Monthly Update

31 July 2022

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

"In a negotiated purchase of a business, you're almost always dealing with someone that has the option of either selling or not selling, and can sort of pick the time when they decide to sell. In stock markets, it's an auction market. Crazy things can happen … So you will see opportunities in the stock market that you'll never really get in the business market."

— Warren Buffett

The Fund increased 8.3% during July, ahead of the market's 5.7% gain. The market often bounces in July after tax-loss selling at the end of the financial year. But the main reason seemed to be that it wouldn't be long before intertest rates would need to start falling again.

Why anyone would put their faith in central bankers is beyond us, but we'll take an 8% monthly gain any time.

Interestingly, it was the downtrodden growth stocks that bounced hardest. Many of them were already over-priced despite large falls, suggesting speculation is alive and well despite the negative headlines.

There wasn't a lot of stock specific news as we wait for our companies to report their latest results in August. Though not the focus of the fund, we expect a good year of dividends for the portfolio.

Performance (after fees)

	1 mth	3 mths	6 mths	1 yr	S.I. (p.a)
II Australian Equity Growth Fund	8.3%	0.4%	7.3%	11.5%	19.8%
S&P ASX 200 Accumulation Index	5.7%	-6.0%	1.7%	-2.2%	12.7%
Excess to Benchmark	2.6%	6.4%	5.6%	13.7%	7.1%

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

The good news keeps coming from our pair of coal stocks. **Whitehaven Coal**'s dividend next year is expected to be $1.50 fully franked. That's 50% above the price we paid for the stock a year ago without the franking credits, and a 25% fully franked yield based on the current share price.

Given **Woodside Petroleum**'s pristine balance sheet, there's an increasing chance of a special dividend this year to accompany its regular dividend.

Frontier Digital Ventures reported another set of excellent numbers, showing rapid growth across its businesses and increasing profitability at its most mature business, Zameen.

Litigator **Omni Bridgeway**'s share price bounced after announcing several bits of good news, including including the sales of a couple of class action investments, the launch of its new Fund 8, a 12% increase in annual commitments and a new chief financial officer.

Tabcorp CEO Adam Rytenskild is under increasing pressure from large shareholders to sell itself to bigger rivals before it risks overpaying for the Western Australian TAB wagering license.

Audinate's share price also continued to rise after announcing a better-than-expected annual result.

Lastly, **Infratil** has only been a small position in the portfolio, as the ASX listed shares are very illiquid compared to the shares traded in New Zealand. That means it's treated like a microcap for liquidity purposes by the ASX liquidity rules that we're obliged to follow, so it hasn't been a large position despite its large size or excellent results.

If nothing else, though, it's worth examining its performance to reinforce why we prefer businesses run by highly motivated and intelligent founders.

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

Infratil keeps spending, keeps growing

Infratil has doubled down on big bets in a few areas. They are paying off.

Key Points

- **What bear market?**
- **Continues to invest in growth**
- **Big bets in CDC, renewables and radiology**

Someone remind Infratil that this is supposed to be a bear market. The share price is down barely 10% from its highs.

The share price aside, business is booming, with a collection of unique, high-quality assets growing earnings and adding value.

The largest and most valuable of these assets remains a 48% stake in data centre giant CDC, which dominates data centre provision for governments. An independent valuation now pegs Infratil's share of the business at close to $3bn, twice the valuation when we upgraded the stock two years ago.

Tightening grip

CDC's value is growing because capacity is soaring. It built four new data centres last year and now boasts capacity of 268MW (megawatts) making it one of the largest data centre operators in Australia. The business has recently acquired land in Canberra, Melbourne and Auckland to support another 150MW of expansion.

Demand for CDC appears insatiable and is driven not only by governments but also by non-government customers seeking connections with those governments. As CDC's grip on the government market strengthens, its appeal to non-government customers grows. There appear to be few alternatives for businesses seeking connections with the government.

Our **initial expectation** that Infratil's stake would be worth $3.5bn by 2025 now appears conservative. CDC expects to generate an operating profit of $220m for the full year and there remains ample room for growth.

A towering sale

Infratil's contentious purchase of 49.9% of Vodafone NZ appears to be paying off with Vodafone expected to generate about $500m of operating profit for the full year, largely due to cost cuts, stable prices, and better management.

With New Zealand accepting more tourism, that number could rise further. The expected sale of Vodafone's tower infrastructure wont be as lucrative as in Australia, but should still net handy cash, perhaps up to NZ$1bn.

The acquisition of Vodafone wasn't popular and had most big investors scratching their heads but, yet again, Infratil has shown its savvy in buying assets and running them competently. Vodafone looks to be generating decent returns.

