



# Smallco Broadcap Fund

## Quarterly Update 30 September 2021

### SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) delivered strong outperformance of its benchmark for the September quarter. This was primarily driven by a strong reporting season for many of the Fund's key positions. Significant underperformance by Iron Ore miners also provided a benefit for the Fund, relative to benchmark, given its style to significantly underweight resources companies in general.

The August reporting season saw earnings for the overall market moderately behind expectations and the longest monthly earnings upgrade cycle in 30 years (11 months) came to an end due to downgrades for COVID losers. Nevertheless, rising vaccination rates and a shift in focus to living with COVID in key states saw the market look through this. The Fund performed strongly during reporting season, reflecting particularly strong results from WTC & PNI and solid performances by PWH, WEB & SEK.

In recent weeks volatility in equity markets has increased due to concerns ranging from pressures in the Chinese property market to stickier than expected inflation, supply chain disruptions and energy market shortages. With the pressures in the Chinese property market largely driven by Government policy (and thus likely to be managed by Government to avoid worst case scenarios), our focus is on the other concerns which have greater potential to impact the performance of the Fund given its quality/growth style.

At the time of our June quarter update the consensus view on inflation was that the peak was likely in, as a combination of reopening economies and the roll off of Government COVID benefits would see goods demand start to normalise and supply constraints ease. However the Delta wave has delayed this process, leading to the switch in demand from goods to services occurring more slowly than expected and a continuation of supply constraints, driven more recently by production shutdowns in less vaccinated ASEAN countries. As vaccination in these countries increases the expectation is that supply chain shortages should ease over the next 3-6 months, driving inflation back towards 2% over the course of 2022.

However, this moderating inflation outlook could be complicated by shortages currently being experienced in energy markets, the outcome of which is arguably more unpredictable. While those of the view these pressures are temporary would point to gas supply risks being most acute across the northern winter and an IEA forecast that sees the oil market back in surplus early in 2022, we are cognisant of arguments that we are, at least in part, seeing the impact of reduced investment in fossil fuels (given the shift to lower emissions) colliding with strong demand.

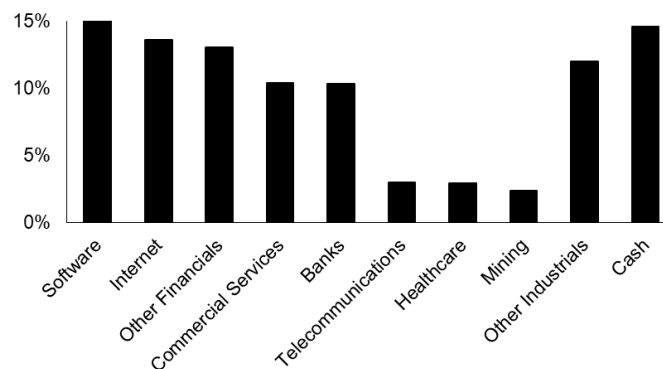
Overall, expectations that world growth will remain solid in the near term would typically be supportive for equities. Nevertheless, we are mindful that valuations have become more stretched and inflation has, in recent months, proven more persistent than expected. The Fund's cash position built up somewhat during the quarter, providing some ammunition should the high quality structural growth businesses the Fund favours come under pressure.

### SBF Performance

Return to 30 September 2021			
	SBF	Index*	Out Perf.
3 months	8.6%	1.8%	6.8%
1 year	40.8%	30.9%	9.9%
3 year p.a.	14.1%	9.9%	4.2%
5 year p.a.	13.2%	10.5%	2.7%
10 year p.a.	20.2%	10.8%	9.4%
Since inception (31.07.08) p.a.	18.1%	7.5%	10.6%
Value of \$100,000 invested at inception	\$886,686	\$259,795	\$626,891

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 2021	SBF	Index*
% in Market Cap < \$1bn	19.2%	2.0%
% in Market Cap \$1bn - \$5bn	32.3%	13.7%
% in Market Cap \$5bn - \$10bn	5.0%	12.7%
% in Market Cap > \$10bn	28.9%	71.5%
% Cash	14.6%	Nil

### SBF Significant Holdings (alphabetical order)

Altium  
 IDP Education  
 Pinnacle Investment Management  
 Seek  
 Webjet

\* 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.

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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 business's quality.
FUM	\$243.2m AUD
Mid Price	\$2.2571 (30 Sep 2021)
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.

\*\* 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