



# Smallco Broadcap Fund

## Quarterly Update 31 March 2020

### SBF Portfolio Commentary

Despite a strong start, the unfolding economic impact of the global response to control the coronavirus (COVID-19) drove the Australian sharemarket to its worst March quarter performance on record. The Smallco Broadcap Fund (SBF) was not immune with factors such as the Fund's structural over-weight to mid and smaller capitalisation stocks, the Chinese exposure of some of its key technology stocks and an exposure to travel stocks impacting shorter term performance.

In recent weeks the global spread of COVID-19 has caused extraordinary challenges for health systems, governments and financial markets worldwide. Poor health outcomes in Wuhan, Italy and Spain encouraged many governments to implement very strong mitigation measures aimed at limiting the spread of the disease until a vaccine is available. This, however, has come with very high economic and social costs, which governments and central banks have sought to soften through extraordinary support measures.

With these strong mitigation measures now starting to drive a reduction in new infections in many countries, equity markets have rebounded somewhat from their lows and the focus is shifting to the speed and manner in which mitigation measures might be eased. However, given the risk that the infection rate rebounds if restrictions are eased quickly, our assumption is that restrictions in Australia will be eased very gradually, with many remaining in place for some months to come.

SBF entered this period with a solid (~20%) cash buffer, a similar level to that which it has held for several years due to high valuations among quality stocks. While the severe economic contraction caused by COVID-19 will have an adverse impact on short term financial results of most companies, the impact on longer term valuations should be substantially less for higher quality businesses with long term secular growth characteristics and strong balance sheets.

Accordingly, while the exact path of the COVID-19 crisis is unknown, SBF's approach has been to take a long term view and seek opportunities to gradually deploy its available funds into high quality names at substantially lower prices. Whilst the evolving nature of the crisis makes timing impossible, the Fund has followed a consistent approach of gradually stepping up investment in targeted quality names as new (lower) target prices were reached.

As of early April the Fund's cash weighting was down to 13% and approximately half of the Fund's cash (in \$m terms) had been invested. The Fund will continue to seek out further opportunities, however with the subsequent rally in quality names, it is cognisant of the remaining nearer term risks, such as the potential for markets to give up part of their recent gains should easing of mitigation measures spark an unacceptable rebound in new infections and further mitigation actions.

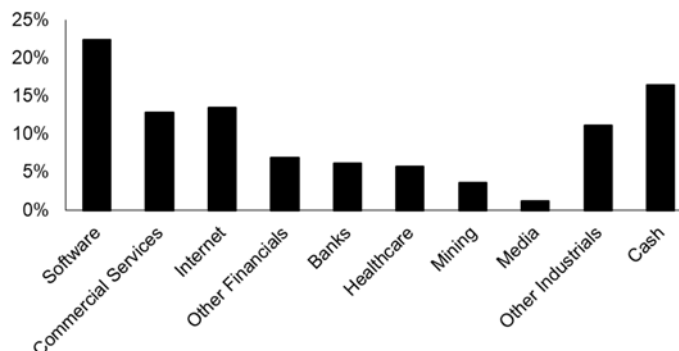
**REOPENING:** From 20 April 2020 SBF will accept both new investors and top-ups from existing investors. The Product Disclosure Statement (including the application form) is available on our website, via email [smallco@smallco.com.au](mailto:smallco@smallco.com.au) or by contacting us on 02 8256 1000.

### SBF Performance

Return to 31 March 2020			
	SBF	Index*	Out Perf.
3 months	-26.7%	-23.4%	-3.3%
1 year	-24.1%	-14.5%	-9.6%
3 year p.a.	-1.2%	-0.6%	-0.6%
5 year p.a.	2.6%	1.4%	1.2%
10 year p.a.	12.6%	4.8%	7.8%
Since inception (31.07.08) p.a.	13.8%	4.7%	9.1%
Value of \$100,000 invested at inception	\$450,457	\$170,077	\$280,380

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 2020	SBF	Index*
% in Market Cap < \$1bn	37.6%	3.9%
% in Market Cap \$1bn - \$5bn	14.8%	15.2%
% in Market Cap \$5bn - \$10bn	10.9%	14.6%
% in Market Cap > \$10bn	20.3%	66.3%
% Cash	16.4%	Nil

### SBF Significant Holdings (alphabetical order)

Altium  
Appen  
CSL  
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 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 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 business's quality.
FUM	\$128.9m
Mid Price	\$1.3086 (31 Mar 2020)
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.