



INTELLIGENT INVESTOR

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20 October 2022

Ethical Share Fund

Secondary Offer (ASX:INES)

Important Information

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Past performance is not a reliable indicator of future results. Our performance figures are hypothetical and based on recommendations from Intelligent Investor using stock prices at date of publication. Brokerage costs have not been included. As stocks rise and fall, returns may be negative. We encourage you to think of investing as a long-term pursuit.

Proven II approach

High quality businesses

- High insider-ownership – FDV, RUL, TGP, AD8, PNI, ALU, PWR, MAF, ABB, RMD
- Long growth runways – All the above
- A large discount to intrinsic value

Special situations

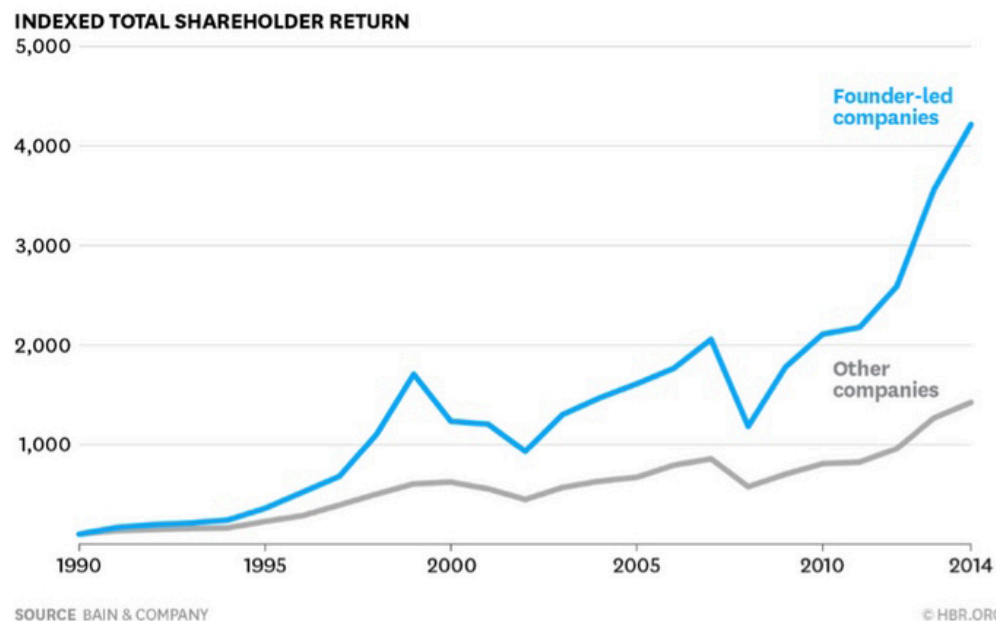
- New CEO
- Busted IPOs
- Re-capitalisations
- Spin-offs
- Hidden assets

Best corporate governance: Skin in the game!

