

Smallco

Smallco Investment Fund

Quarterly Update | 30 June 2024

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was down -1.9% for the June quarter versus the Small Ordinaries Index down -4.5%. On a rolling 12 month basis the Fund was up 24.7% versus the Small Ordinaries up 9.3%.

Pinnacle Investment Management (PNI), up 21.9%, was the largest positive contributor in the quarter. Pinnacle has equity stakes in domestic and offshore investment managers to which it offers third party distribution and fund infrastructure services. In May it announced it was establishing a new global equities affiliate led by an experienced, well credentialed team that left Royal London Asset Management. This team has a positive long-term track record and strong client relationships. When combined with Pinnacle's global distribution and marketing capabilities, it has the potential to attract significant funds under management quickly and become a meaningful contributor to Pinnacle's profit growth.

PSC Insurance (PSI) operates Insurance Broking and Underwriting Agencies in ANZ, the UK and Hong Kong. It was up 11.6% in the quarter after it entered into a Scheme of Arrangement to be acquired by the UK based insurance broker, Ardonagh Group. PSC listed at the end of 2015 with the Founders and Board retaining significant equity ownership. SIF first invested in PSC over five years ago. The attractive structure of the insurance broking industry and strong execution has meant PSI has been a good long-term performer for the Fund. The Scheme has been unanimously recommended by the Board and is expected to complete in late September.

The two largest negative contributors this quarter were Temple and Webster (TPW) and Audinate (AD8). Both effectively gave up strong performances in the prior quarter. TPW, down -27.7%, announced a positive trading update in May with sales up 30% in the half. It has since been sold off on concerns regarding the weakening retail environment following soft updates from other ASX-listed consumer businesses. Audinate was down -27.3% following the surprise resignation of the long-term CFO and concerns of a potential softening in end market professional Audio-Visual demand. While neither company are expected to be immune to a cyclical softening in market demand, we view both as long-term structural growth opportunities. We retain solid positions in both companies.

For fiscal year 2024, the best performers were Altium (ALU) up 85.9% following the takeover offer from Renesas, and Audinate up 70.4% continuing its strong growth outlook. Biggest detractor was IDP Education (IEL), down -29.4% in response to increased competition in its English Language testing division and government policy initiatives in key markets to reduce international student numbers following a post-COVID surge.

PSC follows Altium from last quarter as the second significant holding of the Fund to receive a takeover offer. Both are expected to complete in coming months. We have commenced redeploying those funds into existing and new holdings with several new positions established in SIF last quarter. We retain a healthy cash or quasi-cash (stocks under takeover) balance and are well positioned to take advantage of new opportunities as we enter the next financial year.

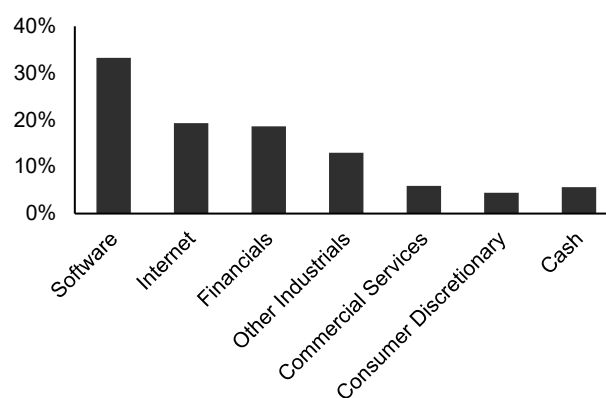
The Smallco Investment Fund remains open to new and existing investors.

SIF Performance

Return to 30 June 2024	
3 months	-1.9%
1 year	24.7%
3 year p.a.	7.2%
5 year p.a.	9.1%
10 year p.a.	12.6%
20 year p.a.	13.3%
Since inception (31.10.00) p.a.	13.4%
Value of \$100,000 invested at inception	\$1,943,833

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
Pinnacle Investment Management
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 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 (cum dist)	\$521.3m AUD
Mid Price (cum dist)	\$6.2624 (30 Jun 2024)
Distribution	\$0.3872 (30 Jun 2024)
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: MUFG Corporate Markets (formerly Link Fund Solutions) & Perpetual Corporate Trust Limited Administration: MUFG Corporate Markets (formerly 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.

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.

Smallco
Investment Manager