



Smallco Investment Fund

Quarterly Update 31 December 2021

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 0.5% for the December quarter. Altium, up nearly 30%, was the standout contributor following AGM commentary that indicated the COVID inspired industry disruptions that plagued FY21 were behind it and the company had returned to strong growth in FY22. The stock is now back trading well above the indicative takeover proposal received by Autodesk earlier in the year.

Corporate Travel and Webjet dragged in the December quarter as the Omicron wave swept the globe and disrupted what had been rapidly improving travel trends.

For the calendar year 2021 SIF was up 19.6%. While surging COVID case numbers in recent months stalled the economic recovery that had been underway, strong economic growth throughout the year and low interest rates combined to make CY21 another remarkably strong period for equity markets. The portfolio through its mix of secular growth stocks combined with a healthy weighting to economic recovery plays performed well.

Given the continued strong performance, valuations of the type of companies favoured by the fund are once again stretched. We remain cautious that we may well enter a period of increased volatility in CY22 as an already historically expensive equity market grapples with central bank tapering and questions on inflation persistency against a backdrop of ongoing (albeit easing) COVID disruptions. We have continued to build cash levels throughout CY21 and are well positioned to take advantage of any market pullback.

PSC Insurance (PSI) has been a smaller position in the Fund for some time. PSC operates insurance broking and underwriting agencies focussed predominately on the SME commercial market in ANZ and the UK. The UK business operates in the larger UK commercial broking and wholesale markets. It is a point of difference to the other ASX listed insurance brokers and provides a strong platform for medium term growth.

Insurance broking is an attractive, growing, fragmented sector. Business insurance is a non-discretionary spend. Insurance brokers take a commission and fee based on insurance premiums which have to be renewed annually. They do not take any of the underwriting risk and thus the volatility experienced by the insurers themselves.

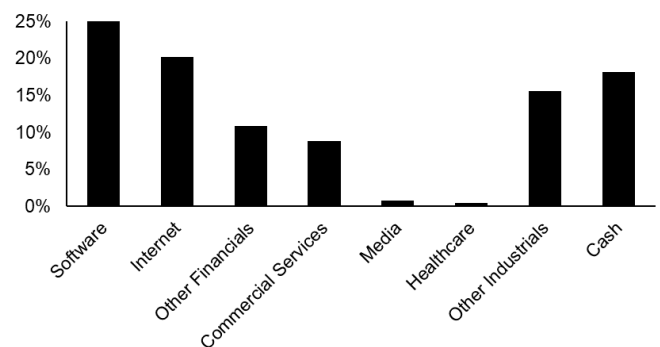
PSC management and board are highly aligned owning over 40% of the company. The company has an excellent track record of delivering strong double digit EPS growth through a blend of organic growth and focussed acquisitions. PSC generates good cashflow and has a robust balance sheet to continue to pursue growth opportunities. Management's target is to double the business over the next four years which implies circa 20% profit growth per annum. The stock is currently trading on mid 20's PER which we think is fair given its track record and growth prospects.

SIF Performance

Return to 31 December 2021	
3 months	0.5%
1 year	19.6%
3 year p.a.	20.7%
5 year p.a.	15.5%
10 year p.a.	21.4%
20 year p.a.	14.1%
Since inception (31.10.00) p.a.	14.5%
Value of \$100,000 invested at inception	\$1,762,123

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	\$497.2m AUD
Mid Price	\$6.0293 (31 Dec 2021)
Distribution	Annually 30 June
Inception Date	31 October 2000
Portfolio Managers	Rob Hopkins, Bill Ryan, Andrew Hokin, Paul Graham, Adam Simpson, 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.