



# Smallco Investment Fund

## Quarterly Update 31 March 2020

### SIF Portfolio Commentary

Smallco Investment Fund (SIF) was down 26.8% for the March quarter versus the Small Ordinaries index down 26.7%. The pace and the severity of the drawdown in markets caused by the COVID-19 crisis is largely unprecedented. Few sectors, including the quality growth companies favoured by the Fund were spared. The Fund's travel exposed holdings were hardest hit.

As flagged in previous quarterly updates the Fund had built its cash levels (~25% as of our last quarterly update) as we trimmed core holdings where valuations had become stretched and as we struggled to find other reasonably priced quality companies to reinvest into. This trimming afforded us the flexibility to progressively and selectively deploy roughly half the Dec 19 cash balance through this period as longer term valuations became more attractive.

We are seeing more opportunities in the current market but to date have mainly reinvested into existing quality holdings. Wisetech is an example of a quality stock which had been a small holding until recently. We have increased our position through this selloff at roughly half the price we had sold it down, due to valuation, during calendar year 2019.

Lockdown and social distancing measures appear to be getting the spread of the virus under control in most developed countries. Governments globally have reacted quickly with extensive monetary and fiscal support policies. The key question from here is what the recovery in the global economy and markets looks like.

The market bounce in recent weeks suggest a sharp snapback or V-shape recovery. Given the economic destruction and the weakened consumer, corporate and government balance sheets, we lean towards a more prolonged period of subdued global growth or a U-shape recovery. We do however note equity markets are forward looking and the central bank support measures are likely to be supportive of equity market valuations. Given the ongoing uncertainties we are happy to retain healthy cash levels, which will continue to give us the flexibility to take advantage of opportunities as they present themselves.

It is important to note through this period of near unprecedented volatility that there has been no deviation in our style or processes. We continue to believe quality growth companies will deliver longer-term outperformance. The Fund remains heavily underweight cyclical/yield stocks and overweight quality/growth.

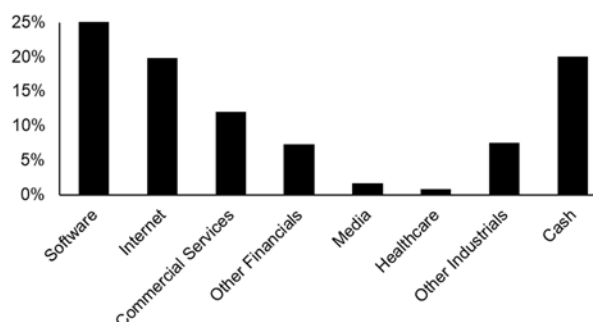
**REOPENING:** From 20 April 2020 SIF will accept both new investors and top-ups from existing investors. The Product Disclosure Statement (including the application form) is available on our website, via email [smallco@smallco.com.au](mailto:smallco@smallco.com.au) or by contacting us on 02 8256 1000.

### SIF Performance

Return to 31 March 2020	
3 months	-26.8%
1 year	-25.0%
3 year p.a.	1.4%
5 year p.a.	5.6%
10 year p.a.	13.6%
Since inception (31.10.00) p.a.	12.0%
Value of \$100,000 invested at inception	\$903,278

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  
Appen  
REA Group  
Seek  
WiseTech Global

As is always the case should you have any queries or needs please contact Craig Miller, one of our portfolio managers, on 02 8256 1000.



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### SIF Fund Description

SIF is a concentrated, index unaware Australian equities fund investing predominantly in smaller listed companies. SIF may invest in cash when opportunities are scarce and may invest up to 20% of the fund 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 biotech 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 business's quality.
FUM	\$233.1m AUD
Mid Price	\$3.5292 (31 Mar 2020)
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 (FY19)	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 in arrears. *
Service providers	Custody: JP Morgan 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 to future performance. Returns are not guaranteed.