31 December 2020

Quarterly Report

Intelligent Investor Australian Equity Income Fund

(Managed Fund) (ASX:INIF)

Quarter Highlights

- **Fund up 17.7%**
- **Value stocks responded positively to vaccine announcements**
- **Value stocks had their best quarter compared to growth stocks since the 1930s**

About Us

With a 20-year track record of beating the market, clear and straightforward language, and an ‘open book’ approach to stock research and analysis, *Intelligent Investor* offers actionable, reliable recommendations on ASX-listed stocks.

In 2014, *Intelligent Investor* became a part of the InvestSMART family, extending our expertise to even more Australian investors seeking quality analysis and advice.

Fund overview

Listed on 12 June 2018, this Fund mirrors the Intelligent Investor Equity Income Portfolio.

The Intelligent Investor Australian Equity Income Fund (ASX:INIF) is a concentrated portfolio of 10-35 Australian listed stocks. The Fund focuses on large, mature businesses with entrenched competitive advantages, and dominant smaller companies we believe will produce strong cash flows to support dividends in the future.

As contrarian value investors, producing safe and attractive returns in the stock market means sticking to a disciplined and repeatable process. We do this by patiently waiting for overreactions in share prices, so we can buy at a large discount to our estimated intrinsic value.

Investment objective

To produce a sustainable income yield above that of the S&P/ASX 200 Accumulation Index.

Who manages the investment?

Nathan Bell, has over 20 years of experience in portfolio management and research and is supported by our Investment Committee, chaired by Paul Clitheroe. Nathan returned to *Intelligent Investor* in 2018 as Portfolio Manager, having previously been with *Intelligent Investor* for nine years, spending five of those as Research Director. Nathan has a Bachelor of Economics and subsequently completed a Graduate Diploma of Applied Investment and Management. Nathan is a CFA Charterholder.

Key Fund Details

INVESTMENT CATEGORY

A portfolio of individually-selected Australian Equities

INVESTMENT STYLE

Active Stock Selection, Value Investing Approach

BENCHMARK

S&P/ASX 200 Accumulation Index

INCEPTION DATE

12 June 2018

SUGGESTED INVESTMENT TIMEFRAME

5+ years

NUMBER OF STOCKS

10 - 35

INVESTMENT FEE

0.97% p.a.

PERFORMANCE FEE

N/A

MINIMUM INITIAL INVESTMENT

$1.00

STRUCTURE

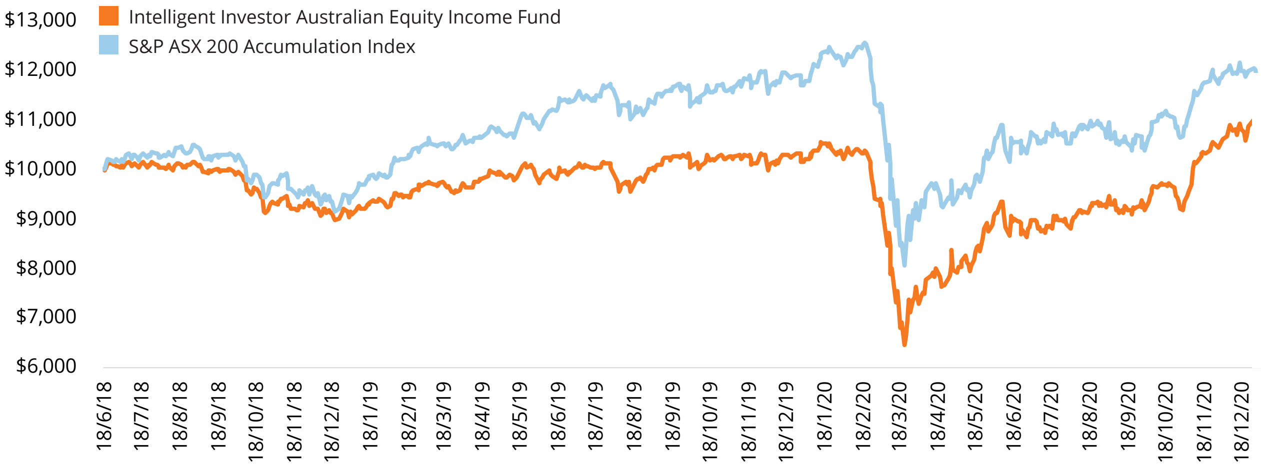
Listed Fund

SUITABILITY

A portfolio focused on generating income without forsaking capital growth by investing in cash rich businesses with the ability to pay growing dividends

