



31 March 2021

Quarterly Report

# Intelligent Investor Australian Equity Income Fund

(Managed Fund) (ASX:INIF)

## Quarter Highlights

- Fund returned 6.8% for the quarter
- The fund benefited from its exposure to cyclical stocks
- Reporting season was mostly very good for the portfolio

## 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

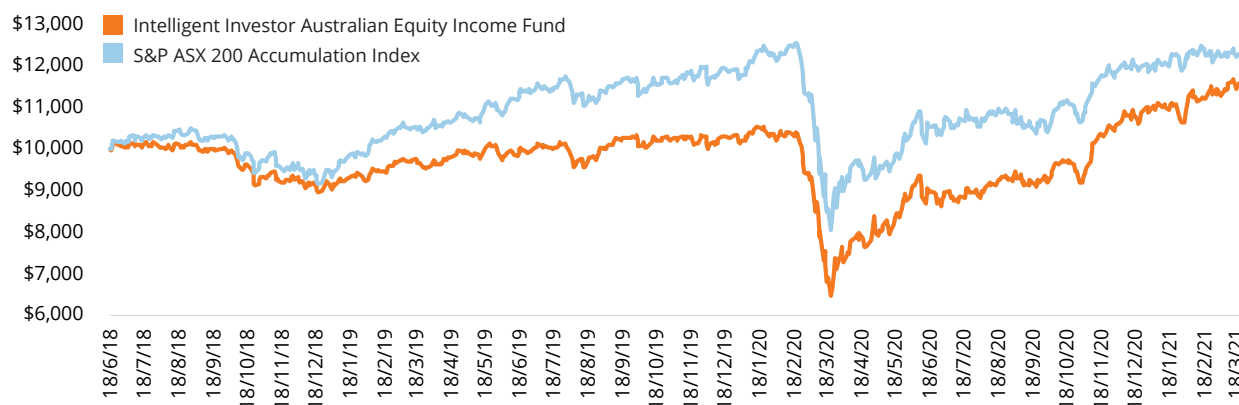
N/A

### 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 March 2021

## Performance of \$10,000 since inception



## Performance (after fees)

	1 mth	3 mths	6 mths	1 yr	S. I.
<b>Intelligent Investor Australian Equity Income Fund</b>	2.6%	6.8%	25.7%	57.0%	5.5%
<b>S&amp;P ASX 200 Accumulation Index</b>	2.4%	4.3%	18.5%	37.5%	7.9%
<b>Excess to Benchmark</b>	0.2%	2.5%	7.2%	19.5%	-2.4%

## Asset allocation

<b>Financials</b>	24.0%
<b>Consumer Discretionary</b>	17.7%
<b>Materials</b>	12.8%
<b>Industrials</b>	12.8%
<b>Cash</b>	8.1%
<b>Real Estate</b>	6.9%
<b>Information Technology</b>	5.7%
<b>Utilities</b>	3.6%
<b>Health Care</b>	2.8%
<b>Communication Services</b>	2.6%
<b>Consumer Staples</b>	2.0%
<b>Energy</b>	1.0%

## Top 5 holdings

<b>Sydney Airport (SYD)</b>	6.3%
<b>BHP Group (BHP)</b>	6.3%
<b>Pinnacle Investment Mgmt Group (PNI)</b>	6.0%
<b>Star Entertainment Group (SGR)</b>	5.5%
<b>RPMGlobal Holdings (RUL)</b>	5.5%

# Intelligent Investor Australian Equity Income Fund

## Quarterly Update

*'I absolutely think it's a bubble, to be quite honest. I go back to the analogy of the beginning of the internet. There was a bubble. And the bubble burst.'*  
— Digital artist Mike Winkelmann (a.k.a. Beeple) on the non-fungible tokens market where he recently sold a piece for US\$69m.

*Two thoughts from Nikola Tesla: 'All that was great in the past was ridiculed, condemned, combated, suppressed — only to emerge all the more powerfully, all the more triumphantly from the struggle.' 'We are all one. Only egos, beliefs, and fears separate us.'*

*'I never have an opinion about the market because it wouldn't be any good and it might interfere with the opinions we have that are good. If we're right about a business, if we think a business is attractive, it would be very foolish for us to not take action on that because we thought something about what the market was going to do.'*

– Warren Buffett

The Income Fund's 6.8% return this quarter outpaced the market's 4.3% return, but not every company is producing great results.

At the end of January, **AMA Group's** board released a cryptic announcement suggesting impropriety from CEO Andy Hopkins. Soon after, the company had employed lawyers to chase Hopkins for \$1m, while Hopkins sold his 5.6% shareholding and was replaced by board member Carl Bizon.

Bizon seems to be a safe pair of hands and is focused on improving the company's governance by tightening operating controls. Several senior managers have followed Hopkins out the door, but that may make it easier for Bizon to change the

company culture once he has the right people in the right roles.

AMA's results are still showing the severe impact of lockdowns in Victoria, which has reduced the number of vehicle accidents. While that's good news for all of us, unfortunately as traffic is rebounding the number of car accidents will get back to normal, as will the number of repairs handled by AMA.

The key question beyond the cyclical recovery will be whether Bizon can deliver on a bigger vision like former CEO Andy Hopkins, which will be based on tuck in acquisitions. Either way, we believe the company is worth much more than its trading at today.

## Standout results

A couple of standout results from reporting season in February came from **Pinnacle Investment Management** and **Lovisa**, whose share prices increased 30% and 26%, respectively, during the quarter.

It's hard to imagine that just twelve months ago, Pinnacle's stable of fund managers would've been thinking it would be years before they enjoyed performance fees again.

Yet, the company could report earnings per share of over 40c for the full year in August, which means it was trading on a price-to-earnings ratio of just 6.5 during the COVID-induced panic last year.

The company's funds under management (FUM) has reached \$70bn. But with its growing stable of high performing fund managers offering 18 investment strategies, the company trying to tap overseas investors, and more Australians searching for funds where the owners have skin in the game and aren't being flogged to them by a large financial institution biased towards its own funds, FUM could continue to grow for a long time yet.

The fact that Lovisa produced a profit and paid a dividend is remarkable given it couldn't keep stores open last year due to COVID shutdowns. Having

another company pay Lovisa to assume a portfolio of European leases also exemplifies the sort of entrepreneurial flair that you either don't get at much larger companies or such deals are too small to move the needle on profits.

With Lovisa's share price now pricing in a strong recovery, making big gains from here depends on its success abroad, particularly in the US. We like its odds of success, though we have been trimming the position to reflect the lower potential gains with the stock increasing sixfold since the panic almost exactly a year ago.

Lastly, **Crown Resorts** received a non-binding takeover offer from 10% shareholder and US private equity firm Blackstone pitched at \$11.85 per share.

While this undervalues the company, Blackstone's offer is only the first move in what could be a lengthy process given the company's current governance and regulatory issues, which we believe are manageable despite their seriousness and the impact COVID lockdowns have had on the company's casinos.

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*If you have any questions, as always, please call us on **1300 880 160** or email us at [\*\*info@intelligentinvestor.com.au\*\*](mailto:info@intelligentinvestor.com.au).*



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