

Smallco

Smallco Broadcap Fund

Quarterly Update | 30 September 2024

SBF Portfolio Commentary

In very strong market conditions, the Smallco Broadcap Fund (SBF) performed moderately ahead of its benchmark during the quarter. This reflected very strong returns from a few of the Fund's key positions, particularly Wisetech (WTC) and Pinnacle (PNI), and a solid, albeit slightly more mixed, reporting season by the Fund's usual standards.

Despite concerns during August regarding US unemployment trends, global equity markets performed strongly during the quarter with markets responding positively to the 50bp interest rate cut by the US Federal Reserve (Fed) in September and a stabilisation in US employment data later in the quarter.

Markets' sensitivity to US employment trends reflects the importance as to whether the Fed cutting rates portends a soft economic landing (in which case history suggests equity markets will rise over the 12 months post the first Fed rate cut) or a recession, which would be quite negative for equity markets from current levels. So far markets have embraced the "Goldilocks" scenario and, whilst this currently appears the most likely outcome, uncertainties remain including the US election outcome and the potential for a wider conflict in the Middle East.

For the market as a whole the August reporting season was quite mixed, though arguably better than feared given the macro-economic backdrop. Despite the ratio of beats to misses being well below the long run average, FY24 earnings for core industrials were broadly in line with expectations. However, of those companies that chose to provide guidance, over 40% guided to FY25 earnings below analyst expectations. While no doubt reflecting a degree of conservatism given the economic uncertainties, this led to overall downgrades to FY25 market EPS growth and contributed to increased volatility, with 35% of stocks moving +/-5% on their result.

The Fund had a solid, albeit slightly more mixed, reporting season by its usual standards. Several of the Fund's largest investments delivered either strong results and/or outlooks and performed very strongly, in particular Wisetech and Pinnacle. However, on the next rung down both PWR Holdings (PWH) and Audinate (AD8) were disappointing, while Webjet's (WEB) AGM update revealed strong headline growth albeit at a lower than expected revenue margin.

Wisetech's outlook statement was exceptionally strong, driven by new products which are expected to add significantly to growth for at least the next two years. While Pinnacle's headline beat was driven by non-recurring items, the market continues to be impressed by increased opportunities for offshore growth. The misses from PWR (higher costs required to support revenue opportunities) and Audinate (COVID unwind risks we had highlighted were worse than expected, affecting FY25 guidance) don't change our theses regarding the strength of the businesses or that they offer good long term growth outlooks, nevertheless they did reset the base for both earnings & valuations.

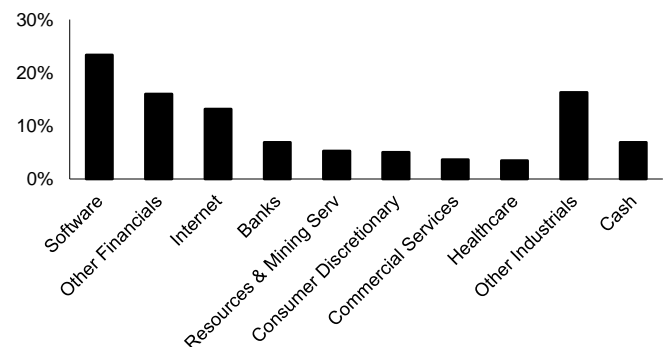
The Fund remained quite active in the quarter, initiating three new modest positions and exiting two smaller ones. However, after accounting for pending takeovers (PSI) and the 30 June distribution, the cash position remained little changed at ~10% over the quarter.

SBF Performance

Return to 30 September 2024			
	SBF	Index*	Out Perf.
3 months	8.8%	7.8%	1.0%
1 year	32.1%	21.7%	10.4%
3 year p.a.	9.1%	8.1%	1.0%
5 year p.a.	13.7%	8.3%	5.4%
10 year p.a.	12.9%	8.9%	4.0%
Since inception (31.07.08) p.a.	16.3%	7.6%	8.7%
Value of \$100,000 invested at inception	\$1,150,138	\$328,442	\$821,696

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 September 2024	SBF	Index*
% in Market Cap < \$1bn	13.6%	1.5%
% in Market Cap \$1bn - \$5bn	36.1%	12.7%
% in Market Cap \$5bn - \$10bn	6.4%	9.8%
% in Market Cap > \$10bn	37.0%	76.0%
% Cash	6.9%	Nil

SBF Significant Holdings (alphabetical order)

IDP Education
Pinnacle Investment Management
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 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 biotech 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.

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	\$365.9m AUD
Mid Price	\$2.4348 (30 Sep 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.