

Intelligent Investor Australian Equity Growth Fund

(Managed Fund) (ASX:IIGF)

Issued by
InvestSMART Funds
Management Limited
ACN 067 751 759
AFSL 246441

Managed by
Intelligent Investor
Holdings Pty Ltd
ACN 109 360 983
CAR 1255 838

ARSN 630 396 691
ASX Code: IIGF

“Mediocrity is not worth the trip.”

—Sergio Marchionne

It was a wild month on the ASX, as the sharemarket finally acknowledged that interest rates will increase earlier than expected. The Fund fell 4.9% during January, compared to the market’s 6.4% fall.

That wasn’t bad considering we own a lot of small companies that get hit hard for no other reason than it doesn’t take much selling to affect their share price.

Our valuation discipline last year that led to selling a handful of great performers and trimming some big winners was very helpful, but our resources stocks performed best.

Our Income Fund performed better chiefly due to the fund’s position in **BHP**, which benefited from a large increase in the iron ore price that also benefited **Rio Tinto** and **Fortescue**, which together represent around 20% of the index.

Although the iron ore majors are more predictable than most resources companies, we generally prefer owning high quality industrial stocks. So, with iron ore companies doing well along with resources generally

Performance (after fees)

	1 mth	3 mths	6 mths	1 yr	S.I.
II Australian Equity Growth Fund	-4.9%	-3.9%	4.0%	19.9%	21.4%
S&P ASX 200 Accumulation Index	-6.4%	-4.3%	-3.8%	9.4%	16.4%
Excess to Benchmark	1.4%	0.4%	7.8%	10.5%	5.1%

Inception (S.I.): 5 Oct 2020



Fund overview


The Intelligent Investor Australian Equity Growth Fund 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.

 **5+ yrs**

Suggested investment timeframe

 **10 - 35**


Indicative number of securities held as 1 ASX-listed active ETF – IIGF

 **Risk profile: High**


Expected loss in 4 to 6 years out of every 20 years

 **S&P/ASX 200 Accumulation Index**

Benchmark

 **Investment Fee**

0.97% p.a.

 **Performance Fee**

Nil

during January, and the Growth Fund having several smaller companies amongst its largest holdings, the portfolio held up well.

Jeremy Grantham recently warned that the window of cheap and easy extraction of abundant natural resources is nearing an end. That means higher prices, which is why we hold a diversified cornerstone position of resources companies such as **Woodside Petroleum**, **Karoon Energy**, **South32** and **Alumina** amongst others.

While large components of the current high inflation prints will be transitory, once wages start increasing it becomes entrenched, as wages don't usually fall. The more entrenched inflation becomes, the higher interest rates will need to go.

Stock updates

Company specific news is always light in January while people are on holiday in anticipation of reporting season in February.

But after the market closed on 31 January, **360 Capital** announced a long list of very positive deals. The upshot, assuming they all complete as expected, is that the company's net asset value will increase to one dollar compared to a stock price of 78 cents at month end.

The stock jumped 9% the following day, as you would expect when the company expects full year earnings of 16-17 cents and a six cent, fully franked dividend. Yet the stock remains extremely cheap. At the time of writing you can buy the company's net assets at a 14% discount and you get the funds management business and excellent management for free.

Ansell was the chief disappointment, announcing a larger profit downgrade than expected. The demand and prices for gloves needed to deal with COVID are receding as expected, but the size of the impact of inflation, shortages and two major supplier issues weren't.

For now, we're sticking with the stock, which is only trading by a small amount below our purchase price. But the company's ability to manage through the end of COVID, fix its supply issues and sell more higher margin gloves will determine whether the stock is cheap or fair value.

More positively, **Uniti Wireless** is in talks about potentially being acquired by one or more large superannuation institutions desperate to gobble up prime infrastructure assets. And **Frontier Digital Ventures** released its latest quarterly results for the final quarter of 2021.

