



Smallco Broadcap Fund

Quarterly Update 30 June 2019

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered a solid 4.9% return for the June quarter, however fell short of its benchmark due to significant underperformance by mid-cap and small-cap companies (which the Fund's style is to heavily overweight) and the Fund's high cash position in a strongly rising market.

The Australian share market was heavily driven by domestic factors in the June quarter, specifically the surprise election result, the Reserve Bank's move to lower interest rates and the weakness in the Australian economy. The first two factors in particular drove strong gains among the largest companies.

For example, the improved sentiment towards property from the return of the Coalition, combined with lower interest rates and APRA's move to ease credit restrictions, drove a strong rally in the banks. The Fund used this to further increase its underweight position in the sector given we still expect little if any profit growth from the banks. Meanwhile, lower interest rates drove strong gains in other income oriented sectors the Fund does not target due to their low earnings growth nature.

The market rally came despite persistent downgrades to Industrial company earnings forecasts, with earnings now expected to decline slightly in FY19 for both large & small Industrials, reflecting the weak consumer environment. The Fund's focus on quality, growth and high returns on funds employed naturally drives significant exposure to companies with offshore earnings.

Notwithstanding this, the Fund has a number of domestic economy exposures to which considerable attention has been paid to assess the impact of the consumer slowdown. Chief among these are the Fund's travel exposures, which have reiterated guidance but weakened as the market worries about the impact on FY20 earnings. While not immune to the slower consumer environment, we believe these companies will continue to deliver reasonable profit growth to more than justify current valuations given offshore opportunities.

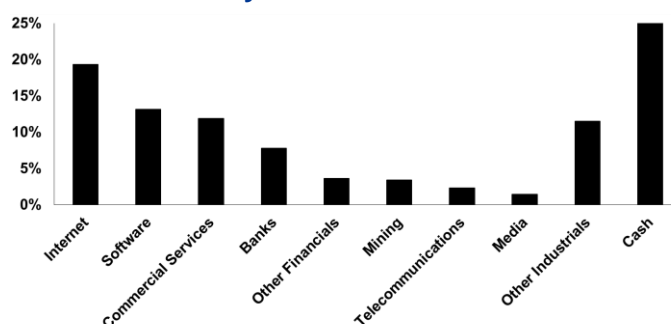
Globally, equity markets have also performed well despite an ongoing slowdown in all key economies and the continued uncertainty posed by the US-China trade war. The market strength reflects moves to an easing bias by the US Fed and the ECB and is quite a normal equity market response to falling interest rates. However, sustainability of higher valuations is reliant on economies, and corporate earnings, not falling into recession. This, of course, is what the central banks are seeking to prevent, and more often than not this is achieved. The US-China trade negotiations could have a significant influence on how the current situation plays out and in this environment the Fund is comfortable holding a somewhat more elevated cash position.

SBF Performance

Return to 30 June 2019			
	SBF	Index*	Out Perf.
3 months	4.9%	8.0%	-3.1%
1 year	8.0%	11.4%	-3.4%
3 year p.a.	14.0%	12.8%	1.2%
5 year p.a.	13.6%	8.9%	4.7%
10 year p.a.	21.0%	9.9%	11.1%
Since inception (31.07.08) p.a.	18.3%	7.3%	11.0%
Value of \$100,000 invested at inception	\$622,743	\$215,008	\$407,735

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 30 June 2019	SBF	Index*
% in Market Cap < \$1bn	23.3%	3.1%
% in Market Cap \$1bn - \$5bn	29.8%	13.2%
% in Market Cap \$5bn - \$10bn	5.1%	13.0%
% in Market Cap > \$10bn	16.3%	70.7%
% Cash	25.5%	Nil

SBF Top 5 Holdings

Webjet
 Corporate Travel Management
 Altium
 REA Group
 Seek

* 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.

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 businesses quality.
FUM (cum dist)	\$203.2m
Mid Price (cum dist)	\$1.9854 (30 Jun 2019)
Distribution	\$0.1763 (30 Jun 2019)
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.