As at 31 December 2020

Performance of $10,000 since inception



Performance (after fees)

	1 mth	3 mths	6 mths	1 yr	S. I.
Intelligent Investor Australian Equity Income Fund	4.2%	17.7%	23.4%	7.0%	3.3%
S&P ASX 200 Accumulation Index	1.2%	13.7%	13.2%	1.4%	6.9%
Excess to Benchmark	3.0%	4.0%	10.2%	5.6%	–3.6%

Asset allocation

Financials	25.2%
Consumer Discretionary	19.3%
Industrials	16.8%
Materials	12.7%
Real Estate	7.2%
Cash	5.6%
Utilities	3.9%
Information Technology	3.4%
Health Care	2.6%
Communication Services	2.4%
Energy	1.0%

Top 5 holdings

Sydney Airport (SYD)	6.7%
BHP Group (BHP)	6.0%
Pinnacle Investment Mgmt Group (PNI)	5.9%
Star Entertainment Group (SGR)	5.5%
Lovisa (LOV)	5.5%

Intelligent Investor Australian Equity Income Fund

Quarterly Update

'To me, it's obvious that the winner has to bet very selectively. It's been obvious to me since very early in life. I don't know why it's not obvious to very many other people.'

– Charlie Munger

'How many of you have 56 brilliant ideas in which you have equal confidence? Raise your hands, please. How many of you have two or three insights that you have some confidence in? I rest my case.'

– Charlie Munger

'Twenty years from now you will be more disappointed by the things that you didn't do than by the ones you did do. So throw off the bowlines. Sail away from the safe harbor. Catch the trade winds in your sails. Explore. Dream. Discover.'

– Mark Twain

The fund increased 17.7% during the quarter compared to the index's 13.7% gain. That included a 3% gain over the index on the day a safe and effective COVID vaccine was announced.

It was the best win value stocks have recorded over growth stocks since the 1930s. As the vaccine is rolled out, we expect this trend will continue.

We increased our stake in **Sydney Airport** and took profits on **James Hardie Industries** and **Reece** that have performed much better, much faster than we could've hoped for.

The big jump in Reece's share price came from an expansion in its price-to-earnings ratio rather than an improvement in its financials, which is typical of broader market trends.

We added several names to the portfolio this quarter. Valuations of resources stocks are near a record low compared to industrial stocks, so we've added **South32** and **Alumina**, which offer attractive dividends and large capital gains when the cycle turns.

We also added smash repairer **AMA Group**, after it announced a deal that will help reduce its large amount of debt.

We also added **Infratil**, which has built an excellent track record of acquisitions and sales in similar fashion to a private equity operator. Infratil's share price popped after the company rejected a potential takeover offer from a large Australian superannuation fund.

Small mining software company **RPM Global** was added after our confidence increased that the company could pay a decent dividend in the years ahead following a long and expensive period of high investment in its software and sales force.

Trading at less than 4x sales compared to market darlings like **Xero** trading at 29x the stock is great value if it can continue to increase the number of software modules it sells to some of the world's largest miners. RPM's value should become clearer as its transition to a SaaS (software as a service) revenue model is completed over the next year or so.

Lastly, we added **Omni Bridgeway**, which has a three-decade history of successfully funding litigation claims. The business has recently shifted to a funds management business model, offering attractive returns to investors prepared to help fund litigation cases.

