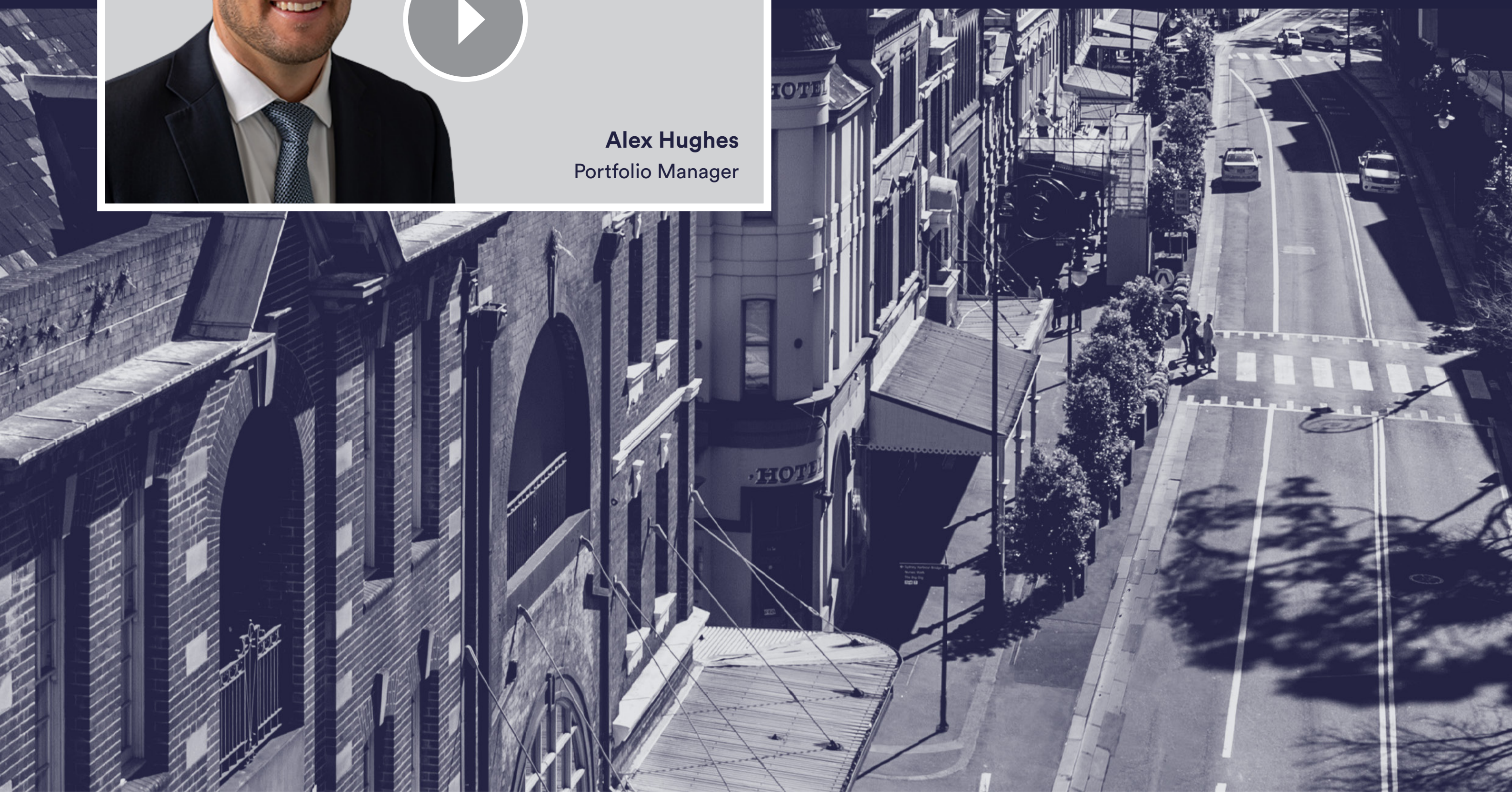
Intelligent Investor Australian Small Companies Fund

Quarterly Report

30 JUNE 2019

- Core holdings delivering a strong quarter
- Our new investment in Macquarie Telecom
- Large profits from a small casino



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Intelligent Investor Australian Small Companies Fund

PERFORMANCE TO 30 JUNE 2019 (AFTER FEES)	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS	S. I. (P.A.)
InvestSMART Australian Small Companies Fund	1.56%	7.10%	11.87%	1.44%	2.58%	6.74%
S&P/ASX Small Ordinaries Accumulation Index	0.92%	3.75%	16.81%	1.92%	12.53%	11.94%
Excess to Benchmark	0.64%	3.35%	-4.94%	-0.48%	-9.95%	-5.20%

Dear fellow unitholder,

The fund gained 1.56% in the month of June. The benchmark gained 0.92%. For the June quarter, the fund gained 7.10% while the benchmark gained 3.75%.

