

# Intelligent Investor Ethical Share Fund

(Managed Fund) (ASX:INES)

Issued by  
InvestSMART Funds  
Management Limited  
ACN 067 751 759  
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Managed by  
Intelligent Investor  
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ACN 109 360 983  
CAR 1255 838

ARSN 630 396 584  
ASX Code: INES

**“Nowhere does history indulge in repetitions so often or so uniformly as in Wall Street. When you read contemporary accounts of booms or panics the one thing that strikes you most forcibly is how little either stock speculation or stock speculators today differ from yesterday. The game does not change and neither does human nature.” — Edwin Lefèvre**

The fund fell 3.4% in August compared to the market’s nominal gain due mainly to **Mineral Resources** and the increase in the Australian dollar. Murphy’s Law meant perfectly timing our new international purchases with suggestions from Jerome Powell that US interest rates will be cut in September causing the Aussie dollar to rally.

We’ll discuss the new holdings in the quarterly report but note the fund’s international exposure will increase the variation of the fund’s performance compared with the index.

We’ll keep the reports focused on the fund holdings, as currency movements wash out over time, and we’ll consider hedging if the Australian dollar vis-à-vis the US dollar moves 10% away from the long-term average.

## Performance (after fees)

	1 mth	1 yr	2 yrs	3 yrs	S.I. (p.a)
II Ethical Share Fund	-3.4%	8.4%	4.3%	0.7%	9.1%
S&P ASX 200 Accumulation Index	0.5%	14.9%	12.2%	6.7%	8.2%
Excess to Benchmark	-3.9%	-6.5%	-7.9%	-6.0%	0.9%

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](http://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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Not owning the banks, for example, has been far more painful costing around 10% over the past 10 months, shaving ~2% per annum of our returns since inception.

We'll get it back when bank share prices fall back to fair value and more if other current market darlings with heavenly valuations fall back to earth. The banks' bubbly valuations, flat or falling profits, high IT spending, increased competition and lower interest rates have condemned bank investors to another dismal decade.

Trees don't grow to the sky, bubbly valuations never last, and they're not tech stocks that can surprise with huge growth. They're easy to value and they need to fall over 30% at least to be considered fair value. Even that's being generous.

While the banks have foiled our recent performance, their falls will become a tailwind soon enough.

## Two stocks, two very different situations

Now, let's quickly analyse **RPM Global** and Mineral Resources, which produced most of the fund's monthly fall.

RPM Global's share price has risen rapidly over the past year and no doubt attracted its share of momentum investors, which fled recently when the company announced a tiny profit downgrade for 2024. The company has since announced 2025 expectations showing every metric heading in the right direction.

Falls like this are part and parcel of owning highly valued stocks, but with \$160m in pre-contracted revenue – more than double the company's current annual revenue and nearly four times its subscriptions revenue – profits should grow consistently with Global Framework Agreements recently signed with three of the world's largest mining companies making future sales easier and faster.

The company's finances are in rude health and buying back shares at lower prices will add more value until a likely takeover that would be at least 50% above the current share price based on similar industry multiples. More if the company continues growing sales quickly, helped by recent software releases XECUTE and to a lesser extent ShiftManager.

In short, nothing has changed.

In contrast, the iron ore price breaching US\$100 triggered the recent painful slide in Mineral Resources' share price after falling lithium prices had already halved the stock. We considered cashing in when the share price neared \$100 but we aim to be long term shareholders and drastically underestimated the lithium price collapse.

In addition to falling iron ore and lithium prices, high debt from its massive investment in the low-cost Mt Onslow iron ore mine that will transform the company's profitability next year has created panic, fuelling the short sellers. But the company's iron ore business makes good money at US\$80 and breaks even at US\$40.

The jewel remains the Mining Services division, which earns excellent, consistent returns based on iron ore volumes rather than prices. Its current operating earnings of \$550m could exceed \$1bn in just two years with plenty of growth to come and the company has other assets it could sell if desperately needed. Unfortunately, we can't buy more shares as we already have a full position.

In two years, the Mining Services division alone should put the stock on an EV/EBITDA ratio of 11, which still undervalues the division given it has contracts that are decades long and for 'life-of-mine'.

It's essentially a high growth, highly predictable infrastructure business that investors normally drool over valued as a highly cyclical resources business with no control over its prices, which means you get the lithium, iron ore and potential gas export business for free.

In similar situations, Australian companies are forced by their bankers to raise capital. But the company's intelligently arranged US borrowings have no covenants, fixed interest rates and provide nearly three years for Mt Onslow to maximise production and reduce debt.

There are no free lunches in the stock market, and the price for potentially making three times our money or more from here is enduring falling lithium and iron ore prices while the market is rewarding less-cyclical businesses with increasingly dangerous valuations.

Even if we're only half right on Mineral Resources and our other key holdings the potential rewards are large, and it's much better waiting for your shares to increase than fall. The timing, however, remains as hazy as ever.

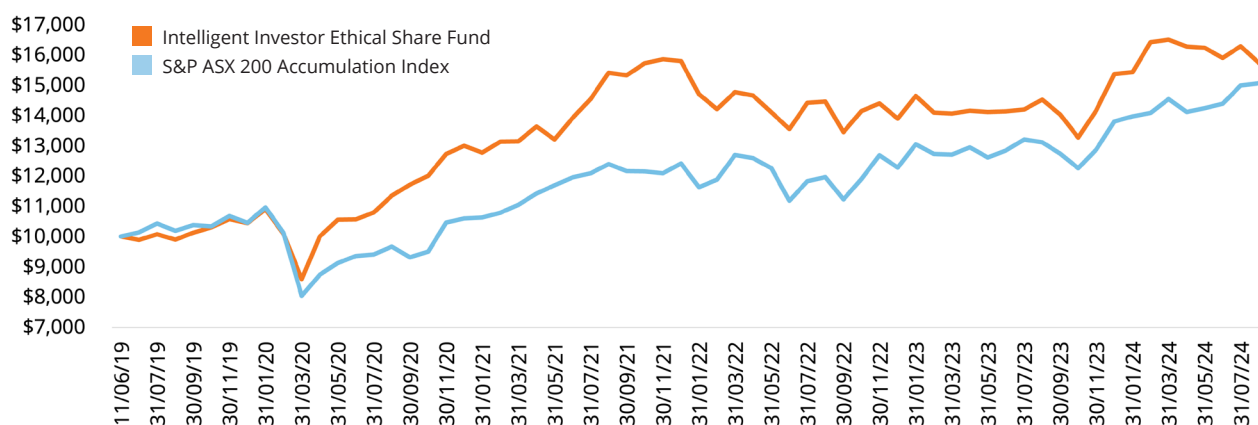
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*Please get in touch if you have any questions*

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## Performance since inception



Inception (S.I.): 11 Jun 2019

### Asset allocation

Financials	23.7%
Health Care	17.8%
Communication Services	15.2%
Information Technology	14.7%
Cash	13.2%
Consumer Discretionary	6.8%
Materials	6.3%
Industrials	2.4%

### Top 5 holdings

RPMGlobal Holdings (RUL)	8.3%
CSL (CSL)	7.2%
CME Group (CME.NAS)	5.5%
CAR Group (CAR)	5.3%
MA Financial (MAF)	5.3%

### Fund Stats

Distribution yield	4.9%
Net asset value	\$3.22

### Important information

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All tables and chart data is correct as at 31 August 2024