

Smallco

Smallco Investment Fund

Quarterly Update | 31 December 2023

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 10.9% for the December quarter versus the Small Ordinaries Index up 8.5%. It was a strong quarter for equity markets with December particularly strong. The All Ords was up over 7%, the largest December gain in over 30 years. This followed the dovish pivot from central banks which suggested the interest rate tightening cycle was ending and fuelled markets both here and abroad.

For calendar year 2023 SIF was up 30.0% versus the Small Ords up 7.8%. This was a particularly strong year that effectively unwound the tough CY22 in which persistent underlying inflationary pressures were exacerbated by geopolitical events. More economists are now predicting the goldilocks scenario of inflation being brought under control without the tightening driving a severe recession. Whilst this is positive for global growth and the corporate earnings outlook, we do caution that markets have rallied particularly hard in recent months. Geopolitical risks remain high and valuations, particularly for quality growth companies favoured by the fund, are once again elevated. That said we remain confident in the quality of the portfolio, the strong growth outlook of major holdings and robust cash levels have us well placed to capitalise on new opportunities.

Best performers this quarter included Temple and Webster (TPW) which is Australia's leading pure play online furniture and homewares retailer. TPW was up over 45% in the quarter after its AGM update showed an acceleration of sales growth in the important Q2 sales period driven by the success of recent brand campaigns and further market share gains.

Seek (SEK) was up over 21% following its AGM update where it maintained earnings guidance despite softening in the domestic labour market. Softer job volumes had been offset by higher and favourable FX moves. SEK had also lagged its online marketplace peers such as REA and Carsales. SEK's earnings remain at risk in CY24 as job volumes continue to moderate, but we continue to be attracted to its job ad yield opportunities and efficiency gains still to be realised over the medium term.

Propel (PFP), a leading provider of death care services in ANZ, was up 20% after it confirmed it had received preliminary takeover approaches from multiple parties. This followed the private equity takeover of larger peer Invocare (IVC) during the quarter.

Detractors this quarter included PWR Holdings (PWH), down 11% as it announced it had withdrawn from contract negotiations to deploy its cutting-edge battery cooling products in a high-volume electric vehicle program after failing to agree suitable commercial terms.

IDP Education (IEL), was down 6% as it faces headwinds of increased competition for its IELTS, high stakes English language testing business. Recent months have also seen increased commentary from both the Australian and UK governments looking to reduce the number of international students, particularly those students whose primary objective is migration. These headwinds mean IEL's earnings remain at risk through CY24 however we continue to be attracted to the long term market share growth potential of its Student Placement business.

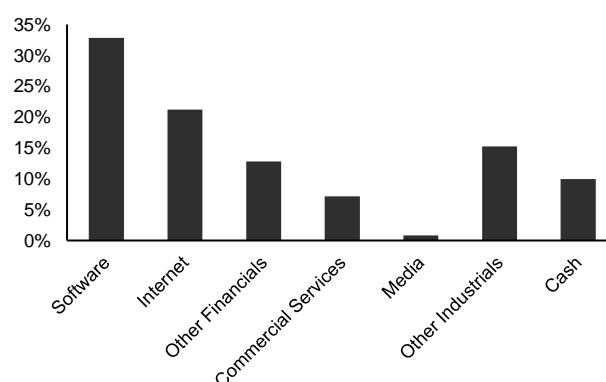
The Smallco Investment Fund remains open to new and existing investors.

SIF Performance

Return to 31 December 2023	
3 months	10.9%
1 year	30.0%
3 year p.a.	6.3%
5 year p.a.	12.1%
10 year p.a.	12.0%
20 year p.a.	13.8%
Since inception (31.10.00) p.a.	13.2%
Value of \$100,000 invested at inception	\$1,770,475

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)

Altium
Audinate Group
REA Group
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 rather than a large number of mediocre investments. Accordingly, SIF is relatively concentrated, generally invested in between 25 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 upon 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	\$479.3m AUD
Mid Price	\$5.7039 (29 Dec 2023)
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 (FY23)	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
Liquidity	Time to exit 50% of SIF assets: < 1 day

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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.