

# Smallco

## Smallco Broadcap Fund

Quarterly Update | 31 December 2023

### SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered solid outperformance of its benchmark in the December quarter with much of the portfolio performing well in very strong market conditions. For the 2023 year SBF delivered strong outperformance of its benchmark, largely recapturing the style driven underperformance of 2022 when valuations of the Fund's growth and software stocks were more impacted by rising interest rates, notwithstanding strong profit results. Strongest contributors in 2023 included Audinate (+116%), Temple & Webster (+89%) & REA Group (+63%).

The strength in equity markets in the December quarter was driven by a combination of lower inflation prints and a dovish pivot by the US Federal Reserve at its December meeting, increasing its expectations of interest rate cuts in 2024 despite seeing slightly higher growth. This has led to a building consensus that 2024 could see near "goldilocks" style conditions for markets. That is, a combination of continued sharp falls in YoY inflation rates, easier monetary policy, lower long term interest rates and still reasonable economic growth. In effect the perfect soft landing.

While conceding this appears plausible at this point, we caution that markets are forward looking and moved aggressively in November/December to at least partially price in the possibility of such an outcome. Valuations of many industrial stocks are at historically full levels unless long term interest rates fall significantly further.

Further, actual economic outcomes are inherently unpredictable. This is no better illustrated than in 2023 when consensus at the start of the year suggested one of the most heavily predicted global recessions in history. While some European economies experienced a recession and Australian real economic output shrank on a per capita basis, the reality was the world as a whole avoided a recession due to US economic growth being considerably stronger than expected. Importantly, equity markets were also considerably stronger than most expected.

Given the difficulty in accurately forecasting economic outcomes the Fund places little emphasis on top down forecasts when making investment decisions and believes that investing in companies with strong competitive positions, significant long term growth opportunities and high return on funds employed will drive higher and more reliable long term returns. Notwithstanding this, if the goldilocks style conditions described above prevail in 2024, it is possible that more cyclical, lower quality "value" stocks (including Resources) may outperform the Fund's approach in the short term under such an environment.

The Smallco Broadcap Fund remains open to new and existing investors.

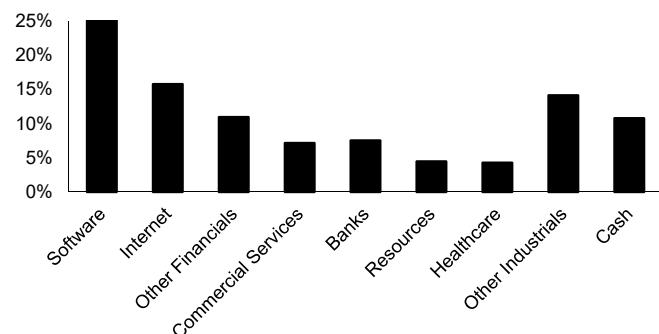
Please feel free to contact Craig Miller, one of our portfolio managers, for any queries or needs on 02 8256 1004.

### SBF Performance

Return to 31 December 2023			
	SBF	Index*	Out Perf.
3 months	10.4%	8.4%	2.0%
1 year	22.9%	12.1%	10.8%
3 year p.a.	10.6%	9.0%	1.6%
5 year p.a.	13.6%	10.3%	3.3%
10 year p.a.	12.0%	7.9%	4.1%
Since inception (31.07.08) p.a.	15.8%	7.2%	8.6%
Value of \$100,000 invested at inception	\$960,628	\$292,480	\$668,148

Fund returns calculated after all fees and expenses and based upon exit price and reinvestment of distributions.

### SBF Structure: by sector (look through)



### SBF Structure – by size

As at 31 December 2023	SBF	Index*
% in Market Cap < \$1bn	11.7%	1.7%
% in Market Cap \$1bn - \$5bn	25.7%	11.6%
% in Market Cap \$5bn - \$10bn	17.4%	11.6%
% in Market Cap > \$10bn	34.4%	75.1%
% Cash	10.8%	Nil

### SBF Significant Holdings (alphabetical order)

Altium  
Audinate Group  
REA Group  
Seek  
WiseTech Global

\* Benchmark index is the S&P/ASX 300 Accumulation Index



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### SBF Fund Description

SBF is a concentrated, long only, largely index unaware Australian equities fund that provides exposure to a broad range of companies listed on the ASX, from some of the smallest through to some of the largest.

The Fund has a significant bias to small and mid-capitalisation companies and can invest up to 40% of FUM into companies with a market capitalisation of less than \$1bn.\*\* Accordingly, the Fund will always be heavily underweight the very largest companies on the ASX.

SBF typically holds 20-30 stocks and aims to outperform the S&P/ASX 300 Accumulation Index after fees on a rolling three year basis.

SBF's portfolio is constructed around a large core of high quality longer term growth stocks. A small component of shorter term value ideas can be included when Smallco can identify such stocks that meet our requirements for earnings outlook and risk/reward.

Given a primary focus on quality growth stocks with forecastable earnings, SBF very rarely invests in mining stocks other than the major miners, is very averse to loss making companies, and takes an extremely cautious approach to biotechs and structurally impaired industries.

SBF can hold up to 50% in cash. Elevated cash positions are held when opportunities are not present in the market.

Smallco's dominant investment tool is fundamental analysis. Focus is placed upon internal financial modelling supplemented by some broker research. We are strong believers that earnings are the key driver of share prices and as such the greater the accuracy in forecasting earnings the more consistent the outperformance.

### Key Investor Information

Strategy	SBF is a concentrated, long only, largely index unaware Australian equities fund providing a broad exposure to the Australian listed market.
Process	Smallco manages SBF employing a bottom up fundamental research approach focused upon earnings direction, risks and the underlying business's quality.
FUM	\$299.1m AUD
Mid Price	\$2.1584 (29 Dec 2023)
Distribution	Annually 30 June
Inception Date	31 July 2008
Portfolio Managers	Andrew Hokin, Rob Hopkins, Bill Ryan, Paul Graham, Adam Simpson, Han Xu and Craig Miller
APIR Code	ASC0003AU
Buy/sell costs	+/- 0.45%
Management Fee	1.20% of net assets ***
Performance Fee	15.0% of outperformance of the Standard & Poor's ASX 300 Accumulation Index. Payable quarterly in arrears. ***
Application & Withdrawal Timing	Units are priced daily on every business day in Sydney.
Service providers	Custody: Link Fund Solutions & Perpetual Corporate Trust Limited Administration: Link Fund Solutions

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*This document does not take into account the investment objectives, financial situation and particular needs of each reader. Accordingly, nothing in this document should be construed as a recommendation by Smallco, or any associate of Smallco or any other person, concerning an investment in the fund.*

*You should consider the Product Disclosure Statement and Target Market Determination available at <https://www.smallco.com.au/How-To-Invest> prior to making any investment decisions.*

\*\* From time to time the market capitalisation of stocks within the portfolio may fall below \$1bn and as a result the Fund's 40% limit may be exceeded. Rather than immediately selling positions to reduce the exposure below 40% (which could adversely affect stock prices), SBF may remain above 40% for a period of up to 6 months whilst orderly selling down. Smallco will not add to any sub \$1bn holdings during such a period.

\*\*\* Unless otherwise stated, all fees are quoted inclusive of GST, after allowing for Reduced Input Tax Credits (RITC). Past performance is not a reliable guide as to future performance. Returns are not guaranteed.