

# Smallco Smallco Broadcap Fund

Quarterly Update | 31 March 2025

## Portfolio Commentary

The Smallco Broadcap Fund (SBF) experienced a challenging March quarter driven primarily by a marked shift away from quality growth stocks and three specific stock positions that underperformed for reasons largely unrelated to their recent results.

The March quarter was dominated by uncertainty around the new US administration's policy agenda, in particular its approach to tariffs and spending cuts. The market has been forced to abruptly shift its view of President Trump's policies from an expectation of a pro-growth agenda where tariffs would be primarily used as a negotiation tool, to an agenda where tariffs appear to be being used as a key tool to reshape the US economy and drive revenue. The far greater than expected scale of the changes announced and ad hoc implementation has increased concerns regarding a US economic downturn and driven a selloff in equity markets, particularly in globally exposed growth stocks.

This increased uncertainty arguably fed into market responses during the recent February reporting season. Whilst company results overall were broadly in line with expectations, share price volatility following earnings announcements was sharply elevated with 20% of stocks moving +/-10% on result day.

The Fund's reporting season was solid overall with many positive results early in the season partially offset by a few misses among smaller positions towards the end. Notwithstanding this, the Fund materially underperformed its benchmark during the March quarter. Whilst the aforementioned selloff in growth stocks was a significant style headwind, almost 90% of the Fund's underperformance is attributable to three positions that sold off for reasons largely unrelated to recent results – Pinnacle Investment Management (PNI), WiseTech (WTC) and HMC Capital (HMC).

PNI fell 22% over the quarter but is still up 51% over 1 year. PNI had a strong result with NPAT up 151%. The stock has eased back after a strong run due to market concerns over equity market linked earnings. While a reality of investing in PNI, this is reducing, with ~50% of earnings now from equity fund managers. Recent additions to PNI's stable of fund managers leave it well placed to maintain solid growth over time.

WTC's result was strong (Underlying NPAT +34%) however, ongoing governance issues and the departure of four independent directors, combined with a related further delay in the rollout of key new products, drove a 33% fall over the quarter. While disappointed by these events, the Fund has maintained a material position in WTC, reflecting its view that WTC offers one of the strongest competitive moats and global growth opportunities on the ASX.

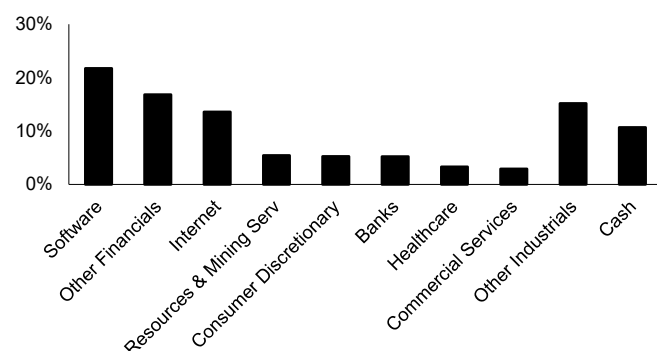
HMC's operating earnings more than tripled, yet the stock price fell 36% due to concerns about HMC's growth outlook following ongoing declines in the prices of two HMC-listed vehicles, DGT and HCW. The issues in these vehicles may take time to address and, while HMC has growth opportunities in multiple other areas, it needs to prove it can source institutional capital to fund these growth opportunities while public markets remain less receptive.

## Performance

Return to 31 March 2025			
	SBF	Index*	Out Perf.
3 months	-10.4%	-2.9%	-7.5%
1 year	-5.1%	2.6%	-7.7%
3 year p.a.	7.1%	5.3%	1.8%
5 year p.a.	17.8%	13.2%	4.6%
10 year p.a.	9.9%	7.1%	2.8%
Since inception (31.07.08) p.a.	15.0%	7.2%	7.8%
Value of \$100,000 invested at inception	\$1,019,698	\$316,496	\$703,202

Fund returns calculated after all fees and expenses and based upon exit price and reinvestment of distributions.

## Structure: by sector (look through)



## Structure – by size

As at 31 March 2025	SBF	Index*
% in Market Cap < \$1bn	11.3%	1.7%
% in Market Cap \$1bn - \$5bn	40.5%	12.3%
% in Market Cap \$5bn - \$10bn	6.5%	9.5%
% in Market Cap > \$10bn	31.0%	76.5%
% Cash	10.7%	Nil

## Significant Holdings (alphabetical order)

Life360  
Pinnacle Investment Management  
Seek  
WiseTech Global  
Xero

\* Benchmark index is the S&P/ASX 300 Accumulation Index

# Smallco

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### 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 in 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	\$335.2m AUD
Mid Price	\$2.1588 (31 Mar 2025)
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: 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.