Founder-led companies vs S&P 500

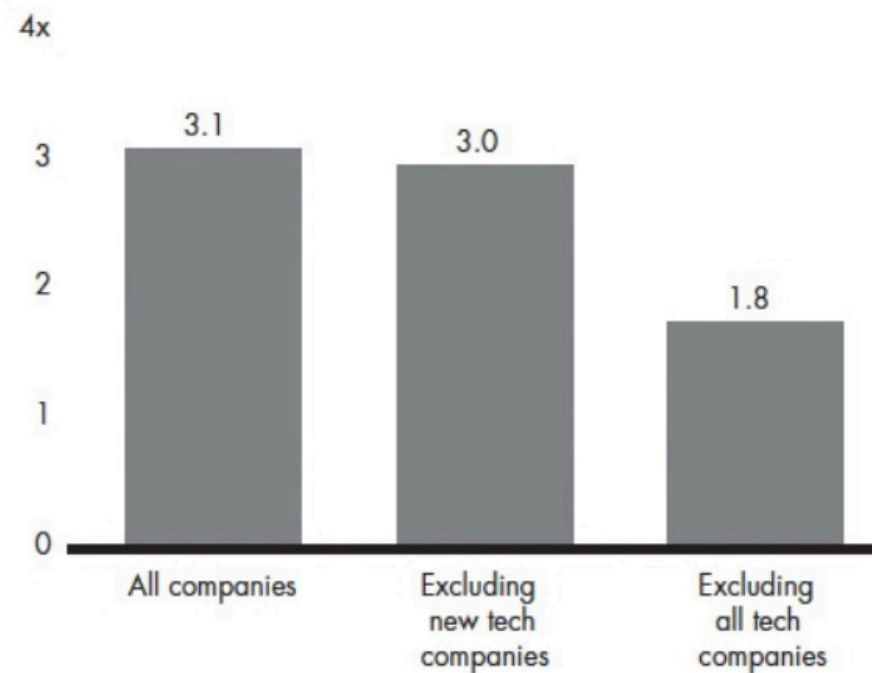
Founder-led companies outperform the rest

Based on an analysis of S&P 500 firms in 2014



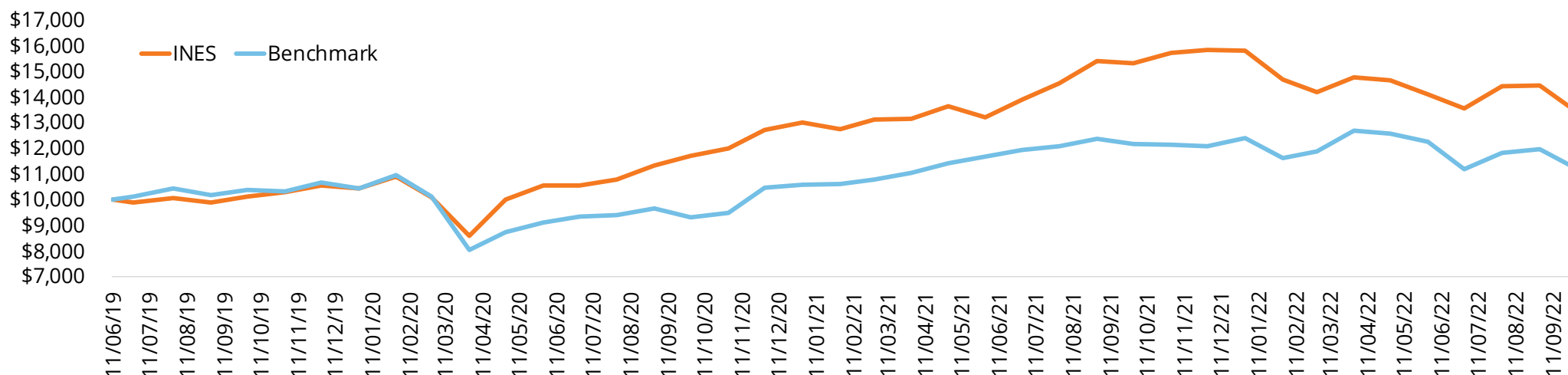
True even with tech companies excluded

Founder's Index vs other S&P 500



Performance

As at 30 September 2022



	1 yr	2 yrs p.a.	3 yrs p.a.	Since Inception p.a.
Portfolio	-12.2%	7.1%	9.9%	9.4%
Benchmark	-7.7%	9.8%	2.7%	3.6%
Difference	-4.5%	-2.6%	7.3%	5.8%

Why has the fund performed so well?

- Maintained valuation discipline from launch
- Invested cash aggressively during 2020 bear market
- Good stock picking; few mistakes
- Numerous undiscovered owner-led stocks
- Profit taking, outright sales and several takeovers realised lots of value and cash that's slowly being invested
- High cash balance is the reward for good stock picking and has helped protect the portfolio from recent falls

How will the fund keep performing?

