

Smallco Broadcap Fund

Quarterly Update 30 September 2022

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark in the September quarter. This partial recovery of the style driven underperformance in the June half was driven by a very strong reporting season for the Fund's key positions and a much reduced style headwind during the quarter.

Equity markets remained highly volatile in the September quarter, with a strong bounce in July driven by hopes that the US Federal Reserve would pivot to easier monetary policy by early 2023. This was fully reversed in September post a hawkish speech by the US Federal Reserve Chairman and higher than expected inflation reports in many countries. Together, these pushed up the expected peak in the Fed Funds rate by a further ~1%. Then, in early October, markets bounced strongly, partly driven by the RBA doing the opposite (raising rates less than expected) then fell on a solid US employment report.

These recent events highlight the higher than usual level of uncertainty in markets at present, reflective of more unforecastable moving parts than usual and a challenging economic backdrop (the increased likelihood of a recession as the cost of bringing down inflation). It is likely volatility will remain high until there is a clearer picture of the inflation outlook, where interest rates will peak and the cost to economic growth and corporate earnings of bringing inflation down.

As discussed in the June quarter update, the Fund's approach to this environment has been, and remains, to use periods of significant market weakness to gradually deploy cash built up during late 2021 into high quality structural growth businesses which typically emerge stronger from downturns. Indeed, many of the positions added to by the Fund during the May & June selloffs have subsequently delivered strong results and/or outlook statements and performed well for the Fund. These include Audinate, Altium, IDP Education, PWR Holdings, REA Group and WiseTech Global.

The recent results of Altium and WiseTech Global are particularly noteworthy. These are two of the highest quality businesses in the Australian market and are among the Fund's largest positions post additional investments being made at much lower levels in May/June. In a reporting season where companies on average delivered in line results but cautious outlooks, Altium and WiseTech each delivered FY22 results and FY23 guidance comfortably above consensus expectations.

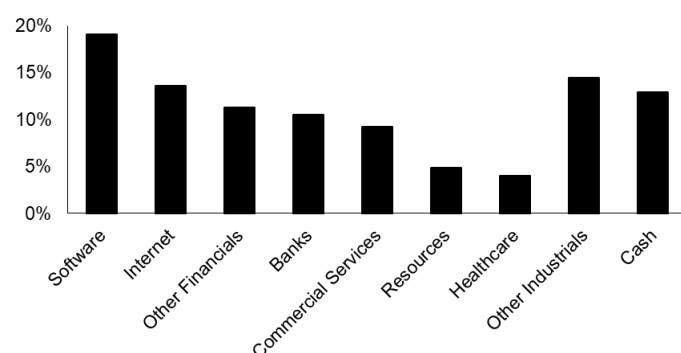
The corollary to a strong reporting season for the Fund is that, despite weakness in September, many of the Fund's higher quality positions have not returned to anywhere near the May/June lows, which limited deployment of the Fund's remaining cash balance during the September selloff. Despite partially deploying its cash balance in May/June, the Fund retains a solid cash balance and is comfortable remaining patient in the current uncertain environment.

SBF Performance

Return to 30 September 2022			
	SBF	Index*	Out Perf.
3 months	5.4%	0.5%	4.9%
1 year	-16.1%	-8.0%	-8.1%
3 year p.a.	7.1%	2.7%	4.4%
5 year p.a.	8.6%	6.8%	1.8%
10 year p.a.	14.4%	8.4%	6.0%
Since inception (31.07.08) p.a.	15.3%	6.3%	9.0%
Value of \$100,000 invested at inception	\$744,114	\$239,023	\$505,091

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 September 2022	SBF	Index*
% in Market Cap < \$1bn	17.9%	2.6%
% in Market Cap \$1bn - \$5bn	27.0%	13.7%
% in Market Cap \$5bn - \$10bn	10.4%	13.5%
% in Market Cap > \$10bn	31.8%	70.2%
% Cash	12.9%	Nil

SBF Significant Holdings (alphabetical order)

Altium
IDP Education
Seek
Webjet
WiseTech Global

* 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	\$216.1m AUD
Mid Price	\$1.7815 (30 Sep 2022)
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.