Portfolio news

Crown Resorts has been in the headlines for all the wrong reasons. Given the governance failings, virtually the entire board should be replaced. James Packer will also likely need to reduce his shareholding below 10% for the company to avoid changes to its licenses. Despite the governance issues, the stock looks cheap with the new Sydney casino at Barangaroo opening its hotel and restaurants.

We would be only too pleased if the company became a target for our other major casino holding **Star Entertainment**, as the media has been cheering.

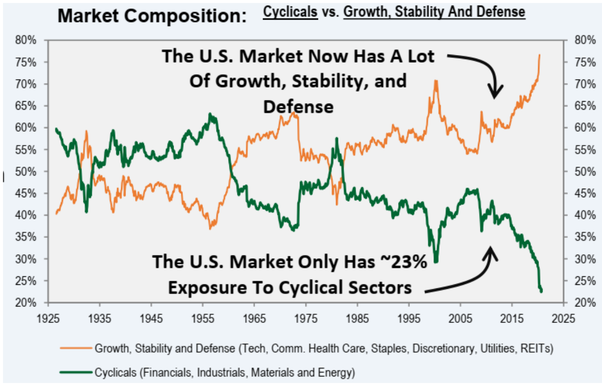
Fast-fashion retailer **Lovisa** announced a cracking deal where it will take over hundreds of new store leases in Europe for a nominal amount. This is exactly the type of entrepreneurial action that we expect from businesses with intelligent insider operators that have plenty of skin in the game.

Credit Corp also took advantage of its weakened competitor Collection House, acquiring its debt ledger for $160m in the single largest ledger purchase in Credit Corp's history.

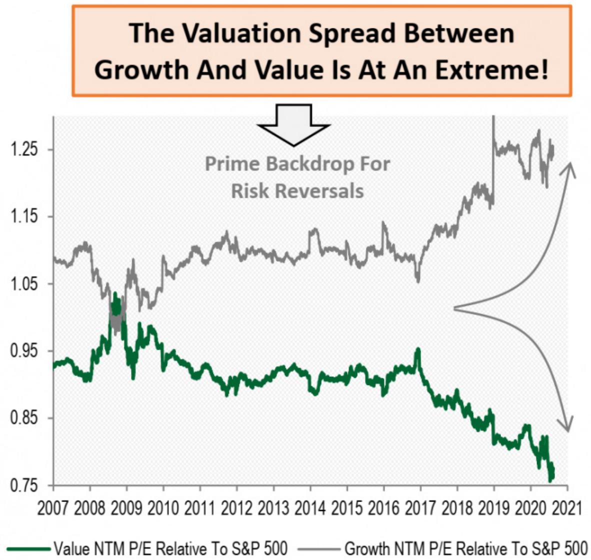
The company's share price has increased almost 60% in the short time we've owned it. But there's plenty more to come if it can replicate its success in the US where it's slow and steady growth over many years is starting to pay off with stronger relationships with major US financials.

360 Capital expects to double earnings per share to four cents this year, as its rapid launch of new funds starts to increase fee revenue. Boasting a ~5% distribution yield, $80m of cash, excellent management, a clear growth strategy that's attracted several high calibre executives all while trading at a discount to its net tangible assets, the market can't ignore this stock forever.

While it's been a tough few years for our income portfolios, and the investors in our listed fund ASX:INIF in particular, the fund's recent focus on buying some of our best ideas that can grow their dividends much faster than the market, stocks that should benefit from the economic recovery and smaller stocks boasting owner-operators with huge potential is starting to pay off.



Source: millervalue.com via Cornerstone Macro.



Source: millervalue.com via Cornerstone Macro.

Please note that the fund's distributions have fallen drastically as most companies have cut their dividends either by choice or by force due to COVID. Company dividends will start to ramp up again later in the year and the fund's distributions will increase accordingly.

If you have any questions, as always, please call us on ***1300 880 160*** *or email us at* ***info@intelligentinvestor.com.au.***

INTELLIGENT INVESTOR

Important information

Intelligent Investor
invest@intelligentinvestor.com.au
www.intelligentinvestor.com.au
PO Box 744, QVB NSW 1230
1300 880 160