To a young Warren Buffett, investment success meant sifting through Moody's Manuals page by page. It wasn't that others didn't appreciate conservative insurance companies on two times earnings, or cash boxes at a discount, there were just fewer people looking.

Nowadays, funds outnumber stocks and investment briefings overflow with analysts (with 'standing room only' for global software names). And with fast internet, digital databases and powerful software tools, today's analysts can do in seconds what took Warren days. Given how frequently today's stocks are combed, if something looks too obvious then it probably is.

Fierce competition has become too much for some, with handfuls of funds management businesses closing their doors recently. This could endow survivors with near term opportunities to buy off forced sellers. But the long-term trend of reducing inefficiency appears well set. This means we must continually evolve to stay relevant in a changing world.

Instead of fighting an unwinnable war of crunching numbers against computers, we need to obtain insights the computers don't have. Instead of worrying about this quarter's performance or next, we must ensure our capital is invested in the businesses with the greatest long-term potential. Instead of adhering to value investing dogma, our primary focus must be making money.

These challenges mean we must find new ways of finding solutions. We've been experimenting with new techniques to gain insight, and have already found them informative to our decision making. Success here is only limited by our creativity. We look forward to updating on these fronts in future fund updates.

The customer pleaser

If you've had a frustrating call with a Telstra or TPG's customer service, you'll appreciate what's special about **Macquarie Telecom**, a recent addition to our portfolio. This upstart telco and hosting business's mission is to maximise customer satisfaction, and they excel at it.

In a field known for disappointing customers, Macquarie Telecom has transformed them into powerful advocates. Its net promoter score, a measure of how likely customers are to refer friends, not only trounces telco competitors but is among the highest on the ASX. A feat that's tricky to replicate.

The Tudehope brothers founded Macquarie Telecom in 1992 and still run it today, with David at Chief Executive and Aidan at Head of Hosting. Their 61% combined holding makes it hard for larger fund managers to get 'set', so Macquarie Telecom tends to fly under the radar.

The allure is its growth in hosting. Macquarie Telecom's already well regarded in the space, with **customers like Google** and 42 Government agencies vouching for their security and service. But with hosting capacity set to triple over the next few years to meet surging demand, Macquarie Telecom's high margin hosting earnings are set to follow.

This expansion also has the hallmarks of an owner manager's too. Instead of splurging on needless geographic diversity, Macquarie Telecom is saving money by expanding an existing facility. Instead of diluting shareholders, Macquarie withheld its dividend and is utilising low cost debt and support from partner, Keppel.

Macquarie Telecom's unlikely to catch attention with construction underway, but when customers start piling up it will be hard to ignore.

Cashing in on casinos

In our **December update**, we noted '*capitulation selling in a few pockets, which has us salivating over the prospect of finding a few gems amidst the rubble*'. It ended up being a brief window with the market rocketing off its late-December lows, but that didn't stop us scooping up South East Asian casino operator, **Donaco International**.

Donaco's not a high-quality name as it operates 'cross border' casinos; casinos that serve punters from neighbouring countries that prohibit gambling. Donaco constructed its Northern Vietnam casino for $76m in 2013 to serve Chinese punters, and acquired its Cambodian casino for $513m in 2016 to serve Thai punters. These casinos enjoy rising demand but face the risk of adverse casino regulation.

Despite $588m of sunk costs, and having organically repaid $101m of debt over the prior three years, we bought our Donaco shares at a $54m valuation thanks to a dramatic series of events. Ex-Board members poached staff and customers and began competing next door. Chinese gangsters threatened patrons. The then CEO, already amidst an inheritance dispute and divorce, lost his 27% stake after defaulting on a margin loan. And two institutional shareholders dumped their stock at fire sale prices.

Donaco's woes were so farcical it was embarrassing to admit to being a shareholder, and that was precisely why it was cheap. Few institutions will risk looking stupid with companies that read like Tarantino thrillers, but good things tend to happen when you buy conservatively financed, cash generative assets for two times operating earnings.

