

Intelligent Investor Australian Small Companies Fund

Monthly update

PERFORMANCE TO 31 JUL 2019	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS (P.A.)	S. I. (P.A.)
Intelligent Investor Aust. Small Co. Fund	-0.4%	3.2%	10.3%	1.9%	0.3%	6.3%
S&P/ASX Small Ordinaries Accum. Index	4.5%	4.2%	15.7%	7.6%	14.9%	13.5%

The fund returned -0.37% for the month. The benchmark returned 4.51%. Reporting season is underway with four of our investments providing updates. Two reported pleasing updates in line with our expectations, and two did not. We had about 50% more capital invested in the companies reporting positive news, but the unrealised profits from positive news was less than the losses from negative news, leading to a soft month.

To the company news, **MSL Solutions** (down 38% for the month) missed its EBITDA target (again) due to soft revenue and higher research and development spending. Thankfully, we cut our position in half before the news which helped to stem our losses.

MSL Solutions was a disappointing investment for the fund. Despite possessing many of our preferred attributes, such as insider ownership, high recurring revenue and a strong niche, poor execution let us down. Our takeaway is to be more sceptical of recently listed businesses with unproven management teams, and to cut underperforming businesses faster.

Adacel (down 20% for the month) will record a \$2m pre-tax loss for the year due to project cost overruns, lower contract awards and restructuring costs. We've maintained a small holding as we think its software assets are worth considerably more than the current price, but we're unwilling to hold a big position unless execution improves.

Vocational educator **Academies Australasia** (up 8% for the month) guided for its best year on record with 30% growth in underlying EBITDA to \$9m. As this growth

was achieved via busier rather than new classrooms, expect to see healthy cash flow and a cash rich balance sheet when the accounts are released later this month.

“MEANWHILE, INTERNATIONAL STUDENTS CONTINUE TO FLOCK TO OUR SHORES, AND WHEN COUPLED WITH ACADEMIES’ HEALTHY DIVIDEND YIELD, SEES AN ATTRACTIVE RETURN EVEN IF THE MARKET CONTINUES TO DISAGREE WITH US.

Academies' is not everyone's cup of tea though, as management's communication is light and capital allocation concerns linger from the disastrous Spectra acquisition in 2014. This explains the paltry EV/EBITDA of five compared to competitor Redhill Education's nine. We're more enthusiastic because we think the board and management have learned from their mistake, which hurt them more than anyone due to their 61% ownership. Chunky dividends will replace chunky acquisitions in future.

Meanwhile, international students continue to flock to our shores, and when coupled with Academies' healthy dividend yield, sees an attractive return even if the market continues to disagree with us.

Frontier Digital Ventures (up 17% for the month) reported another impressive quarter with revenue

growth of 73%. Our investment case remains on track with most of Frontier's investments growing strongly and trending towards profitability.

The result also highlights how currency affects Frontier's investments. Take Pakistan for instance, where Frontier has an investment in property classified Zameen and automobile classified Pakwheels, and the Rupee has been depreciating.

Zameen's revenue grew by 109% (in Australia dollar terms) over the half, as the lower rupee sparked interest from exPat property buyers. Whereas Pakwheels suffered 14% lower revenue as the lower Rupee made imported cars more expensive. Pleasingly, Frontier's portfolio is heavily skewed to property classifieds which have tended to be the best performers over time.

Portfolio allocation

ASSET ALLOCATION	
Sector	Weighting
Information Technology	39.10%
Consumer Discretionary	20.00%
Cash	12.50%
Other	9.00%
Communication Services	6.60%
Industrials	4.80%
Financials	3.60%
Energy	3.20%
Health Care	1.20%

TOP 5 HOLDINGS	
Security	Weighting
Audinate (AD8)	9.9%
Hansen Technologies (HSN)	6.5%
RPMGlobal Holdings (RUL)	6.1%
Lovisa Holdings (LOV)	5.0%
Seek (SEK)	4.8%

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 31 Jul 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 Fund

The Intelligent Investor Australian Small Companies Fund is a concentrated portfolio of 10 - 25 Australian listed small companies and cash, that seeks to deliver moderate to high total portfolio returns over the long-term.

Investment objective

The Fund's investment objective is to deliver long-term capital growth by investing in small Australian companies.

Why the Intelligent Investor Australian Small Companies Fund?

Suitable for those looking to diversify their Australian equity exposure, take advantage of the potential missed opportunities that are often overlooked and not well-researched by larger fund managers.

Actively managed by our investment team, the Intelligent Investor Australian Small Companies Fund allows investors access to these opportunities at a lower fee structure than most fund managers.

Who manages the investment?

Alex joined the team in July 2016 to provide dedicated research on small capitalisation companies (small caps) and is supported by our Investment Committee, chaired by Paul Clitheroe. Alex has over 8 years successfully managing private portfolios, and prior to joining the team, held various roles in funds management and international research. Alex is a Chartered Financial Analyst (CFA) charterholder and holds a degree in Finance and International Business from Griffith University.

Key Details

INVESTMENT CATEGORY

A portfolio of individually selected Australian Equities

INVESTMENT STYLE

Active Stock Selection, Value Investing Approach

BENCHMARK

S&P/ASX Small Ordinaries Accumulation Index

INCEPTION DATE

1 February 2017

SUGGESTED INVESTMENT TIMEFRAME

7+ years

NUMBER OF STOCKS

10 - 25

INVESTMENT FEE

0.97% p.a.

PERFORMANCE FEE

10.25% of the excess of the Fund's performance above the benchmark^

MINIMUM INITIAL INVESTMENT

\$25,000

STRUCTURE

Managed Fund

SUITABILITY

Suitable for investors who are seeking domestic equity exposure with a growing stream of dividends to offset inflation

PORTFOLIO MANAGER

Alex Hughes, CFA

Important information

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