

Intelligent Investor Equity Income Portfolio & ASX: INIF

Monthly update

PERFORMANCE TO 30 APR 2019	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS (P.A.)	3 YRS (P.A.)	S. I. (P.A.)
Intelligent Investor Equity Income	3.30%	6.68%	6.18%	2.28%	3.73%	7.51%	9.02%
InvestSMART Australian Equity Income Fund (Managed Fund)(ASX:INIF)	3.34%	6.79%	5.99%	-	-	-	-1.23%
S&P/ASX 200 Accumulation Index	2.37%	9.29%	10.87%	10.41%	7.90%	11.10%	8.58%
Excess to Benchmark*	0.93%	-2.61%	-4.69%	-8.13%	-4.17%	-3.59%	0.44%

'These [unicorn] losses are on a different scale from losses we've seen before. Pets.com, the poster child of the dot-com bubble, lost about \$150 million from when it was founded in 1999 to when it collapsed in late 2000. Webvan, another infamous dot-com company, lost \$610 million from 1998 through 2000. Let that sink in: The bubbliest companies of the dot-com bubble lost less over multiple years than Lyft lost in just 2018. Another fun fact: Amazon, the company that everyone loves to point to as an example of how losing money eventually makes money, lost a combined \$2.8 billion over its first 17 quarters as a public company, significantly less than the \$4.5 billion Uber lost in 2017.'

- Ali Griswold

'It's not given to human beings to have such talent that they can just know everything about everything all the time. But it is given to human beings who work hard at it—who look and sift the world for a mispriced bet that they can occasionally find one. And the wise ones bet heavily when the world offers them that opportunity. They bet big when they have the odds. And the rest of the time, they don't. It's just that simple.'

- Charlie Munger.

Technology bubble 2.0?

How do you spot a bubble in technology stocks? A good sign is when investors are paying many tens of billions of dollars for 'platforms' that lose billions of dollars while their private sponsors that get paid huge fees sell out.

Pinterest, WeWork, Uber and Lyft are just some of the US names that have listed recently or are about to. The common thread, aside from the fact that Uber and Lyft are rivals, is that they boast multi-billion-dollar market values and either measly profits (Pinterest) or large losses without a clear path to profitability, yet alone profits that justify a near US\$100bn valuation in Uber's case.

Avoiding such stocks is easy, but other problems seem unavoidable. Author Martin Fridson, also known as the 'dean of high yield debt', says the percentage of corporate debt issuers blessed with the lowest rating handed out by Moody's was 20% in January of 1997. As the GFC grew teeth, it increased to 28% in January 2008, and now it's an eye-popping 43%. Today's debt levels could be a tinderbox for the next downturn.

As we've explained in past presentations, though, there are always opportunities even in expensive markets. This month we added two.

Fallen star

The share price of casino operator **Star Entertainment** has fallen by almost a third from its peak. It now trades on an attractive EV/EBITDA (enterprise value to earnings before interest, tax, depreciation and amortisation) multiple of just over eight compared to a multiple of thirteen for **Crown Resorts** should James Packer get his price. Star also yields a handy 5.5% while we wait for the completion of its massive new Brisbane casino in 2022.

Although earnings could suffer in the short term along with the Australian and Chinese economies, the Star casino in Sydney has recently invested over \$200m to attract VIPs in response to Crown's neighbouring Barangaroo VIP casino that opens next year on the city side of Darling Harbour. It's also laid out plans to expand its casino and accommodation on the Gold Coast, and the new Brisbane casino will be much larger than the Treasury Casino it will replace. Albeit it's still several years away from opening.

CEO Matt Bekier has done a good job turning around Star's fortunes since its low point in 2014 by investing heavily in existing assets and the new Brisbane casino. He also sensibly brought in two Asian developers as shareholders, Chow Tai Fook and Far East Consortium, to help finance the developments. This reduces Star's contribution, which keeps debt down, while opening new marketing avenues to entice Asian customers.

