



Nathan Bell • Portfolio Manager
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Chasing income investing nirvana

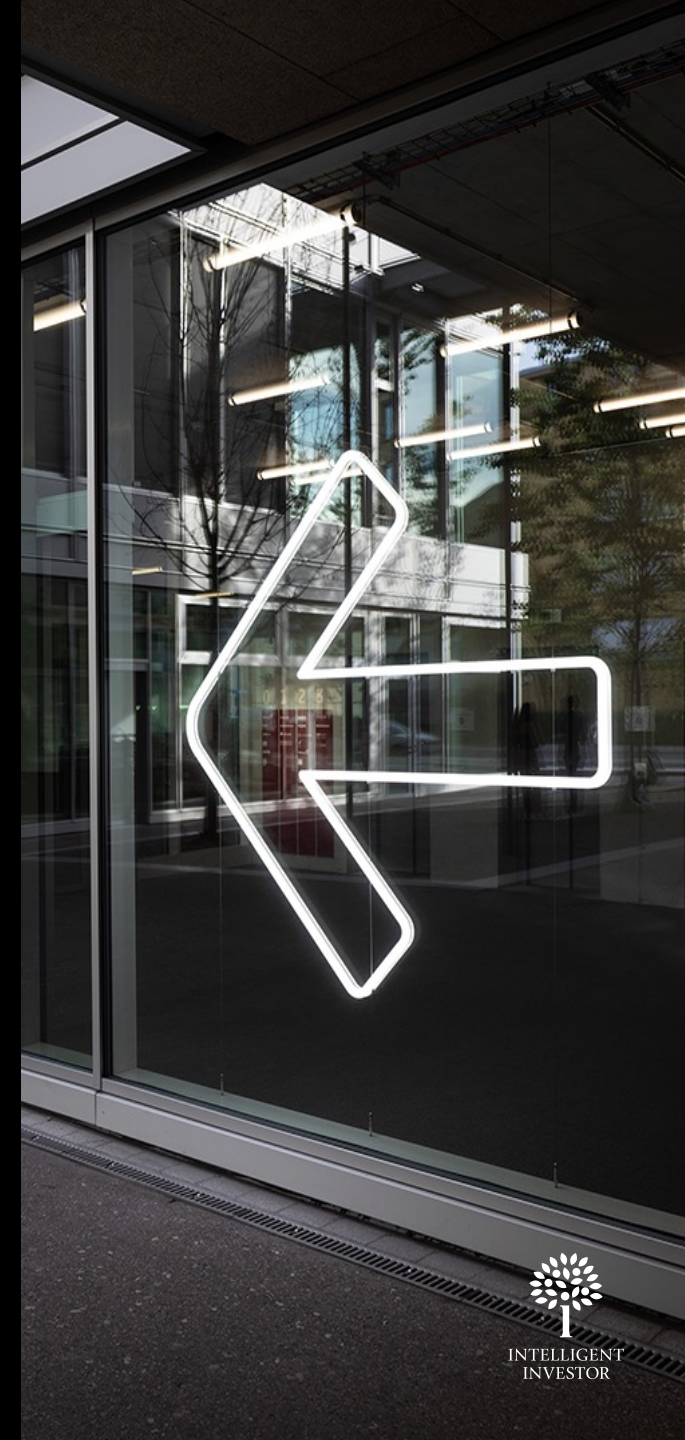
II Australian Equity Income Fund (INIF)

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Proven Intelligent Investor approach

High quality businesses

- High insider-ownership – NHC,WHC, RUL, SHL, FDV, MAF, DMP, TGP, MIN, LOV, PNI, IFT
- Long growth runways
- Large discount to intrinsic value – AWC, SGR

