Quarterly Update

31 March 2024

Intelligent Investor Australian Equity Growth Fund (Managed Fund) (ASX:IIGF)

Issued by
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"I don't need an analyst to tell me when a 10 PE stock is cheap. I need an analyst to tell me when a 40 PE stock is cheap."

— Steve Mandel

"The real question is whether you dare to do the things that are necessary to be great. Are you willing to be different, and are you willing to be wrong? [T]o have a chance at great results, you have to be open to being both."

— Howard Marks

The fund increased 5.4% for the quarter compared to the index's 5.3%.

The villain this quarter was **Domino**'s. The self-confessed management mistakes are piling up, this time in Japan, which was supposed to be a key growth engine. If only the Japanese would adopt pizza as its Christmas lunch tradition instead of KFC.

Turnarounds are hard and Domino's' is complicated by its vast, complex global business despite decent sales in mature markets like Australia. We replaced our small position with electronics supplier **Dicker Data** led by its founder David Dicker.

Performance (after fees)

	1 mth	3 mth	1 yr	2 yrs	3 yrs	S.I. p.a
II Australian Equity Growth Fund	1.4%	5.4%	11.7%	4.6%	10.1%	13.1%
S&P ASX 200 Accumulation Index	3.3%	5.3%	14.4%	7.0%	9.6%	13.0%
Excess to Benchmark	-1.9%	0.1%	-2.8%	-2.4%	0.5%	0.1%

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

Dicker Data has increased dividends over 10-fold over the past decade with David Dicker and staff remaining the largest shareholders. A new warehouse will allow the company to meet increasing sales of digital products for brands that don't want to spend large amounts of money opening their own stores.

We also sold **James Hardie Industries** on valuation grounds and crystallised a small loss after selling our modest holding in **Alumina** following another poor result that meant Alcoa's takeover offer price was unlikely to increase.

Sentiment towards **Mineral Resources** flipped 180 degrees due to stable lithium prices despite iron ore prices falling just three months before Mt Onslow starts production. Somewhat surprisingly the company's lithium mines are profitable and we're now seeing production capacity across the industry being retrenched.

MA Financial's share price initially fell 20% as its profits fell further than most expected. Merger and acquisition activity hasn't recovered from record levels a year or two earlier and the company is investing heavily. Boasting record funds under management is great, but we like the company's culture of sacrificing profits today for bigger profits tomorrow.

The company has also seemingly dodged a bullet after the government quietly closed the Special Investment Visa program without retrospective changes that threatened a large part of the company's business.

Like clockwork, **ResMed** produced another good result and continues to benefit from the slow reintroduction of products from rival Phillips. Any fears from the new wave of obesity drugs have also worn off the share prices of **CSL** and **Sonic Healthcare**, so future returns will be more modest.

RPM Global is also finally joining the party, with its share price increasing ~25%. We're excited that management believes its software product XECUTE is beginning to join its asset management software as the industry standard.

The best results came from **Lovisa**, **Wesfarmers** and **Aussie Broadband**. Sales from Lovisa's new stores outweighed any concerns about falling sales at existing stores. But the fact it can open so many new stores and pay such a big dividend is testament to its remarkable profitability.

We initially bought Wesfarmers as we believed its fledgling lithium business was being undervalued. Ironically, its losing money due to the collapse in prices but K-Mart is booming. The shares have performed better than we could've hoped.

Aussie Broadband's share price initially increased 20% after its results relieved concerns about slowing growth and lower profit margins. But after wasting no time with its acquisition-led strategy by making a bid for rival **Superloop**, Superloop announced it was selling a large stake in its business to new customer **Origin Energy** which cancelled its contract with Aussie Broadband.

The corporate shenanigans don't impact our view of Aussie as we believe management will find new opportunities as its scales to compete with Australia's telco giants.

Audinate's share price continues to shine after reporting its first net profit. It's a classic Intelligent Investor stock. Find it early, in this case before it was profitable, and hang on as the market gradually recognises the value of its competitive advantages.

Lastly, after initially being met with tumbleweeds, **Frontier Digital Ventures**' share price has doubled from its lows. Latam 360 is showing strong growth in revenue and operating earnings and finally there's some optimism that the worst might be over for its tarnished Pakistan crown jewel Zameen.

