Quarterly Update

30 June 2022

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

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

**"When I first started out, I did thorough papers covering every aspect of a stock or industry. Before I could make the presentation to the stock selection committee, I first had to submit the paper to the research director. I particularly remember the time I gave him my paper on the banking industry. I felt very proud of my work. However, he read through it and said, "This is useless. What makes the stock go up and down?" That comment acted as a spur. Thereafter, I focused my analysis on seeking to identify the factors that were strongly correlated to a stock's price movement as opposed to looking at all the fundamentals. Frankly, even today, many analysts still don't know what makes their particular stock go up or down."**

**— Stan Druckenmiller**

The Fund increased 6.4% for the year comparing favourably to the market's 6.5% loss, after the fund fell 8.5% during the June quarter compared to the market's 12.0% fall.

It's been one of the worst starts to a year for the stockmarket yet valuations remain high for quality businesses. There is plenty of value in our largest holdings, though, particularly those still suffering from COVID shutdowns, such as **Star Entertainment**, **LendLease**, **Tabcorp**, **Auckland Airport** and **RPM Global**.

## Performance (after fees)

| | 3 mths | 6 mths | 1 yr | S.I. (p.a) |
|---|---|---|---|---|
| II Australian Equity Growth Fund | –8.5% | –5.8% | 6.4% | 15.4% |
| S&P ASX 200 Accumulation Index | –11.9% | –9.9% | –6.5% | 9.8% |
| Excess to Benchmark | 3.4% | 4.1% | 12.9% | 5.6% |

Inception (S.I.): 5 October 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

**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

Dividends from these stocks will also recover in the years ahead and restore the yield of the fund to more normal levels. But we're pleased that the fund has performed so well since we started managing money back in 2015. Particularly given how hard it was to match insanely priced growth stocks toward the end of one of the biggest asset bubbles ever, if not the biggest.

Success during a bear market is not just about outperforming the market, though we certainly prefer it like you. But rather setting the fund up for the next bull market with as many of the best businesses we can add at good prices.

It's these businesses that will increase their earnings the fastest and compound your money the quickest. All while paying a growing and increasingly valuable stream of dividends in what could still be a fairly low interest rate environment given the world's enormous debt levels.

Without pricing power no company can invest to fend off competition and increase earnings consistently over long periods. And without growing earnings you can't increase dividends for long before hollowing out your business leading to mediocrity and failure.

We're delighted valuations are falling and can't wait to see what the fund looks like at the same time next year.

## Portfolio

**BHP** completed the demerger of its oil and gas business bought by **Woodside**, so we ended the quarter with a little more Woodside in the portfolio.

Ditto for **Tabcorp**, which split its wagering and lottery businesses. We retained our holding in **The Lottery Corporation**, which was most of the value, and then increased our stake in Tabcorp. It's trading well below previous takeover offer prices for both Tabcorp and a similar rival that was eventually acquired, as the industry consolidates.

Tabcorp CEO Adam Rytenskild recently received some favourable regulatory news that helps level the playing field with his digital rivals. He'll have his plate full this year with the bid for Western Australia's wagering license, most likely a takeover offer or two and operations getting back to normal post COVID.

We don't need a takeover to do well from here. Provided Tabcorp's earnings get back to normal, the stock should trade at a materially higher price, particularly as dividends are restored.

We sold the last of our **Uniti Group** shares with the company accepting a $5 takeover bid. It was an excellent result and shows the benefit of digging deeper into industries dominated by slow moving giants. We weren't hanging around for the last cent, as management hasn't left any value behind in previous deals.

At the end of the quarter, we crystallised our losses on **EML Payments** and **Medical Development International**. There remains a bull case for both, but Medical Development was too illiquid for the fund and EML's value has declined materially since we purchased it.

We also sold the last of our shares in **South32** on valuation grounds and **Crown Resorts**, as the share price closed in on Blackstone's takeover offer price. The takeover has since received further approvals, while ex **Tyro** CEO Robbie Cook is running from one basket case to another after becoming Star Entertainment's new CEO.

The problems at Star are fixable and Cook knows exactly what's required. There's also plenty of value in the stock. The share price reflects little value for its casino licenses and border openings, the return of international visitors later in the year and the impending completion of the new Brisbane casino bode well for profits and dividends.

We started a small position in **Breville** and **Domino's Pizza** after its share price halved from ludicrous levels. They're two of Australia's genuine global success stories with the capacity to grow profits and dividends quickly over the next decade.

They're also two of the best managed businesses on the ASX and we look forward to making them large positions as their valuations become increasingly attractive.

We added **Credit Corp** to the portfolio after it announced benign credit conditions will slow growth next year, particularly in Australia. Though higher interest rates might quickly change that.

