

# Intelligent Investor Australian Equity Income Fund

Active ETF (ASX:INIF)

**“One of the hardest things to do in the investment business is to fully appreciate how long it takes for things to happen. It takes forever for the changes to show up.” — Jeffrey Gundlach**

**“If Ben Graham thought Mr. Market was irrational in his day, he would try to have him committed today.” — David Barr**

**Alec Cutler on being contrarian: “The pain and the elation involved - mostly the pain - and how to have the backbone to stick with it, to be willing to be alone and wrong, not just wrong. Everyone’s fine being wrong in a crowd. No one wants to be alone and wrong and poked at; Why did you do that? You’re an idiot”.**

It’s said that the market climbs a wall of worry, but this quarter it bounded over a mountain of bizarre. Within just eight weeks fears switched from America’s solvency to the threat of World War three.

**Commonwealth Bank’s** valuation eclipsed five standard deviations above average. That’s a probability of 0.000000576%. Perhaps John Lennon captured the moment best in his song *Nobody Told Me*, ‘Always something happening and nothing going on. Most peculiar, mama’.

The market seems emboldened since ‘Liberation Day’ with investment flows going into the same market behemoths that have driven the market for

## Performance (after fees)


|                                  | 1 mth | 3 mth | 1 yr   | 3 yrs p.a | 5 yrs p.a | S.I. p.a |
|----------------------------------|-------|-------|--------|-----------|-----------|----------|
| II Australian Equity Income Fund | 2.1%  | 7.5%  | 2.7%   | 5.9%      | 11.4%     | 6.0%     |
| S&P ASX 200 Accumulation Index   | 1.4%  | 9.5%  | 13.8%  | 13.6%     | 11.8%     | 9.0%     |
| Excess to Benchmark              | 0.7%  | -2.0% | -11.1% | -7.6%     | -0.4%     | -3.0%    |


Inception (S.I.): 18 Jun 2018





## Fund overview


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.


 **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

the past few years. Valuations for Australia's stalwarts suggest a lost decade lies ahead, so that wave of money will eventually look for higher returns elsewhere.

Perhaps given the rising prices of many small cap stocks and resources stocks since 1 July, that's already happening. Lower interest rates should also help broaden the bull market.

## Portfolio

There were minimal changes to the fund during the quarter. We added **Dalrymple Bay** (see Appendix for a detailed review) after crystallising the losses on subscale positions **Pilbara Minerals** and **HMC Capital**.

We've banked a ~50% return from **Telstra** including dividends in a relatively short time despite the company being derided for its low earnings growth and mismanagement. More recently, management was refreshed and the focus switched to price increases across its dominant mobile network, the increased value of its vital infrastructure in a data-driven world fuelled by AI and the potential for higher dividends.

Sometimes the best investments are the most boring companies analysed to death by teams of analysts where your biggest advantage is ignoring the noise and focusing on some simple, well-known facts and being patient. We've taken advantage of the flight to safety that's bid up less cyclical businesses and sold the stock.

Brick manufacturing and land development is about as boring as it gets, yet **Brickworks'** share price has jumped over 50% after sibling **Soul Pattinson** launched a bid to finally join the two companies. Housing markets are struggling due to a combination of high costs and higher interest rates, but the combination could ignite a wave of buying as it becomes a major index constituent.

**Lovisa's** share price rebounded 50% after we increased our position in the wake of Liberation Day after opening its 1000th store and no change in its prospects. Management is turning its attention to other retail formats and competition is increasing, so our position sizing will likely be lower in future.

The share price of oil minor **Karoon Energy** increased over 50% as oil prices climbed following Israel's and America's bombing of Iran. As the global economy is less sensitive to oil prices these days, the impact of higher oil prices on global growth and oil stocks is also more muted. So, while oil prices could easily fall again, we're focused on the operational improvements at Karoon and its ability to pay high dividends and potentially buy back shares at four times earnings.

