Monthly Update

30 April 2025

Issued by
InvestSMART Funds
Management Limited
ACN 067 751 759
AFSL 246441

Managed by
Intelligent Investor
Holdings Pty Ltd
ACN 109 360 983
CAR 1255 838

ARSN 630 396 691
ASX Code: IIGF

Intelligent Investor Australian Equity Growth Fund Active ETF (ASX:IIGF)

'The most important thing in communication is hearing what isn't said'. — Peter Drucker

'The way to be safe is to never be secure'. — Ben Franklin

'Being honest about the odds that your opinions and forecasts will actually come true can be so discouraging and uncomfortable that the warm blanket of denial and overoptimism becomes home to most people's beliefs'.
— Morgan Housel

Even the biggest pessimist couldn't imagine Trump's presidency would threaten America's solvency in 80 days. In the aftermath of the chaos from early April, let's answer four key questions before providing some brief updates from our holdings.

Did we protect your money?

We were well prepared with half the portfolio in cash and defensive stocks after banking profits from **Pinnacle Investments**, **Lovisa**, **MA Financial** and **RPM Global** and favouring domestic focused businesses. That cushioned the falls from our more out of favour stocks offering extreme value (more on that below).

While value investors are expected to protect investors capital in a downturn, it's much more important to upgrade the quality and potential returns from the best businesses like we did during Covid and the GFC, for example.

Performance (after fees)

	1 mth	1 yr	2 yrs	3 yrs	S.I. p.a
II Australian Equity Growth Fund	1.0%	-6.0%	2.0%	1.1%	8.1%
S&P ASX 200 Accumulation Index	3.6%	9.8%	9.4%	7.2%	11.3%
Excess to Benchmark	-2.6%	-15.8%	-7.4%	-6.1%	-3.1%

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

But as we'll discuss in a webinar on 15 May, the market is still overvalued due to technology and bank valuations. The tech names are cracking, but **Commonwealth Bank** is now a confounding 12% of the index and trading at nearly 30x earnings despite facing falling interest rates that will squeeze margins when growth was already miniscule.

Unlike **CSL** and **Cochlear** whose share prices have trodden water for five years, it could take Commonwealth Bank over a decade to reduce its current price to earnings ratio below 20 at current growth rates. We've seen the distortions passive and industry funds have created in rising markets over the past two years. We expect fireworks on the way down.

What impact do we expect from Trump's tariffs?

It will take years to judge the full impact, but we expect minimal impact on your portfolio. It will crunch margins and cashflow for many companies due to a toxic mix of slower sales, higher costs and increasingly expensive investment. With China retaliating with its own tariff increases, it could slow economic growth and increase unemployment, particularly in the US where goods prices may rise while asset prices fall.

That means tariffs could be inflationary or deflationary, which is why we own so many monopolies and healthcare companies with pricing power, stable demand and limited reinvestment needs. It's difficult to lower interest rates if tariffs are inflationary, but that wouldn't offset the much broader and deeper damage that tariffs will do beyond financial markets anyway. The immediate impacts are obvious. The second order effects less so.

Have any holdings been impacted and changed our view?

Although we only have nominal direct exposure, the much-anticipated recovery in corporate activity could be extinguished before it barely begun. A major reassessment of business values and risks means our potential acquisition targets like **RPM Global** and **Aussie Broadband** could remain listed for a while yet, as private equity companies were already struggling to offload investments. The corresponding fall in financial stocks like **Macquarie Group** is encouraging but it isn't cheap enough to buy yet.

A global slowdown would be bad news for our resources companies, but they're already priced for recession and are increasing dividends and share buybacks at incredible prices.

New Hope Corporation is buying back shares on a 17% yield and **Karoon Energy** is buying back shares potentially on a 25% yield i.e. at price-to-earnings ratios of six and four respectively. The market can't ignore this forever and coal prices, for example, are at or near a bottom. While New Hope remains highly profitable, higher cost producers are cutting output to stem losses. This is exactly what we want to see.

Other minor victims of the tariffs such as our global healthcare companies should recoup higher costs with higher prices and their growth prospects remain unchanged. Our focus is new opportunities, but we're not relinquishing our defensive posture for mediocre opportunities and mustn't anchor to the bubble prices of recent years. Just because a stock's price has fallen 30% doesn't make it cheap.

Has it created opportunities?

US and Australian markets are still frothy, so we're moving slowly. It's early days in Trump's attempt to ruin the world's greatest financial compounding machine. But the silver lining is the opportunities it will create. We added to **Car Group** and **Lovisa** as their share prices fell.

Numerous US companies have already announced profit downgrades and withdrawn forecasts, so we expect some great opportunities as the year progresses. But we have no intention of diluting the great ideas we already own.

When bank valuations and our resources stocks return to fair value, assuming our estimates are right that could add nearly 20% to our performance alone. The potential reward for owning value stocks over the next few years is at an extreme only seen three times in the past 25 years.

