

# ICE Fund

31 March 2024

The March quarter was a strong quarter for the ICE Fund, returning 5.33% for March and 11.46% for the quarter overall. The one year rolling return for the ICE Fund now stands at 26.98%.

Given our regular commentary on the small cap industrial performance in 2022 it has been pleasing to witness the improving returns for the 'small cap' end of the market.

More pleasing across the February reporting season has been the operating performance of franchise portfolio holdings in the fund. We observed many of the portfolio's holdings report solid revenue growth, highlighting market share gains in many instances. Contract wins by portfolio companies and steady to rising margins were also evident. The median earnings or profit growth for companies in the fund was a healthy double digit! In aggregate, reporting season reaffirmed our view on the franchise qualities of our investments.

We highlight several of the fund's top and bottom contributors below.

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## Investment Objective

To deliver superior medium to long term returns by investing in ASX & NZX listed companies which possess a durable competitive advantage by owning or operating assets that are difficult to replicate.

## Investments Held

A portfolio of approximately 30-50 predominantly ASX listed securities (a minimum of 15 and generally no more than 80).

## Top 5 Holdings\*

AUB Group  
GUD Holdings Limited  
Light & Wonder Inc  
PSC Insurance Group Ltd  
WebJet Limited

Top 5 holdings represent 19.4% of the total fund.

\* In alphabetical order.

## ICE performance

Performance <sup>1</sup>	1 m (%)	3 m (%)	1 yr (%)	3 yrs (% p.a.)	5 yrs (% p.a.)	10 yrs (% p.a.)	15 yrs (% pa)	Inception (% pa)
<b>Total net return</b>	<b>5.33</b>	<b>11.46</b>	<b>26.98</b>	<b>4.75</b>	<b>8.28</b>	<b>8.76</b>	<b>13.05</b>	<b>10.00</b>
<b>S&amp;P/ASX Small Cap Industrial</b>	<b>3.50</b>	<b>9.58</b>	<b>20.45</b>	<b>1.66</b>	<b>4.90</b>	<b>6.72</b>	<b>9.59</b>	<b>4.64</b>
S&P/ASX 300 Accum Industrials	2.96	9.57	20.11	8.86	8.81	8.13	11.09	7.30
S&P/ASX300 Accum. Index	3.26	5.43	14.40	9.43	9.15	8.27	9.89	7.04

<sup>1</sup> Total Net Return is the Fund return after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions.<sup>1</sup> Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC"). Past performance is not a reliable indicator of future performance.

## Market Cap Analysis

\$10b	10%
\$5b - \$10b	14%
\$2b - \$5b	26%
\$1b - \$2b	15%
\$500m - \$1b	19%
\$100m - \$500m	10%
<\$100m	0%
Cash*	5%

## Co. Weight

## No. of stocks

4.0%	3
3.0%	13
2.0%	13
1.5%	4
1.0%	8

## Growth Maturity

Peak Cashflow	22%
Growth	67%
Establish	6%
Cash*	5%
Total	100%

## Sector

## Fund (%)

Consumer discretionary	26.81
Consumer staples	--
Financials	21.74
Health care	12.60
Industrials	8.62
Information technology	15.27
Materials	2.45
Telecommunication Services	4.38
Real Estate	2.65
Cash equivalent	5.49
<b>Total</b>	<b>100.00</b>

## Key Facts

Investment sub-manager	ICE Investors Pty Limited
Inception date	13 Feb 2006
Fund size	\$605.5M
Number of holdings	45
Dividends payable	Six Monthly
Buy/sell spread	+0.30%/-0.30%
Minimum initial investment	\$20,000
Base currency	AUD
APIR	ETL0062AU
Management fees <sup>2</sup>	1.180%
Performance fees <sup>3</sup>	15.375%
mFund code	SHF02
Domicile	Australia
	<b>Unit price</b>
Application	\$2.1995
Net Asset Value	\$2.1929
Withdrawal	\$2.1863
	<b>Distributions (cpu)</b>
30-Jun-22	25.5026
31-Dec-22	0.7796
30-Jun-23	2.9600
31-Dec-23	1.5449

<sup>2</sup> Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

<sup>3</sup> A performance fee of 15.375% (inclusive of GST and an estimate of RITC) of any performance in excess of the performance hurdle (the daily percentage movement in the S&P/ASX 300 Accumulation Index plus 1.20% p.a. calculated on a daily basis gross of fees) may also be payable.