Expectations for the company are relatively low as VIPs and regular customers are spending less in the current economic environment. While things might get worse in the short term, over the longer-term earnings should increase as the Queensland developments in Brisbane and on the Gold Coast are completed making today's valuation even more attractive. The Star may even be a takeover target if the Australian dollar stays low.

Smart choice?

Smartgroup is a salary packaging and novated lease company whose share price has recently fallen ~40% despite the company's excellent track record. Between 2014 and 2018, revenue has grown from \$72m to \$242m; profits from \$17m to \$78m; and packages from 118,000 to 330,000 for clients that mostly work in stable employment such as not-for-profit sectors and hospitals (they account for 83% of leases).

The company has an excellent balance sheet and doesn't have large residual liability risks associated with used car prices. Managing Director Deven Billimoria has been with the company for 18 years and owns \$24m worth of shares. That's exactly what we want in our CEOs; a meaningful shareholding and long track record of creating value.

The share price has fallen in response to Billimoria selling a quarter of his shareholding recently around \$8, and

also due to falling new car sales. Following long service leave, Billimoria has disclosed that he is committed to the company despite his share sales, and Smartgroup's clients should be less impacted by a slowing economy with an average car purchase price below \$40k.

Although the business will be more dependent on acquisitions to grow in future, given Billimoria's track record and the company's reputation for excellent customer service, a price-to-earnings ratio (PER) of 15 and dividend yield above 5% seems inexpensive.

Around the grounds

Flight Centre announced a larger than expected profit downgrade due to weakness in its Australian leisure business. While partly related to softness in the general economy, a raft of internal changes didn't help. We're giving founder and CEO Skroo Turner the benefit of the doubt as to whether the Australian leisure business is facing a more permanent decline in profitability. But Flight Centre's future is its US corporate small and medium sized business travel business, which is a huge opportunity and is performing well.

After resetting earnings expectations, we wouldn't expect any surprises in **Unibail-Rodamco-Westfield's** (URW) first quarter result. Fortunately, there weren't any. Sales are ticking along despite the slow European economy, and management reaffirmed earnings guidance for the full year. URW is halfway through its €6b shopping centre sale program to reduce debt, with sales so far 7% above book value.

Coles released lacklustre third quarter sales, but we're not expecting high profit growth. Provided Coles can defend its market position and profitability with intelligent, long-term investments then we'll collect a growing stream of dividends to complement our faster growing holdings that trade at lower dividend yields.

For more information on our Equity Income Portfolio, [click here](#).

Portfolio allocation

ASSET ALLOCATION	
Sector	Weighting
Financials	24.45%
Consumer Discretionary	21.16%
Industrials	16.51%
Consumer Staples	11.66%
Real Estate	9.45%
Cash	5.96%
Materials	4.36%
Information Technology	4.22%
Health Care	2.24%

TOP 5 HOLDINGS	
Security	Weighting
Commonwealth Bank	8.51%
Westpac Banking	6.50%
Sydney Airport	5.10%
Seek	4.73%
Unibail-Rodamco-Westfield	4.62%

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 April 2019. Performance figures are based on the portfolio's previous investment structure, a Separately Managed Account (SMA). This portfolio is now offered as a Professionally Managed Account (PMA), as of 1 November 2018. The underlying securities remain the same between the SMA and PMA structures. The inception date refers to the SMA. Please see the Investment Menu for full PMA fee details.



Skin In The Game podcast

Join portfolio managers Nathan Bell and Alex Hughes weekly as they discuss stocks, economics, their respective portfolios and much more.



InvestSMART Group Limited (INV)

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 Income Portfolio is a concentrated portfolio of 10 - 35 Australian-listed stocks, focused on generating income while still achieving capital growth. The Portfolio 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.

Investment objective

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

Why the Intelligent Investor Equity Income 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

INVESTMENT FEE

0.60% - 0.97% p.a.

PERFORMANCE FEE

N/A

MINIMUM INITIAL INVESTMENT

\$25,000

STRUCTURE

Professionally Managed Account (PMA)

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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