Company updates

Mineral Resources' quarterly operational update triggered some short covering as it confirmed it wasn't considering a capital raising. Its highly publicized Mt Onslow haul road has handled around 40k deliveries, and its final transhipper is imminent.

If the company can avoid a capital raising over the next four months as it announces a new chair, increases iron ore deliveries from Mt Onslow to 35mmt and begins reducing debt, the stock could increase three to four times. The situation is reminiscent of **Fortescue** a decade ago, though it didn't have the luxury of assets to sell that MinRes does.

MA Financial confirmed that it expects a large increase in profits in the years ahead subject to any fall in corporate activity from Trump's tariffs. The stock is down over 20% from its recent highs and could be trading on 13x forecast earnings in a year and a 5% fully franked dividend yield with earnings potentially doubling over the next few years.

After paying its maiden dividend **Aussie Broadband** is buying back shares at attractive prices. The company has numerous growth options across its internet and mobile businesses and eventually we expect it will be acquired at a price at least 50% higher.

ResMed announced another good result with double-digit earnings growth, yet despite GLP-1 drugs likely leading to increased sleep apnoea diagnosis the stock could soon be trading on a price-to-earnings ratio in the teens. Like Aussie Broadband, its share buyback is adding plenty of value at current prices.

Just as we expect from such a well-run business, **RPM Global** is also buying back shares and its revenue is protected by four years of software sales already signed.

Endeavour announced its new CEO will be ex Virgin boss Jayne Hrdlicka starting in the new year. Hrdlicka worked on the separation of **Woolworths** and Endeavour but it's a much harder task to turn Endeavour around. The retail and hotel assets could be more valuable where they can be separated and may eventually be acquired.

Woolworths also announced its quarterly results suggesting it might finally be pegging back **Coles**'s lead after an eventful couple of years that resulted in a new CEO who is under pressure to show Woolies can grow profits without ripping off customers and suppliers.

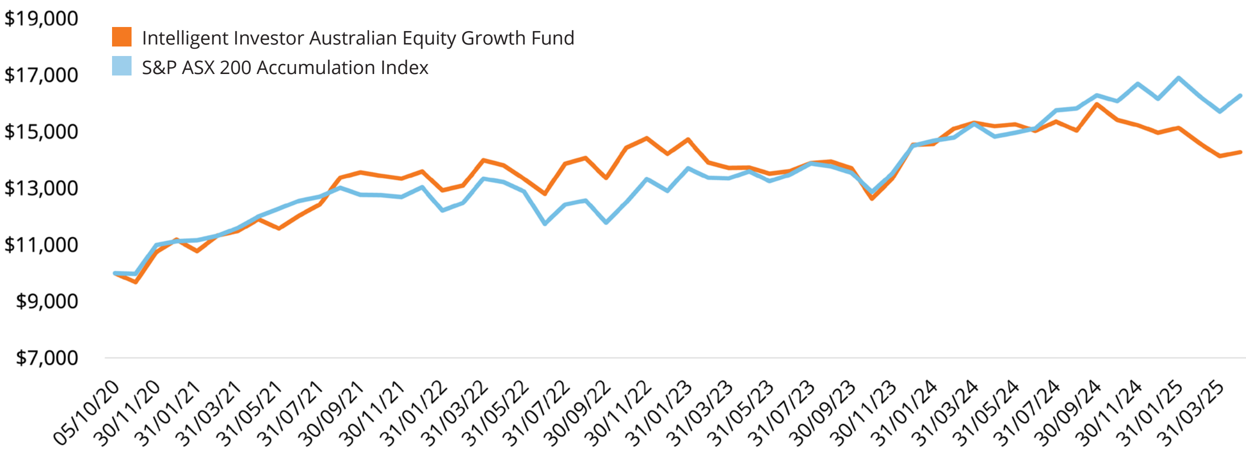
On 15 May we'll be hosting our annual Secondary Offer webinar. The past 30 months has been the great frustration, but we believe the passive investing bubble will soon give way to a great rotation toward value stocks like the period between 2000 and 2006. We'll discuss the huge potential impact on our performance, and you can ask questions after the formal presentation.

Please get in touch if you have any questions

info@intelligentinvestor.com.au

1300 880 160

Performance since inception



Inception (S.I.): 5 Oct 2020

Asset allocation

Materials	20.4%
Health Care	17.6%
Consumer Discretionary	15.0%
Communication Services	11.1%
Information Technology	8.3%
Cash	6.4%
Financials	5.9%
Energy	4.6%
Industrials	3.4%
Consumer Staples	3.3%
Utilities	2.9%
Real Estate	1.00%

Top 5 holdings

BHP Group (BHP)	7.7%
CSL (CSL)	6.9%
ResMed (RMD)	6.7%
New Hope Corporation (NHC)	5.1%
MA Financial (MAF)	5.0%

Fund Stats

Distribution yield	1.42%
Net asset value	$2.80

All tables and chart data is correct as at 30 April 2025