



Smallco Broadcap Fund

Quarterly Update 31 December 2019

SBF Portfolio Commentary

The Smallco Broadcap Fund (SBF) exceeded its benchmark in the December quarter, with the Fund benefiting from a generally favourable AGM season that more than offset a drag in the quarter from the Fund's style underweight to Resources. For the 2019 year the Fund delivered a strong return of 20.9% but was moderately short of its benchmark, essentially reflecting the drag from the Fund's high cash position in what proved to be a surprisingly strong market.

In contrast to the December quarter consolidation by the Australian market, global equity markets rebounded strongly with the benchmark MSCI index up over 8% in USD terms. This was driven by perceived resolution of key geopolitical risks (US/China trade negotiations and BREXIT), increased liquidity from central banks (the ECB's decision to restart quantitative easing in September and the US Fed's decision in October to inject funds into the US treasury bill market) and a stabilisation in global economic data, breaking the trend of downgrades seen earlier in the year.

Notwithstanding disappointing economic growth locally, for 2019 as a whole the Australian equity market still produced a strong 23.8% return, not too far shy of the 27% delivered by global equities. Returns locally were stronger earlier in the year, supported by initial optimism following the Coalition's Federal election win and 3 rate cuts by the RBA. However, to date, modest tax cuts and policy stimulus by the RBA have struggled to gain traction with employment growth slowing, consumer sentiment remaining weak and business sentiment stabilising at relatively low levels. Property prices are the one thing rebounding and the hope is that in time this will provide some support to consumer sentiment and spending.

We enter 2020 with quite a different backdrop to a year ago. The market believes that the key US/China trade war and BREXIT risks are off the table for now (though this view could well be challenged as the year progresses), economic data appears to be stabilising with hopes of slightly better growth in 2020, and central banks have moved decisively to easier policy stances. While this backdrop is expected to support a modest improvement in economic and earnings growth as the year progresses, it isn't assured and the market has already responded strongly to these factors. Given earnings are expected to be close to flat in 2019, last year's strong returns mostly reflected PE expansion.

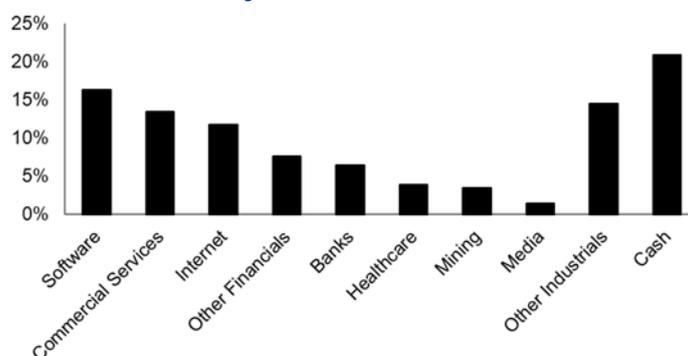
Accordingly, with the overall Australian market now trading at 18x forward earnings and core industrials at a hefty 24x, the general expectation is for much more modest returns in 2020 despite potential for a moderate improvement in the earnings outlook. Given the movement in valuations, delivery of earnings expectations increases in importance. To this end the updates from the Fund's major holdings across AGM season were, overall, quite pleasing and we await more detailed updates at the February reporting season.

SBF Performance

Return to 31 December 2019			
	SBF	Index*	Out Perf.
3 months	1.4%	0.7%	0.7%
1 year	20.9%	23.8%	-2.9%
3 year p.a.	10.6%	10.3%	0.3%
5 year p.a.	11.4%	9.1%	2.3%
10 year p.a.	16.7%	7.8%	8.9%
Since inception (31.07.08) p.a.	17.3%	7.2%	10.1%
Value of \$100,000 invested at inception	\$614,528	\$222,054	\$392,474

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 December 2019	SBF	Index*
% in Market Cap < \$1bn	31.5%	2.8%
% in Market Cap \$1bn - \$5bn	22.9%	13.7%
% in Market Cap \$5bn - \$10bn	6.3%	11.2%
% in Market Cap > \$10bn	18.4%	72.4%
% Cash	20.9%	Nil

SBF Top 5 Holdings (alphabetical order)

- Altium
- Audinate
- Corporate Travel Management
- 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.

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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	\$179.7m
Mid Price	\$1.7853 (31 Dec 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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ARSN 163 030 626

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.