- **Avoid locking in mediocre returns as interest rates increase**
The biggest mistake = buying too early
- **Invest aggressively when the time comes**
Market slowly adjusting to higher interest rates. But don't expect a GFC scenario
- **What performs in increasing interest rate environments?**
Value; Cyclical; Hidden gems; Resources; Pricing Power; cash = optionality
- **More M&A activity?**
RUL
- **High quality holdings**
Safest portfolio we've ever had
- **Highly-priced market and end of free money**
Suits active value management approach

Economic and market environment

- The US remains the centre of the financial universe
- US inflation and interest rates increasing.....
- ...but valuations still very high, particularly for tech stocks
- Small and mid-sized stocks hit hardest
- Multiples and profit margins compressing slowly;
- Don't look in the rear view mirror; things have changed e.g. sovereign debt ; UK pension crisis;
- Focus on market leaders, as they benefit from downturns

Portfolio activity

- Sold LendLease
- Kept Ansell
- Sold illiquid stocks to increase room under liquidity rules
- Slowly building stakes in Australia's best businesses (MAF; JHX; CAR; OCL; RMD; CSL; IDX; ABB)
- Safest portfolio we've ever had but...
- ...want to be fully invested in the cheapest portfolio we've ever had

**“Software is eating
the world.”**



– Marc Andreessen

Frontier Digital Ventures (ASX:FDV)

- Owns (stakes) in 18 online property classifieds businesses
- Increasingly attaining 100% ownership
- Market Cap = \$280m; Potentially worth \$3.5bn-\$5bn
- Insider ownership 20%; Founder/CEO is ex REA and iProperty
- Internet giant Naspers (via OLX) likely acquirer
- Property transactional market dwarfs advertising
- Battle for market share over; time to pull the price levers;
- Reputable fund managers buying shares

Audinate (ASX:FDV)

- Created at the CSIRO
- Market size \$1bn
- 19x the volume of next largest competitor
- 6% insider ownership
- Brokerage coverage increasing
- COVID recovery appearing in higher sales

RPM Global Mining (ASX:FDV)

A large yellow mining bulldozer is positioned in the upper center of the frame, pushing a pile of dark earth. Below it, a yellow mining truck is parked on a dirt road, its bed filled with dark material. In the foreground, another yellow mining truck is shown from a side profile, also filled with dark material. The background shows a vast, open mining site with dark earth and some distant structures under a clear sky.

- Mining software
- Trades at 7x revenue (Xero trades at ~19x)
- Switching to SaaS model
- Insider ownership 11%
- CEO Richard Mathews has done this before
- Lets results do the talking
- Likely takeover candidate
- Sales recovering post-COVID

Pinnacle Investment Management (ASX:PNI)

