

Smallco

Smallco Broadcap Fund

Quarterly Update | 30 June 2024

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) fell slightly short of its benchmark in the June quarter as two previous strong contributors, Audinate (AD8) and Temple and Webster (TPW), gave back some of their gains. For the financial year the Fund delivered strong outperformance of its benchmark, driven by strong gains in both these stocks, the Altium (ALU) takeover and strong performances from a range of other key positions, including REA Group (REA), Pinnacle (PNI) and Wisetech (WTC).

Equity markets performed well during the financial year, responding initially to better inflation readings from October 2023 and then proving surprisingly resilient as stickier than expected inflation delayed expectations of rate cuts, both locally and in the US. The Australian equity market underperformed global benchmarks due to its heavy weight to resources and lower weighting to technology stocks. Whilst the Fund's overweight position to software stocks was a tailwind this year, style factors only contributed around one-third of its outperformance, with the balance driven by strong results from many key positions (including those detailed above) and the Altium takeover.

As we enter the new financial year uncertainties that will shape investment markets remain ever present, with interest rate moves in opposite directions possible in key countries and election outcomes also having potential to impact the direction of markets. Following a recent improvement in US inflation data, markets are currently hoping this will continue and lead to a September interest rate cut in the US. Whilst such should be positive for equities, the potential is for the Australian market to continue to underperform if the RBA is forced to raise rates in coming months, given more persistent inflation locally. The November US election also has the potential to shape market outcomes given the Republican's tariff proposals would be inflationary, at least initially.

Notwithstanding these uncertainties the Fund was active in the June quarter seeking replacements for two stocks subject to takeover schemes, Altium and PSC Insurance (PSI). A number of new positions were established including a starting position in James Hardie (JHX) post its recent downgrade. The Fund also increased its weighting in a number of existing positions including IDP Education (IEL), Seek (SEK), Xero (XRO), Pinnacle and Webjet (WEB).

The deployment of capital to IDP Education, Seek and James Hardie is quite counter cyclical and could take some time to pay off. These are all high quality businesses which should deliver well above market earnings growth through the cycle. While all three are outperforming their respective industries, they are all enduring cyclical downturns and have been sold off accordingly. While cognisant it can take a while for cycles to turn, the Fund would likely gradually add to these positions should they sell off materially further.

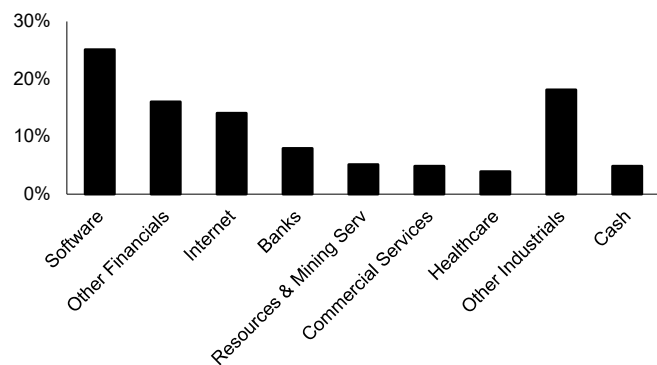
The Fund's reported cash weighting at 30 June of 4.9% doesn't include 7.5% in stocks subject to takeover schemes, leaving the effective cash weight at 12.4%, or closer to 10% post distribution. This leaves the Fund well positioned should further market opportunities arise.

SBF Performance

Return to 30 June 2024			
	SBF	Index*	Out Perf.
3 months	-1.6%	-1.2%	-0.4%
1 year	24.2%	11.9%	12.3%
3 year p.a.	9.0%	6.1%	2.9%
5 year p.a.	11.2%	7.2%	4.0%
10 year p.a.	12.4%	8.0%	4.4%
Since inception (31.07.08) p.a.	16.0%	7.2%	8.8%
Value of \$100,000 invested at inception	\$1,057,433	\$304,649	\$752,784

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 June 2024	SBF	Index*
% in Market Cap < \$1bn	9.8%	1.5%
% in Market Cap \$1bn - \$5bn	37.5%	12.1%
% in Market Cap \$5bn - \$10bn	9.0%	10.7%
% in Market Cap > \$10bn	38.8%	75.7%
% Cash	4.9%	Nil

SBF Significant Holdings (alphabetical order)

Pinnacle Investment Management
 REA Group
 Seek
 WiseTech Global
 Xero

* 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 that provides exposure to a broad range of companies listed on the ASX, from some of the smallest through to some of the largest.

The Fund has a significant bias to small and mid-capitalisation companies and can invest up to 40% of FUM into companies with a market capitalisation of less than \$1bn.** Accordingly, the Fund will always be heavily underweight the very largest companies on the ASX.

SBF typically holds 20-35 stocks and aims to outperform the S&P/ASX 300 Accumulation Index after fees on a rolling five year basis.

SBF's portfolio is constructed around a large core of high quality, longer term growth stocks. A small component of shorter term value ideas can be included when Smallco can identify such stocks that meet our requirements for earnings outlook and risk/reward.

Given a primary focus on quality growth stocks with forecastable earnings, 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 biotechs and structurally impaired industries.

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 (cum dist)	\$335.3m AUD
Mid Price (cum dist)	\$2.3759 (30 Jun 2024)
Distribution	\$0.1373 (30 Jun 2024)
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: 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.

** 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.