



Smallco Broadcap Fund

Quarterly Update 31 March 2019

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark during the March quarter, driven by a combination of strong profit results from most of the Fund's key companies during the February reporting season and a rebound from the weakness a number of these positions experienced in the December quarter. Key contributors included Altium and Webjet which, in line with the majority of our key holdings, delivered strong profit growth ahead of expectations.

In contrast with the Fund's strong reporting season and the strong rebound in the market itself, the earnings season for the market as a whole was uninspiring with profit growth of only 1% and significant reductions to earnings forecasts for both large and small industrials. Nevertheless, the lack of profit growth for the December half was largely as expected given the economic slowdown both domestically and globally.

Notwithstanding the strong rebound experienced by global equity markets in the March quarter, economic growth has remained weak across much of the world, particularly in the US and China. The rebound in equity markets was triggered by a sharp reversal in the monetary policy stance of the US Federal Reserve, with equity markets now appearing to be assuming an economic rebound strong enough to drive reasonable corporate profit growth, but not strong enough to drive further rate hikes by the Fed.

Bond markets, on the other hand, are not expecting an improvement in global economic trends. To the contrary, in March bond markets moved to pricing in rate cuts by the US Fed from later this year and the US yield curve inverted (the yield on the 10 year US government bond fell below that of 3 month treasuries). This caused considerable debate given such inversions have typically (but not always) signalled a US recession within 18 months, although there is debate as to the applicability of such yardsticks in a world where yield curves have been suppressed by central bank quantitative easing.

Nevertheless, how this disconnect between equity and bond markets plays out is important to equity pricing globally in 2019. To that end, we are somewhat encouraged by early signs of improvement in the most recent US and Chinese economic data, but note the importance that gradual improvements continue.

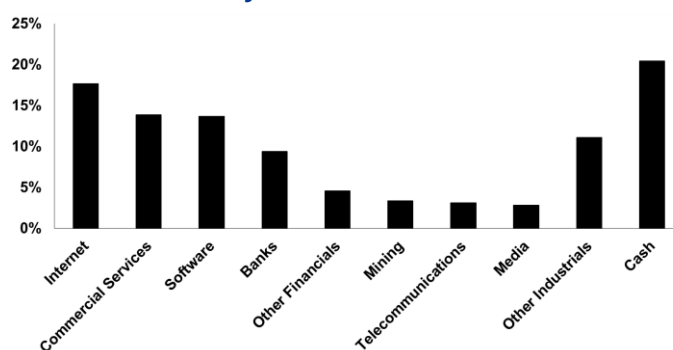
Should global growth remain weak companies with strong structural growth characteristics, such as those targeted by the Fund, will remain sought after. However, many such businesses, including a number owned by the Fund, are once again richly valued which could limit the support provided by their attractive earnings outlooks in such an environment.

SBF Performance

Return to 31 March 2019			
	SBF	Index*	Out Perf.
3 months	16.9%	10.9%	6.0%
1 year	13.6%	11.7%	1.9%
3 year p.a.	13.3%	11.4%	1.9%
5 year p.a.	12.3%	7.4%	4.9%
10 year p.a.	22.9%	10.3%	12.6%
Since inception (31.07.08) p.a.	18.2%	6.7%	11.5%
Value of \$100,000 invested at inception	\$593,824	\$198,991	\$394,833

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

SBF Structure: by sector



SBF Structure – by size

As at 31 March 2019	SBF	Index*
% in Market Cap < \$1bn	24.9%	3.4%
% in Market Cap \$1bn - \$5bn	34.1%	15.0%
% in Market Cap \$5bn - \$10bn	7.9%	14.2%
% in Market Cap > \$10bn	12.7%	67.4%
% Cash	20.4%	Nil

SBF Top 5 Holdings

Webjet
 Corporate Travel Management
 Altium
 Pinnacle Investment Management
 REA Group

* 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 is currently closed to new investment.

SBF typically holds 20-30 stocks and targets returns of 5% p.a. above the ASX 300 accumulation index after fees on a rolling 3 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 biotechs 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.

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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 businesses quality.
FUM	\$194.8m
Mid Price	\$1.8932 (31 Mar 2019)
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: JP Morgan 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.

** 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.