

30 May 2025

ASX Limited
ASX Market Announcements Office
SYDNEY NSW 2000

Intelligent Investor Australian Equity Growth Fund - Active ETF (“the Fund”)

ASX Code: IIGF

CHANGE OF INVESTMENT STRATEGY

InvestSMART Funds Management Ltd, as the responsible entity of the Fund, hereby provides notice that it will update the Fund’s investment strategy, with effect from 1 July 2025, to allow up to 30% of the net asset value to be held in global shares listed on international exchanges.

The Fund will also change its name to the *Intelligent Investor Equity Growth Fund* to reflect the Fund’s updated mandate and will retain the same ASX code - IIGF

Further information about the rationale for the change of investment strategy from the portfolio manager is set out in the attached letter.

Yours faithfully

Catherine Teo
Company Secretary

About the Intelligent Investor Australian Equity Growth Fund – Active ETF

The Intelligent Investor Australian Equity Growth Fund - Active ETF is an actively managed listed fund and is focused on capital growth by investing in undervalued Australian equities. Please contact Mitchell Datson with any questions on 1300 880 160.

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Dear Investor,

Why we're making changes to the *Intelligent Investor Australian Equity Growth Fund - Active ETF*

Australia is famous for being a wonderful place to invest for income due to our dividend imputation system and the high dividend twin pillars of iron ore majors and banks. But for growth-focused investors things aren't so rosy.

Australia has a small number of excellent growth stocks with great prospects, such as REA Group and Technology One. But they trade at extraordinary valuations, way above businesses of similar quality listed overseas because they're so unique in Australia.

The number of high-quality IPOs and listings is also falling, as more companies are opting to remain private to avoid the regulations, pressure and focus on short-term results suffered by listed businesses. Other homegrown heroes such as Atlassian are listing overseas, while others like Sydney Airport are being acquired by industry super funds and delisted, or worse, essentially stolen in the case of James Hardie, with shareholders unable to do anything about it.

Many of the huge winners on the ASX over the past two decades, like Macquarie Group, are also maturing and their profit growth is slowing. Perhaps that explains CSL's lousy acquisition of Vifor, which has smashed the company's profitability as measured by return on equity.

We own some of Australia's best growth stocks including mid and small cap growth stocks that will become better known in the decades ahead. But the extreme pricing of large growth stocks has forced us to own a handful of stocks whose best days are well behind them, such as BHP and Woolworths. Hardly the names you think of when you're investing for growth.

Our recent underperformance has more to do with irrational exuberance than our stock picking, though we're always making our share of mistakes. But we know what happens when we buy lower quality businesses.

In 2019 we screened nearly 500 buy recommendations made over almost 20 years by our flagship subscription service, *The Intelligent Investor*.

There was an almost +5% per annum difference between recommendations for the highest quality businesses and the rest. When we apply our value investing approach to high quality businesses, preferably run by founders, our results are excellent.

When we sacrificed quality, as expressed through financial metrics like lower returns on equity, our results were mediocre. That in turn fed portfolio turnover, rendering after-tax returns even worse.

The inferior group had the occasional big winner but that didn't compensate for the lack of quality over the long run.

Quality focus helps us beat the market

We expect our performance to improve once the current market exuberance for banks and large growth stocks recedes, but maintaining our performance over the long term is getting harder for the reasons we mentioned above and the increasing dominance of index funds.

Index or passive funds ignore fundamentals, so they don't care what price they pay as they bid up the price of quality growth stocks, particularly the largest and safest ones. Even yesterday's heroes like Commonwealth Bank are trading at ridiculous levels.

If we were satisfied with average returns this wouldn't be an issue. We are not. In recent months, we have examined ways to offset these effects to help maintain our performance track record.

Addressing the shrinking pool

The first option we considered was increasing the position sizes of our holdings. We discounted this due to the increased risk it entails. With larger positions, bad luck or a few miscalculations amplify underperformance from which recovery could take years.

Nor is this approach practical. Strict ASX liquidity rules governing our Fund restrict investments in too many small companies, which are often our best ideas.

The second was to sacrifice quality. As explained above, this makes no sense and contradicts the Fund's ethos. It was not a realistic possibility.

Holding more cash and remaining patient, our last option, was more feasible. Unfortunately, it could entail holding more cash for many years. This is not what you pay us for and there is also a fine line between patience and market timing. We do not want to cross it.

Holding cash for extended periods can mean you don't take the risks you should, or the performance drag of high cash levels forces you into dumb decisions. Neither are appealing.

Going international

We think there is a better way. On 1 July 2025, we will change the Fund's Product Disclosure Statement to allow us to invest up to 30% of the Fund in overseas-listed stocks, chiefly in the US. These will be some of the stocks we already own in the *Intelligent Investor Select Value Share Fund*.

Adding a handful of the world's best businesses to the portfolio requires little extra work and potentially increases the return of the Fund while reducing the risks. This is what successful investing is all about.

Most importantly, it gives us the best chance of maintaining our outperformance over the decades ahead. This is especially true as more overseas companies devour our local heroes and the US remains the world's leading source of innovation and investment opportunities.

Many investors worry about the currency impacts of investing abroad, particularly under a Trump presidency. The truth is much of the revenue from the Fund's holdings is already generated overseas, with the healthcare companies and Auckland Airport leading examples and we can hedge the currency exposure.

Being able to select a small number of international stocks from our *Select Value Share Fund* increases the opportunity pool and allows these investments to compound at high rates over the long term with minimal turnover designed to avoid tax events that interrupt or slow the compounding of your returns.

This Fund will remain a collection of Australia's best growth stocks plus a handful of the world's best opportunities. We think this approach makes sense and hope you do, too.

Being able to continue to perform at a high level is our primary consideration and this change, we believe, offers us the best chance of doing so.

Should you have any further questions, please contact our investor services team at invest@intelligentinvestor.com.au or 1300 880 160.

Yours faithfully

Nathan Bell
Head of Research and Portfolio Management