

Intelligent Investor Ethical Share Fund

(Managed Fund) (ASX:INES)

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

Managed by
Intelligent Investor
Holdings Pty Ltd
ACN 109 360 983
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ARSN 630 396 584
ASX Code: INES

“In 58 years of Berkshire management, most of my capital-allocation decisions have been no better than so-so. In some cases, also, bad moves by me have been rescued by very large doses of luck. Remember our escapes from near-disasters at USAir and Salomon? I certainly do.

Our satisfactory results have been the product of about a dozen truly good decisions – that would be about one every five years.”

— Warren Buffett

The Fund lost 3.8% during February compared to the market’s 2.4% loss. Though no particular stock was responsible, high growth stocks – particularly our portfolio of small cap stocks – fell at the end of the month as the yield on the six-month US Treasury bond eclipsed 5%, the highest since 2007.

Performance (after fees)

	1 mth	1 yr	2 yrs	3 yrs	S.I. (p.a)
II Ethical Share Fund	-3.8%	-0.8%	3.6%	11.8%	9.7%
S&P ASX 200 Accumulation Index	-2.4%	7.2%	8.7%	7.9%	6.7%
Excess to Benchmark	-1.4%	-8.0%	-5.1%	3.9%	3.0%

Inception (S.I.): 11 Jun 2019

RIAA's RI Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that Intelligent Investor Australian Ethical Share Fund (ASX: INES) adheres to the strict operational and disclosure practices required under the Responsible Investment Certification Program for the category of Product. The Certification Symbol is a Registered Trademark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and Intelligent Investor Australian Ethical Share Fund (ASX: INES) methodology, performance and stock holdings can be found at www.responsibleinvestments.com.au, together with details about other responsible investment products certified by RIAA.



Fund overview

The Intelligent Investor Australian Ethical Share Fund is an Active ETF designed for investors seeking a diversified selection of Australian companies that produce growing, sustainable profits at low risk of interruption from the increasing threats associated with Environmental, Social and Governance (ESG) factors.

 **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



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The benefits of ESG investing showed this month with the fund spared the pain of **Star Entertainment** and **Domino's Pizza Enterprises** that impacted our other funds. But not every result was good.

We sold **Omni Bridgeway** for a nominal loss following a lacklustre result filled with more promises than results. There's a possibility the new CEO may change that but our patience has worn out.

The long-awaited recovery at **Integral Diagnostics** remains elusive as a combination of issues stifles revenue growth and increases costs. Management is treading a fine line with elevated debt due to acquisitions.

Without a strong recovery in imaging services margins are being severely squeezed reducing the company's ability to reduce debt and make tuck-in acquisitions to keep profits growing. Management is also preoccupied with recent acquisitions, but much further delay and a capital raising is likely.

The good

The recovery at **Auckland Airport** is happening quicker than expected with leisure travel bouncing back rapidly. The world is still opening from COVID and Auckland Airport should get back to paying decent dividends soon.

Mineral Resources's massive lithium profits still couldn't meet sky high expectations and the share price fell.

MA Financial's result was good considering financial market activity in some divisions such as mergers and acquisitions has slowed rapidly. The credit and loan side of the business is performing well bolstered by inflows, which shows the business's long-term potential.

RPM Global's decent sales growth isn't falling to the bottom line as staff shortages means hiring expensive sub-contractors for software coding. Costs are also temporarily high as sales staff spread themselves far and wide to sit down with clients after nothing but zoom calls during Covid.

Frontier Digital Ventures' share price fell along with other small cap stocks despite Pakistan being close to agreeing a deal with the IMF that could add \$200m or more of value back to the business that we'd written off. Frontier's total market value is currently only \$280m.

Sonic Healthcare, Telstra, Audinate, CSL and **Altium** also produced solid results.

The new

We also added starting positions in **Dicker Data** and **REA Group**. Once again, REA confirmed its status as one of Australia's best businesses after its flagship Australian business increased revenue 5% despite a 9% fall in listings. Few companies can boast as much pricing power.

Profit still fell 9%, but the stock's high PER should fall over time as the company increases prices, listings bounce back, and its overseas businesses mature. Though the stock would need to be materially cheaper before building a large position.

Dicker Data's small final quarterly dividend seemed to shock investors despite the company's clear policy of distributing all profits as dividends. We suspect the bigger issue was flat profits which shareholders are not used to, but we expect them to grow over time with a major new distribution facility underway.

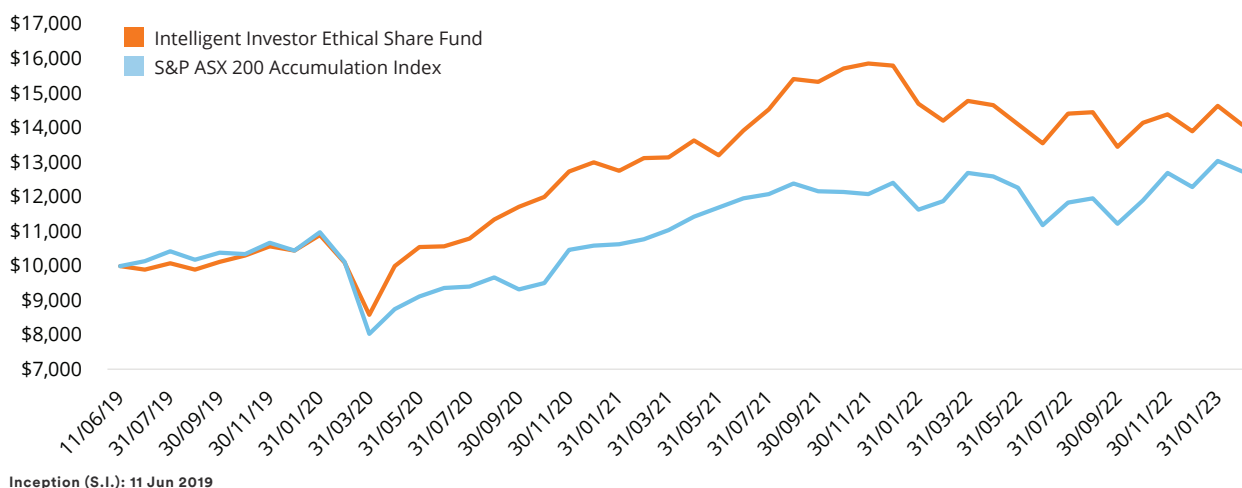
We're moving slowly, as a recession could be painful and create a much better opportunity.

In summary, reporting season was better for the fund than the underperformance suggests. The major indexes are being held up by the iron ore, bank and healthcare majors, but that's not where the current value is nor where we want to be for the next decade. At least not starting from current valuations in the case of healthcare stocks.

Our focus remains on capitalising on what we hope will be a fruitful period for value investors as the market ultimately adjusts to higher interest rates and slowing or falling profits.

Please get in touch if you have any questions on
1300 880 160 or at
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Performance since inception



Asset allocation

Cash	27.4%
Health Care	16.0%
Information Technology	15.0%
Industrials	7.4%
Financials	7.4%
Materials	5.1%
Real Estate	3.2%
Consumer Discretionary	2.1%

Top 5 holdings

Auckland International Airport (AIA)	7.4%
RPMGlobal Holdings (RUL)	5.4%
Telstra Corporation (TLS)	4.6%
Pinnacle Investment Management (PNI)	4.1%
Audinate (AD8)	3.9%

Fund Stats

Net asset value	\$3.05
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Important information

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All tables and chart data is correct as at 28 February 2023