

Intelligent Investor Australian Equity Growth Fund

(Managed Fund) (ASX:IIGF)

“There are three principal phases of a bull market: the first is represented by reviving confidence in the future of business; the second is the response of stock prices to the known improvement in corporate earnings, and the third is the period when speculation is rampant – a period when stocks are advanced on hopes and expectations. There are three principal phases of a bear market: the first represents the abandonment of the hopes upon which stocks were purchased at inflated prices; the second reflects selling due to decreased business and earnings, and the third is caused by distress selling of sound securities, regardless of their value, by those who must find a cash market for at least a portion of their assets.”

— Robert Rhea, *The Dow Theory*, 1932

The Fund increased 6.3% during the December quarter compared to the market's 9.4% return, led by the iron ore majors.

In November the share prices of **BHP**, **Rio Tinto** and **Fortescue Metals** increased 25%, 19% and 21%, respectively, for an astounding monthly increase in market value of \$34bn, \$12bn, \$30bn, as the iron ore price topped US\$100 per ton. That's \$76bn of market value added to the market in one month from just three stocks.

The fund did well considering we don't own them, as we don't see much value in the trio at current prices (large production increases over the next

Performance (after fees)


	3 mths	6 mths	1 yr	S.I. (p.a)
II Australian Equity Growth Fund	6.3%	11.0%	4.5%	17.0%
S&P ASX 200 Accumulation Index	9.4%	9.8%	-1.1%	12.1%
Excess to Benchmark	-3.1%	1.2%	5.6%	4.9%


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

few years 'should' keep a lid on iron ore price increases and profits).

Portfolio

Just when we thought the worst was over for **Star Entertainment**, the NSW Government caught new CEO Robbie Cooke off-guard with plans to increase state gaming taxes even further despite being only two years into a 20-year tax agreement that concluded in 2041.

Cooke responded saying, 'Specifically, in addition to state gaming taxes, The Star also pays millions in corporate taxes, with total taxes paid as a percentage of The Star's profits being around 70%, and as high as 80% in the last 5 years when all the tax regimes are considered.'

The share price responded falling over 30% to below \$1.80, and below our estimated value of the company's property of around \$2 or more.

The situation remains fluid, as the taxes aren't law yet, AUSTRAC hasn't announced its large fines, the company could still lose licenses, though it seems unlikely, Star will need a grace period from its lenders to increase its debt to pay its multitude of fines while the new Brisbane casino is completed and then ramps up, and perhaps the Queensland state government will increase taxes, too. Not to mention a recession might impact profitability temporarily.

Clearly, the investment case hasn't gone to plan. But having bought at what we deemed a cheap valuation the damage so far has been limited. For now, we're holding on. Things can always get worse, but the current valuation may provide a large degree of protection for a business at its lowest ebb.

The profit downgrades are increasing, with **James Hardie Industries** ratcheting down its profit expectations further. The speed of the

fall in US home activity has seemingly taken the company by surprise, but it shouldn't have.

There are numerous statistics showing the rapid impact higher interest rates are having on the US homebuilding and renovation market. The company remains a relatively small holding, as we're braced for much worse.

Unlike Australia, US mortgages are almost all fixed rate, so mortgage stress isn't a factor yet and there are still plenty of jobs to go round. But the US Federal Reserve is determined to increase rates further, and James Hardie will be right in the firing line.

With the share price down over 50% from its high, the market is slowly acknowledging reality. We're leaving plenty of room to increase our position, as relatively small falls in production and revenue can have a big impact on profits for a manufacturer despite the company's excellent long-term prospects.

On the bright side

More positively, **Domino's** share price has increased 30% from its low, but there's something discomfiting about watching big moves in the heroes of the last bull market. The leaders of the prior bull market usually don't lead the next one.

Individual investors have been the biggest purchasers of stocks recently, and we know from history that they're last to join the party and last to leave. They also typically buy familiar names, ignore valuation and are attracted to recent big winners and simple stories like 'people will swap restaurant dining for takeaway during a recession'.

Domino's is a fantastic business, but we aren't comforted by the market's recent rally given the profit downgrades we've been expecting have been flowing steadily through AGM season. Not

to mention the great Australian interest rate reset is waiting for us in 2023.

MA Financial's share price bounced 20% from its recent low after announcing excellent inflows. This is a stock we want to own more of but are prepared to be patient given all its profits hinge on financial market activity, which is slowing rapidly in some segments.

