

Smallco Broadcap Fund

Quarterly Update 31 March 2023

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark during the March quarter, driven by a generally solid reporting season for the Fund and an easing of the geopolitical and macro driven headwinds that dragged on the Fund's relative performance in 2022.

Equity markets continued to be volatile during the March quarter. Strong gains in January, driven by stronger than expected economic data in the US & Europe and lower monthly inflation, were partially given back over the rest of the quarter as the economic data started to question the "Goldilocks" scenario contemplated by markets in January, and company earnings started to reflect the realities of higher inflation and slowing economies. Towards the end of the quarter markets had to contend with the failure of two US Regional Banks and Credit Suisse. While markets have absorbed these events reasonably well to date, regional banks are important credit providers in the US economy and it will take some months to see the extent to which these events slow the availability of credit.

This is important as the US Federal Reserve appears to be approaching the end of the current tightening cycle and a key debate at present is whether this is positive for equities. History shows that it usually is, unless the US economy enters recession soon after the FED stops tightening. With the US economy already slowing and neither company earnings forecasts or market valuations factoring in a recession, the extent to which US regional banks tighten credit in coming months could be critical.

The local February company reporting season was, for the overall market, disappointing with net downgrades driven by cost pressures from the current inflationary environment. The Fund had an overall solid reporting season with many of its companies in a stronger position to pass on cost pressures. Nevertheless there can be timing issues such as PWR Holdings (PWH), a quality high end cooling solutions provider to the motorsports, automotive, aerospace & defence markets. PWH delivered 15% revenue growth but missed earnings expectations due to the timing of a few customer deliveries and the timing of price rises to cover wage cost pressures. The Fund has been invested in PWH since 2017 and remains confident in its medium term growth outlook.

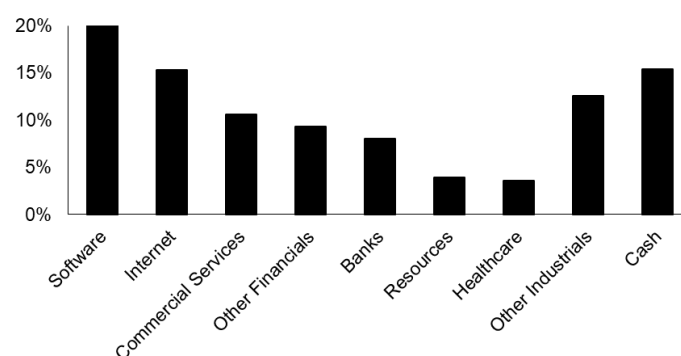
Key changes to the portfolio during the quarter included a further addition to the Fund's already strong position in WiseTech Global (WTC) and a reduction in its already significantly underweight position in banks. WTC's result exceeded expectations again and its announcement of a critical global customs contract win only serves to reinforce the scale of the opportunity available to WTC as it expands from freight forwarding into key adjacencies. The Fund trimmed its position in banks in February given signs that net interest margins have peaked – strong competition on both sides of the balance sheet is not a good backdrop for bank performance.

SBF Performance

Return to 31 March 2023			
	SBF	Index*	Out Perf.
3 months	6.6%	3.3%	3.3%
1 year	0.4%	-0.6%	1.0%
3 year p.a.	22.7%	16.6%	6.1%
5 year p.a.	9.8%	8.6%	1.2%
10 year p.a.	12.9%	8.1%	4.8%
Since inception (31.07.08) p.a.	15.6%	7.0%	8.6%
Value of \$100,000 invested at inception	\$832,956	\$269,530	\$563,426

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 2023	SBF	Index*
% in Market Cap < \$1bn	14.1%	2.5%
% in Market Cap \$1bn - \$5bn	22.5%	12.3%
% in Market Cap \$5bn - \$10bn	16.5%	11.4%
% in Market Cap > \$10bn	31.5%	73.8%
% Cash	15.4%	Nil

SBF Significant Holdings (alphabetical order)

Altium
REA Group
Seek
Webjet
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 providing a broad exposure to the Australian listed market.

SBF typically holds 20-30 stocks and aims to outperform the S&P/ASX 300 Accumulation Index after fees on a rolling three year basis.

SBF can invest up to 40% of the Fund in companies with a market capitalisation of less than \$1bn and will deviate significantly from the index when appropriate opportunities are found. **

The theoretical investable universe is anything which meets Smallco's liquidity requirements. In practice 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's portfolio is constructed around a large core of high quality longer term growth stocks. A range of smaller shorter term value ideas are wrapped around this when Smallco can identify such stocks that meet our requirements for earnings outlook and risk/reward.

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.

Contact Details

Phone:

(02) 8256 1000 or 1300 888 583

Fax:

(02) 8256 1010

Mailing Address:

Smallco Investment Manager Limited
GPO Box 4564
SYDNEY NSW 2001

Email:

smallco@smallco.com.au

Web Address:

www.smallco.com.au

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	\$241.6m AUD
Md Price	\$1.9942 (31 Mar 2023)
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 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.

Smallco
Investment Manager