In summary, the business is performing well with rapid revenue growth across the board. Essentially every business aside from the recent acquisitions is at least breaking even, which is a key milestone for these types of businesses.

Profits should grow rapidly beyond breakeven, as online property classifieds businesses assert their dominance with minimal reinvestment needs. Excluding recent acquisitions, for example, Frontier's overall operating profit margin would've been 10%, up from breakeven around a year ago.

It will likely by next year before the company reports earnings per share (partly due to the different ownership percentages), which is what typically drives the share price over the long term. But we're delighted with the company's recent progress.

Outlook

The recent volatility is only the beginning. After nearly four decades of falling interest rates, the market isn't going to adjust to increasing interest rates in one month.

The number of profit downgrades is growing rapidly, and the bubbles in unprofitable tech companies are popping. We're starting to get excited about cheaper valuations, but we know from experience that it will likely take years for the market to adjust to tectonic changes like increasing interest rates from zero after four decades of falls.

It's vital that we don't lock in mediocre returns from premature accumulation, to quote Bruce Berkowitz. We like what we own. The stocks are cheap and highly profitable, with big increases expected in profits and dividends from the smaller names and those impacted by COVID.

It took over a year before the market finally succumbed to the GFC. The market has only just started to adjust to higher interest rates. While we're expecting the global economy to remain relatively healthy, the types of stocks that will do well from here will be very different to what has done well recently.

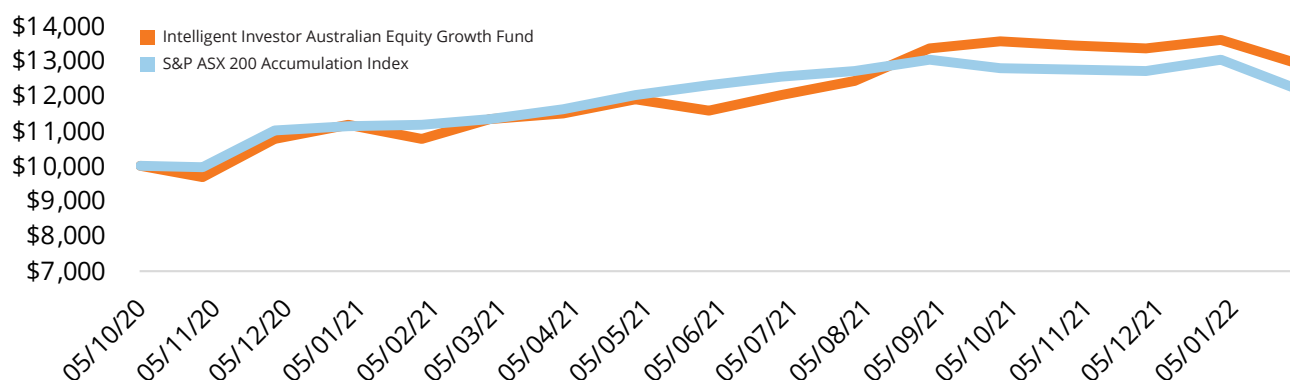
The patience to wait for the right prices is all we need right now, and we look forward to increasing the potential return of the portfolio as optimistic valuations crash back to earth.

Please get in touch if you have any questions on
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or at

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Performance since inception



Inception (S.I.): 5 Oct 2020

Asset allocation

Information Technology	16.7%
Cash	13.6%
Consumer Discretionary	13.5%
Energy	11.8%
Materials	10.1%
Financials	8.7%
Real Estate	7.1%
Communication Services	5.9%
Consumer Staples	4.3%
Industrials	3.7%
Health Care	2.8%
Utilities	1.9%

Top 5 holdings

Woodside Petroleum (WPL)	6.1%
Uniti Group (UWL)	5.9%
Frontier Digital Ventures (FDV)	5.7%
RUL RPMGlobal Holdings (RUL)	5.5%
Star Entertainment Group (SGR)	5.1%

Important information

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All tables and chart data is correct as at 31 January 2022.