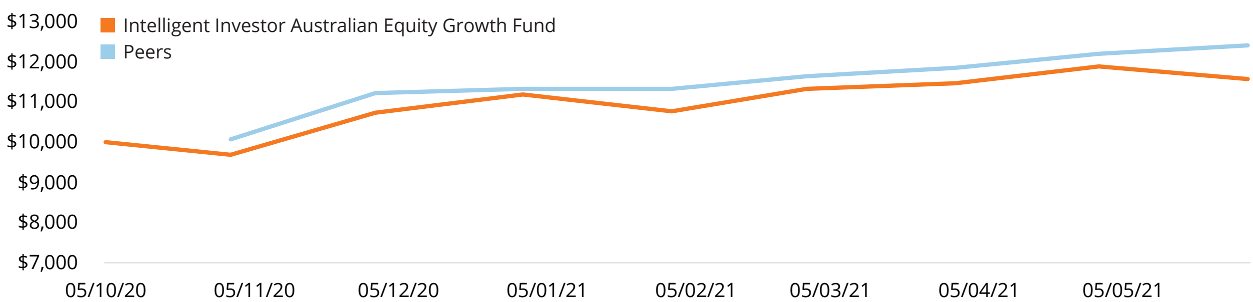
31 May 2021

Monthly Update

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

As at 31 May 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	–2.8%	2.2%	7.7%	N/A	15.8%
S&P ASX 200 Accumulation Index	2.3%	8.5%	11.7%	N/A	22.9%
Excess to Benchmark	–5.1%	–6.3%	–4.0%	N/A	–7.1%

Asset allocation

Information Technology	23.7%
Cash	21.5%
Consumer Discretionary	18.0%
Financials	14.0%
Materials	5.8%
Communication Services	4.9%
Energy	4.9%
Industrials	4.3%
Utilities	2.7%

Top 5 holdings

Star Entertainment Group (SGR)	7.3%
Frontier Digital Ventures (FDV)	6.0%
360 Capital Group (TGP)	5.6%
Pinnacle Investment Mgmt Group (PNI)	5.5%
RPMGlobal Holdings (RUL)	5.1%

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

'The extent of the market's shrinkage in 1969–70 should have served to dispel an illusion that had been gaining ground during the past two decades. This was that leading common stocks could be bought at any time and at any price, with the assurance not only of ultimate profit but also that any intervening loss would soon be recouped by a renewed advance of the market to new high levels. That was too good to be true.'

— Benjamin Graham, *The Intelligent Investor*

The good news coming from our portfolio holdings belies the Fund's 2.8% fall this quarter compared to the market's 2.3% gain, which was spurred on by the big banks.

Technology stocks were hit hard this month due to increased expectations of higher inflation and ultimately the higher interest rates needed to quell it. So far at least, we've avoided disasters like **Nuix** and **Appen**.

But as we're focused on finding the next generation of big technology winners, volatility like we're currently experiencing is the price we must pay for high long-term returns. Nor does it mean the volatility is over, as high growth stocks are still very expensive on the whole.

It doesn't take much selling to knock the share prices of stocks like **Frontier Digital Ventures** around given the absence of a long history of profitability, small market valuations and tightly held stock in a concentrated share registry of investors like ourselves.

Unfortunately, the material cash holding in the fund didn't help cushion the falls this month, and the selling was compounded by reducing our positions in two of our best ideas, Frontier Digital Ventures (which we discussed last month) and **RPM Global**.

As our funds are listed on the ASX, they are subject to ASX liquidity rules. One of which is having no more than 25% of the fund invested in stocks with a market capitalisation of less than $500m. With RPM Global's share price increasing recently, and Frontier's market value falling below $500m, we were forced to reduce our holdings in both.

We've now banked more in profit from Frontier than we have invested in the fund, which is something we wish we could say about every stock. It's also highlights the value of discovering high growth stocks as early as possible in their lifecycle.

While selling your best ideas is not the way to investing heaven, risk management is paramount, and it won't dent your returns much in the long run if both stocks live up to their potential.

The main drawback is that we've got no room to add any more small-caps despite having some good ideas, so the sooner our small caps grow into mid-caps the better.

Portfolio transactions

This month's only portfolio change was selling smash repairer **AMA Group** where we accepted a small loss. The impact of labour shortages is compounding the loss of key management personnel following the departure of former CEO Anthony Hopkins.

While the share price rallied after new chief Carl Bizon recently announced that the company is currently trading within its bank covenants, the absence of a profit forecast so close to the end of the financial year suggests the result will be lousy and is increasing the chances of another potentially dilutive capital raising.

The share price of **EML Payments** initially fell nearly 50% after its recent purchase and European payments company Prepaid Financial Services (PFS) became the subject of a regulatory investigation in Ireland.

It's unclear how deep the problems run and how easily they can be fixed, but the share price has recovered somewhat as the initial fall suggested PFS was worth nothing, which is likely an overreaction.

While **Qantas** boss Alan Joyce tried to get the Morrison government to commit to opening our international borders by October, Australia's botched vaccine roll out has condemned the reopening until 2022.

While that's kept the pressure on the share prices of **Sydney Airport** and **Auckland Airport**, we expect international travel will ramp up quickly as vaccination programs mature around the world. It will take time for earnings and dividends to recover, but at current prices we believe we're being compensated to wait.

The merger and acquisition activity around **Crown Resorts** continues to dominate the news. Crown rightly rejected the bid from US private equity firm Blackstone, which undervalued the business while weakened by COVID restrictions at its world class facilities.

While **Star Entertainment**'s share price jumped in response to its bid for Crown Resorts, the share price has sagged since. In the years ahead, once the new $2bn Brisbane Casino is open and life gets back to normal post-covid, we think the current price will look quite attractive.

Tabcorp also received an audacious $4bn bid for its wagering business from minnow **Betmakers**, which we expect to be largely ignored. A split of its wagering and lotteries business remains our preferred option without a materially higher bid.

RPM Global's share price has been increasing recently, after announcing its annual recurring revenue has now increased from just a couple of million dollars two years ago to $20m. CEO Richard Matthews believes that could easily increase to $30m based on its current offering.

The stock remains one of the cheapest software companies on the market by a large margin. As its fundamentals improve, we expect it will eventually draw more attention.

While the fund is not currently keeping up with the market, that's common for a value portfolio in the late stages of a bull market. That's ok in the long term as long as we're paying the right prices for the right businesses.

The news overall from our holdings continues to be good. And with most of them trading materially below their highs, it augurs well for our future returns compared to the major components of the index that look expensive.

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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