Donaco is now on a clearer path, with stable trading, less restrictive debt facilities and a credible CEO at the helm. Returns could even accrue from Donaco's $269m non-compete arbitration against the ex-Board member. That's if it isn't snapped up before that, as a Thai hospitality billionaire recently bought 20% at $0.24 per share, which is around four times our cost base.

Around the grounds

Pushpay (up 4% in June) upgraded its FY20 earnings guidance by 6% due to higher giving volumes and cost efficiencies.

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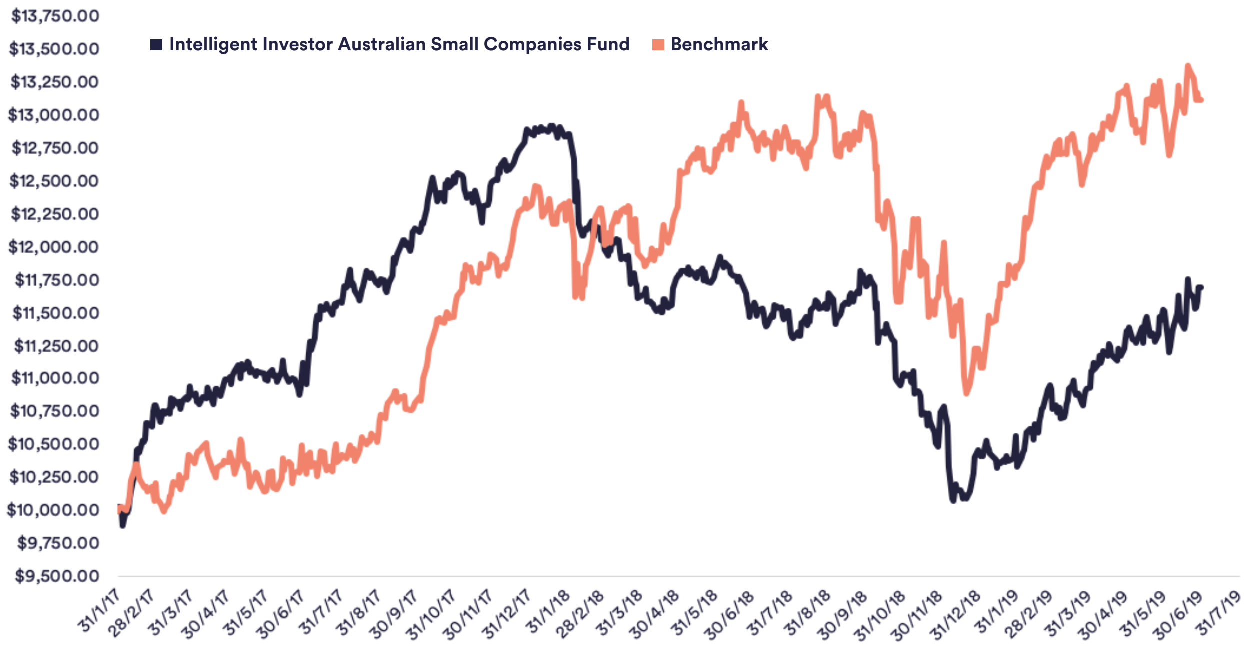
Dicker Data (up 5% in June) announced the launch of a financial services division to help customers turn capital expenditure into operating expenditure, and directors continued their on-market buying.

Audinate (flat in June) raised $20m to expedite adoption of its AV solutions and develop new products. We're comfortable with a small amount of dilution if its means Audinate can capitalise on its opportunity quicker.

We thank you for the trust bestowed upon us and appreciate the ongoing support.

Kind regards,
Alex Hughes

PERFORMANCE OF $10,000 SINCE INCEPTION



ASSET ALLOCATION

Sector	Weighting (%)
Information Technology	49.39
Cash	16.65
Consumer Discretionary	15.56
Financials	5.31
Industrials	4.87
Communication Services	4.45
Energy	2.80
Health Care	0.97

TOP 5 HOLDINGS

Security	Weighting (%)
Audinate	10.61
Hansen Technologies	6.71
RPMGlobal Holdings	6.04
Lovisa Holdings	5.10
SEEK	4.87

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 June 2019. Table of performance figures on page 2 is after investment and admin fees, and includes brokerage. Unit pricing taken at the end of each month.

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 - 40 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 10 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 - 40

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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