

Intelligent Investor Ethical Share Fund

Active ETF (ASX:INES)

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 630 396 584
ASX Code: INES

“Every market valuation is a number from today multiplied by a story about tomorrow.” — Morgan Housel

“The only way to build wealth is to have a gap between your ego and your income.” — Morgan Housel

“It’s easier to lie with numbers than words, because people understand stories but their eyes glaze over with numbers. As the saying goes, more fiction has been written in Excel than Word” — Morgan Housel

Our overseas holdings had a quiet quarter compared to our small and midcap Australian stocks that benefited from good results and a massive improvement in general sentiment. **MA Financial, Aussie Broadband, Dicker Data, and Eagers Automotive** had a very strong quarter and we’ve taken some profits to capture the market’s enthusiasm and keep portfolio positions in check.

The second biggest winner behind Eagers was **RPM Global**, up 50% on a takeover offer from Caterpillar. We’re holding the position in case there’s a higher bid.

Performance (after fees)

	1 mth	3 mth	1 yr	2 yrs	3 yrs	S.I. (p.a)
II Ethical Share Fund	-1.1%	2.9%	14.6%	15.4%	11.6%	10.4%
S&P ASX 200 Accumulation Index	-0.8%	4.7%	10.6%	16.0%	15.2%	8.9%
Excess to Benchmark	-0.3%	-1.8%	4.0%	-0.6%	-3.6%	1.5%

Inception (S.I.): 11 Jun 2019

RIAA’s RI Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that Intelligent Investor Australian Ethical Share Fund (ASX: INES) adheres to the strict operational and disclosure practices required under the Responsible Investment Certification Program for the category of Product. The Certification Symbol is a Registered Trademark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and Intelligent Investor Australian Ethical Share Fund (ASX: INES) methodology, performance and stock holdings can be found at www.responsibleinvestments.com.au, together with details about other responsible investment products certified by RIAA.



Fund overview

The Intelligent Investor Australian Ethical Share Fund is an Active ETF designed for investors seeking a diversified selection of Australian and international companies that produce growing, sustainable profits at low risk of interruption from the increasing threats associated with Environmental, Social and Governance (ESG) factors.

 **5+ yrs**

Suggested investment timeframe

 **10 - 40**

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



CERTIFIED BY RIAA

RPM Global has worked out exactly how we had hoped, up three-fold from our purchase price. CEO Richard Matthews has ensured shareholders will receive a premium price for their shares and we're looking forward to his next corporate adventure already. Congratulations to Richard and his team for their hard work over the past decade that has produced a wonderful result for staff and shareholders.

Healthcare

While **ResMed** is sailing, **CSL** and **Sonic Healthcare** have fallen to share prices unseen for nearly a decade. The GFC was the last time CSL traded on a teens-multiple of earnings.

New CEO Paul McKenzie is aiming to shrink CSL back to greatness by demerging the Seqirus flu vaccine business, cutting staff and outsourcing some research and development as competition increases, US government policy changes rapidly, and the company grapples with maturity and the poor acquisition of Vifor.

During the quarter we added small positions in pathology company Healius and financial data company **Iress** and reestablished a starting position in funds manager **Pinnacle**.

Healius is the old Primary Healthcare and has been a basket case for years. But new management has done a good job exiting peripheral businesses, eliminating debt and returning money to shareholders.

The final challenge is to at least match the profit margins of minnows like rival Integral Diagnostics and get much closer to Sonic Healthcare's. Even a modicum of success could double the share price and restore dividends, perhaps piquing the interest of private equity wishing to re-leverage the business.

We've owned Iress in the past, but it has struggled to increase profits at home and abroad for many years under several CEOs. We benefited from new CEO Andrew Russell's time at Count Financial, which was ultimately acquired, before **Bravura**'s share price increased six-fold after he joined in July 2023. If he can't improve Iress's profitability, we expect he'll eventually find a buyer.