Mineral Resources' share price initially increased nearly 40% during the quarter as the company's strategy becomes better understood. When the share price breached \$90, it had increased 114% from its lows in July leaving us regretting not buying earlier and with such a conservative position size.

No doubt lithium company share prices reflect some froth from high lithium prices that even insiders expect to fall 25% from current levels in the years ahead. But Mineral Resources is an owner-led business that we plan to own for the long-term. Any major weakness in the share price should be an opportunity to increase our position further.

The older I get, the more I realise how few great businesses and managers there are. And judging by his track record so far, Chris Ellison and Mineral Resources are one of these rare birds.

Frontier Digital Ventures' quarterly result showed its Pakistan businesses continue to go from strength to strength, though progress is being offset by the falling currency. The potential IPO of Zameen's major shareholder EMPG may soon shine a spotlight on its value.

Infocasas' founder along with other senior staff have been promoted and incentivised to increase the Latin American division's revenue from US\$30m to \$100m to list it on the NASDAQ. Success would create a division worth multiples of Frontier's current value, but the risk of an emerging market sovereign debt crisis is increasing with US interest rates.

Frontier Digital is well prepared, but the next couple of years will be the making or breaking of the company and our investment case.

Our coal stocks bounced back after recent weakness in their share prices. We increased our exposure toward **New Hope** at the expense of **Whitehaven Coal** given its higher capital gain potential following the recent approval of its new mine. New Hope is already busy preparing the new mine but still expects to pay large dividends.

We're delighted with the fund's performance, as it's difficult fighting increasing interest rates, falling asset values and slowing profit growth.

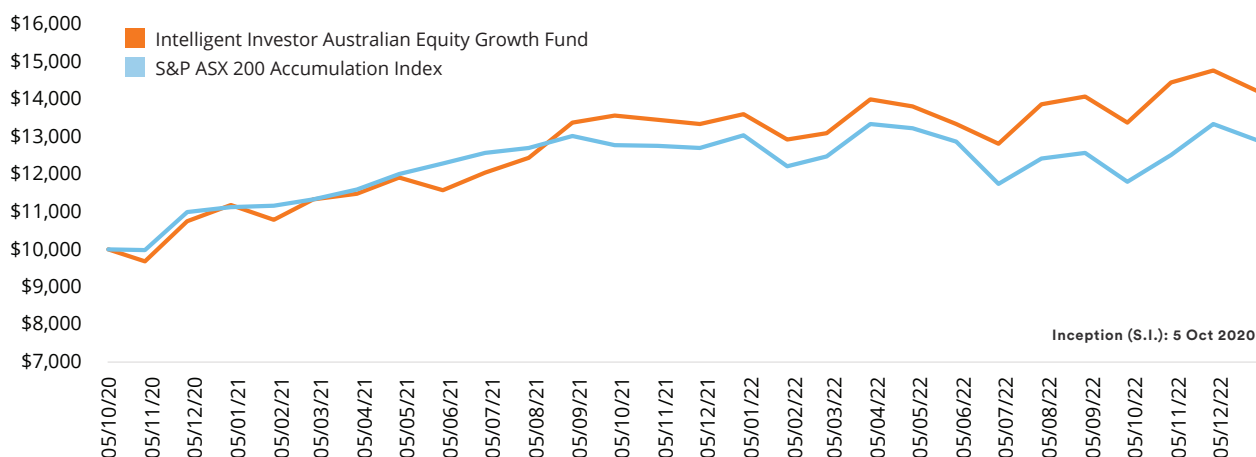
It's a slow process, so 2023 will be just as tough if not more so as higher interest rates slow the global economy and increase the risks of spot fires where leverage and poor financial management are exposed.

In contrast, we own a relatively safe and predictable portfolio of businesses, as we wait for new opportunities to put more cash to work while increasing both the quality and potential returns from the fund.

If you have not already done so, please provide your tax file number and bank details to the registry to ensure you receive your distributions correctly.

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

Performance since inception



Asset allocation

Cash	25.5%
Materials	14.6%
Information Technology	14.4%
Consumer Discretionary	12.8%
Financials	12.5%
Energy	7.1%
Industrials	5.5%
Real Estate	3.3%
Health Care	2.5%
Utilities	1.8%

Top 5 holdings

RPMGlobal Holdings (RUL)	7.0%
New Hope Corporation (NHC)	5.7%
Auckland International Airport (AIA)	5.5%
Alumina (AWC)	4.4%
Tabcorp Holdings (TAH)	4.0%

Fund Stats

Income yield	15.34%
Net asset value	\$2.98

Important information

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All tables and chart data are correct as at 31 December 2022.