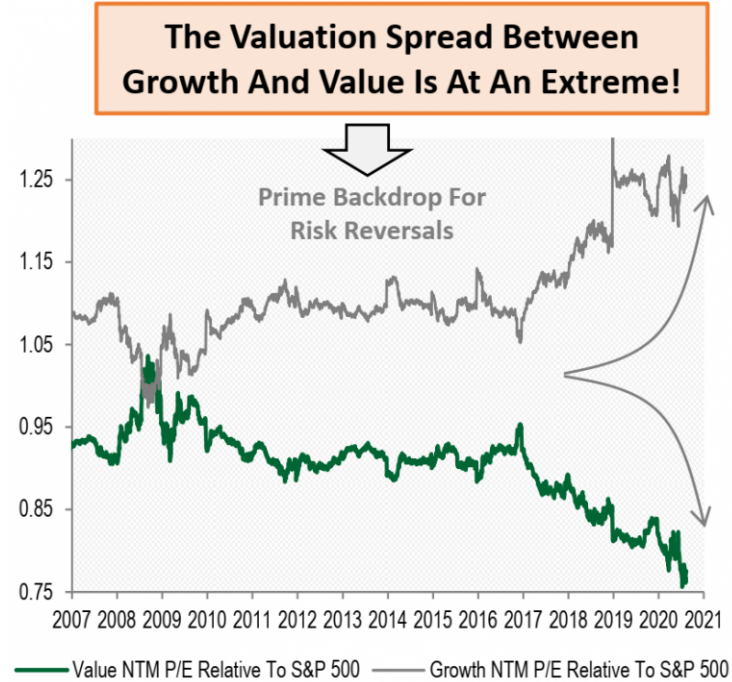
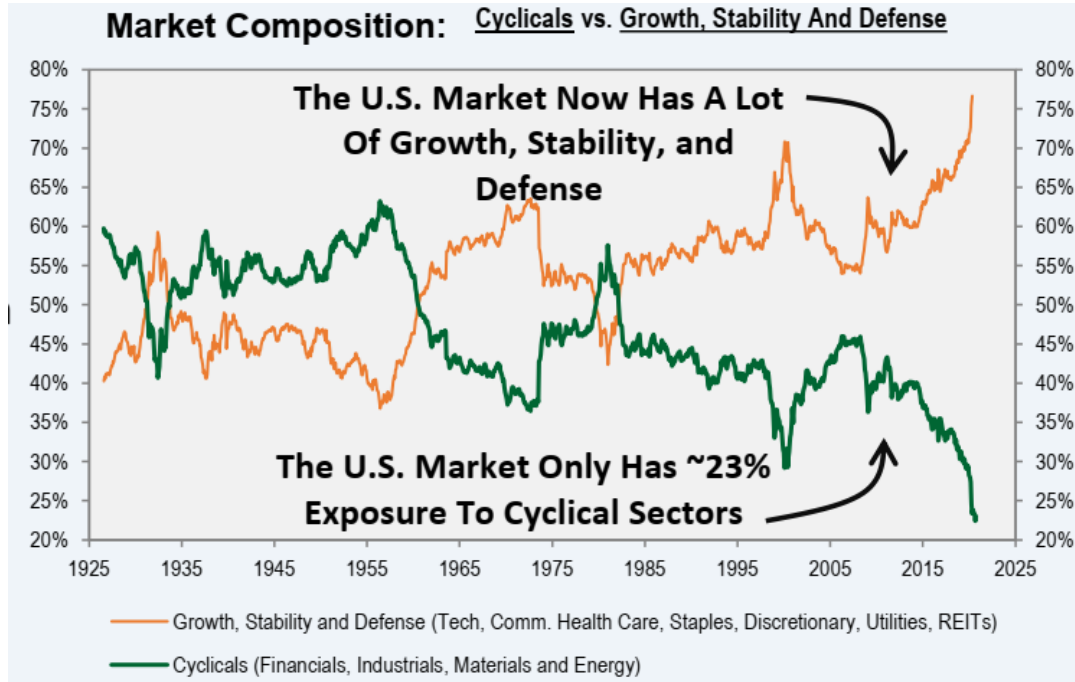
- Founder/CEO Ian Macoun doing a terrific job
- Insider ownership 46%
- FUM recently reached \$90bn across 18 strategies
- One stop shop for managers with skin in the game
- Investors want independent managers
- Plenty of ways FUM can grow
- Stock was a gift at \$2.50 during the downturn

**“There is always
something to buy.”**



- Chris Cuffe

Value investing still works



It's easy (ASX:INES)

- Buy and sell at net asset value (NAV) just like a regular stock
- Ready-made portfolio
- Highly liquid; subject to ASX liquidity rules
- Same Intelligent Investor long-term approach
- Focus on high quality businesses
- Long-term holdings help minimize tax
- Semi-annual distributions
- Regular reporting and candid communication
- Management fee of 0.97%; no performance fee

Please get in touch if you have any questions.

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