## Outlook

Confession season hasn't produced any surprises, and corporate activity is increasing with **Xero** and **Wisetec** acquiring expensive loss-making US businesses.

There are myriad ways the fund could benefit from acquisitions, either facilitating them in the case of **MA Financial**, becoming a target potentially like **RPM Global** and **Aussie Broadband** or by companies picking off cheap targets left behind by the huge momentum flows targeting the market's biggest companies.

The index is currently priced like 2007, where investors over the next decade banked a dividend yield of around 5% without any capital gains. The difference now is that the index is currently barely yielding 3%, valuations are higher and the prospects for the index's major constituents including the three major iron ore majors, four large banks, many A-REITs, **Wesfarmers** and **CSL**, are worse.

Lower interest rates and a momentum-driven market may blow their bubbly valuations up even further, but eventually markets will look for higher returns from cheaper, faster growing stocks like those we own.

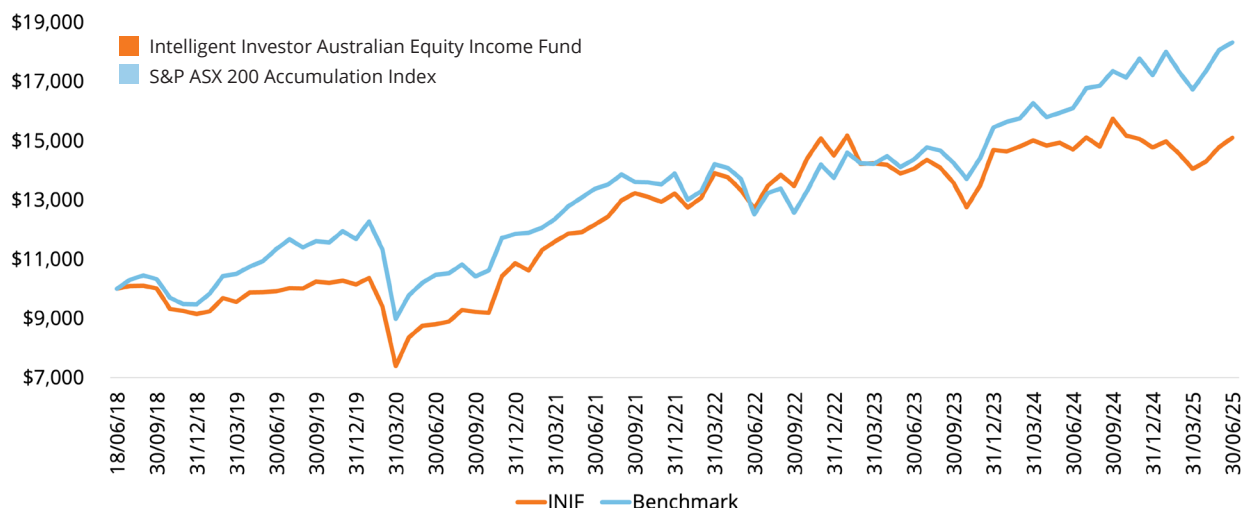
The upcoming distribution includes healthy capital gains banked during the year, and it could be the same next year after recently selling Telstra and trimming other profitable positions.

*Please get in touch if you have any questions*

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## Performance since inception



### Asset allocation

|                        |        |
|------------------------|--------|
| Materials              | 17.18% |
| Health Care            | 16.45% |
| Communication Services | 13.77% |
| Consumer Discretionary | 11.96% |
| Information Technology | 11.64% |
| Energy                 | 9.52%  |
| Consumer Staples       | 6.03%  |
| Financials             | 5.95%  |
| Industrials            | 3.49%  |
| Utilities              | 2.99%  |
| Real Estate            | 0.94%  |
| Cash                   | 0.08%  |

### Top 5 holdings

|                    |      |
|--------------------|------|
| BHP Group (BHP)    | 7.2% |
| ResMed (RMD)       | 6.4% |
| MA Financial (MAF) | 5.9% |
| CSL (CSL)          | 5.9% |
| Lovisa (LOV)       | 5.5% |