Outlook

The fund and the market have been red hot since November. But there's a major difference between the two. While large, popular stocks have been bid up to ridiculous prices ensuring lousy returns over the next decade, if not losses, the market is only just beginning to rediscover the gems we've owned for years.

Mineral Resources' share price is still 30% below its highs and its market value barely reflects the value of its iron ore business alone. The market is myopically focused on lithium prices despite Mt Onslow only being months away from greatly increasing iron ore production and profits.

One analyst recently asked whether RPM Global is the cheapest software stock on the market. It's a fair question given it trades close to 20x earnings while others trade closer to 20x revenue.

MA Financial trades at just 14x earnings which are currently depressed by the temporary fall in corporate activity and investments that should greatly increase future profits. And despite its share price almost doubling recently, it's possible Frontier Digital could still be trading at less than two times revenue in two years compared to mature, slower growing rivals trading at between 15 and 25x revenue.

Despite being in different industries, these four stocks represent everything we look for. Owner-operators with their wealth invested right alongside yours. Long growth runways with lots of opportunities to reinvest profits at high rates of return so your investment can compound at high rates in a tax friendly environment, and a cheap price due to the market's current enthusiasm for large stocks regardless of valuation.

The good news is that investors are slowly looking beyond the market's biggest stocks where we're positioned because that's where the value is. The opportunity to outperform over the next decade has rarely been higher.

Please get in touch if you have any questions

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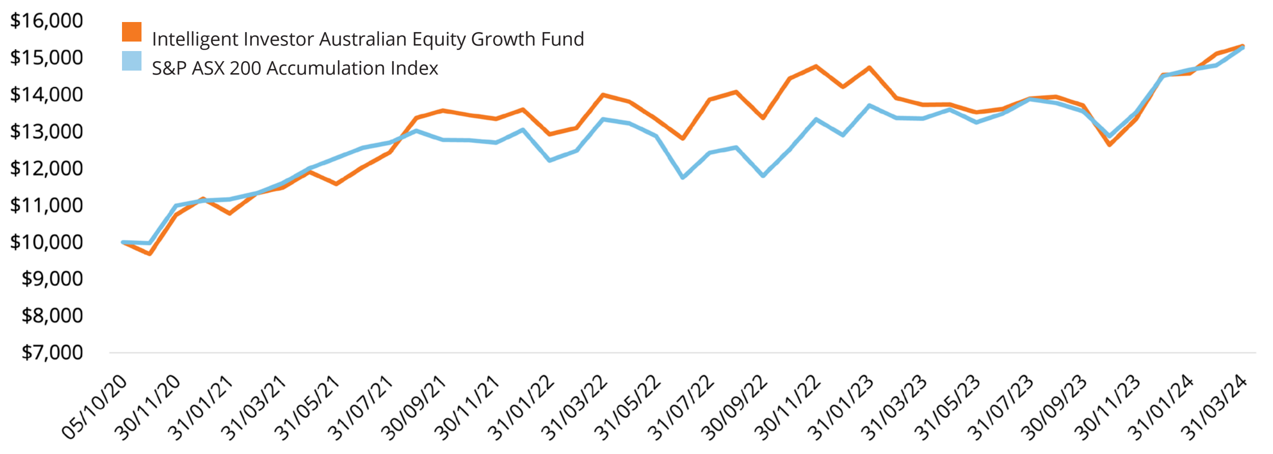
Performance since inception



Inception (S.I.): 5 Oct 2020

Asset allocation

Information Technology	16.3%
Materials	15.3%
Health Care	15.2%
Cash	11.8%
Consumer Discretionary	11.5%
Financials	11.5%
Industrials	5.8%
Energy	3.8%
Communication Services	3.5%
Real Estate	3.1%
Utilities	2.3%

Top 5 holdings

RPMGlobal (RUL)	7.7%
CSL (CSL)	6.6%
Mineral Resources Limited (MIN)	6.3%
Auckland International Airport (AIA)	5.8%
Wesfarmers (WES)	5.4%

Fund Stats

Distribution yield	4.99%
Net asset value	$3.05

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