
Consumer Discretionary	16.6%
Cash	15.7%
Financials	13.6%
Industrials	7.8%
Materials	5.4%
Energy	4.5%
Communication Services	4.2%
Utilities	2.4%

Top 5 holdings

Frontier Digital Ventures (FDV)	8.4%
RPMGlobal Holdings (RUL)	7.4%
Star Entertainment Group (SGR)	6.7%
360 Capital Group (TGP)	5.6%
Pinnacle Investment Mgmt Group (PNI)	5.4%

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

Intelligent Investor Australian Equity Growth Fund

Monthly update

'There can be few fields of human endeavour in which history counts for so little as in the world of finance. Past experience, to the extent that it is part of memory at all, is dismissed as the primitive refuge of those who do not have the insight to appreciate the incredible wonders of the present.'

— John Kenneth Galbraith

The Growth Fund's 3.7% return this quarter matched the market's 3.5% return. There were no major changes to the portfolio in a quiet month for our holdings following reporting season in February.

Frontier Digital's quarterly results are always messy due to varying levels of ownership and the associated accounting. But recent acquisitions muddied the Q1 results even further.

A strong performance from key business Zameen was largely offset by a 20% fall in the Pakistan rupee versus the Australian dollar. This trend was consistent across the portfolio and is masking positive business trends as the world emerges from COVID shutdowns.

While there's not much we can do about currency risk (Zameen enjoys somewhat of a natural hedge as expats buy more Pakistani property when the rupee is weak), eventually the rapid profit growth we expect across Frontier's portfolio in the decade ahead should outweigh unfavourable currency impacts.

Importantly, there has been a step change in Frontier Digital's profitability. Profit at the EBITDA level would've continued its upward trend to 8% after the company reached breakeven last quarter, however recent acquisitions have brought Frontier back to break even.

With $30m in the bank, founder and CEO Shaun Di Gregorio plans to make more acquisitions like recent ones that have either strengthened or handed the company market leadership. This is absolutely vital in online real estate classifieds markets, as you can see in the contrasting values of REA Group and Domain Holdings, for example.

iMyanmarhouse and CarsDB, which supply less than 5% of FDV's revenue, have essentially stopped trading due to the political turmoil. While they're expected to reopen when things settle, they hardly matter to Frontier's potential longer-term value.

Skin in the game

Operating in frontier markets is difficult at the best of times, but Di Gregorio's management over the past year has been exceptional, seizing on opportunities that could deliver multiples of their purchase price over time from larger companies focused on other things.

I recently had the opportunity to send a few questions Di Gregorio's way in a short interview he did with our Investsmart colleague Evan Lucas.

The key takeaway is that Di Gregorio's ambition is 'to have a seat at the table' with regional heavyweights Adaventa and fellow investor and partner Naspers/OLX whose current market values tower over Frontier's i.e. he's not going anywhere soon.

Our concern has always been that Di Gregorio would be a keen seller at a price of $4-5. While making three times our money from here would be nice, as we've seen with REA Group, for example, the monster returns in these businesses come further down the track.

REA Group is up around 40 times since I stupidly put a Hold on it in our subscription service during the GFC thinking that the business was mature having signed up virtually every property agent. But that's only the beginning.

Early on many agents aren't paying anything, which soon changes once competition to distinguish properties on the market's leading property portal takes off. And there are even more opportunities in frontier markets to clip the ticket on property purchases and other transactions, as the leading classifieds businesses are considered one of the few trusted networks to transact on.

While Frontier's Q1 result offers nothing for momentum traders, there is a load of progress being made across Frontier's portfolio and we're still only in the first or second innings for this business.

Frontier is a much less risky business than when we initially bought it. And if Infocasas or another business within Frontier's stable can fulfill its potential, then Frontier will become more diversified, more valuable and less risky again.

Our view is firmly fixed at least a few years out when COVID becomes a distant memory (apart perhaps from our annual jab), recent acquisitions start showing their potential with key staff currently being appropriately incentivised, and profits taking off as key businesses like Zameen mature and maximise their market leadership.

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

INTELLIGENT INVESTOR

Important information

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