INVESTSMART

30 September 2018

Intelligent Investor Equity Growth Portfolio

QUARTERLY UPDATE

This quarter Nathan discusses:

- Which stock drove the quarter's good performance
- Why he sold TPG Telecom
- Some of the Portfolio's current holdings

Intelligent Investor Equity Growth Portfolio

PERFORMANCE TO 30 SEPT 2018	1 mth	3 mths	6 mths	1 yr	2 yrs	3 yrs	Since Inception (p.a.)
Intelligent Investor Equity Growth (%)	-1.37	3.96	7.78	12.46	6.43	12.95	11.69
S&P ASX 200 Accumulation Index (%)	-1.26	1.53	10.13	13.97	11.58	12.11	8.81
Excess to Benchmark (%)	-0.11	2.43	-2.35	-1.51	-5.15	0.84	2.88

Key points

- **TPG drove outperformance**
- **Sold TPG after takeover offer**
- **Added Clydesdale Bank**

The portfolio increased 4.0% during the quarter, compared to a 1.5% gain by the ASX200 Accumulation Index. The roles have been reversed over the past year, with the Portfolio's 12.5% return trailing the index's 14.0% return.

The big contributor to this quarter's performance was **TPG Telecom**, which justified its spot as one of the Portfolio's larger holdings.

As we explained in the monthly report, TPG is merging with Vodafone. The deal combines Australia's third-largest mobile operator, Vodafone, which boasts 22m customers, with the country's second largest broadband provider, TPG, which has 6m customers, including a wide range of business customers that Vodafone doesn't have.

The combination has many benefits, such as being able to offer more attractive bundles for mobile and broadband services that reduce customer losses, and the company will pay half of its profits as dividends.

There are some negatives, though. TPG founder, and one of Australia's most successful businessmen, David Teoh will be relegated to chairman with his shares escrowed for two years. The combined company also still has to spend large sums for items like spectrum to provide 5G services and access to the NBN to resell fast internet services.

The biggest negative, however, was that the share price appreciation bakes in very high expectations for the company's future success. At a valuation comparable with US monopolistic broadband internet providers, we decided to sell.

We also sold our successful holding in **Fleetwood**, again due to valuation, and the only other sale was education provider **Navitas**. The company's trend of falling earnings over the past four years was supposed to be rescued by the company's big US push, which is showing increasing signs of failing.

"AT A VALUATION COMPARABLE WITH US MONOPOLISTIC BROADBAND INTERNET PROVIDERS, WE DECIDED TO SELL."

Navitas fell 5% during the quarter before it was sold, while other detractors included **Audinate**, which fell 10%, and **IOOF**, which fell 9%. Sales of Audinate's audio management products are growing quickly but the stock trades on a very high valuation, so the share price will be volatile from quarter to quarter even if there isn't any change in the company's prospects.

IOOF's share price has languished as the headlines from the Hayne inquiry have grown louder. The worst outcome is IOOF being forced to separate the provision of financial advice from selling financial products (or 'distribution' in industry jargon). That's unlikely in our view, so on a price-to-earnings ratio of 12 and 6.9% dividend yield, the current valuation is providing a large margin of safety against a worse than expected outcome.

The 13% increase in Trade Me's share price lagged that of telecom billing company Hansen, up 19%, and **Nanosonics**, up 14%, but the New Zealand online classifieds business produced a 20% total return following the announcement of a NZD22 cent special dividend.

Trade Me justified its position as the portfolio's largest holding after announcing an encouraging annual result following a couple of years of heavy investment that have pressured margins and profits.

Despite minimal increases in property, job and car listings, classifieds revenue increased 12% as customers spent more on premium ads. Though not before time, the company is following the hugely successful premium ad strategy used by **REA Group**. Customers will willingly pay more for premium ads provided it produces profitable sales. Trade Me is only just starting to flex its pricing power muscles, which bodes well for future profits and dividends.

Spin-offs

Spin-offs occur when a company demerges a business division to be listed independently. Recent examples include **Wesfarmers** spinning off Coles and **BHP**'s spin-off of **South 32**.

Historically they've been wonderful investments, as the smaller stock often gets sold off heavily, as most investors are either forced to sell it due to liquidity restrictions or are only interested in owning the larger parent company. As newly motivated management releases the value in the business the returns can be astounding.