Special situations

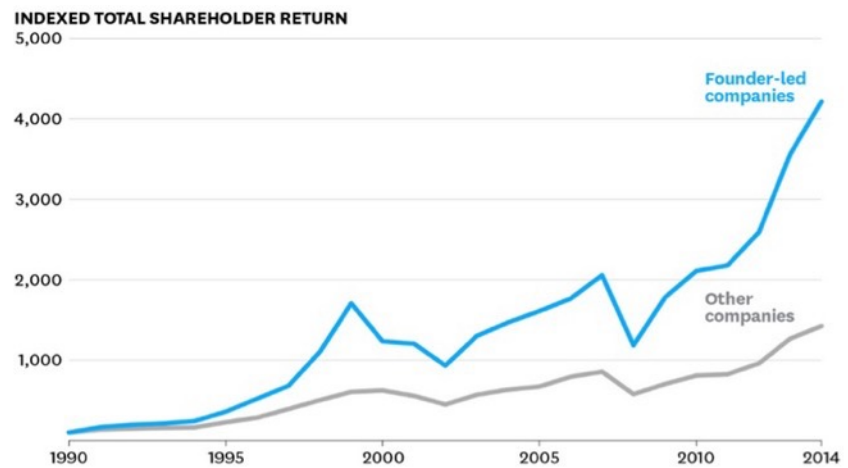
- New CEO – KAR,LOV,SGR
- Busted IPOs
- Re-capitalisations
- Spin-offs
- Hidden assets

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

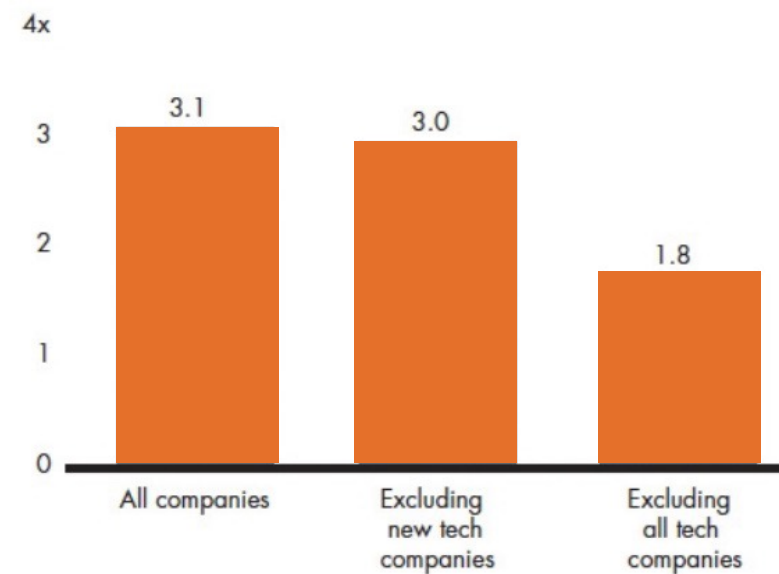


SOURCE BAIN & COMPANY

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True even with tech companies excluded

