

Quarterly Update

30 September 2026

Intelligent Investor Ethical Share Fund

Active ETF (ASX:INES)

Issued by
InvestSMART Funds
Management Ltd
ACN 067 751 759
AFSL 246441

Managed by
Intelligent Investor
Holdings Pty Ltd
ACN 109 360 983
CAR 1255 838

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ASX Code: INES

“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, which included two stocks most exposed to higher interest rates, retailer **JB Hi-Fi** and Irish homebuilder **Cairn Homes**. **Fairfax Financial’s** share price hasn’t budged, either, despite benefitting from higher interest rates. It potentially trades at

Performance (after fees)

	1 mth	3 mth	1 yr	3 yrs p.a	5 yrs p.a	S.I. p.a
II Ethical Share Fund	-5.4%	0.4%	-10.7%	5.9%	1.7%	7.2%
S&P ASX 200 Accumulation Index	-2.4%	1.3%	2.7%	11.4%	7.7%	8.0%
Excess to Benchmark	-3.0%	-0.9%	-13.4%	-5.5%	-6.0%	-0.8%

Inception (S.I.): 11 Jun 2019

RIAA’s RI Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations. The Symbol also signifies that Intelligent Investor Ethical Share Fund (ASX: INES) adheres to the strict operational and disclosure practices required under the Responsible Investment Certification Program for the category of Product. The Certification Symbol is a Registered Trademark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and Intelligent Investor Ethical Share Fund (ASX: INES) methodology, performance and stock holdings can be found at www.responsibleinvestments.com.au, together with details about other responsible investment products certified by RIAA.



Fund overview

The Intelligent Investor Ethical Share Fund is an Active ETF designed for investors seeking a diversified selection of Australian and international companies that produce growing, sustainable profits at low risk of interruption from the increasing threats associated with Environmental, Social and Governance (ESG) factors.

 **5+ yrs**

Suggested investment timeframe

 **10 - 40**

Indicative number of securities

 **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**
Nil



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just seven 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.

Higher interest rates and property tax changes have also 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.

Portfolio changes

We bought and sold a small position in **CSL** after its share price almost doubled from its low. We also sold our small position in **Macquarie Technology**, as we don't want to own any illiquid stocks at this stage of the cycle.

The proceeds were mostly invested in **Sonic Healthcare**, whose valuation continues to fall. The stock's 5.7% dividend yield and price-to-earnings ratio of 16 belies management's 5-7% earnings growth target backed by a 30-year track record of increasing dividends while gradually expanding through acquisitions. What it lacks in AI excitement it gains in not being an overvalued bank. Just don't expect a phoenix-like recovery like CSL.

We also purchased a starting position in former market darling **Cochlear** after the hearing implant company's share price fell over 70% from its ridiculous highs. Multiple large profit downgrades suggest management's crystal ball has turned into a snow globe while competitive threats are increasing, hence the small position. But if management can restore margins, then the current price-to-earnings multiple above 20 could fall quickly.

Stocks mentioned above such as Fairfax Financial, MA Financial, Cairn Homes trading at 10x earnings and Sonic Healthcare are good examples showing the widening gap between the valuations of the market's largest stocks and everything else. 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.

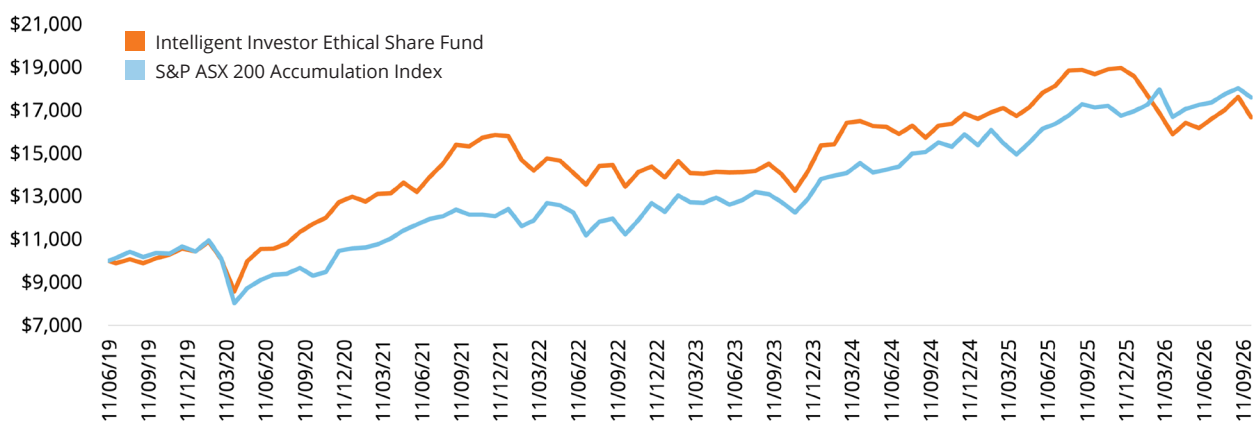
We've been through many of these cycles but rarely has the opportunity to outperform buying quality businesses been so high.

Please get in touch if you have any questions

info@intelligentinvestor.com.au

1300 880 160

Performance since inception



Inception (S.I.): 11 Jun 2019

Asset allocation

Financials	28.7%
Communication Services	21.2%
Consumer Discretionary	18.5%
Cash	14.5%
Health Care	11.2%
Information Technology	5.9%

Top 5 holdings

Visa (V.NYS)	7.7%
Constellation Software Inc. (CSU.TSX)	5.9%
Fairfax Financial Holdings (FFH.TSX)	5.7%
Amazon (AMZN.NAS)	5.5%
ResMed (RMD)	5.2%

Fund Stats

Distribution yield	8.44%
Net asset value	\$3.12

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