



Smallco Investment Fund

Quarterly Update 30 September 2021

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 11.2% for the September quarter. SIF enjoyed strong performance driven by good results through the August reporting period from the fund's major holdings. Wisetech and Pinnacle delivered standout results and were amongst the strongest performers. There was also further rerating and strong performance from the fund's holdings exposed to economic reopening such as IDP Education and Webjet.

Given the strong performance, valuations of the type of companies favoured by the fund are once again stretched. Inflation concerns have intensified in recent months as economies continue to adjust to a COVID normal world. Supply chain bottlenecks in key sectors such as freight, semiconductors and autos are pushing up prices. Energy supply and labour flow also remain disrupted. Inflation persistency and FED actions will be key market drivers. Our base case remains that these supply issues will gradually resolve and the Fed response required moderate. However, with valuations high, the risk of increased near-term volatility has increased.

Propel Funeral Partners (PFP) has been a smaller position in the fund for some time. Established in 2012 by a management team with a proven track record in the funeral industry, Propel has grown to become the 2nd largest provider of death care services in Australia and NZ. It currently operates over 130 funeral homes, 32 cremation facilities and nine cemeteries.

The death care sector is attractive as it offers predictable longer term revenue growth opportunities. The funeral services sector remains highly fragmented and Propel's strategy is to continue to grow via acquisition in regional and metropolitan areas.

The sector also offers predictable longer term organic growth opportunities. The number of deaths is the key driver of revenues in the death care sector. The growth rate in the number of deaths per annum is approaching an inflection point. It is forecast to increase from its longer-term average of ~ 0.9% pa to 2.7% pa through the next 10 years given Australia's aging population.

We see several near-term catalysts for the stock. Propel has recently internalised its management structure which brings it more in line with other ASX listed companies and should broaden its potential investor base.

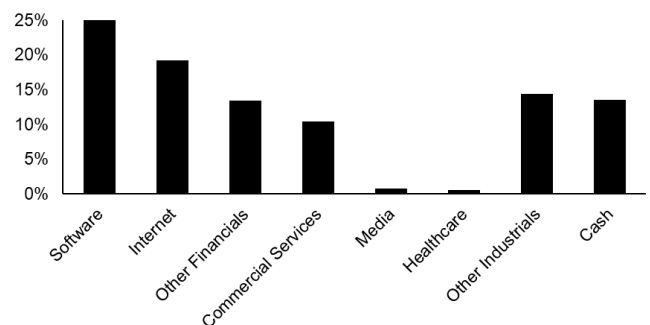
Secondly, COVID lockdowns have had several negative impacts on the sector and Propel's revenues that should unwind as restrictions ease. The limit on the number of attendees that could attend funeral services saw a reduction in the amount spent on funerals and in some cases resulted in no services all together. Social distancing, travel restrictions and increased focus on personal hygiene have resulted in a significant reduction in flu cases which in turn has resulted in death volumes being considerably lower than long term trends. It is inevitable these volumes are simply deferred and we expect stronger sector volume growth in upcoming periods.

SIF Performance

Return to 30 September 2021	
3 months	11.2%
1 year	30.2%
3 year p.a.	13.8%
5 year p.a.	13.7%
10 year p.a.	21.6%
20 year p.a.	14.3%
Since inception (31.10.00) p.a.	14.7%
Value of \$100,000 invested at inception	\$1,753,375

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 biotech 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	\$476.5m AUD
Mid Price	\$5.9994 (30 Sep 2021)
Distribution	Annually 30 June
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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ARSN 103 148 107

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.