

Intelligent Investor Australian Small Companies Fund

Monthly Update - 30 November 2019

Portfolio Manager: Alex Hughes

INVESTSMART

PERFORMANCE TO 30 NOV 2019 (AFTER FEES)	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS (P.A.)	S. I. (P.A.)
II Australian Small Companies Fund	4.21%	11.43%	10.39%	18.36%	0.89%	8.88%
S&P/ASX Small Ordinaries Accum. Index	1.56%	3.68%	5.14%	16.62%	7.10%	11.70%
Excess to benchmark	2.65%	7.74%	5.24%	1.74%	-6.21%	-2.83%

The fund gained 4.21% during November (net of fees and expenses). The benchmark gained 1.56%.

November's performance was buoyed by the "A's". **Adacel** (ADA, 33% for the month) upgraded its profit guidance at its AGM, ending the string of downgrades that has hampered it over the last few years. **Australian Ethical** (AEF, 38%) and **Audinate** (AD8, 22%), which we've discussed at length in previous updates, both rose on no news.

To the detractors, **Academies Australasia** (AKG, -14%) fell on thin volume, despite a strong start to the year for its international education business and continued director buying. **Dicker Data** (DDR, -8%) drifted lower despite signing a \$100m distribution agreement with security technology vendor, Checkpoint. **Lovisa's** (LOV, -10%) same store sales growth was slightly softer than some investors were expecting.

The fund closed the month with 23 positions and 7.8% cash.

Company news

Webjet (WEB, 11%) expects FY2020 underlying EBITDA to grow by 26-34% through a mix of organic and acquired growth, with cash conversion at healthy levels. Despite a sluggish domestic travel market, we're enthusiastic about the prospects for Webjet's bedbanking division worldwide.

Similar to how Visa and Mastercard provide the payment rails between banks, bedbanks provide the rails between a hotel and travel agent. Hotels are attracted to the high value guests bedbanks supply, who tend

to spend more, book further in advance and cancel less than other guests. They also prevent hotels from becoming beholden to the direct to consumer platforms. Bedbanks also provide vital aggregation of hotel inventory for travel agents and other users.

Webjet has used acquisitions to bolster its global network of hotels and travel agents. Acquisitive strategies have a poor track record generally, but we think Webjet's has a better chance of working. The principal reason being that each user's experience is enriched as more users are plugged into the network. Scale advantages are likely to mount over regionally focused competitors, too. It's still early days for this investment, but with incremental margins breaching 50%, we can already glimpse what the business could look like at scale.

In the first four and a half months of FY2020, **RPMGlobal** (RUL, 0%) has already sold more subscription software than they did in the prior year.

Four directors were rolled at **Donaco's** (DNA, 1%) blockbuster AGM, leaving two representatives of major shareholder Argyle Street Management on the board. Argyle must now appoint several new directors to meet board size and residency requirements. The outcome doesn't jeopardize Donaco's Singaporean legal claim but it gives Argyle complete control of Donaco's future. Minorities shouldn't have anything to fear if Argyle's past investments are anything to go by, including a profitable stint at **Mt Gibson Iron** (ASX:MGX). A fresh pair of eyes makes Argyle's better suited to settling Donaco's Star Vegas dispute, too. But it's a situation we're watching closely and managing with our position size.

Portfolio allocation

ASSET ALLOCATION	
Sector	Weighting
Information Technology	42.1%
Consumer Discretionary	22.9%
Cash	7.8%
Communication Services	6.9%
Energy	5.6%
Industrials	5.2%
Financials	4.6%
Other	3.9%
Health Care	1.1%

TOP 5 HOLDINGS	
Security	Weighting
Audinate (AD8)	11.5%
RPMGlobal Holdings (RUL)	8.6%
Seek (SEK)	5.2%
Webjet (WEB)	4.8%
Australian Ethical Investment (AEF)	4.6%

InvestSMART Group Limited (INV)

was founded in 1999 and is a leading Australian digital wealth advisor which has over 32,000 clients and over \$1.4bn 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 11 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

[^]Benchmark is the greater of the S&P/ASX Small Ordinaries Accumulation Index and the RBA Cash Rate in each 12 months to June 30. Performance fees are only accrued if the Fund Net Asset Value (NAV) is higher than the NAV when last performance fee was paid (high watermark).

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