



# Smallco Broadcap Fund

## Quarterly Update 31 December 2021

### SBF Portfolio Commentary

Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark for the 2021 calendar year, driven by very strong returns from many of the Fund's major positions. Part of this outperformance was given back in the December quarter, primarily reflecting a strong rebound in the Resources sector (which the Fund's style is to significantly underweight) and the initial impact of the Omicron variant on the Fund's travel exposures. Importantly, almost all of the Fund's key positions delivered very solid AGM updates during the quarter.

The Australian share market witnessed a change in leadership during the December quarter, with the Resources sector reversing its significant underperformance of the September quarter, while more interest rate sensitive higher growth stocks started to underperform from mid-November as the market started to factor in more hawkish commentary from the US Federal Reserve following higher than expected US inflation readings. AGM updates tended to be favourable with many international exposed businesses recovering from lockdowns while domestically the focus was on reopenings in NSW & Vic.

As we look forward to 2022 the similarities in the consensus outlook and risks to this outlook versus expectations at the start of 2021 are worthy of note. Above trend economic growth is again expected, albeit moderating and this time driven by the savings built up by consumers during the pandemic and the eventual normalisation of inventories, rather than the reopening rebound witnessed in 2021. Similarly, while COVID cases globally are once again increasing significantly at the start of the year, there is renewed hope the pandemic will become far less impactful, this time driven by a belief by some experts the less severe but far more transmissible Omicron variant will lead to COVID becoming more like the flu. Finally, inflation again remains a key risk factor, however with increased caution now given the failure of labour supply to return to pre-COVID levels in some countries, notably the USA.

Despite the similarities to 12 months ago, the greater uncertainty posed by the inflation outlook and earlier than previously forecast reduction in monetary stimulus, we note that equity markets (in particular the US market) have effectively "banked" a significant part of the reopening earnings rebound by holding 1 year forward PE multiples not far from levels of 12 months ago. However, these were in themselves elevated multiples as they were based on forecasts which did not fully factor in the earnings rebound that has since occurred.

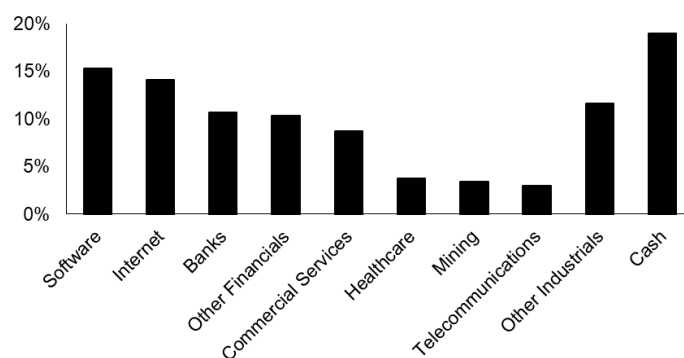
Accordingly, despite consensus economic growth forecasts that would typically be supportive for equities, we remain mindful of valuations, particularly for the higher growth quality stocks favoured and held by the Fund, and of the potential for volatility from either COVID developments or central bank actions. An increased focus on the strength of the earnings outlook, particularly among higher priced companies, has driven a further build in the Fund's cash position, leaving it well placed to take advantage of any material market pullback.

### SBF Performance

Return to 31 December 2021			
	SBF	Index*	Out Perf.
3 months	0.2%	2.2%	-2.0%
1 year	25.3%	17.5%	7.8%
3 year p.a.	20.5%	14.0%	6.5%
5 year p.a.	14.3%	9.9%	4.4%
10 year p.a.	19.8%	10.8%	9.0%
Since inception (31.07.08) p.a.	17.7%	7.6%	10.1%
Value of \$100,000 invested at inception	\$886,682	\$265,528	\$621,154

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

### SBF Structure: by sector (look through)



### SBF Structure – by size

As at 30 June 2021	SBF	Index*
% in Market Cap < \$1bn	19.8%	1.8%
% in Market Cap \$1bn - \$5bn	19.1%	13.5%
% in Market Cap \$5bn - \$10bn	12.4%	11.9%
% in Market Cap > \$10bn	29.7%	72.8%
% Cash	18.9%	Nil

### SBF Significant Holdings (alphabetical order)

Altium  
National Australia Bank  
Pinnacle Investment Management  
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 biotech 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	\$263.6m AUD
Mid Price	\$2.2622 (31 Dec 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.

**Smallco**  
Investment Manager