



# Smallco Investment Fund

## Quarterly Update 30 September 2022

### SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 6.1% for the September quarter versus the Small Ordinaries index down -0.5%. SIF enjoyed a strong August reporting period driven by good financial results and good outlook statements from the majority of the major holdings. WiseTech and Altium were amongst the strongest performers in the quarter delivering standout results and upgrading outlooks.

Equity markets remain volatile, dominated by large swings in macro sentiment. A strong market rally through July reversed in September with hawkish Fed commentary dashing hopes of a near term dovish pivot. Whilst goods inflationary pressures appear to be easing the key issue remains how persistent services inflation becomes and thus the extent to which central banks will need to increase interest rates and slow economic growth to rein it in.

We selectively added to existing positions throughout the quarter. Our cash position remains elevated which has us well positioned to take advantage of further opportunities that may present. Whilst the macro outlook remains uncertain and a period of higher interest rates may put pressure on equity valuations we continue to believe a portfolio of high quality businesses with strong market positions and long growth outlooks will lead to longer term outperformance.

WiseTech (WTC) is a stock SIF has held since its IPO in 2016. It is a founder-led, cloud based software solutions provider to the global logistics industry. Its flagship product, CargoWise, helps third party logistics providers (3PLs) execute complex shipping transactions as well as manage their internal operations across multiple countries. Its customers include 10 of the top 25 global 3PLs.

WTC operates a scalable SaaS business model generating high margins, operating leverage and free cashflows. It has ~90% recurring revenue and sticky customers (churn < 1%). The software delivers users, and companies those users interact with, substantial operating efficiencies that increase as more customers move onto the platform creating a network effect that drives further adoption.

WTC has delivered over 30% recurring revenue CAGR since 2016. Its growth outlook remains strong with significant further rollout opportunities within existing large 3PL customers as well as new contract opportunities. WTC is also developing new products and features which increase the revenue opportunities within existing customers as well as attract customers in adjacent industry verticals such as landside logistics, warehouse and eCommerce.

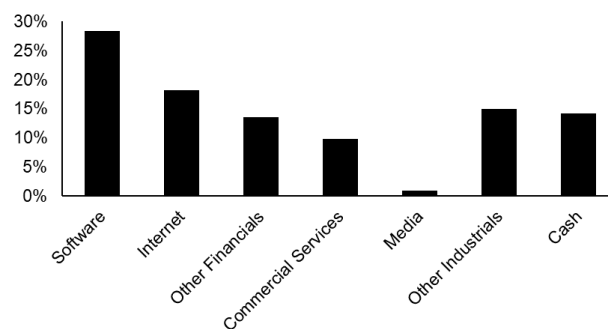
WTC delivered a high quality FY22 result and provided an outlook for 20-30% earnings growth into FY23. The result highlighted further rollout opportunities which are expected to help offset a slowdown in global freight volumes. The stock has rallied hard in recent months and near-term valuations are once again stretched. While near term WTC is unlikely to be immune to a large slowdown in global trade, it remains one of the few truly global software opportunities on the ASX with a significant growth runway and thus we continue to hold a position on a longer-term view.

### SIF Performance

Return to 30 September 2022	
3 months	6.1%
1 year	-23.6%
3 year p.a.	3.2%
5 year p.a.	7.3%
10 year p.a.	13.9%
20 year p.a.	13.2%
Since inception (31.10.00) p.a.	12.6%
Value of \$100,000 invested at inception	\$1,339,479

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

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



### SIF Significant Holdings (alphabetical order)

Altium  
IDP Education  
REA Group  
Seek  
WiseTech Global

Please feel free to contact Craig Miller, one of our portfolio managers, for any queries or needs on 02 8256 1000.



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### SIF Fund Description

SIF is a concentrated, index unaware Australian equity fund investing predominantly in smaller listed companies. SIF may invest in cash when opportunities are scarce and invest up to 20% of the fund, at the time of purchase, in Australian companies within the ASX100.

Smallco believes that higher returns are available from smaller companies as these companies are generally not as well followed by the market which in turn makes mispricing more common. Particular focus is placed upon companies with a market capitalisation of between \$100m to \$500m - the Smallco "sweet spot".

SIF typically holds 25 to 35 stocks on the premise that it is better to have a holding of core stocks that offer solid investment fundamentals than a large number of "OK" investments.

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.

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

SIF very rarely invests in mining stocks, is very averse to loss making companies, and takes an extremely cautious approach to biotechs and structurally impaired industries.

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### Key Investor Information

Strategy	SIF is a concentrated, Australian equity smaller company focused fund that invests predominantly long 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	\$361.4m AUD
Mid Price	\$4.4659 (30 Sep 2022)
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 (FY21)	0.13% 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 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.

\* 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.