## Quarterly Performance Commentary

Positive contributors to the ICE Fund for the March quarter included:

- **Temple & Webster (TPW)** – TPW continues to entrench its position as the leading, profitable online retailer for furniture and homewares in Australia – aiming to offer its customers a differentiated catalogue of products at great prices. The longer term prize for TPW is to dominate this space as the category for furniture and homewares continues to progressively shift online. To achieve this and entrench their leaderships position TPW has expanded its advertising scope and budget, targeting a broader consumer brand awareness. With a marketing budget that now dwarfs its online peers, TPW is aiming to achieve this and in so doing, become a potential category killer.
- **Life 360 (360)** – Life 360 has been a very successful technology investment for the ICE Fund. 360 have built and operate a very unique business, namely the leading family security and location sharing ‘app’ globally. The service is broad and covers sophisticated location sharing within families, safe driving alerts, roadside vehicle assistance, automated dispatch of emergency services, credit card protection and more. With 61m users of the app globally, Life 360 announced plans to begin “advertising” to the non-paying or freemium user base. Growth in the core subscription business – those users that pay for the full suite of services and functionality on the app – has continued at a very solid pace. We expect that additional revenue streams from targeted advertising will drive profits and boost 360’s moat by allowing further investment in its platform and services.
- **Redox Limited (RDX)** – having participated in the 2023 IPO, RDX was a very solid contributor to the fund in the March Quarter. RDX is Australia’s leading importer and distributor of chemicals. RDX is a founder led business, with a 50 plus year operating history. Their franchise strength stems from their market share, built upon their bespoke sales systems and operating know-how. The company’s consistent focus has delivered profitable growth over many years and forged long dated customer relationships across many industries.
- **Light & Wonder (LNW)** – LNW is a leading global provider of digital and electronic gaming services. The dual listed LNW’s February profit results were very solid, delivering double digit revenue growth and double digit profit growth across each of their three business divisions. LNW’s recent and ongoing investment in game talent, content and broader R&D is beginning to bear fruit, with evidence of market share gains. These successes have built on the three plus simplification and turnaround of its business, driven by a highly respected management team.
- **Generation Developments (GDG)** half year results in February were well received by investors. GDG’s part owned investment stake in financial services provider LONSEC continues to perform well, accounting for some 40% plus of group profit. LONSEC’s investment solution business is high margin and continues to win market share. Similarly, GDG’s Investment Bond business continues to lead its market segment by weight of new fund flows. Finally, financial adviser based support for GDG’s market linked annuity product is building, supported by critical research ratings and extended product tenure.

The key detractor from the ICE fund for the quarter was our relatively small investment in **Nanosonics (NAN)**. NAN is an infection control based medical device company with a well-established product, Trophon, sold globally for instrument disinfection, together with a soon to launch CORIS device targeting the automated disinfection of medical endoscopes. Disappointingly, NAN’s “market update” in January

highlighted a material slowdown in sales growth for the core Trophon product. Irrespective of the company's view of the reasons behind this slow down, we were concerned what this sudden change meant for the longer-term growth prospects of a potentially maturing product. With conviction in this core product reduced, we sold our position.

## Quarterly Portfolio Activity

We added to our **Infomedia (IFM)** holding in the March quarter. IFM is a global leader in the supply of software-based productivity tools for the automotive industry. The company's competitive position is underpinned by multiple difficult-to-replicate assets including a comprehensive and industry leading electronic parts catalogue, individual vehicle (VIN-precise) service quoting software and a vast trove of vehicle data accumulated since the company's inception in 1987. The software is deeply entrenched within the customer's workshop or service centre and difficult to displace creating a high degree of customer stickiness. CEO Jens Monsees brings a wealth of experience from both the automotive and information technology industries and we have been impressed with his 'no-nonsense' approach which has reinvigorated growth and opened up new revenue opportunities.

The fund also added a new position in **AUB Group (AUB)** and increased existing positions in **Webjet Limited (WEB)** and **Redox (RDX)**.

The fund took profits in **Temple & Webster Group (TPW)**, **Car Group Limited (CAR)**, **GQG Partners (GQG)** and **Jumbo Interactive (JIN)**.

We exited our positions in **Seven Group Holdings (SVW)**, **Corporate Travel (CTD)** and **Nanosonics (NAN)** as highlighted.

## ICE Fund Overview

Our overall goal is to invest (at sensible prices) in companies with a sustainable competitive edge.

This is the focus because these companies deliver **more certain earnings growth**.

We go through the following steps for each company that is considered for investment:

1. Find assets that are difficult to replicate e.g. licenses, patents, brands, captive client base.
2. Ensure the company has an entrenched market position for its products/services = hard for competitors to take revenues. If steps 1 & 2 are achieved, then we have a company that should deliver higher & more certain earnings growth over the cycle.
3. Ensure we are buying the shares at a price will deliver a **high internal rate of return** to us as the investor. This ensures higher and more certain earnings growth translates into superior share market performance over time.

Evidence of the more certain earnings growth has been proven over the course of more than a decade.

The earnings of the median company in the ICE portfolio have averaged +10% pa (FY09 to FY23) which compares favourably to the Industrials market which struggled to grow over the same time period.

The end result is a focus on companies with:

- Organic growth opportunities that are not overly impacted by fluctuations in the economy.
- Appropriate debt levels.
- Strong cash generation.

## Awards



\* Morningstar Awards 2016©. Morningstar, Inc. All Rights Reserved. Finalist: Domestic Equities – Small Caps

\*\* Morningstar Awards 2015©. Morningstar, Inc. All Rights Reserved. Winner: Fund Manager of the Year 2015 - Small Caps Category, Australia.

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