Pinnacle's share price has fallen by a third partly in response to regulatory issues with its alternative assets manager Metrics. This is perhaps 10% of Pinnacle's value and pales next to the potential of the company's rapidly growing overseas business.

Pinnacle will likely become a large holding next time the sharemarket wobbles as it becomes less reliant on its crown jewel, Hyperion.

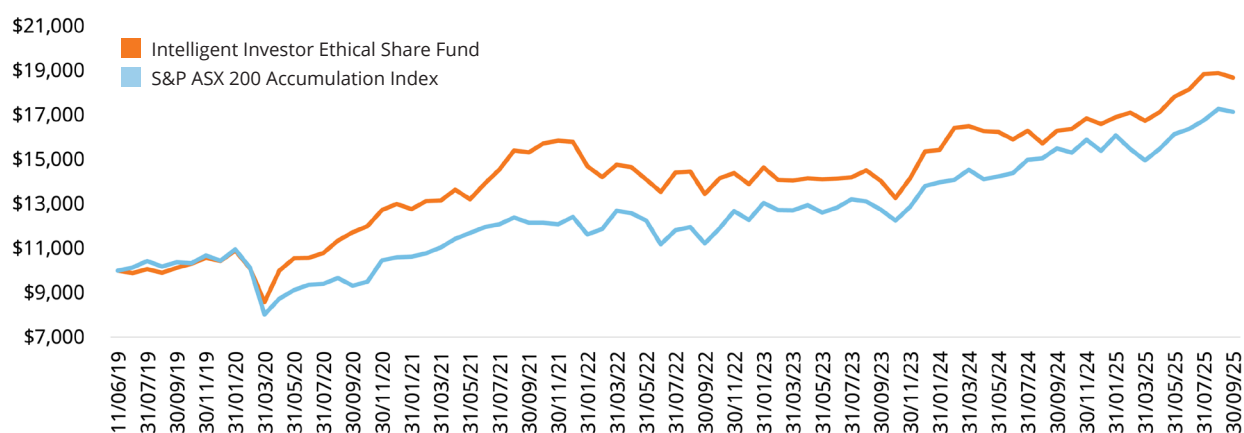
Lastly, we added Irish homebuilder **Cairn Homes** and **London Stock Exchange**, which we'll explain in detail in the appendix. Cairn trades on less than 10x forecast earnings and a 4% dividend yield despite the country's housing shortage and a return on equity of 15% and rising.

Please get in touch if you have any questions

info@intelligentinvestor.com.au

1300 880 160

Performance since inception



Inception (S.I.): 11 Jun 2019

Asset allocation

Financials	28.5%
Information Technology	21.6%
Communication Services	20.2%
Health Care	15.0%
Cash	9.3%
Real Estate	3.2%
Consumer Discretionary	2.2%

Top 5 holdings

Fairfax Financial Holdings (FFH.TSX)	6.7%
Visa (V.NYS)	5.7%
ResMed (RMD)	5.0%
Chorus Limited (CNU)	4.9%
RPMGlobal Holdings (RUL)	4.8%

Fund Stats

Distribution yield	0.70%
Net asset value	\$3.79

Important information

This document has been prepared by InvestSMART Funds Management Limited (ABN 62 067 751 759, AFSL 246441) (InvestSMART), the responsible entity of the Fund and issuer of units in the Fund. While every care has been taken in the preparation of this document, InvestSMART makes no representations or warranties as to the accuracy or completeness of any statement in it. To the maximum extent permitted by law, neither InvestSMART, its directors, employees or agents accept any liability for any loss arising in relation to this document. This document is not an endorsement that this portfolio is appropriate for you and should not be relied upon in making a decision to invest in this product. You should always consider the relevant disclosure document (including Product Disclosure Statement, Investment Menu, Target Market Determination and Financial Services Guide along with any accompanying materials) and/or seek professional advice before making any investment decision. Disclosure documents for financial products offered by InvestSMART can be downloaded from the InvestSMART website or obtained by contacting 1300 880 160. The document provides general financial information only. InvestSMART has NOT considered your personal objectives, financial situation and needs when preparing this document. You should consider your individual objectives, financial situation and needs and seek professional advice where necessary before making any investment decision. Past performance is not a reliable indicator of future performance. InvestSMART does not assure nor guarantee the performance of any financial products offered. InvestSMART, its associates and their respective directors and other staff each declare that they may, from time to time, hold interests in securities that are contained in this investment product.

