

Smallco

Smallco Broadcap Fund

Quarterly Update | 31 March 2024

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark during the March quarter. A strong reporting season for the Fund's key positions was the main driver, along with the takeover offer for Altium (one of the Fund's largest positions) and underperformance of the resources sector (which the Fund's style is to heavily underweight).

Equity markets globally performed very strongly again in the March quarter, with the Australian market's robust 5.4% gain falling well short of global benchmarks due to its heavy weight to resources. This strength came despite a significant reduction in expectations for the level of interest rate cuts by the US Federal Reserve this year, in response to higher than expected inflation readings in recent months. Notwithstanding this, markets have chosen to focus on moderately improved economic data and thus the potential for a slightly better corporate earnings outlook. However, the combination of strong gains combined with moderate earnings revisions for many markets and slightly higher long term interest rates has left near term equity valuations looking stretched.

For the market as a whole the February reporting season was broadly in line with expectations, though with significant variability within sectors and a higher than usual level of volatility in terms of stock price reactions. Technology, industrials and discretionary retail (not as bad as expected) delivered positive surprises whilst resources, healthcare and traditional media were the most disappointing.

The Fund had a very strong reporting season with nearly all key positions delivering in line with or ahead of expectations. Performance was broadly based with four key stocks delivering gains of 25%+ for the quarter and another eight gaining at least 15%. Highlights included Temple & Webster (continuing sales upgrades), Altium (takeover offer), Audinate (another strong beat) and Wisetech (relieved concerns on FY24 earnings guidance, though largely cost driven).

During the quarter Altium entered into a binding scheme implementation agreement with Japan's Renesas Electronics at \$68.50/share. This marked a successful conclusion to the Fund's longest dated and second largest investment, with SBF having first built a small position in 2012 at 33¢/share. While viewing the offer price as attractive in the short to medium term, we are disappointed to lose such a high quality company that continued to have significant long term growth prospects.

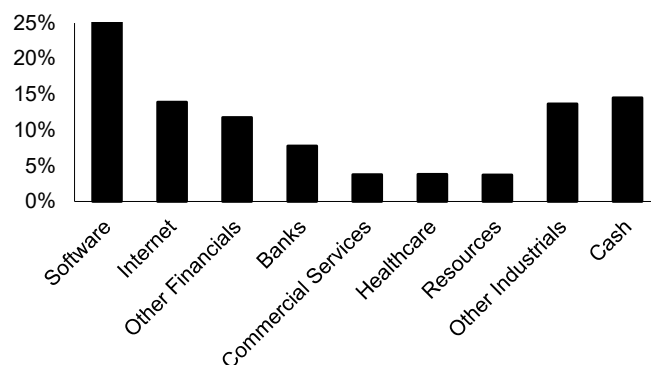
Audinate's (AD8) result was, once again, one of the highlights of the Fund's reporting season, with revenue comfortably ahead of expectations and the company outlining plans to offer a range of subscription services in the future which leverage its significant installed base. While the market reaction has driven AD8 to a very strong valuation, the Fund maintains a solid position in Audinate given the quality of the business and the extent of long term growth opportunities. Notwithstanding this, it should be noted that AD8's 1H24 result benefited from removal of the final supply chain constraints which may make its historical growth rates difficult to match in FY25.

SBF Performance

Return to 31 March 2024			
	SBF	Index*	Out Perf.
3 months	11.8%	5.4%	6.4%
1 year	29.0%	14.4%	14.6%
3 year p.a.	13.0%	9.4%	3.6%
5 year p.a.	12.6%	9.2%	3.4%
10 year p.a.	12.4%	8.3%	4.1%
Since inception (31.07.08) p.a.	16.4%	7.5%	8.9%
Value of \$100,000 invested at inception	\$1,074,342	\$308,351	\$765,991

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 March 2024	SBF	Index*
% in Market Cap < \$1bn	7.9%	1.5%
% in Market Cap \$1bn - \$5bn	30.3%	12.0%
% in Market Cap \$5bn - \$10bn	13.2%	10.4%
% in Market Cap > \$10bn	34.1%	76.1%
% Cash	14.5%	Nil

SBF Significant Holdings (alphabetical order)

Altium
 Audinate Group
 REA Group
 Seek
 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 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	\$336.2m AUD
Mid Price	\$2.4139 (28 Mar 2024)
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 & Perpetual Corporate Trust Limited 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.