Quarterly Update

31 March 2025

Intelligent Investor Australian Equity Growth Fund Active ETF (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

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ASX Code: IIGF

"The most important thing in communication is hearing what isn't said" — Peter Drucker

"The way to be safe is to never be secure" — Ben Franklin

"Being honest about the odds that your opinions and forecasts will actually come true can be so discouraging and uncomfortable that the warm blanket of denial and overoptimism becomes home to most people's beliefs" — Morgan Housel

Until the last week of February the quarter was shaping yet another big win for the big banks and momentum. But, as we discussed last month, **Microsoft** boss Satya Nadella's warning about overbuilding data centres for AI reminded investors that trees don't grow to the sky.

Throw in fears around tariffs and a dim outlook from US consumers and the banks fell off their highs after reporting dreary results. But as they're not resources stocks exposed to China, they've retained their safe harbour status unlike many growth darlings.

NextDC, for example, has fallen 38% from its high, and **Goodman Group** has fallen 26% after announcing a $4bn capital raising to fund its massive data centre expansion. **Wisetec**'s share price has fallen 43% after founder

Performance (after fees)

	1 mth	3 mth	1 yr	2 yrs	3 yrs	S.I. p.a
II Australian Equity Growth Fund	-3.2%	-5.5%	-7.7%	1.5%	0.3%	8.0%
S&P ASX 200 Accumulation Index	-3.4%	-2.8%	2.8%	8.5%	5.6%	10.6%
Excess to Benchmark	0.2%	-2.7%	-10.6%	-7.0%	-5.3%	-2.6%

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

Richard White seized control of the board and announced a profit downgrade.

Plumbing company **Reece** has almost been cut in half and still looks expensive after a poor result reflecting higher interest rates and intense competition in the US. Ditto for **REA Group**, **Cochlear** and **Pro Medicus** which have fallen 15-30%, while four-wheel drives accessories manufacturer **ARB** is getting closer to a Buy after falling 30%.

These eminent names aren't offering value yet. But thanks to the falls and some good results discussed below, the fund had its five best days in almost two years within four weeks of Nadella's comments showing how quickly things can turn when valuations matter.

Portfolio

We added a starting position in **Car Group** after its share price fell 25% and sold our subscale positions in **Audinate**, **Frontier Digital Ventures** and **Digico Infrastructure REIT** bought in the IPO, as we'd rather own parent company **HMC Capital** which earns fees from Digico without the massive investment outlays.

We also sold **James Hardie Industries** after its share price fell over 20% as grossly overpaid CEO Aaron Erter seeks to destroy one of Australia's best businesses by diluting Hardies' outstanding fibre cement business paying nearly 40x earnings and $14bn with debt and undervalued James Hardies shares for US outdoor flooring company Azek.

Paying a huge price for an inferior business looks like a classic case of greed and diworsification that shareholders are powerless to stop. Paying bubbly prices deep into a bull market is the opposite of what we expect from world class contrarian business operators like the Millner family in Australia which run **Soul Patts**, **Brickworks** and **New Hope Corporation**.

Our resources stocks weighed despite some good news. **Karoon Energy**'s share price increased 14% after announcing several shareholder friendly moves including larger dividends, an increased share buyback and a major vessel purchase without raising capital. Yet it still trades at four times underlying earnings.

New Hope Corporation reported an excellent result, increased the dividend and launched a $100m share buyback, yet finished the quarter down 25% due to lower coal prices and Trump's threats to increase US coal production and other critical minerals. The stock's price-to-earnings ratio of six and forecast 10% fully franked dividend yield belies its expansion opportunities and first-rate management.

The shorts increased their bets that **Mineral Resources** will destroy its value with a highly dilutive capital raising after announcing its key haul road needs a $230m upgrade after cyclone damage. With $10bn of assets, this can easily be avoided by selling assets, starting with its lithium mines.

Stakes in Wodgina and Mt Marion would likely fetch $1-2bn each, and infrastructure such as transhippers and road trains could also raise hundreds of millions of dollars, although lease expenses increase operating costs.

The rest of MinRes' gas portfolio might fetch $200-300m and the rest of the haul road could bring in over $1bn although this, too would add a few dollars a tonne to operating costs. In a fire sale, a combination of lithium sales, gas sales and infrastructure could raise between $3-4bn in desperation with $800m owing from loans to Onslow development partners. Not to mention a stake in Onslow could be sold.