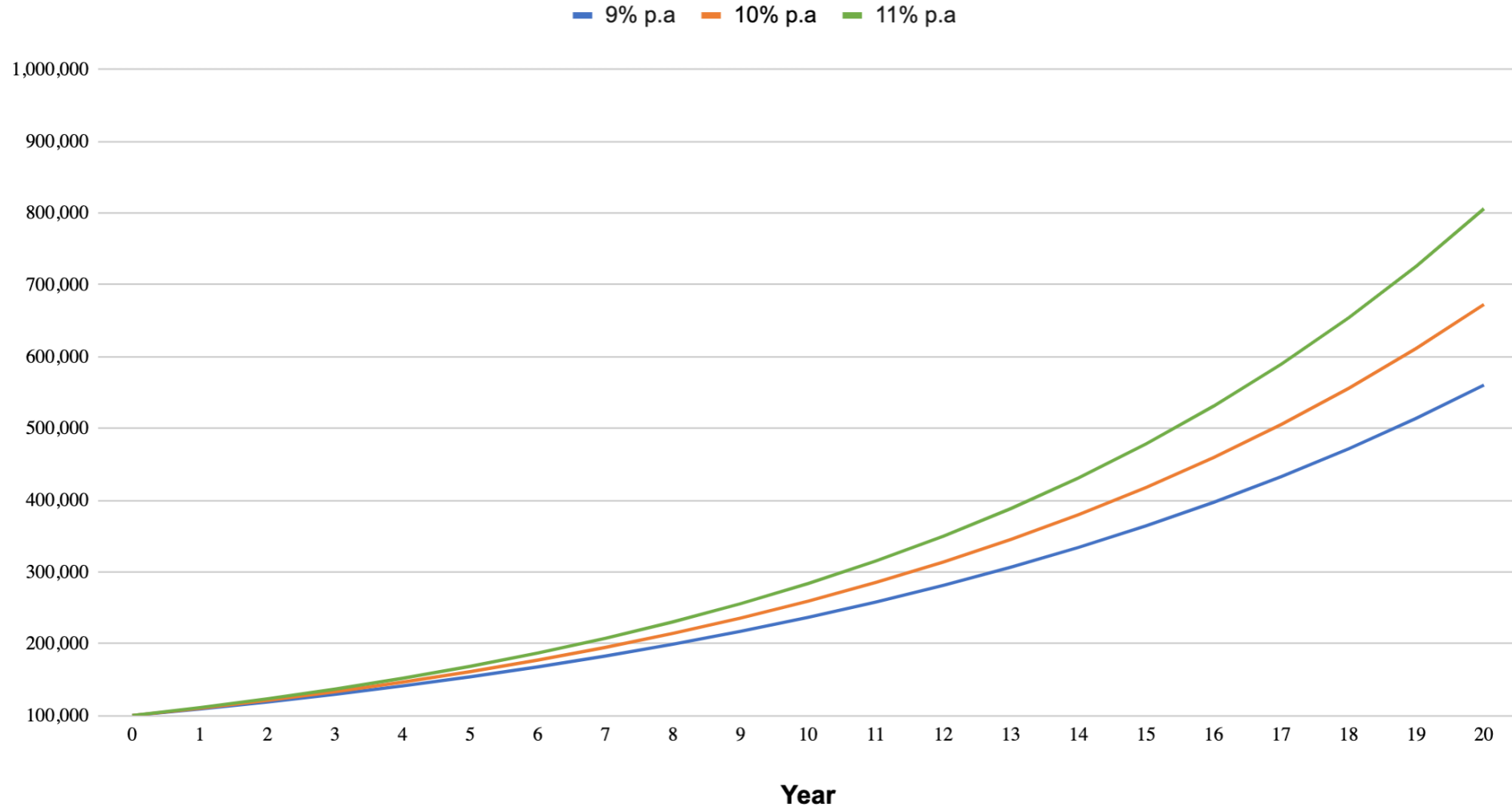
Founder's Index vs other S&P 500



What is income investing nirvana?

- Outperforming the market by 1-2% per annum with a yield that's higher than the market and growing quicker.
- If you can't do that then you're better off buying an index fund.
- It's hard to do, which is why most income funds focus on maximising yield instead of outperforming the market with a growing yield.
- They're easy to spot. They typically use inferior benchmarks because they're virtually guaranteed to underperform the index.

The Magic of Compound Interest



How can we achieve income investing nirvana?

- Don't sacrifice your process to maximise yield. A yield is only sustainable if a business can grow profits, which means having a competitive advantage and a long-term focus. CEOs should have their wealth invested alongside yours.
- Focus on companies that can grow their dividends rather than those with the highest yields. Remember the rule of 10%!
- Maximise our small cap headroom with founder-led companies that can grow their earnings and fully franked dividends rapidly. They tend to come with large capital gains as well.
- Avoid yesterday's heroes but stay open minded.

Which income stock would you choose?

Company A

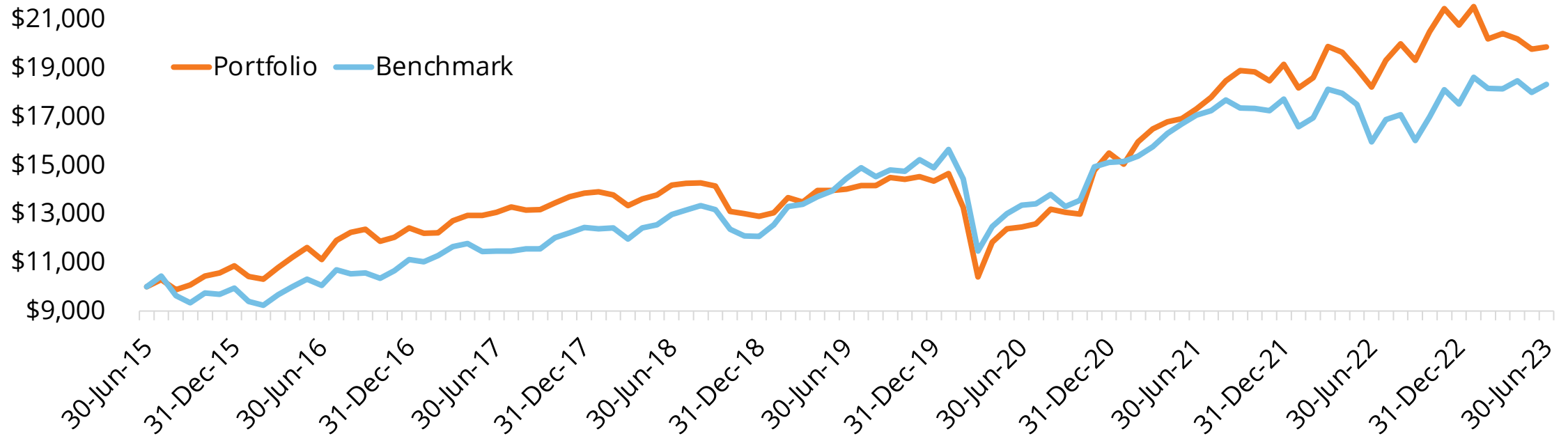
- Buy recommendation \$31.30 (20 Jan 10) Yield = 2.2%
- Capital gains = 17% p.a. Dividend growth = 13% p.a.
- Yield on recommendation price = 11%

