

Smallco Broadcap Fund

Quarterly Update 31 December 2022

SBF Portfolio Commentary

2022 proved to be even more unpredictable than usual with geopolitical events, higher than expected inflation and faster than expected interest rate increases the key equity market drivers. The Australian equity market's slight overall decline, despite these factors and global equity markets falling nearly 20%, reflects strong gains by resources (benefiting from the invasion of Ukraine) and modest gains by banks. Quality growth stocks and other sectors whose valuations are more sensitive to rising interest rates such as property trusts fell heavily, as did small and mid-cap industrials. The spread of returns across sectors was among the widest witnessed in many years.

The Smallco Broadcap Fund's (SBF) style focuses on stocks with strong competitive positions and significant long term growth opportunities. This drives material investment in quality profitable software and other growth businesses, along with higher growth emerging and mid-cap industrials, at the expense of investment in sectors with less predictable earnings such as resources and, to a lesser degree, banks. A combination of this style and the Fund's stock selection has led to strong returns over long periods.

Notwithstanding this, in 2022 resources outperformed the ASX Software & Services Index by 52% and small and mid-cap industrials by 32-42%. While this led to a disappointing year for SBF, its performance was well ahead of the level these differences would suggest, due to strong profit results from most of its key holdings, a solid AGM season and cash balances held at the start of the year, including partial deployment of that cash during the May/June selloff.

Key drivers of equity markets in 2023 are likely to include the cost to economic growth and corporate earnings of bringing inflation down to levels targeted by central banks and the impacts of China's reopening (both short term disruptions from the current COVID wave and the earnings benefits and inflation risks once China progresses to living with COVID).

The risk for 2023 is that a mild recession will be necessary in many countries to drive the adjustment in currently tight labour markets that is likely to be required to bring inflation down sufficiently and sustainably. If recessions occur corporate earnings as a whole would inevitably fall, yet market expectations remain for modest earnings growth in 2023. This and continuing solid valuations in some segments (including many growth stocks) highlights a risk of further adjustment in equity markets before the current cycle ends.

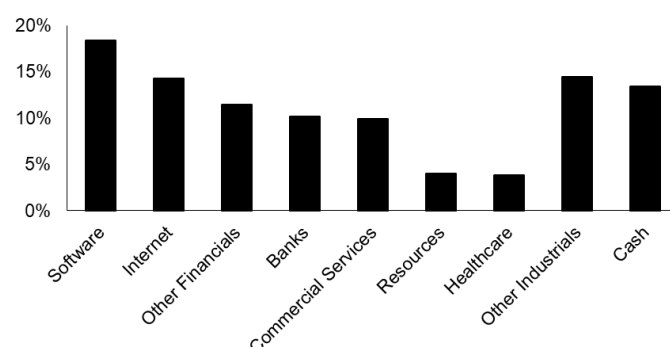
Should this occur the Fund retains sufficient cash to take advantage of any material selloffs. February reporting season may throw up some opportunities if the market responds negatively to companies that are experiencing short term impacts from the current COVID disruption in China. While the Fund overall will ultimately be a net beneficiary of China's reopening, a few of its companies may be experiencing modest impacts during the current transition.

SBF Performance

Return to 31 December 2022			
	SBF	Index*	Out Perf.
3 months	5.0%	9.1%	-4.1%
1 year	-12.1%	-1.8%	-10.3%
3 year p.a.	8.3%	5.5%	2.8%
5 year p.a.	8.4%	7.1%	1.3%
10 year p.a.	13.5%	8.6%	4.9%
Since inception (31.07.08) p.a.	15.4%	6.9%	8.5%
Value of \$100,000 invested at inception	\$781,580	\$260,835	\$520,745

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 31 December 2022	SBF	Index*
% in Market Cap < \$1bn	13.8%	2.2%
% in Market Cap \$1bn - \$5bn	32.1%	12.0%
% in Market Cap \$5bn - \$10bn	11.2%	13.0%
% in Market Cap > \$10bn	29.4%	72.8%
% Cash	13.5%	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	\$227.4m AUD
Mid Price	\$1.8712 (31 Dec 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.

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.

** 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