



Smallco Investment Fund

Quarterly Update 31 March 2022

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was down 13.9% for the March quarter versus the Small Ordinaries index down 4.2%. On a rolling twelve month basis the Fund is up 3.8% versus the Small Ordinaries up 9.7%.

The March quarter was a challenging period for the Fund with macroeconomic newsflow driving significant equity market volatility and divergent sector performance. There was a continued strong rally in small resources, a sector the fund does not invest in, which is now up 52% on a rolling twelve month basis. The Small Industrials index was down 9.1% for the quarter. The Fund's relative underperformance reflecting the market's switch out of structural quality growth companies in the face of the higher interest rate outlook towards value and cyclical sectors that the fund is heavily underweight.

Central to the market ructions has been a more persistent and higher inflationary outlook exacerbated by the global supply disruptions created by the war in Ukraine. This has driven a more hawkish pivot from the US Federal Reserve and surging commodity prices.

Market expectations are for inflation to start to fall later this year and into early 2023 but how long these market trends will persist is difficult to determine given the ongoing war in the Ukraine and potential for increased Covid disruptions in China.

What is important to note though is that through this period of underperformance there has been no deviation in our style or processes. We continue to believe quality growth companies will deliver longer term outperformance.

Results through the February reporting season from SIF's major holdings were generally in line with or ahead of expectations. While in many cases this did not spare them from near term share price weakness, it provides increased confidence in their longer term earnings growth outlook. A key component of this growth outlook is their pricing power which we expect will become increasingly important if inflation remains elevated.

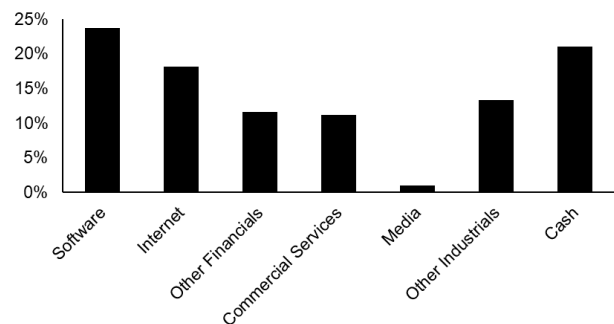
Throughout the quarter we have taken advantage of the volatility to selectively increase our investments in our highest quality conviction ideas. Despite this our cash position remains elevated as we exited several smaller longer duration investments as well as our holding in Uniti Group. Uniti which is Australia's second largest constructor, owner and operator of fibre cable telecommunication networks, received a takeover proposal from a consortium of infrastructure investors. Whilst this takeover process is ongoing we elected to exit the position. We believe this healthy cash position has us well positioned to take advantage of any further weakness in key existing positions as well as new quality ideas that are emerging.

SIF Performance

Return to 31 March 2022	
3 months	-13.9%
1 year	3.8%
3 year p.a.	8.0%
5 year p.a.	11.9%
10 year p.a.	17.8%
20 year p.a.	12.9%
Since inception (31.10.00) p.a.	13.5%
Value of \$100,000 invested at inception	\$1,517,814

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

SIF Structure: by sector (look through)



SIF Significant Holdings (alphabetical order)

Altium
IDP Education
Seek
Webjet
WiseTech Global

Please feel free to contact Craig Miller, one of our portfolio managers, for any queries or needs on 02 8256 1000.



Smallco Investment Fund

Quarterly Update 31 March 2022

SIF Fund Description

SIF is a concentrated, index unaware Australian equity fund investing predominantly in smaller listed companies. SIF may invest in cash when opportunities are scarce and invest up to 20% of the fund, at the time of purchase, in Australian companies within the ASX100.

Smallco believes that higher returns are available from smaller companies as these companies are generally not as well followed by the market which in turn makes mispricing more common. Particular focus is placed upon companies with a market capitalisation of between \$100m to \$500m - the Smallco "sweet spot".

SIF typically holds 25 to 35 stocks on the premise that it is better to have a holding of core stocks that offer solid investment fundamentals than a large number of "OK" investments.

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.

Stock weightings within the portfolio are determined by the assessment of the quality of the stock, the likely investment outcome, liquidity and the risk of sustained capital loss.

SIF very rarely invests in mining stocks, is very averse to loss making companies, and takes an extremely cautious approach to biotech and structurally impaired industries.

Contact Details

Phone:

(02) 8256 1000 or 1300 888 583

Fax:

(02) 8256 1010

Mailing Address:

Smallco Investment Manager Limited
GPO Box 4564
SYDNEY NSW 2001

Email:

smallco@smallco.com.au

Web Address:

www.smallco.com.au

Key Investor Information

Strategy	SIF is a concentrated, Australian equity smaller company focused fund that invests predominantly long but can effectively short when opportunities are found.
Process	Smallco manages SIF employing a bottom up fundamental research approach focusing upon earnings direction, risks and the underlying businesses quality.
FUM	\$425.4m AUD
Mid Price	\$5.1934 (31 Mar 2022)
Distribution	Annually 30 June
Inception Date	31 October 2000
Portfolio Managers	Rob Hopkins, Bill Ryan, Andrew Hokin, Paul Graham, Adam Simpson, Han Xu and Craig Miller
APIR Code	ASC0001AU
Minimum Initial	\$40,000
Buy/sell costs	+/- 0.45%
Management Fee	1.40% of net assets *
Admin cost (FY21)	0.13% of net assets *
Performance Fee	18.64% of the performance above the Fund's previous end-of-six-month period high. Payable 6 monthly. *
Service providers	Custody: Link Fund Solutions Administration: Link Fund Solutions
Liquidity	Time to exit 50% of SIF assets: < 1 day

Australian Financial Services Licence # 224 108

ARSN 103 148 107

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.

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