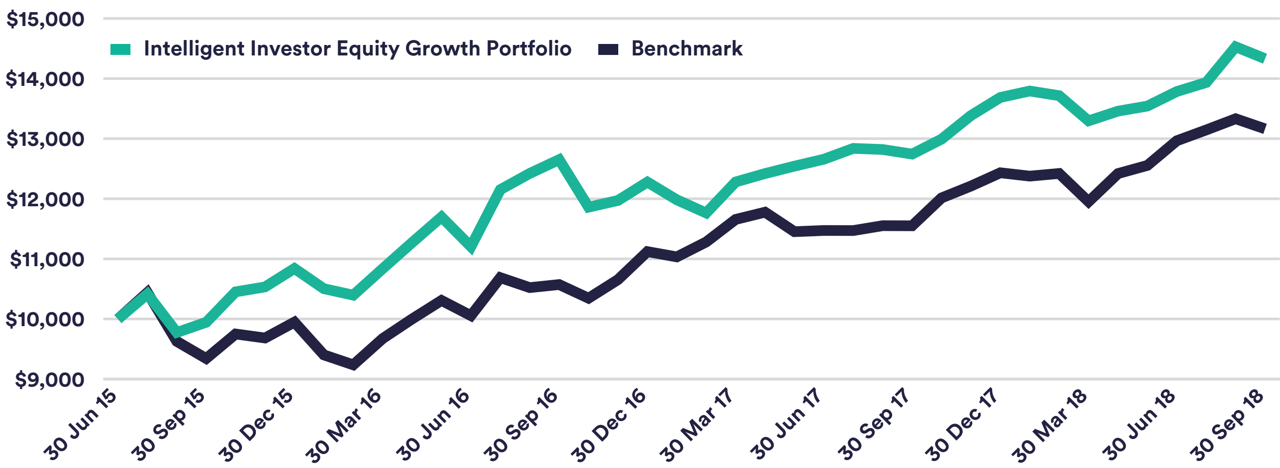
Though **Clydesdale Bank** was spun off from former parent **National Australia Bank** a couple of years back, we've recently added it to the portfolio. Clydesdale recently acquired Virgin Money, creating the UK's sixth largest bank. The stuffy old Clydesdale brand will be replaced by the Virgin Money brand, which has more appeal to young customers.

Clydesdale Bank is trading around tangible book value (TBV) and is run by one of the most highly rated management teams in the UK. If management hits its 2019 aim of double-digit return on equity, then there is room for the multiple to expand over time if higher interest rates fatten profit margins, or as profits grow from a combination of attracting new customers and cutting costs. The company could also eventually become a takeover target, unlike the five major UK banks.

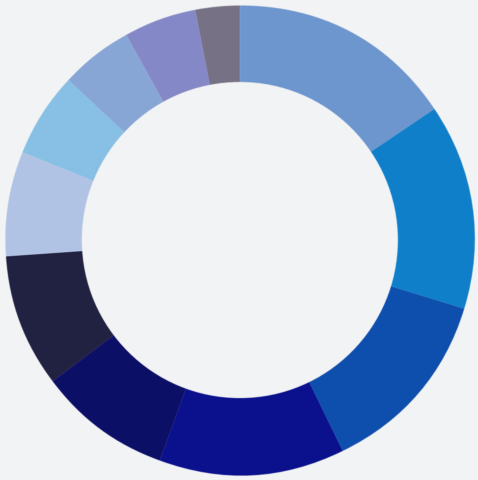
"DESPITE MINIMAL INCREASES IN PROPERTY, JOB AND CAR LISTINGS, CLASSIFIEDS REVENUE INCREASED 12% AS CUSTOMERS SPENT MORE ON PREMIUM ADS."

Performance numbers exclude franking, after investment and admin fees: excludes brokerage. All yield figures include franking. All performance figures, graphs and diagrams are as at 30 September 2018.

PERFORMANCE OF $10,000 SINCE INCEPTION



Portfolio breakdown



Cash	16%
Financials	14%
Industrials	13%
Consumer Discretionary	13%
Health Care	9%
Information Technology	9%
Communication Services	7%
Materials	6%
Energy	5%
Consumer Staple	5%
Real Estate	3%

TOP 10 HOLDINGS

SECURITY	WEIGHTINGS (%)
Trade Me	7.39
BHP Biliton	5.56
Woodside Petroleum	5.07
Wesfarmers	4.97
Seek	4.88
ASX	4.73
Hansen Technologies	4.72
Sydney Airport	4.17
IOOF Holdings	4.02
Ansell	3.81

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was founded in 1999 and is a leading Australian digital wealth advisor which has over 32,000 clients and over $1.4B in assets under advice. InvestSMART's goal is to provide quality advice and low cost investment products, free from the jargon and complexities so commonly found in the finance industry, to help you meet your financial aspirations.

The Portfolio

The Intelligent Investor Equity Growth Portfolio 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.

Investment Objective

The Portfolio's investment objective is to produce a sustainable income yield above that of the S&P/ASX 200 Accumulation Index, with quarterly distributions.

Why the Intelligent Investor Equity Growth Portfolio?

Australia has one of the world's most stable and highest returning share markets and is often considered a safe-haven by investors. 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 estimate of intrinsic value.

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. Before returning to InvestSMART in 2018 as Portfolio Manager, he was the Research Director at our sister company, Intelligent Investor for nine years which included over four years as Portfolio Manager and being a member of the Compliance Committee. Nathan has a Bachelor of Economics and subsequently completed a Graduate Diploma of Applied Investment and Management. Nathan is a CFA Charterholder.

Key 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
1 July 2015

SUGGESTED INVESTMENT TIMEFRAME
5+ years

NUMBER OF SECURITIES / STOCKS
10 - 35 stocks

MANAGEMENT FEE
0.60% - 0.97% p.a.

PERFORMANCE FEE
N/A

MINIMUM INITIAL INVESTMENT
$25,000

STRUCTURE
Separately Managed Account (SMA)

SUITABILITY
Suitable for investors who are seeking domestic equity exposure with a growing stream of dividends to offset inflation.

PORTFOLIO MANAGER
Nathan Bell, CFA

Important information

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