



Smallco Broadcap Fund

Quarterly Update 31 March 2021

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) performed moderately ahead of its benchmark in the March quarter. This was a solid result given the quarter witnessed a continued rotation within equity markets from quality structural growth stocks (which form the core of the Fund's portfolio) to lesser quality more economically sensitive stocks.

The Australian sharemarket continued its strong rebound in the March quarter, driven by continued vaccine/reopening optimism, additional Government stimulus in the US and, relative to expectations, the strongest company reporting season in many years. While market wide revenues in the December half were broadly in line with expectations, cost reductions drove the largest and broadest based earnings surprise in at least 25 years. The Fund had a solid reporting season with strong results from a number of quality growth positions (IEL, WTC, PNI, PWH).

With the global growth outlook strengthening over the March quarter it is no surprise the 2 key risks highlighted in our December quarterly were in focus – an ongoing rotation within the equity market and a potential inflation rebound. While we expect inflation to rebound in the short term, we are not convinced it will be sustained above the 2% level targeted by many central banks given latent capacity in most economies.

Nevertheless it seems likely that long term bond yields will rise somewhat further which may sustain the rotation to lower quality stocks for longer. While this pressures relative performance of the Fund's structural growth stocks, the fund retains significant exposure to reopening plays (travel, IDP Education, VUK) which has offset this headwind to date. Further, earnings of the Fund's growth stocks are leveraged to improving economic conditions and the Fund has trimmed some of its pricier growth stocks which has increased its cash position.

One of the stocks driving the Fund's returns recently is PWR Holdings. PWR provides high end cooling solutions across motorsport, high end manufacturers, defence, aerospace & aftermarket. Whilst technically a manufacturer, through a focus on research & development, dominance of cooling solutions to the technically advanced Formula 1 series and a focus on providing a one stop solution (R&D, design, manufacture, testing), PWR has developed a very solid business with strong margins that focuses on less well served niche high end segments.

Historically motorsport has dominated the business and still represents a little over half of PWR's revenues. However in recent years PWR has focused on developing its Emerging Technologies business (high end cooling solutions for primarily defence & aerospace markets including electric vehicles). The benefits of this are now starting to come through with Emerging Technologies revenues expected to more than double to a little over 10% of revenues in FY21 and management seeming increasingly confident in their public prediction that Emerging Technologies revenue will at least match Motorsport within 5 years.

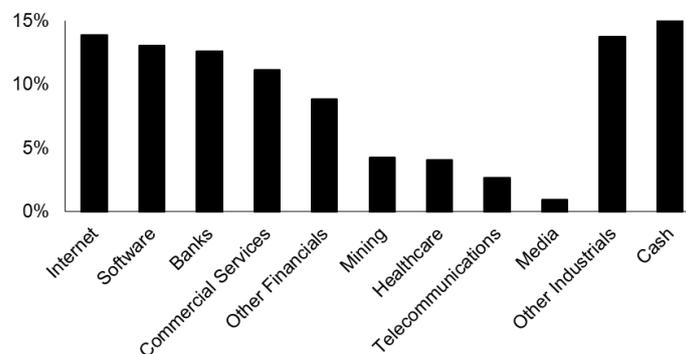
While PWR is now trading at ~33x expected FY21 earnings, we expect strong earnings growth and see it performing well over time if it gets anywhere near its growth aspirations for Emerging Tech/Aftermarket.

SBF Performance

Return to 31 March 2021			
	SBF	Index*	Out Perf.
3 months	4.8%	4.2%	0.6%
1 year	65.1%	38.3%	26.8%
3 year p.a.	12.5%	9.7%	2.8%
5 year p.a.	12.7%	10.3%	2.4%
10 year p.a.	16.4%	7.9%	8.5%
Since inception (31.07.08) p.a.	17.2%	7.0%	10.2%
Value of \$100,000 invested at inception	\$743,732	\$235,280	\$508,452

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

SBF Structure: by sector



SBF Structure – by size

As at 31 March 2021	SBF	Index*
% in Market Cap < \$1bn	19.5%	2.4%
% in Market Cap \$1bn - \$5bn	28.0%	13.6%
% in Market Cap \$5bn - \$10bn	9.3%	14.8%
% in Market Cap > \$10bn	28.2%	69.2%
% Cash	15.0%	Nil

SBF Significant Holdings (alphabetical order)

Corporate Travel Management
 IDP Education
 PWR Holdings
 Seek
 Webjet

* 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 providing a broad exposure to the Australian listed market.

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 can invest up to 40% of the Fund in companies with a market capitalisation of less than \$1bn and will deviate significantly from the index when appropriate opportunities are found. **

The theoretical investable universe is anything which meets Smallco's liquidity requirements. In practice 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's portfolio is constructed around a large core of high quality longer term growth stocks. A range of smaller shorter term value ideas are wrapped around this when Smallco can identify such stocks that meet our requirements for earnings outlook and risk/reward.

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.

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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	\$192.7m AUD
Mid Price	\$2.0257 (31 Mar 2021)
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 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.

** 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.