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

Appendix

In 1698, John Castaing began listing stock and commodity prices on the walls of Jonathan's Coffee House, marking the beginnings of the London Stock Exchange (LSEG). For the next three centuries, the bourse bankrolled empires and fed manias like the South Sea Bubble. It was the heartbeat of global finance.

That image is long gone. Not just because New York has overtaken London as the world's financial hub, but because Castaing's LSEG is hardly recognisable.

The transformation began years ago and culminated with the US\$27bn purchase of Refinitiv in 2021. What was once a trading volume business now earns over 70% of its revenue from stable, recurring sources. The original exchange barely registers.

Each division varies in strength but none are weak. Think of LSEG as a conglomerate that combines CME Group, ASX, MSCI, Bloomberg and S&P Global.

Investors have largely missed this shift. Refinitiv's messy integration has kept the share price flat for five years. Now the hard part looks done and the stock looks cheap.

Refinitiv deal

The old LSEG operated like a typical exchange business. It bought rival European bourses, fought for listings and clipped fees on trading volumes. Business was good but volatile.

That changed with Refinitiv. The deal nearly tripled LSEG's revenue and was the brainchild of David Schwimmer, a former Goldman Sachs banker who became CEO in 2018. Schwimmer's rationale was simple: pivot towards recurring data revenue, cross-sell products and improve

offerings by merging datasets. As with most large acquisitions, the simple quickly became complex.

Under its previous owners, Refinitiv suffered from chronic underinvestment, was losing market share and required significant upgrades. LSEG has spent the last four years applying the fixes.

There's now evidence to suggest it's almost finished. Voluntary employee turnover fell from 17% in 2022 to 9% last year, subcontractor reliance is down and the earnings one-offs are declining.

Data and Analytics

Today's LSEG can be split neatly into two segments: recurring data and the volume-driven exchanges. The recurring side includes Data and Analytics, accounting for 45% of revenue and 37% of operating profit, and the FTSE Russell and Risk Intelligence contribute a quarter.

Refinitiv's old product, Eikon, was the problem child. LSEG inherited a mash-up of 240 products shipped in over 30 variants. Fifteen years ago, Eikon held its own with Bloomberg in trading and market analysis software for finance professionals. Consistent underinvestment changed that.

Market share fell from 30% to under 20%, and the little revenue growth it did manage came from pricing rather than adding new users. Management deemed the product beyond repair.

Workspace is the upgrade. Over 350,000 users have now migrated to the new, cloud-based platform, which delivers faster product updates and cleaner workflows. With the migration done, focus can shift to winning back market share.

Growth has already improved since the acquisition and the better product might support price increases. Still, at just 22% of group revenue, major success isn't critical to the investment case. Workspace is just an ok business.

Data feeds is far better. Here LSEG aggregates and packages data on over 90 million instruments from over 550 global exchanges. These datasets date back to 1996 and are relied upon by hedge funds and quant traders to back-test strategies and build models.

The value isn't in gathering the data, which is available to anyone for a fee, but rather in curating and distributing it. This is where LSEG's decades of experience give it an advantage.

Clients prefer buying data from one trusted source rather than stitching it together from hundreds of feeds. This makes switching costly as no fund wants to risk the backbone of a multi-billion-dollar trading strategy just to save a few dollars.

It allows LSEG to raise prices modestly each year with a dominant market share of 45%, double its nearest rival Bloomberg.

A step up

FTSE Russell and Risk Intelligence are a step up again. FTSE Russell is the third-largest index provider behind MSCI and S&P Global. Almost US\$1.6tn of ETFs track benchmarks it owns, like the Russell 2000 or the FTSE 100, with each being a natural monopoly.

