

Intelligent Investor Ethical Share Fund

Active ETF (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
CAR 1255 838

ARSN 630 396 584
ASX Code: INES

“One of the hardest things to do in the investment business is to fully appreciate how long it takes for things to happen. It takes forever for the changes to show up.” — Jeffrey Gundlach

“If Ben Graham thought Mr. Market was irrational in his day, he would try to have him committed today.” — David Barr

Alec Cutler on being contrarian: “The pain and the elation involved - mostly the pain - and how to have the backbone to stick with it, to be willing to be alone and wrong, not just wrong. Everyone’s fine being wrong in a crowd. No one wants to be alone and wrong and poked at; Why did you do that? You’re an idiot”.

It’s said that the market climbs a wall of worry, but this quarter it bounded over a mountain of bizarre. Within just eight weeks fears switched from America’s solvency to the threat of World War three.

Commonwealth Bank’s valuation eclipsed five standard deviations above average. That’s a probability of 0.000000576%. Perhaps John Lennon captured the moment best in his song *Nobody Told Me*, ‘Always something happening and nothing going on. Most peculiar, mama’.

Performance (after fees)

	1 mth	3 mth	1 yr	2 yrs	3 yrs	S.I. (p.a)
II Ethical Share Fund	1.8%	8.4%	14.1%	13.3%	10.2%	10.3%
S&P ASX 200 Accumulation Index	1.4%	9.5%	13.8%	13.0%	13.6%	8.5%
Excess to Benchmark	0.4%	-1.1%	0.3%	0.4%	-3.3%	1.9%

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, 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 and international 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 - 40**


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 market seems emboldened since 'Liberation Day' with investment flows going into the same market behemoths that have driven the market for the past few years. Valuations for Australia's stalwarts suggest a lost decade lies ahead, so that wave of money will eventually look for higher returns elsewhere.

Perhaps given the rising prices of many small cap stocks, that's already happening. Lower interest rates should also help broaden the bull market.

Portfolio

A mix of local and international stocks have been driving the fund's returns. At home, small cap stocks such as **MA Financial** and **Event Hospitality** continue to announce positive news. While Canada's **Berkshire Hathaway**, **Fairfax Financial**, continues to rise on what we believe will be a long recovery as its share price catches up with the businesses' progress.

The share price of **Rightmove** is closing in on the highs when Australian rival **REA Group** made several bids to acquire it. While the operating performance from stalwarts like **Visa** and **Mastercard** continue to Impress.

Visa and MasterCard's share prices were held back by fears around stablecoins. Unlike meme coins, these cryptocurrencies are designed to be practical and are pegged to assets like the US dollar. The big draw is faster settlements and lower fees.

Stablecoins are mostly used to settle crypto transactions, but regulation could expand their use. **Amazon** and Walmart are rumoured to be exploring stablecoin systems that could bypass traditional card rails altogether.

We think the risk is overblown. To succeed in payments, you need three things: trust, ease of use and the ability to process and authorise

massive volumes quickly. Very few companies can do this. That's why Visa and Mastercard have seen off challenges from domestic settlement networks such as **PayPal**, buy-now-pay-later companies and other fintechs.

The best way to think about the payment giants is as platforms. Most companies prefer to build on top of them to tap their scale, reduce costs and avoid competing. **Apple** and Google Pay are the two biggest examples.

If stablecoins go mainstream, we think partnership rather than disruption is the most likely path. Visa and Mastercard are already experimenting with stablecoin applications and can see viable use cases in cross-border payments and remittances. They are well placed to help lead any disruption.

Outlook

Confession season hasn't produced any surprises, and corporate activity is increasing with **Xero** and **Wisetec** acquiring expensive loss-making US businesses.

There are myriad ways the fund could benefit from acquisitions, either facilitating them in the case of **MA Financial**, becoming a target potentially like **RPM Global** and **Aussie Broadband** or by companies picking off cheap targets left behind by the huge momentum flows targeting the market's biggest companies.

The index is currently priced like 2007, where investors over the next decade banked a dividend yield of around 5% without any capital gains. The difference now is that the index is currently barely yielding 3%, valuations are higher and the prospects for the index's major constituents including the three major iron ore majors, four large banks, many A-REITs, **Wesfarmers** and CSL, are worse.

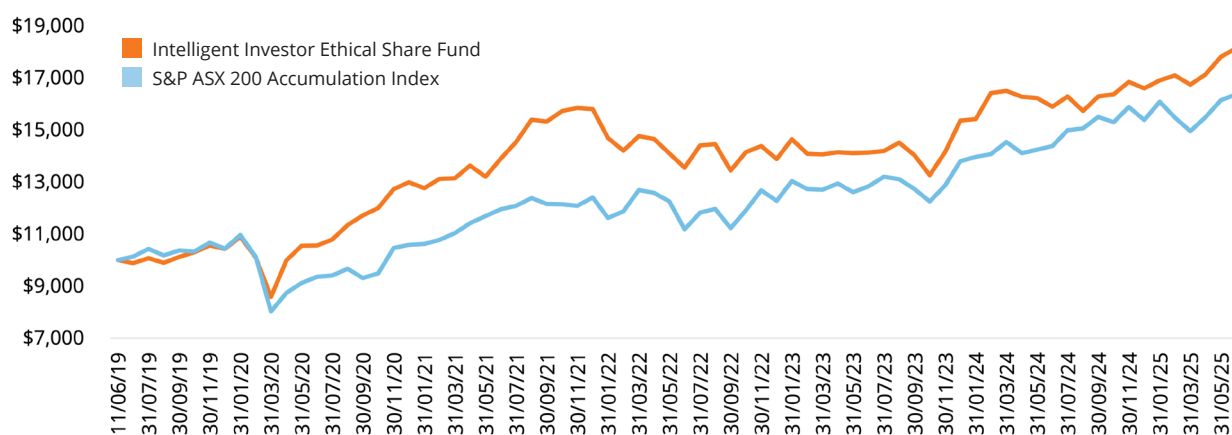
Lower interest rates and a momentum-driven market may blow their bubbly valuations up even further, but eventually markets will look for higher returns from cheaper, faster growing stocks like ours.

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	28.9%
Communication Services	22.0%
Information Technology	18.2%
Health Care	14.6%
Cash	9.6%
Consumer Discretionary	6.7%

Top 5 holdings

Fairfax Financial Holdings (FFH.TSX)	7.2%
Visa (V.NYS)	6.1%
MA Financial (MAF)	5.4%
Rightmove PLC (RMV.LSE)	5.2%
CSL (CSL)	5.2%

Fund Stats

Distribution yield	0.73%
Net asset value	\$3.69

Important information

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All tables and chart data is correct as at 30 June 2025