Company B

- Share price 20 Jan 10 = \$56; Yield = 5.2%
- Capital gains = 4.4% p.a.
- Dividend growth = 2.7% p.a.
- Yield on recommendation price = 7.5%

Performance

As at 30 June 2023



	1 yr	3 yrs	5 yrs	7 yrs	Since Inception
II Equity Income	9.0%	16.8%	7.0%	8.6%	9.0%
Benchmark	14.8%	11.1%	7.2%	8.9%	7.9%
Difference	-5.7%	5.7%	-0.2%	-0.3%	1.1%

Performance



- Changes post 2019's underperformance paying off – restored 'best ideas' culture; eliminated banks; cornerstone holding in BHP; higher quality small and mid-cap growth stocks; maintained our contrarian edge with energy stocks.
- Maintaining valuation discipline in '21 meant protecting your money in '22. The '23 financial year was good sans Star Entertainment.
- Performance has been pleasing considering we don't own many of the expensive defensives or resources companies currently leading the market.
- Many of our stocks have fallen a long way from their highs while the index's major constituents are trading at 'full' valuations.

Current environment



- Large, popular stocks offering low returns, making dividends more valuable.
- Iron Ore dividends vulnerable to increasing supply and slower growing Chinese economy. Currently over 25% of market dividends!
- Banks offer little, if any capital gain potential. Currently 28% of index dividends!
- Small cap stocks have been belted in flight to safety.
- Need growth otherwise inflation kills your wealth.

Positioning



- *“Beware the investment activity that produces applause; the great moves are usually greeted by yawns.” – Warren Buffett*
- Minimal changes over past two years. Added CSL, LOV, DMP, MIN, WES.
- Credit Corp, Pinnacle, Star Entertainment, Domino’s, Lovisa, MA Financial, RPM Global and Frontier Digital well off highs.
- Right time to be a contrarian, active manager, as market returns expected to be (much) lower than recent history.

Distributions and Yield

- Dividend cuts & suspensions – AIA, AWC, SGR
- Est. fully recovered current yield of 5% with franking credits adding another half to 1%
- Focus on how the yield can grow over next decade to reach income investing nirvana
- The extra-large distributions will vary with of capital gains
- Cash currently 9%
- INIF v IIGF v INES

Intelligent Investor Australian **Equity** **Income** Fund

(ASX:INIF)

- 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 minimise tax
- Semi-annual distributions
- Regular reporting and candid communication
- Management fee of 0.97% p.a.

**Secondary offer now
open**

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Online Application

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

– Chris Cuffe





Pinnacle Investment Management

(ASX:PNI)

- Founder/CEO Ian Macoun doing a terrific job
- Insider ownership 46%
- FUM ~\$90bn across 20 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



RPM Global

Mining

(ASX:RUL)

- Mining software
- Trades at 4x revenue (Xero trades at ~14x)
- 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



Mineral Resources

(ASX:MIN)

- Now worth \$9bn with incredible track record in difficult industries
- Founder and CEO Chris Ellison has 11% stake
- The business has clear goals for its four businesses
- Very entrepreneurial CEO
- Lithium is a growth industry but...
- ... will be volatile as supply increases.



MA Financial

(ASX:MAF)

- Used to be Moelis. Like a mini-Macquarie.
- Founded by executive vice-chairman and 23% shareholder Andrew Pridham
- Internal succession with co-CEOs Julian Biggins and Chris Wyke – 4% shareholders
- Morphing from boutique investment bank to asset manager
- Much more scalable business that reduces risk as it grows