Once an index is established, it can be sold repeatedly to different fund managers. Regulatory and compliance obligations make this expense practically impossible to avoid. It makes for a high-margin, capital-light business.

Risk Intelligence is harder to compare directly, but no less impressive. Its World Check platform screens for financial crime and

sanctions risk for 10,000 bank, government and corporate clients. This helps firms avoid doing business with any one of the 5 million crooks, oligarchs or warlords in its database and like Russell can be resold repeatedly. It's an unavoidable cost unless you want to risk being dragged in front of the Senate.

Incremental operating profit margins are over 85% for both and revenue is growing at high single-digits. The bigger the share of earnings each represents, the more valuable LSEG becomes.

The volume contingent

Revenues from trading still matter, though less than they used to. Capital Markets and Post-Trade together account for 35% of revenue and 38% of operating profit. Most of this is tied to volumes but there is some recurring revenue from listing fees, membership dues and licensed data.

Capital Markets' crown jewel is Tradeweb, the leading venue for US fixed income trading with over 20% of the Treasury and investment-grade bond markets. It's also expanding into European assets, stock ETFs and mortgage bonds.

Volumes are up threefold since 2020, with revenue and profits following suit. The main driver is traders moving from phone orders to computer trading, as is common for stocks. Once that shift happens, volumes rise as trade friction falls—hitting enter is easier than a phone call.

Tradeweb spotted the shift early and benefitted as volumes moved online. Further growth now seems likely.

The bad news is LSEG only owns 50.1% of Tradeweb, with the rest listed on the Nasdaq. Accounting rules require LSEG to fully consolidate Tradeweb despite being entitled to only half the profits. This muddies the financials

and means adjustments need to be made. Still, this is a fantastic asset, worth about 20% of LSEG's market cap.

Post-trade revolves around the LCH clearinghouse, which dominates interest rate swap clearing with a 90% market share. The platform acts as the middleman, taking on counterparty risk and guaranteeing that trades settle. Key to its success is scale.

Investors naturally flock to the platform with the deepest liquidity and the lowest risk, which creates a network effect that reinforces LCH's position. Unlike CME Group, where clearing and trading operations are vertically integrated, LCH is neutral and captures volumes from both other LSEG assets and rivals. Revenue swings with trading volumes and interest earned on client margins but is otherwise an excellent and growing asset.

Each of the five divisions is largely independent, giving LSEG a conglomerate feel.

Falling share price, cheap valuation

The share price has declined 25% this year, due to a weaker second-quarter result and the slow progress of the Microsoft partnership.

Subscription revenue growth has slowed due to the migration of Workspace and what looked like one-offs in data feeds and the index business. We think investors still worry about the Refinitiv deal and how the new Workspace will be received. Slowing growth, no matter the cause, only stokes those fears.

In 2022, Microsoft bought a 4% stake in LSEG and signed a 10-year partnership to integrate data across each other's products. LSEG committed to spending US\$2.8bn on cloud infrastructure, with an expected revenue uplift to come in 2025-26.

The problem is there's little sign of that yet. Progress has been slower than hoped because financial data demands near-perfect accuracy, unlike products like ChatGPT. This has held back revenue growth, but we think this opportunity is delayed, not lost.

Both issues feel short-term. Transformational acquisitions like Refinitiv always carry risk, but the integration looks nearly done. What's more, CEO David Schwimmer has been at the helm since 2018 and has overseen the entire transformation. We doubt he would have stuck around if Refinitiv were a dud. Pleasingly, he and the CFO have bought £1m worth of shares since the result.

At under 20 times next year's earnings, LSEG seems unappreciated. We think the company can grow annual revenue at mid-to-high single-digits and expand operating margins as the integration winds down. With buybacks, low-to-mid-teens earnings per share growth seems possible.

Available at a significant discount to other financial data businesses, LSEG could be a bargain if Schwimmer's original rationale is right.