

Intelligent Investor Select Value Share Fund

Active ETF (ASX:IISV)

“During market manias, time slows down to dog years. You have to keep doing the same rational thing but expect a different outcome, knowing that at some point it will come.” — Vitaliy Katsenelson

“The curse of discipline is that every day looks the same, and the curse of indiscipline is that every year looks the same.” — Chris Williamson

“At lunch, all people talk about is: ‘what stocks are you in. . . how much did you make,’ Seoul-based office worker Kim Min-jung told the pink paper.
“If you don’t trade stocks, you look like an idiot.”

An excellent reporting season this quarter was offset by broad falls following September’s spike in US bond yields, as the US government and data centre builders compete for trillions in funding.

Every holding fell in September except three, including Irish homebuilder **Cairn Homes**, which you’d expect to be one of the biggest losers from higher interest rates. On the flipside, **Fairfax Financial**’s share price hasn’t budged despite the company benefitting from higher interest rates. It potentially trades at just seven

Performance (after fees)

	1 mth	3 mths	1 yr	2 yrs p.a	3 yrs p.a	S.I. p.a
II Select Value Share Fund	-7.5%	-1.6%	-10.5%	3.9%	10.0%	10.3%
S&P ASX 200 Accumulation Index	-2.4%	1.3%	2.7%	6.6%	11.4%	9.8%
Excess to Benchmark	-5.1%	-3.0%	-13.2%	-2.6%	-1.4%	0.6%

Note: The benchmark is the ASX200 Accumulation Index. It’s one of the world’s highest performing indexes, which sets the bar high for the performance fee, and we need to beat our home index to justify investing abroad.

Inception (S.I.): 28 Mar 2023



Fund overview

The Intelligent Investor Select Value Share Fund is an Active ETF designed for investors seeking a diversified selection of International and Australian companies with superior financial metrics and competitive advantages to outperform the S&P/ASX 200 Accumulation Index over five year rolling periods.

5+ yrs

Suggested investment timeframe

Risk profile: High

Expected loss in 4 to 6 years out of every 20 years

S&P/ASX 200 Accumulation Index

Benchmark

Investment fee

0.97% p.a.

Performance fee

15% p.a.

times underlying earnings and book value, which is irrational if it can sustain a 15% return on equity.

These contradictory price moves show the folly of economic forecasting, especially when AI is threatening so many stocks long considered no-brainers.

Many stock prices have already fallen well over 50% due to AI fears or higher interest rates, which is creating opportunities in quality businesses you wouldn't expect outside a bear market. And that's the key point. Many stocks are deep in a bear market while the index and its key components defy gravity.

Even incumbents harnessing AI are being forced to spend more to defend their market positions or improve their services. For now, that means lower profit margins and valuations, but more valuable share buy backs.

Portfolio

Higher interest rates and property tax changes have ripped through the private credit industry, impacting our holdings in **MA Financial** and **Pinnacle**.

We believe Pinnacle's share price has overcompensated for falling property values at its subsidiary Metrics Credit. While so far MA Financial's credit funds are trading at nominal discounts, leaving the stock trading at less than 10x forecast earnings if profits keep ticking over.

Microsoft was the quarter's standout, up 37%. Its AI strategy is discussed below. **CME Group** recovered most of last quarter's losses, but a price-to-earnings ratio of 20 seems too cheap with higher bond yields and volatility fuelling financial activity.

Cairn Homes rose 12% as it expects another year of double-digit profit growth. Homebuilders with land banks are perfectly placed as Ireland is desperately short of homes and developable land is scarce. The share price has doubled since our purchase three

years ago while banking another quarter of our purchase price in dividends. Yet it still only trades at 11 times earnings.

Our small position in individual credit ratings house **FICO** has become a tiny position after its regulator, the FHFA, granted a key competitor (which we also have a small stake in) favourable pricing. The decision appears at least partly politically motivated and is almost the fixed income equivalent of changing a junk bond to investment grade. We're holding while the situation remains so fluid.

With Fairfax Financial, MA Financial, and Cairn Homes trading on single-digit price-to-earnings ratios, and market leaders such as **Rightmove**, **Experian** and **London Stock Exchange** trading near their cheapest valuations since the GFC, the gulf between the valuations of the market's largest stocks and everything else is widening.

Irrationality is a constant of markets, but it's particularly extreme today due to a potent mix of leveraged speculation, the quick riches offered by AI and the explosion in passive investing.