That record is vital because the business is spending plenty of money – more than $1.4bn last year.

Pretty pictures

Infratil has spent over $1bn acquiring radiology businesses across Australia and New Zealand. It is already the market leader in New Zealand and owns a chunky stake of Qscan, a large Australian radiology network.

The aim appears to be to integrate these clinics and add new technology across a common platform, but a spin-off or float at some stage would make sense too. Infratil isn't shy about trading assets.

Despite selling its stake in Tilt Renewables last year – and capturing an astonishing $1bn gain on that sale – almost 20% of the portfolio remains invested in renewable energy projects across New Zealand, the US, Europe and Asia. The largest of that portfolio is Manawa, previously known as Trustpower.

Despite being Infratil's oldest investment, the Trustpower brand and retail supply business were sold earlier this year. Manawa is now a pure power generator, operating 26 hydro schemes.

This might seem like a significant change for a major investment, but energy retail is competitive and low margin. Running renewable generation alone might prove a superior business over time.

More of everything

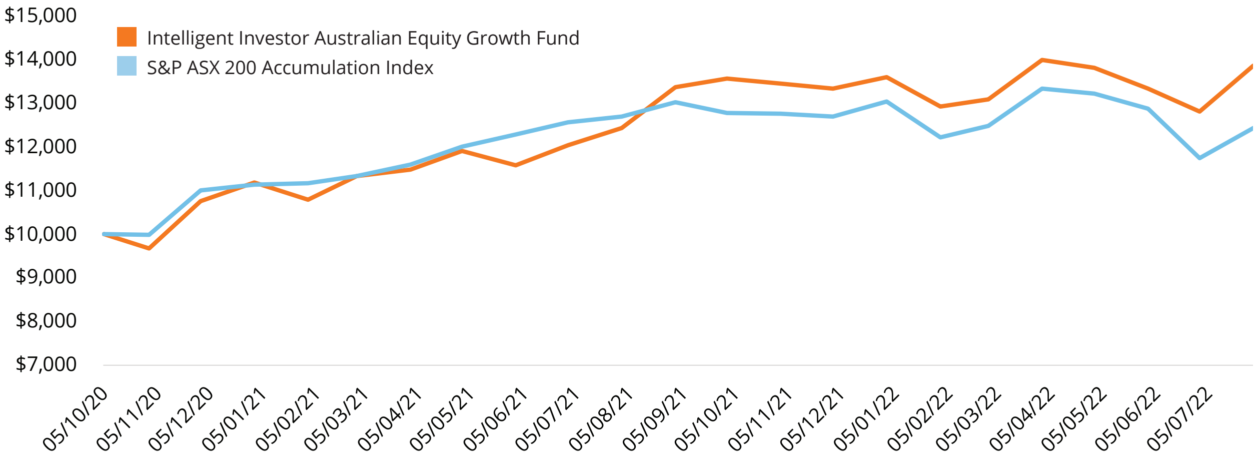
Infratil's statutory profit numbers are next to useless as they are impacted by mark-to-market movements in assets, currency movements, and differing revenue recognition policies. The best way to think about profitability is to take Infratil's ownership stake and apply it to asset profitability.

This 'look through' profit suggests Infratil earned about $500m in operating profits last year and we expect that to rise to between $510m and $550m next year. The business is also spending a lot of cash to grow – about $700m last year, mostly on CDC and renewable energy, but we expect decent paybacks for that outlay.

Over the last 10 years, Infratil has generated returns of over 20% per year; it has generated over 18% per year for over 25 years. That record suggests that Infratil isn't the beneficiary of a fleeting boom, but is built on quality assets and competent management.

The big downside comes from exorbitant fees paid to the investment manager, Morrison & Co., which can make $100m a year for managing the business. It's an extraordinary leakage of value. Despite that, Infratil is on track to grow assets to about $10 a share over the next few years.

Performance since inception



Inception (S.I.): 5 Oct 2020

Asset allocation

Cash	22.4%
Information Technology	16.7%
Energy	12.8%
Financials	12.3%
Consumer Discretionary	12.2%
Real Estate	7.8%
Materials	6.6%
Industrials	5.1%
Health Care	2.4%
Utilities	1.8%

Top 5 holdings

Woodside Energy Group (WDS)	6.9%
RPMGlobal Holdings (RUL)	6.4%
Audinate (AD8)	5.4%
Auckland International Airport (AIA)	5.1%
Star Entertainment Group (SGR)	5.1%

Fund Stats

Income yield	14.12%
Net asset value	$2.95

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