



Smallco Investment Fund

Quarterly Update 30 June 2021

SIF Portfolio Commentary

Smallco Investment Fund (SIF) was up 7.9% for the June quarter and 36.5% over the past year. For the quarter the Small Ordinaries index was up 8.5% and was up 33.2% for the year.

The June quarter was another remarkably strong period for equity markets and capped off the strongest financial year for the ASX in over 30 years. The strong economic recovery sustained the rally in many cyclical sectors and a retraction in longer dated bond yields and inflation concerns drove strong performances of quality growth companies typically favoured by the Fund.

Strong economic growth and low rates continue to paint a favourable backdrop for equities. However, we remain cautious the strong rally in markets once again leaves them exposed to periods of increased volatility. We remain of the view that the reflationary and inflationary pressures built through this reopening period will not be sustained. The next medium term challenge for markets would appear the inevitable tightening of money supply trends once central banks commence their tapering of bond purchases.

The Fund retains a reasonable weighting to stocks exposed to economic reopening but generally remains overweight quality/growth. Cash levels are healthy and we remain well positioned to take advantage of new opportunities or any pullback.

The two largest contributors to the Fund's performance in the quarter were Altium and Pinnacle Investment Management. Altium, one of the Fund's longest held positions and one we have written on many times before, received and rejected a takeover offer from Autodesk Inc at \$38.50 per share.

Pinnacle, a multi-affiliate investment management firm, has also been held by the Fund for some time. Founded in 2006 and listed in 2016, Pinnacle has established a reputation as a high-quality partner for well credentialed fund managers looking to set up or grow their own businesses.

Pinnacle invests in and provides third party distribution and fund infrastructure and support services to 16 boutique funds management businesses controlling over \$85bn of funds under management.

The underlying performance of the funds has generally been very good which, together with Pinnacle's distribution capabilities, is driving strong fund inflows from both retail and institutional investors. The good performance has also delivered an uptick in performance fees which Pinnacle realises a share of.

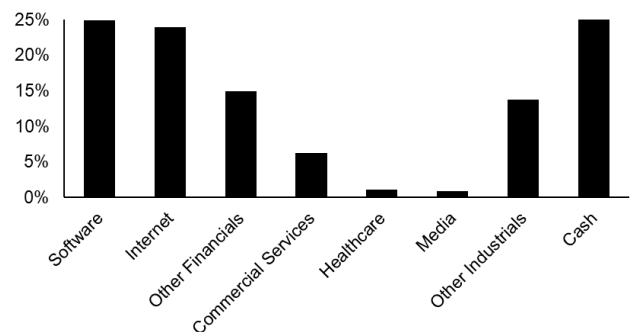
We expect performance fees to normalise near term however the medium-term earnings outlook remains strong with capacity for further substantial FUM growth from existing affiliates and we expect Pinnacle to continue to attract new affiliates both domestically and offshore. The main short-term risks are the stock's premium valuation at over 30x's PER and its earnings leverage to equity market movements.

SIF Performance

Return to 30 June 2021	
3 months	7.9%
1 year	36.5%
3 year p.a.	11.2%
5 year p.a.	13.9%
10 year p.a.	19.4%
20 year p.a.	13.9%
Since inception (31.10.00) p.a.	14.3%
Value of \$100,000 invested at inception	\$1,577,218

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

SIF Structure: by sector (look through)



SIF Significant Holdings (alphabetical order)

Altium
IDP Education
REA Group
Seek
WiseTech Global

Please feel free to contact Craig Miller, one of our portfolio managers, for any queries or needs on 02 8256 1000.



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SIF Fund Description

SIF is a concentrated, index unaware Australian equity fund investing predominantly in smaller listed companies. SIF may invest in cash when opportunities are scarce and invest up to 20% of the fund, at the time of purchase, in Australian companies within the ASX100.

Smallco believes that higher returns are available from smaller companies as these companies are generally not as well followed by the market which in turn makes mispricing more common. Particular focus is placed upon companies with a market capitalisation of between \$100m to \$500m - the Smallco "sweet spot".

SIF typically holds 25 to 35 stocks on the premise that it is better to have a holding of core stocks that offer solid investment fundamentals than a large number of "OK" investments.

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.

Stock weightings within the portfolio are determined by the assessment of the quality of the stock, the likely investment outcome, liquidity and the risk of sustained capital loss.

SIF very rarely invests in mining stocks, is very averse to loss making companies, and takes an extremely cautious approach to biotech and structurally impaired industries.

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Key Investor Information

Strategy	SIF is a concentrated, Australian equity smaller company focused fund that invests predominantly long but can effectively short when opportunities are found.
Process	Smallco manages SIF employing a bottom up fundamental research approach focusing upon earnings direction, risks and the underlying businesses quality.
FUM (cum dist)	\$424.0m AUD
Mid Price (cum dist)	\$5.6272 (30 Jun 2021)
Distribution	\$0.2305 (30 Jun 2021)
Inception Date	31 October 2000
Portfolio Managers	Rob Hopkins, Bill Ryan, Andrew Hokin, Paul Graham, Adam Simpson, Han Xu and Craig Miller
APIR Code	ASC0001AU
Minimum Initial	\$40,000
Buy/sell costs	+/- 0.45%
Management Fee	1.40% of net assets *
Admin cost (FY20)	0.15% of net assets *
Performance Fee	18.64% of the performance above the Fund's previous end-of-six-month period high. Payable 6 monthly. *
Service providers	Custody: Link Fund Solutions Administration: Link Fund Solutions
Liquidity	Time to exit 50% of SIF assets: < 1 day

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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.

* Unless otherwise stated, all fees quoted are inclusive of GST, after allowing for an estimate for Reduced Input Tax Credits (RITC). Past performance is not a reliable guide as to future performance. Returns are not guaranteed.