

Smallco

Smallco Investment Fund

Quarterly Update | 30 September 2024

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 7.6% for the September quarter versus the Small Ordinaries Index up 6.5%. On a rolling 12-month basis the Fund was up 31.0% versus the Small Ordinaries up 18.8%.

It was a strong quarter for equity markets following the commencement of rate cuts by the US Federal Reserve and European central banks and solid economic data out of the US that suggests the "Goldilocks" soft landing scenario is appearing more likely.

Locally, the August reporting period was better than feared, but earnings misses once again exceeded beats and there were further modest downward revisions to the market's FY25 earnings growth forecasts.

SIF enjoyed a positive August reporting period. Strong results from Temple & Webster (TPW) up 41.3%, WiseTech (WTC) up 36.9% and Pinnacle (PNI) up 29.2% for the quarter more than offset softer results from Audinate (AD8) down -38.2% and PWR Holdings (PWH) down -16.7%.

Temple & Webster's result highlighted its ability to continue to take market share in what was a tough consumer environment. Sales growth remained strong, and margins were towards the upper end of the targeted range. The result increased the market's confidence in TPW's longer term growth targets.

WiseTech's FY24 result was modestly ahead of guidance however its FY25 outlook statement was significantly better than expected. Revenue growth is forecast to reaccelerate with higher than expected margins. Three key new products were announced which are expected to drive strong 2H revenue growth which should then flow into FY26.

Pinnacle continued its strong run after its result highlighted good performance from its affiliates and a pickup in fund inflows. The strong performance and inflows provide the group with good momentum heading into FY25.

Audinate downgraded its FY25 outlook ahead of reporting season. While FY24 results were in line with expectations and we had anticipated a softer FY25, the outlook for flat revenues and a decline in earnings was worse than we had expected. Ordering patterns in AD8's end markets are still normalising post COVID which has created a sales headwind into FY25. Whilst FY25 is shaping as a tough period, underlying key operating metrics remain good and we remain positive on AD8's medium term growth outlook.

PWR Holding's result and outlook were softer than expected due largely to an increase in underlying costs pressures associated with higher wage inflation and the company's manufacturing expansion plans. PWH is undertaking a significant expansion of its manufacturing capacity ahead of what it expects to be a large increase in demand for its advanced cooling products from new use cases in the Aerospace and Defence sectors. Uncertainty surrounding the timing of the ramp up in demand from these new sectors does increase near term earnings risk, but if these sectors develop as expected they should drive strong growth in earnings longer term.

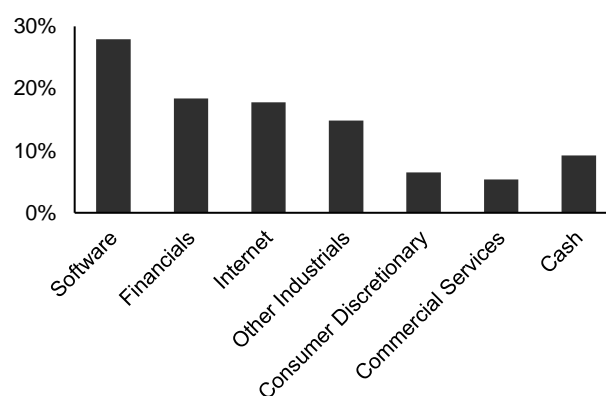
The Smallco Investment Fund remains open to new and existing investors.

SIF Performance

Return to 30 September 2024	
3 months	7.6%
1 year	31.0%
3 year p.a.	6.1%
5 year p.a.	11.4%
10 year p.a.	12.7%
20 year p.a.	13.1%
Since inception (31.10.00) p.a.	13.6%
Value of \$100,000 invested at inception	\$2,091,908

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	\$548.7m AUD
Mid Price	\$6.3227 (30 Sep 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

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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.

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.