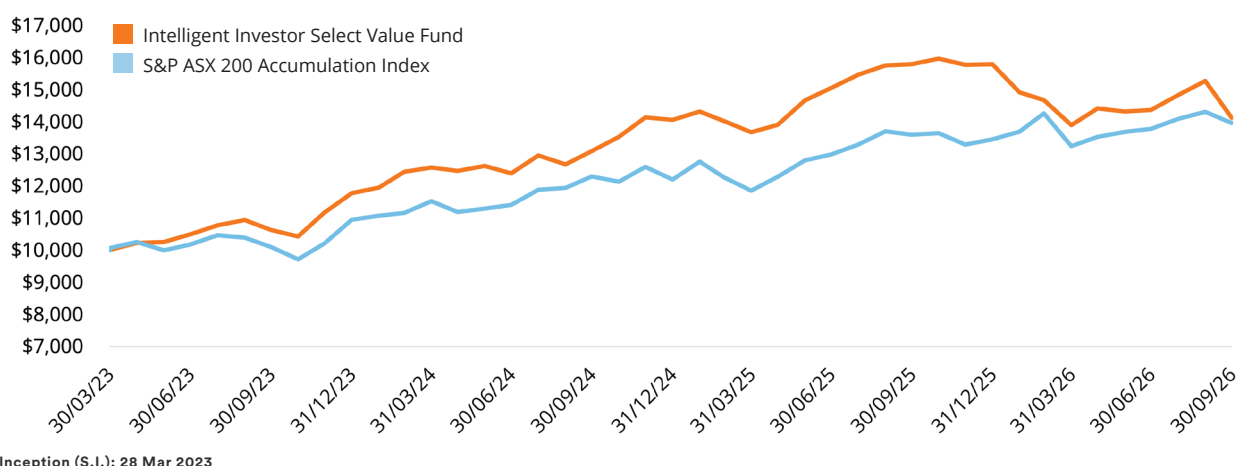
We've been through many of these cycles but rarely has the opportunity to outperform buying quality businesses been so high.

Please get in touch if you have any questions

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Performance since inception



Asset allocation

Financials	37.4%
Communication Services	14.4%
Consumer Discretionary	12.7%
Information Technology	11.5%
Cash	7.8%
Industrials	6.7%
Health Care	5.1%
Materials	4.5%

Top 5 holdings

Visa (V.NYS)	8.8%
Amazon (AMZN.NAS)	6.0%
Constellation Software (CSU.TSX)	5.9%
Fairfax Financial Holdings (FFH.TSX)	5.9%
Rightmove PLC (RMV.LSE)	5.4%

Fund Stats

Distribution yield	11.58%
Net asset value	\$2.94

The distribution excludes franking credits and is significantly larger than previous years. Distribution yield is not a measure of total investment return and past distributions are not indicative of future distributions.

Important information

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All tables and chart data is correct as at 30 September 2026

Appendix

Microsoft's AI strategy

Three years ago, CEO Satya Nadella declared a new day for search. Armed with AI and Bing, he planned to finally crack Google's dominance of the ad market and, in the process, position Microsoft as the disruptor in a new era. So far, it hasn't played out that way.

The market still has no clue what to make of Microsoft in an AI world. Its 365 office suite is a core profit engine yet sits squarely in the crosshairs of AI. At the same time, the Azure cloud computing unit is one of the few businesses globally already monetising AI demand at scale. Other assets like LinkedIn and Xbox don't fit neatly anywhere.

The odd mix makes Microsoft difficult to label and even harder to value.

Betting on the bundle

But just because it's messy doesn't mean there's no strategy. In fact, for the first time since Nadella's original declaration, we think a clearer one is developing.

Rather than competing head-on to build the leading frontier model (Claude, Gemini or ChatGPT), Microsoft appears to be positioning itself as the infrastructure, distribution and control layer for enterprise AI. This seems smart and plays directly to its strengths.

Microsoft already provides the infrastructure through Azure, security through its Defender suite, identity management and the productivity layer through Microsoft 365. The strategy is to bundle AI into what customers already use rather than sell it as a standalone product.

New tools like Agent365 allow enterprises to build

AI bots, define what they can access and control how they operate inside an organisation. Existing ones like Copilot are now integrated into Word, Excel, Teams, and Outlook, with 30 million paid seats — still only a fraction of its 450 million users.

The job now is to push customers to upgrade before a rival comes along with something better. Our bet is most will.

Every enterprise runs on Microsoft in some form. Those relationships have been built over decades and make switching painfully slow. So long as the products are good enough, we think most customers will stay. It's the classic bundle approach applied to AI.

Model agnostic

The old tricks will only go so far, though. Enterprises still need access to frontier models like Claude and ChatGPT to do the clever stuff. Management's strategy here is to give them a choice.

Its updated agreement with OpenAI effectively unwinds the exclusivity that tied the two together. Microsoft will keep a revenue share through 2030 and royalty-free access to models until 2032, but crucially, it's no longer locked in. Customers are now free to use Anthropic or open-source models through Copilot and Azure.

By not putting all its eggs in one basket, Microsoft keeps its options open. If one model pulls ahead, it can pivot and adapt. If the models are commoditised, Microsoft's distribution and infrastructure layer only becomes more valuable. The question of who wins AI could quickly become irrelevant.

What's more is that Microsoft is building its own models, MAI, designed to handle simpler tasks at a lower cost than the frontiers. The big sell here is speed, efficiency and greater control.

Paired with its Foundry model router product, enterprises can automatically direct requests to the model that best balances cost and capability. Think of it as a traffic controller where Microsoft sits in the middle and decides where the work goes.

It's all designed to increase choice and position Microsoft as the emerging decision and control layer for enterprise AI. Few are better placed.

Risk and results

The risk is in the execution. AI tools are advancing faster than any software cycle ever and a more capable or cheaper alternative could leapfrog

any bundle add-ons before they become truly entrenched. Good enough may only be good enough for so long.

There's also a question whether Microsoft's planned US\$190bn in capex this calendar year earns an adequate return. In the three months to June, underlying revenue increased 15% to US\$81bn and operating profits 19% to US\$38bn.

Azure cloud revenue growth was 39% and could accelerate modestly, while management expects another year of double-digit growth in revenue and operating income in FY27. Not bad for a stock valued the same as **Commonwealth Bank**.