### Fund Stats

|                    |        |
|--------------------|--------|
| Distribution Yield | 4.61%  |
| Net asset value    | \$2.68 |

### Important information

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

## Appendix

# Dalrymple Bay Infrastructure: Take and pay

**The Dalrymple Bay Coal Terminal is the largest exporter of metallurgical coal in the world, with the capacity to move over 80 million tonnes of coal every year.**

### Key Points

- Operates a key monopoly asset
- Structured to reduce risk
- Distributions to rise over time

This coal, the type used for manufacturing steel, typically finds its way to Japan, Korea, China and India, and is used to make cars, construction materials and appliances. In operation for about 40 years, Dalrymple Bay is a monopoly asset that was once owned by Babcock and Brown and Brookfield and has been listed since 2020. Brookfield still owns 49% of the listed equity, now known as Dalrymple Bay Infrastructure (DBI).

Like most monopoly infrastructure assets, the port is regulated but unlike some monopolies (Chorus, for example), regulators observe more than instruct.

### Light of hand

Prices are set by negotiations, under the careful auspicious of the regulator, between 11 coal miners and the port operator. The current agreement runs to 2031 and, until then, there is a high degree of certainty about what pricing and returns should deliver.

Coal is moved on a take-or-pay basis, meaning that DBI is paid for capacity, regardless of whether that capacity is used or not. All port

capacity is fully contracted for the next three years.

Revenue comes from two charges to coal miners. DBI imposes a terminal infrastructure charge (TIC), a fee for accessing its asset, and it collects a handling charge that covers the operations of the terminal. DBI outsources all operations and costs are passed directly to the customer. The TIC is linked to CPI, and approved capital expenditure is guaranteed a return based on the ten-year bond rate plus a margin.

### Rising revenue, rising distributions

A unique attraction of DBI's model is that it takes little risk. Operations are all run by third parties and costs are passed through. DBI takes no risk for labour costs or operating costs. Problems at the mine site or with train lines don't change the requirement of customers to pay. This is as certain as revenue gets.

There are several competing ports in Queensland, but each port runs as a local monopoly. BHP, the largest coal miner in the region, operates the Hay Point Terminal which is only used for BHP coal. Abbot Point Coal Terminal and Gladstone both could compete for capacity but are higher cost as they require longer rail connections.

Distributions since listing have grown at 5% per year but this included two years of heavy-handed regulation that stunted returns. Since a new regulatory agreement was struck in 2021, DBI has been able to claim higher charges and invest in growth projects to raise returns.

Since listing, the TIC has grown by 43% and currently sits at \$3.59 per tonne of coal. We think this can rise to well over \$4 per tonne once growth spending is completed.

This should result in consistently rising dividends. The business itself expects distributions to rise 3-7% per year. Last year's distribution of 22 cents per share should grow to 24 this year and continue rising. That's a yield of 5.9% this year, rising over time.

Those distributions are supported by a monopoly asset that is structured to reduce risk. Coal volumes are cyclical and mine performance variable, but those factors shouldn't impact contract volumes at the port.

## Two thorns

There are two main risks to consider. The first is that DBI carries \$1.9bn of net debt against a \$2bn market capitalisation. That is high but is matched by highly certain revenue. DBI typically pays 60-80% of its free cash flow as distributions.

The other risk is more worrying. Management has suggested they intend to buy another infrastructure asset, something in the fossil fuel chain. This is always concerning, but with so many investors unwilling to buy those assets, a bargain might yet be had. We will reserve judgement until we see a deal.

This is a simple and enticing proposition for conservative investors. DBI operates a key piece of infrastructure that will be moving coal for decades. It assumes little risk, has sold all its capacity and generates guaranteed returns on every dollar it invests in new output. Current distributions of 5.9% will rise for years.