

Smallco

Smallco Investment Fund

Quarterly Update | 31 December 2024

SIF Portfolio Commentary

Smallco Investment Fund (SIF) finished flat for the December quarter versus the Small Ordinaries Index, which was down -1%. After a solid rally throughout November, equity markets sold off in December following the US Federal Reserve (Fed) update, in which they pared back the outlook for interest rate cuts in 2025.

For CY24, SIF was up 18.2% versus the Small Ords up 8.4%. Overall, it was a good year for equity markets and the Fund as Central Banks globally cut interest rates and appear to have achieved the coveted soft landing scenario. CY24 performance followed the strong CY23, and market expectations entering CY25 are now lofty. Against a backdrop of policy uncertainty in the US and a Federal election domestically, equity markets are factoring further rate cuts in 2025 and an improving growth outlook into 2026. There is a bifurcation in valuations, and we once again caution that the multiples, particularly in the quality growth companies favoured by the Fund, remain well above historic levels. Delivery of their earnings forecasts will be key to positive returns.

Pinnacle Investment Management (PNI), up 26.6%, was the largest positive contributor to the Fund's performance this quarter. Pinnacle continued its strong run this year, with good investment performance from many of its key affiliates expected to generate substantial performance fees in the February result and place them in a good position to attract future fund flows. In November Pinnacle also announced the acquisition of equity stakes in VSS, a US private investment firm, and PAM, a UK headquartered multi-asset technology platform and distribution business. These were funded by way of a \$400m equity raising, which SIF participated in. Post raising, PNI retains significant balance sheet capacity to pursue further acquisitions or to fund growth initiatives in its existing affiliates.

Other strong performers in the quarter included two of the Fund's smaller holdings: Generation Development Group (GDG), up 27.2%, and Superloop (SLC), up 27%. GDG's two main businesses, GenLife, which offers investment bonds and annuities, and Lonsec, which provides managed accounts and fund research and ratings services, continue to grow strongly. SLC leverages its telco infrastructure and software assets to provide connectivity services to retail, business and wholesale customers. Its AGM update indicated a strong start to the year for all three segments.

Web Travel Group (WEB), down -37.6%, was the largest negative contributor in the quarter. WEB is now largely WebBeds, a global B2B hotel distribution business, following the spin-off of Webjet (WJL), its B2C online travel business, in September. WEB was sold off following a disappointing interim result in November, which showed greater than expected revenue margin declines. Some of the factors are expected to be transitory and were further exacerbated by the management distraction associated with the WJL demerger. Longer-term revenue and earnings targets were provided, but we expect it will take a few results for the market to regain confidence in them.

Audinate (AD8) down -24.2%, and IDP Education (IEL), down -20.6%, continued their selloffs from the September quarter. Like WEB, we expect it will take delivery of results that show a return to growth for the market to regain confidence in their longer-term outlooks.

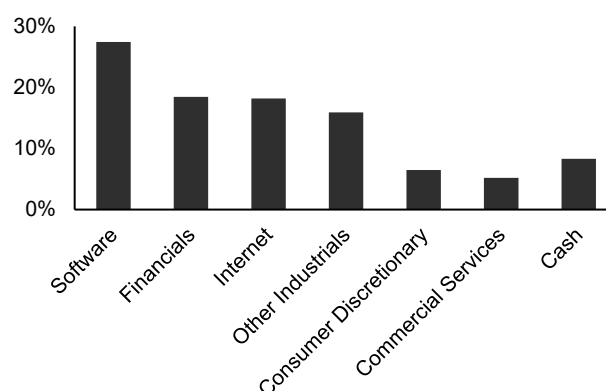
The Smallco Investment Fund remains open to new and existing investors.

SIF Performance

Return to 31 December 2024	
3 months	0.0%
1 year	18.2%
3 year p.a.	5.9%
5 year p.a.	11.1%
10 year p.a.	12.3%
20 year p.a.	12.4%
Since inception (31.10.00) p.a.	13.4%
Value of \$100,000 invested at inception	\$2,092,905

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

SIF Structure: by sector (look through)



Significant Holdings (alphabetical order)

Pinnacle Investment Management
REA Group
Seek
WiseTech Global
Xero

Smallco

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SIF Fund Description

SIF is a concentrated, index unaware Australian smaller company focussed fund. It is predominantly long only but can short when suitable opportunities are found. SIF does not invest in mining stocks and is extremely cautious with respect to loss making companies including biotechs.

Smallco's philosophy is that it is better to have a small number of good investments than a large number of mediocre investments. Accordingly, SIF is relatively concentrated, generally invested in between 20 and 35 securities. It will hold cash when opportunities are scarce.

SIF is managed with a "growth at a reasonable price" bias employing a bottom-up approach with a strong focus on earnings direction and risks. We are strong believers that earnings are the key driver of share prices and that more accurate forecasting of earnings will drive greater and more consistent outperformance.

Smallco believes that higher returns are available from smaller companies as these companies are generally not as well followed by the market. Smallco actively looks for high quality smaller companies whose current share price is significantly less than what it considers to be the true long term underlying value of the shares.

Particular focus is placed on identifying new opportunities in companies with a market capitalisation of sub \$500m. SIF has the flexibility to continue to hold these companies in the portfolio if they grow successfully and move into the ASX100.

Some characteristics of high quality, smaller companies that Smallco seeks to identify include: strong competitive position, good management, attractive and predictable earnings outlook, high returns on funds employed and strong cash generation.

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

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Key Investor Information

Strategy	SIF is a concentrated, Australian equity smaller company focused fund that invests predominantly long only 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	\$548.4m AUD
Mid Price	\$6.3257 (31 Dec 2024)
Distribution	Annually 30 June
Inception Date	31 October 2000
Portfolio Managers	Adam Simpson, Rob Hopkins, Bill Ryan, Andrew Hokin, Paul Graham, 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 (FY24)	0.14% 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 & Perpetual Corporate Trust Limited Administration: Link Fund Solutions

Australian Financial Services Licence # 224108

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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.

* 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.