Quarterly Update

30 September 2024

Intelligent Investor Select Value Share Fund (Managed Fund) (ASX:IISV)

Issued by
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"We are built with an almost infinite capacity to believe things because the beliefs are advantageous for us to hold, rather than because they are even remotely related to the truth." — Dee Hock

"If you don't care whether you are rational or not, you won't work on it. You will stay irrational and get lousy results." — Charlie Munger

"Patience can be learned. Having a long attention span and the ability to concentrate on one thing for a long time is a huge advantage." — Charlie Munger

Rightmove finished the quarter up 15% after four bids from **REA Group** ended without a deal. While we're disappointed that Rightmove's board didn't engage or grant REA more time, as the gatekeeper of UK property advertising the company should deliver high-single to low-double-digit earnings growth to fuel buybacks and dividends.

KKR, **Cairn Home**s, **MA Financial**, **Intercontinental Exchange**, and **Coupang** joined Rightmove in the 15% gain club after delivering good to excellent results.

Diageo rose a more modest 6% after confirming market conditions hadn't changed since its half-year result. The news came as a relief for a sector still grappling with destocking and a post-Covid sales normalisation.

Performance (after fees)

	1 mth	3 mths	6 mths	1 yr	S.I. p.a
II Select Value Share Fund	3.2%	5.6%	4.1%	23.1%	19.5%
S&P ASX 200 Accumulation Index	3.0%	7.8%	6.7%	21.8%	14.2%
Excess to Benchmark	0.2%	-2.2%	-2.6%	1.3%	5.3%

Note: The benchmark is the ASX200 Accumulation Index. It's one of the world's highest performing indexes, which sets the bar high for the performance fee, and we need to beat our home index to justify investing abroad.

Inception (S.I.): 28 Mar 2023

Fund overview

The Intelligent Investor Select Value Share Fund is an Active ETF designed for investors seeking a diversified selection of International and Australian companies with superior financial metrics and competitive advantages to outperform the S&P/ASX 200 Accumulation Index over five year rolling periods.

5+ yrs
Suggested investment timeframe

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
15% p.a.

The shift toward spirits over beer and wine and consumers' preference for fewer but more premium, expensive drinks, could foster mid-single-digit revenue growth which would easily justify the company's price-to-earnings ratio of 15.

The US Justice Department recently accused Visa of penalising merchants for using alternative networks and strong-arming competitors into partnerships with incentives and fee threats. Basically, the payments giant is an unlawful monopolist that needs to be reined in.

This isn't Visa's first regulatory rodeo. The latest action comes as politicians and big corporations spar over inflation. Attorney General Merrick Garland didn't mince words, stating, 'Visa's unlawful conduct affects not just the price of one thing - but the price of nearly everything.' The government went on to assert Visa's misdeeds fall heaviest on those least able to afford it.

Not convinced

Visa's US take-rate per transaction has fallen from 26 cents per $100 spent in 2010 to 23 cents last year, while rival Mastercard's has been flat at 29 cents. Neither figure is precise, but if Visa is the big bad wolf the government claims, why take a smaller bite? Why not screw merchants more?

Moreover, both companies' worldwide take rates exceed these figures, suggesting the US market is more competitive.

The Justice Department also overlooks a crucial comparison with cash transactions. Consultant BCG pegs the cost of accepting cash at around 4% - dwarfing most card transaction fees, which merchants dutifully pass on the cost through higher prices on goods. Not exactly free.

The government aims to boost competition and lower transaction fees. But a duopoly might be natural in an industry where network effects matter. The prospect of dozens of competing payment networks, each with its own branded card and likely lacking universal acceptance, seems impractical. Plus, there's no guarantee merchants would pass any of the savings on.

Geopolitics are another consideration. Mastercard and Visa's dominance provides the US government with powerful economic levers - tools for sanctions, monitoring illicit activities and projecting financial influence. Weakening the pair's stranglehold might score points but could prove short-sighted.

What's the potential damage?

The lawsuit targets Visa's US debit transactions, which account for 25% of its payment volumes, down from 32% in 2010. Since debit transactions have lower take rates than cross-border or credit card payments, the revenue exposure is likely smaller - our guess is 10-15% of total revenue. Any potential action would likely only threaten a small portion of this.

Legal battles are marathons, not sprints, so any outcome will likely take years. Last year, Mastercard settled similar claims with the US Federal Trade Commission without significant financial penalty, and both have shrugged off regulation in the past.

Our big tech holdings – **Amazon**, **Alphabet** and **Microsoft** – took a breather during the September quarter after strong runs. Scepticism is building around whether the tens of billions each has poured into AI will generate adequate returns. It's possible, but we took profits before the pullbacks on valuation grounds.

The **Atlanta Braves** fell 7% in September on no news. Professional baseball teams are rare, irreplaceable assets with only five changing hands in the last 12 years. Based on recent US sports transactions, this scarcity premium could support 50-70% upside to the current share price.

Please get in touch if you have any questions

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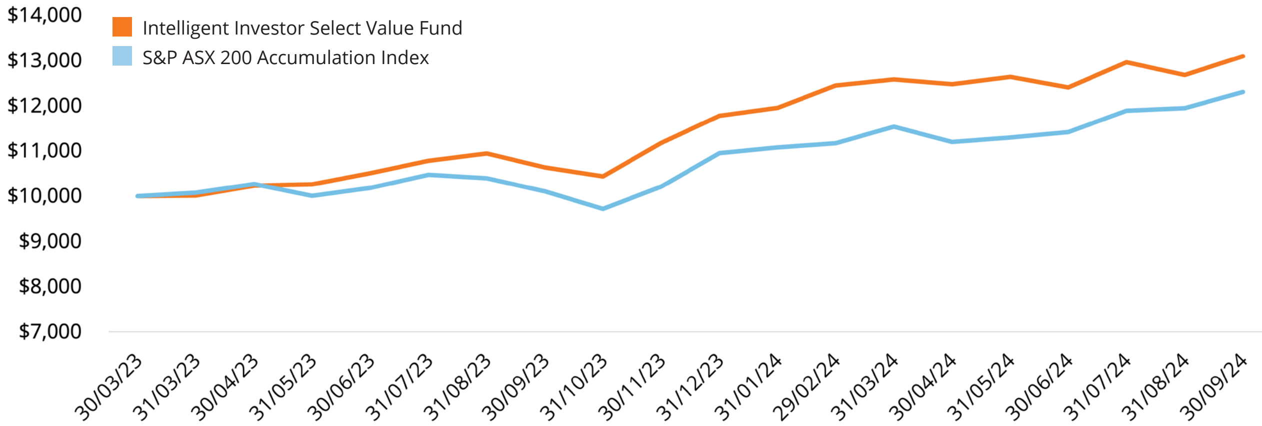
Performance since inception



Inception (S.I.): 28 Mar 2023

Asset allocation

Financials	39.8%
Information Technology	20.0%
Consumer Discretionary	13.3%
Communication Services	7.3%
Materials	5.3%
Cash	4.4%
Real Estate	4.1%
Industrials	3.1%
Health Care	2.8%

Top 5 holdings

RPMGlobal Holdings (RUL.ASX)	7.8%
Fairfax Financial Holdings (FFH.TSX)	7.0%
KKR & Co (KKR.NYS)	5.6%
Mineral Resources (MIN.ASX)	5.3%
CME Group (CME.NAS)	5.1%

Fund Stats

Net asset value	$3.26

All tables and chart data is correct as at 30 September 2024