



# Smallco Investment Fund

## Quarterly Update 30 June 2022

### SIF Portfolio Commentary

Smallco Investment Fund (SIF) was down 16.8% for the June quarter versus the Small Ordinaries index down 20.4%. It was a challenging quarter for the Fund and equity markets globally.

The key driver of markets in the quarter was the reassessment of the pace and extent to which central banks will need to increase interest rates to rein in inflation which has risen further and proven more persistent than had been predicted earlier in the year. The increase in rate expectations drove a continuation of the market rotation away from small cap growth orientated businesses towards larger cap defensives.

The challenge facing central banks now is to apply sufficient tightening to get inflation back within targeted ranges fast enough without tipping economies into recession. The task of achieving a "soft landing" is made more difficult against the backdrop of ongoing geopolitical and Covid-19 supply disruptions. While equity valuations are now more attractive the near term outlook remains uncertain despite the already significant market declines.

Throughout the quarter we have taken advantage of more favourable valuations and selectively increased our investment in our highest quality conviction ideas as well as establishing several new positions. Our cash position remains healthy, which has us well positioned to take advantage of further opportunities that may present.

Audinate is a quality growth stock that has been in the Fund since its Initial Public Offering in 2017. It is the leading provider of professional digital audio network technologies globally. Its software and hardware products sold under the Dante brand allow the distribution of audio and recently video signals over Internet Protocol networks. They replace older analogue technologies, significantly reducing cabling requirements and improving interoperability.

Dante products are sold to Original Equipment Manufacturers (OEMs) such as Yamaha and Bose who embed them in their products for the professional Audio Visual Industry. Dante is the clear market leader in audio networking with more than 500 OEM customers that have launched over 3,300 Dante enabled products, roughly 13 times that of its nearest competitor. Customers are able to link products from different OEMs through the Dante ecosystem creating a valuable network effect which is entrenching Dante as the de facto industry standard.

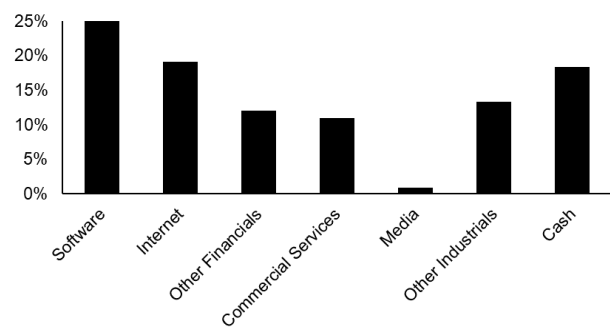
SIF increased its Audinate holding in the quarter as the stock was heavily sold off in the broader market rotation away from longer duration growth companies exacerbated by uncertainty surrounding its near term sales outlook due to the global chip shortage. Recent updates suggest Audinate is so far navigating these supply challenges well and demand for Dante products remains strong. We continue to believe in the long term growth prospects for the business but do caution the stock has bounced back hard since making a May update.

### SIF Performance

Return to 30 June 2022	
3 months	-16.8%
1 year	-19.9%
3 year p.a.	0.1%
5 year p.a.	7.0%
10 year p.a.	15.2%
20 year p.a.	12.7%
Since inception (31.10.00) p.a.	12.4%
Value of \$100,000 invested at inception	\$1,263,055

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  
IDP Education  
REA Group  
Seek  
WiseTech Global

Please feel free to contact Craig Miller, one of our portfolio managers, for any queries or needs on 02 8256 1000.



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### SIF Fund Description

SIF is a concentrated, index unaware Australian equity fund investing predominantly in smaller listed companies. SIF may invest in cash when opportunities are scarce and invest up to 20% of the fund, at the time of purchase, 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 biotechs 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 businesses quality.
FUM (cum dist)	\$351.7m AUD
Mid Price (cum dist)	\$4.3217 (30 Jun 2022)
Distribution	\$0.1106 (30 Jun 2022)
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 (FY21)	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. *
Service providers	Custody: Link Fund Solutions 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 as to future performance. Returns are not guaranteed.