

Intelligent Investor Australian Small Companies Fund

Quarterly Report

30 SEPTEMBER 2019



- Core holdings delivering a decent quarter
- Our new investment in Webjet
- Thorn Group snatching defeat from the jaws of victory



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PERFORMANCE TO 30 SEP 2019 (AFTER FEES)	1 MTH	3 MTHS	6 MTHS	1 YR	2 YRS	S. I. (P.A.)
InvestSMART Australian Small Companies Fund	5.6%	3.0%	10.3%	2.2%	-0.4%	7.3%
S&P/ASX Small Ordinaries Accumulation Index	2.6%	3.1%	7.0%	3.9%	11.8%	12.0%
Excess to Benchmark	3.0%	-0.1%	3.4%	-1.8%	-12.2%	-4.8%

September was a fruitful month for the Intelligent Investor Small Companies Fund with a 5.59% return (net of fees and expenses). The benchmark returned 2.61%.

Returns were broad based, with 13 of our largest 15 investments contributing positively, offset by modest declines from **Carsales** (down 3%) and **Xero** (down 2%). Strong contributors included **Academies Australasia** (up 28%) with investors taking note of its strong free cash flow, modest valuation and consistent director buying. **Dicker Data** (up 22%) announced a special dividend after selling its old warehouse. And **IOOF** (up 26%) won its court case against APRA which increased its chances of completing its ANZ wealth management acquisition.

Our top five holdings **Audinate** (up 7%), **RPMGlobal** (up 13%), **Lovisa** (up 1%), **Seek** (up 6%) and **Academies Australasia** were unchanged. We initiated three new positions during September and increased our small holding in **Webjet** (down 12%).

Banking on beds

We're attracted by the growth potential of Webjet's 'Webbeds' division, which has grown by acquisition to become the number two provider to the fragmented bedbanking industry. An opportunity exists to build a materially bigger business over time.

A big factor which got us over the line was chief executive John Gusic, who owns \$75m worth of

Webjet stock and has executed strongly since joining Webjet in 2011, with earnings per share compounding at 20% p.a. under his tenure. John's experience at GTA (now Hotelbeds), Webbed's main competitor, gives us confidence in his strategy, as does \$809k of recent director buying.

Webjet's share price was hit hard when Thomas Cook, the UK's oldest tour group operator, went bankrupt during the month, which knocked \$7m from Webjet's earnings and caused a EUR 27m bad debt. This provided an attractive entry point into a business with good long term prospects, aligned management and strong underlying momentum.

“WE'RE ATTRACTED BY THE GROWTH POTENTIAL OF WEBJET'S 'WEBBEDS' DIVISION, WHICH HAS GROWN BY ACQUISITION TO BECOME THE NUMBER TWO PROVIDER TO THE FRAGMENTED BEDBANKING INDUSTRY.

Webjet's online travel agency is highly exposed to the Australian economy, which we've been concerned about for some time. But following several interest rate cuts and loosened mortgage lending standards there's tentative signs of improvement. Webjet's total transaction value increased 9% in the first six weeks of

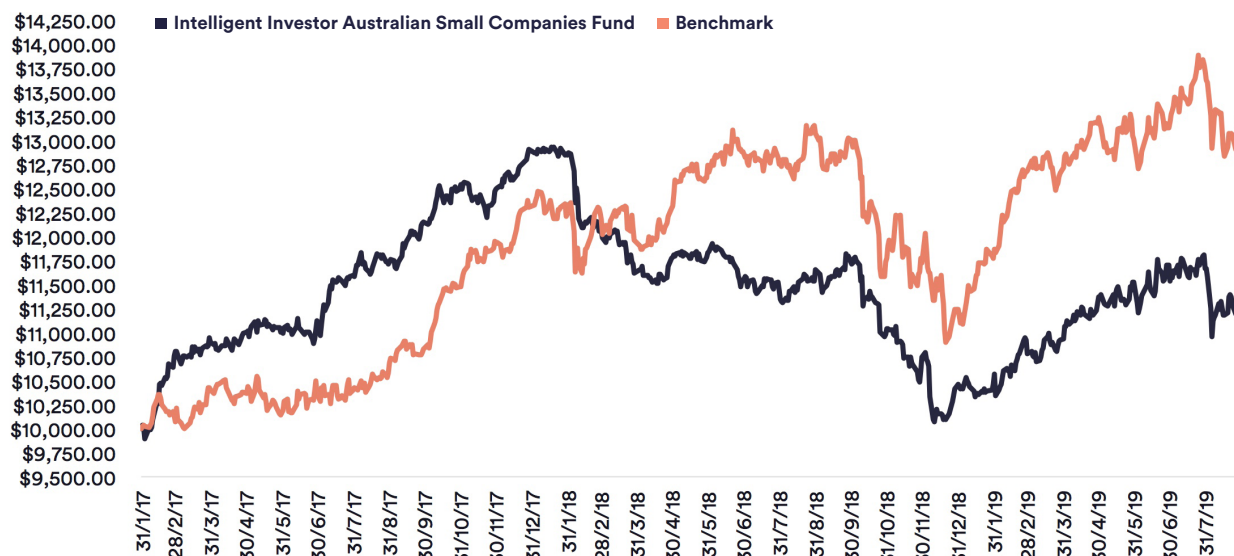
FY20, and website traffic data suggests that's continued. "Strong opinions, weakly held" sums up our strategy with our Webjet investment, and we'll be looking to hold until disconfirming evidence mounts.

For those with an Intelligent Investor subscription, we expanded on our [Webjet investment case here](#).

Around the grounds

Thorn Group (flat for the month) settled its longstanding class action for \$25m (our bear case scenario), which removes the handbrake that's prevented value enhancing initiatives for several years. It also received a \$82m cash offer from Consolidated Operations for its equipment finance business (exceeding our bull case). However, Thorn's new board, led by representatives from major shareholder Somers, have ended asset sale discussions, snatching defeat from the jaws of victory. A one for one rights issue was launched to fund the class action and turnaround.

PERFORMANCE OF \$10,000 SINCE INCEPTION



ASSET ALLOCATION	
Sector	Weighting
Information Technology	40.1%
Consumer Discretionary	23.8%
Communication Services	7.0%
Cash	6.8%
Energy	6.3%
Other	5.1%
Financials	5.1%
Industrials	5.0%
Health Care	0.9%

TOP 5 HOLDINGS	
Security	Weighting
Audinate (AD8)	10.1%
RPMGlobal Holdings (RUL)	8.1%
SEEK (SEK)	5.0%
Academies Australasia Group (AKG)	4.9%
Lovisa Holdings (LOV)	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 30 Sep 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)

InvestSMART 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

[^]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).

Important information

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