With the company's third transhipper in service and the fourth due in April, the stock should have a meaningful impact on our returns despite its small position size if a capital raising is avoided.

Reporting season

The rest of reporting season was good considering it was the most volatile in history. Despite soft results from **Woolworths** and **Endeavour** which aren't living up to their defensive reputations due to slower sales and falling margins, and Brickworks which is battling economic headwinds in the US with similarly exposed companies such as Reece, **MA Financial** had almost doubled over the past year before dropping 20% despite profits poised to double over the next three years.

RPM Global announced a solid result and the sale of its consulting business for a good price making it a more attractive takeover target. The proceeds will be returned to shareholders.

Eagers Automotive also beat expectations due to the popularity of electric BYD vehicles, triggering a 20% share price rise. The share price has increased ~50% since last year's purchase and it was an excellent result in a tough market that has hammered its smaller rivals, yet it remains heavily shorted.

New Zealand fibre network company **Chorus** increased its dividend by 10% despite reporting a soft result as customers choose cheaper broadband plans during recession. We're happy owning a virtual monopoly trading on a sustainable ~6% dividend yield with some growth when New Zealand's economy should improve with lower interest rates.

It's been a long 30 months since our performance peaked with the coal stocks in October 2022. But finally, the market's momentum was disrupted, and the fund had its best days in years.

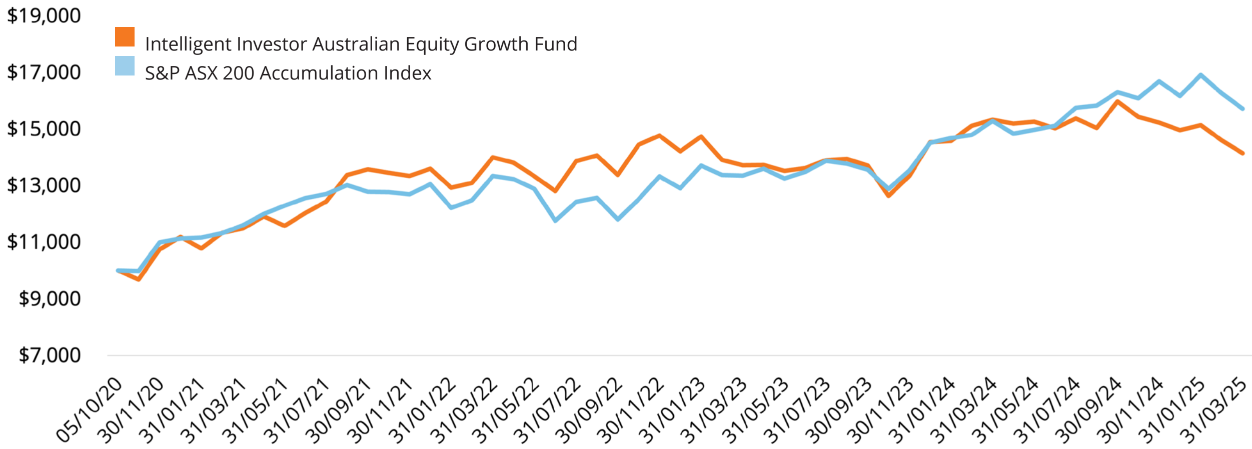
If history repeats, avoiding the market darlings will blow a tailwind lasting years. As their price-to-earnings ratios deflate, unpopular companies that can steadily increase profit and dividends, join or rejoin the major indexes and potentially become takeover targets as corporate activity increases, have a huge amount of outperformance to reclaim.

Please get in touch if you have any questions

info@intelligentinvestor.com.au

1300 880 160

Performance since inception



Inception (S.I.): 5 Oct 2020

Asset allocation

Materials	21.0%
Health Care	17.2%
Consumer Discretionary	14.1%
Information Technology	8.5%
Communication Services	7.7%
Cash	6.8%
Financials	6.3%
Consumer Staples	6.1%
Energy	5.0%
Industrials	3.6%
Utilities	2.8%
Real Estate	0.9%

Top 5 holdings

BHP Group (BHP)	7.7%
CSL (CSL)	6.9%
ResMed (RMD)	6.4%
MA Financial (MAF)	5.2%
New Hope Corporation (NHC)	5.2%

Fund Stats

Distribution yield	1.44%
Net asset value	$2.77

All tables and chart data is correct as at 31 March 2025