In February, Credit Corp purchased a small book of NZ ledgers from smaller rival **Collection House**, which is now in administration. Credit Corp should be able to pick up some cheap assets in the process, which is a timely reminder of why you should generally stick to buying the best company in any industry.

From the outside at least, Credit Corp is a well-run business with lots of potential in the US after many years of patient investments, and one of the few genuine beneficiaries of a tougher economic environment.

Our pair of coal stocks, **Whitehaven** and **Newhope**, are minting money at current coal prices. Despite taking some profit to keep risks in check, they still look cheap.

**Frontier Digital Ventures** released another excellent set of quarterly numbers. Founder and CEO Shaun Di Gregorio is investing heavily in the company's fledgling businesses, as more mature businesses like Zameen start producing much higher profits and margins.

In local currency, Zameen's revenue increased 65% over a year earlier while operating profits doubled, lifting the operating profit margin from 10% to 17%. We expect the same trajectory from Frontier's other businesses over the ensuing years now that they're all capable of handling property transactions. They account for more than 50% of Frontier's revenue and it's a much bigger market than property advertising.

We expect the June quarter to be even better than the March quarter when the results are announced late in July.

LendLease's share price has been weak as the market focuses on the risk of a global recession, but it got a little kick early in the quarter after an activist shareholder's letter to the company justifying a $25 share price was widely reported in the media.

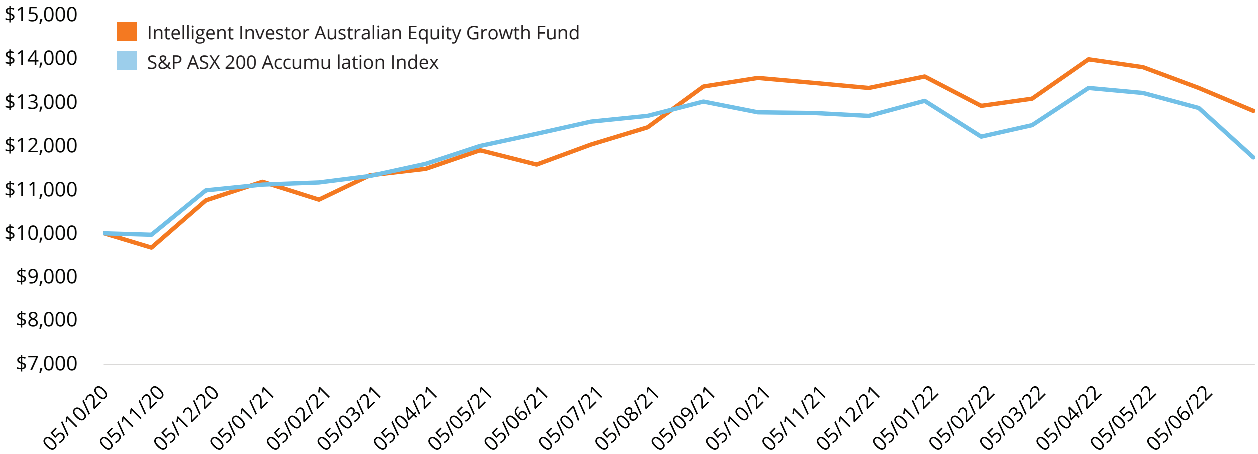
We agree with that potential, as development profits are expected to increase quickly as the world's major cities reopen after COVID lockdowns. But keeping costs down, which is a key plank of new CEO Tony Lombardo's strategy, will be difficult in such a highly inflationary environment.

**Audinate**'s share price finished the quarter strongly, as the company shrugged off supply issues to produce better-than-expected sales. It's a core holding of the fund, and our conviction only increased following the company's recent analyst day. But it will take time for the earnings to catch up with its current valuation.

---

Please get in touch if you have any questions on **1300 880 160** or at **info@intelligentinvestor.com.au**

## Performance since inception




**Inception (S.I.): 5 Oct 2020**

## Asset allocation

| | |
|---|---|
| **Information Technology** | 17.7% |
| **Cash** | 16.6% |
| **Consumer Discretionary** | 14.1% |
| **Energy** | 14.0% |
| **Financials** | 12.3% |
| **Real Estate** | 8.2% |
| **Materials** | 6.8% |
| **Industrials** | 5.9% |
| **Health Care** | 2.4% |
| **Utilities** | 2.0% |

## Top 5 holdings

| | |
|---|---|
| **Woodside Petroleum (WPL)** | 8.2% |
| **RPMGlobal Holdings (RUL)** | 8.0% |
| **Auckland International Airport (AIA)** | 5.9% |
| **Star Entertainment Group (SGR)** | 5.6% |
| **Audinate Group (AD8)** | 5.1% |

## Fund Stats

| | |
|---|---|
| **Income yield** | 15.28% |
| **Net asset value** | $2.73 |



All tables and chart data are correct as at 30 June 2022.